

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of Study

Profit is the life blood of business organization which not only keeps it alive but also assures the future and makes it sound. The success of or the failure of the business firm depends upon the margin of profit because profits are the primary requirements for its success. Profit is the primary measure of business in any economy. It is very important to understand the concept of profit, before we go further the managerial process of profit planning. The concept of profit is not new but the concept of profit planning and control is a tool of management used in profit making organization.

Before evaluating an intelligent approach to managerial process of profit planning, it is important that we understand the management concept of planning and budgets. Planning is the first essence if management and all other function are performed within the framework of planning means deciding in advance what is to be done in future. Planning starts from forecasting and pre-determine of future events. The main objectives of Planning in business is to increase the chance of profit making. The budget is the primary Planning operating document committed to performance. In this sense, budget is also called a profit plan. A budget is a numerical plan of action, which generally covers the areas of revenues and expenditures.

The excess income over expenditure is called profit. The word profit brings for visions of reserves. “Profit does not happen, profits are managed” (Lynch and Williamson, 1989:125).

The profit planning and control is the latest invention in the field of modern management. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. So every planning entails some degree of uncertainty. “Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves study of what a business cost and

expenses should be and be at different level of operations and it include a study of the resultant effect due to this hanging relationship between volume and cost”. ( Yong Dong, 2001:74)

Profit is the different between earning and expenditure. Increase in earning or decrease in expenditure, increases the profit whereas the decrease in earning or increase in expenditure decrease the profit. So, Organization always try to minimize the expenditure which leads to increase profit. But minimizing the expenditure is not the only way to increase profit. The entire factors affecting the appropriate profit planning should be done for increasing profit. Planning is one of the primary functions of management. Planning is deciding in advance what to do? How to do? And who is to do? Planning is the process of selection best course of action among different alternatives to achieve the objectives. Planning is done with past experience, present information and for future. Thus, profit planning is very tough. Profit is directly related to sales. Sale of each product or service contributes some in total earning. Seller adds some value on the cost price and determines the selling price. So sale of each product or services contributes some in total earning or profit.

“A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect of time. It is established against which against which actual accomplishment is regularly compared”(Niel,2001:305).

Every business or institution is established on the definite goals and objectives. All the tasks are performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institutions.

## **1.2 Introduction of Bank**

### **1.2.1 Meaning of Bank**

Simply we can say that bank is an institution, which deals in money & credit. R.S Sayers-“Ordinary banking business consists of changing cash for bank deposits & bank deposits for cash: transferring bank deposits from one person or corporation to another;

giving bank deposits in exchange for bills of exchange, government, bonds, the secured or unsecured promises of businessmen to repay.”

Indian company Acts 1971 defines banking as “The accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise withdrawal by cheque, draft of otherwise.” Similarly, United States Laws has defined it as “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank.”

“Banks are not just the storehouses of the country’s wealth but are the reservoirs of resources necessary for economic development. Bank renders valuable service to trade and industry. Industrial development can take place only if sufficient money is invested in industries. Banks undertake the stupendous tasks by mobilizing the saving of the people and lending the same to the traders and industrialists. The Bank helps in the uniform development of the different regions in the country” (Radhasawami Joshi & Vasudevan, 1979).

The banking business has its genesis from its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit card business, documentary credit, traveler cheques business etc. Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early days of the business.

### **1.2.2 Need of Bank**

A well- developed banking system plays an important role in the economic development of a country. A country, developing or developed need adequate and well-diversified banking services for the development of any concerned sector. In the modern economy, banks are to be considered not merely as the dealers in money but also the leaders in development. Therefore, banking is a backbone of any country’s economy. Bank plays vital role in the overall development of the nation. Bank came into existence mainly with the objectives of collecting the like funds, mobilizing them into productive sector and causing an overall economic development. Following are some of the needs of establishing and developing banks:

- Capital Formation
- Monetization of economy

- Economic development
- Implementation of Monetary policy
- Price Stability
- Control Interest rate
- Credit Creation
- Expansion of Business
- Underwriting operation
- Safe Custody of Wealth
- Promote Saving
- Agency Service
- Fund Transfer
- Boost of Trade and Industry
- Employment Generation
- Legal Entity and Freedom from Exploitation
- Development of Agriculture and other neglected sectors, etc.

### **1.2.3 Development of Banks**

“The history of bank started from the merchants, goldsmith, and money lenders they are called ancestors of modern banking. Before 1848 Goldsmith used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 BC” (Paul, 1996:12). The bank means institute, which deals with money. A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for the future and supplies loan to who are in the position to use it for productive purpose, Basically banks perform various types of services i.e. collection of deposits from the public supply loans to those investors who want to invest in business industry and other sectors, overdraft, letter of credit, bills discounting, promissory notes, merchant banking, agency function of tasks guarantee against any disable of payment , remittance services etc.

Nowadays banking sector is involving in the planning and construction of land housing. The history of modern financial system is not too long. In Nepal it was begun in 1937

with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was established to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank; it plays the role of central bank also with the establishment of NRB 1956 under the Nepal Rastra Bank Act 1955. The new Nepal Rastra Bank Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the Bank. Then after Government of Nepal and NRB has established the Nepal Industrial Development Corporation (NIDC) Capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of Government of Nepal and Agriculture Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank (Sharma, 2002:3). Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 set out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Government of Nepal emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. The Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal indosez Banks ltd (now Nepal investment Bank limited). and Nepal Grindlays Bank Ltd.(Now Standard Chartered Bank ltd) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life without a bank is it brick bank or click bank (internet banking), is beyond imagination (Dahal & Dahal 2002:7).

### **1.2.4 Introduction of Sample Bank**

Global Bank Limited (“the bank”) was incorporated as a public limited company of Nepal on 29th may 2006 to run commercial banking business and obtained license from Nepal Rastra Bank (central bank of Nepal) on 31st December, 2006 to run its business as Commercial Bank in Nepal. The registered office of the bank is in Adarshanagar – 13, Birgunj, Parsa, Nepal and the principal place of the business is kantipath, Kathmandu.

Global bank ltd. registered in public limited company date 2063/2/15 and company registered no. 962/062/063. Nepal Rastra bank gives ‘A’ level license date 2063/09/16 under license no. NRB/A/19/063/064. Global bank Limited is a national level commercial bank promoted by highly prominent business personalities/ groups and reputed individuals of the country who have excelled in their field of business/profession with very good integrity and social standings.

Under the guidance of reputed Board of Directors and professional and dynamic management team having extensive experience with proven track-record in the banking industry, Global bank ltd. is committed to offer a wide range of banking products and services tailored with the state-of-the-art technology to meet the unique requirements of all the customer/clients and thereby delight them by exceeding their expectations.

Global Bank Limited (GBL). During last Five years, the bank has confronted various banking scenarios, which is ever changing. The bank has been a pioneer in several banking innovations. “The Bank for All”.has been the slogan and this has truly been implemented when it came to providing the quality products and services to its valued customers with utmost courtesy and care. Global bank believe that delivery of quality products/services designed/customized to best suit the customer need through research / development better than other bank.

Global Bank Limited’s mission is to win respectable market share through customer focused quality products and services, innovative business solutions and technology driven banking thereby enhancing the growth and profitability of the bank so as to ensure the optimum benefit to all stake holders at all times. Global Bank pledges its commitment to always endeavor for delivery of innovative products/ services to all the

customers to best suit their requirements thereby ensuring the optimum benefit and value addition to the customer as well as to all other stake holders.

Global bank focused approach for the managed growth in terms of revenue maximization, cost minimization and better risk management helped this bank for such as marvelous achievement.

For the different service delivery, this bank focused on techno based services and proud to inform that apart from SMS banking, Internet banking, Visa card Service, Utility bill payment services and ABBS banking facilities, also been successful in issuing Visa Credit Card.

In order to have a wider network, Global Bank able to establish bank presence in 11 additional locations, 3 branches outside of valley and 1 branch inside valley totaling to 31 branches. Similarly, this bank's ATM services through 35 ATM Terminals has added to products and Services, increasing Customers convenience and Confidence.

Global Bank Limited take up diverse social responsibility initiative apart from regular banking business activities to establish ourselves as a responsible corporate citizen of this great nation(Sources: Annual report of GBL).

### **1.3 Statement of the problem**

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business a whole. In our country the industrialization is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including commercials banks. By proper planning a business can be managed more effectively and efficiently.

Banks occupy great scope in the area of development of Nations economy and then after socio-economic status of Nepalese people, they themselves should be effective and efficiency to perform each and every financial activities and transactions soundly. In the recent scenario, political instability of our nation has reached to a climax. Our dependency is increasing day by day towards foreign products and services. Though the

liberalization policy in economic sector has already proved to be milestone of socio-economic development in most of the countries worldwide, we are still unable to achieve the desired success. In such a background, the commercial Bank should adopt and manage their different polices and changes them according the prevailing situations which are involving in response to the rapidly changing circumstances.

Pertaining to our study, here, we have tried to analyze one of the major tools among the few which are solely responsible to put financial institution in a proper and healthier place so that they can perform aforesaid Banking activities excellently. The problem here is to develop the method of proper planning of investment and formulate the effective controlling mechanism after diagnosing the pros and cons of prevailing processes.

Basically in commercials banks, its major activities would be mobilization of resources involving cost, profitable deployment of those resources and generating income. This study has tried to analyze and examine the PPC side of commercial bank taking a case study of Global Bank. Further more the study has tried to answer the following research questions:

- What are the overall profit planning problems of Global Bank?
- Does Global Bank have appropriate profit planning system?
- Does the bank mobilize the deposit and other resources optionally?
- What is the gap between Budgeted and Actual performance?
- What are the overall PPC problems of Global Bank and what suggestions can be recommended for their proper solutions?



## **1.4 Objectives of the study**

This study is mainly concerned with budgeting system of Global Bank Ltd. The fundamental objectives of this study is to assess the budgeting system of Global Bank Ltd. To study the application of comprehensive PPC system in Global Bank Ltd. Apart from this following are the other objectives of the study:

- To focus the current profit planning adopted and its effectiveness of GBL.
- To study the variance of budgeted and actual achievements.
- To examine the resource mobilization planning of GBL.
- To study the deployment for income generating activities.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.
- To observe Global Bank's profit planning on the basis of overall managerial Budgets developed by the Bank.

Thus ultimately to diagnose the causative factors and to make relevant suggestions, ideas and materialize the recommendations based on the available facts and figures is the objectives of the study.

## **1.5 Significance of the study**

The research study is connected with the profit planning in commercial banks with the study of Global Bank Ltd, with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources. Profit planning is the heart of management. It may also helpful for future researchers as a reference material. Profit planning is the most useful technique for the analysis profitability and its performance. Hence this study provides the guidelines for the technique of profit planning and this study provides as a proper knowledge and experience for the data collection, presentation and analysis. The significance of the study is given below:

- The study gives overall background of Global Bank.

- It highlights the applicable tools of budgeting for proper planning of profit.
- This study would be helpful to those who seek information of profit planning of Global Bank.

## **1.6 Limitations of the study**

The study is made for partial fulfillment of the requirement of Masters in Business Studies (MBS) in a short duration of time.

The study is limited to the profit planning aspect of the bank, leaving other areas uncovered.

The data and information over the period of five fiscal years commencing from FY 2063/064 to FY 2067/068 is used in this study.

Balance sheet, profit and loss accounts, and other financial statement are considered basic source of data. Thus the study will be mainly based on secondary data collected from various sources.

This study is analysis with the help of financial tools and few statistical tools.

For the literature review, various newspapers, journals, unpublished thesis works, and internet will be referred. However the literature review will be limited to very few articles and research works due to unavailability of sufficient materials and adequate time.

## **1.7 Organization of the study**

The structure of the thesis comprise of five chapters which have been briefly described as follows:

### **Chapter – I: Introduction**

Introduction section provides an overall description of the study to be carried out. This chapter includes background of the study, Need of banks, Development of bank, Evolution of commercial bank, Introduction of Sample Bank, Statements of the problems, Objectives of the study, Significance of the study, Limitation of the study.

## **Chapter-II: Review of Literature**

This chapter describes theoretical analysis and brief review of related and pertinent literature available. It includes conceptual review of commercial banks and review of empirical work. For this purpose, various books, journals & periodicals as well as internet shall be used.

## **Chapter-III: Research Methodology**

This chapter describes the research methodology enjoyed in the study. It includes Research design, sample selection, sources of data, data collection procedure & tools for analysis of the study.

## **Chapter-IV: Presentation & Analysis of Data**

This chapter is one of the main chapters of this study. This chapter illustrates the collected data into a systematic formal such as graphs. It discusses the analysis of the data as well as interpretation of data.

## **Chapter-V: Summary, Conclusion & Recommendations**

This chapter comprises the summary of entire thesis. It describes major findings of the thesis and provides some suggestions & recommendations based on the analysis of study.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

In this chapter, attempts have been made to review some of the basic literatures on budgeting theory including review of empirical evidence of previous studies. The researcher has presented the conceptual frame work about the commercial banks ,its activities, banking practices, the legal and regulatory frame work, and profit planning concepts and its applicability in a commercial banking activities . In this connection, the researcher has reviewed various literatures in the form of books written by various authors, published newspapers, journals, browsing materials from the concerned web sites, NRB regulation, commercial act, GBL’s old annual reports in the related subject matters.

#### **2.2 Concept of Commercial Bank**

Meaning of 'Bank ' in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means exchequers. According to commercial bank Act 2031 " Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose" (Commercial Bank Act, 2031). “The Random House Dictionary of the English Language defines the bank as an institution for receiving money and in some cases. Issuing notes and transiting other financial business”(Stein and Urdang,1985:29).

Banking is a business much like any other business. The commercial bank is relatively business concern. A bank provides certain service for its customers (depositors and borrowers) and in return receives payments in one form of other. It tries to earn profit for its stock owners. The same Act has provided for the modalities of establishing a commercial bank, as per which a commercial bank can be established under the company Act as a limited liability company only with the recommendations of Nepal Rastra Bank. From the various definition made and opinion produced regarding commercial banking it can be concluded that

a commercial bank is set up to collect-scattered funds and employ them to productive sector of economy.

The major functions of commercial banks are as follows:

- Accepting various types of deposits.
- Lending money in various sectors.
- Letter of Credit.
- Bank Guarantee.
- Remittance.
- Bills.
- Others.

The commercial bank act provided for the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the company act as a limited company only with the recommendations of NRB , the central bank of Nepal . By the various definitions we can bring to a close that a commercial bank's set up to collect spread funds and employ them to creative sector.

### **2.3 NRB Regulation**

Bank and financial institution regulation act 2063 has been introduced to supervision and control to bank and financial institution. This act was published in Nepal gazette on 2063/7/19 B.S. The main objectives of the act are as follows:

- To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.
- To provide qualitative services by the means of healthy Competition among the banks.
- To provide guides lines about establishment, operation, management, rules, regulations and legal provisions.

### **2.3.1 Prescribed Regulations for Commercial Banks**

#### **a) Capital Adequacy**

The capital adequacy is one of the major criteria to operate the commercial banks. Notional required capital will be as specified in the licensing policy.

#### **b) Loan loss Reserves**

The commercial banks have to comply and maintain loan classification and provisioning as per the NRB regulations.

#### **c) Reserve Requirements**

Banks and agencies of banks are required to maintain some reserves like cash in vault; balances with Nepal Rastra Bank.

#### **d) Reporting Requirements**

Commercial Banks have to submit final annual report to Nepal Rastra Bank within 90 days after fiscal year end. Unless and until specified, other requirements are to submit reports as per NRB regulations. Quarterly financial reports should be published in national newspaper.

#### **e) Systems and Policy Documents**

Transparent systems, credit policy guidelines, borrowing guidelines, operational guidelines, risk management guidelines and other appropriate policies and guidelines need to be prepared, approved and implemented.

#### **f) Technology and Technical Service**

Modern technology and technical services should be applied by commercial banks as approved by NRB.

### **2.3.2 Evolution of Commercial Bank**

The Latin word "Bancus", Italian 'Banca', French 'Banque' are the original form of the modern bank. According to some authors the word 'Bank ' is derived from all of above words the meaning of all words to a bench. This refers that early bankers transact their money lending activities on benches in the market exhibiting the cons of different countries in different denominations for the purpose of changing and or lending money. Some writers are

of the opinion that the word 'Bank' came from the German word 'Banc' meaning joint stock fund (Varshney, 1993:145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term "bankruptcy" is derived thereof.

Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 A.D. The famous temples of Ephesus, Delphi and Olympia were used as depositories for peoples surplus fund and these temples were the centers for money lending transaction. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D. was the first public banking institution. Following this, in 14th century, the bank of Barcelona and bank of Genoa were established in 1401 A.D ([www.bankingnepal.com](http://www.bankingnepal.com)).

The ancient Hindu scriptures refer to the money lending activities in the Vedic period. in India. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period, the business of banking was carried on by members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Vishyas. The bankers in the smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave crises and banker to the state and issuing and managing currency of the country (Vaish, 1996:183).

In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal like other countries. Tejarathe Adda established during the Prime Minister Ranoddip Sing B.S 1933, was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from public but gave loans to employees and public. Banking in modern senses started with the beginning of Nepal Bank limited (NBL) on B.S 1994. NBL had Heroic accountability of attracting people toward banking sector from pre dominant money lenders net and of increasing banking services.

Nepal Rastriya Bank (NRB) was established on B.S 2013.01.14 as a central bank under the NRB act 2012 B.S the government had responsibility of stretching banking services to the corner of the country and also managing financial system in the appropriate system. NRB has been working as the government's bank and has contributed to the growth of financial sector. The major confront before NRB today is to make sure the healthy of financial institution. Accordingly, NRB has been trying to change them and has introduced as host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in BS 2022 as a fully government owned commercial bank.

The first private financial institution, Nepal Bank Limited, was established in 1937 with the only other major commercial financial institution, Nepal Industrial Development Corporation, established in 1957 initially as the Industrial Development Board, but converted in 1959 to its present form. It should be noted that technically the first legal financial institution in Nepal was the establishment of the TejarathAdda in 1877, however it faced problems catering to the general needs of the population as it had the sole objective of providing credit only, with no deposits mobilized (NRB, 1996).

The growth of financial sector in Nepal is much better compared to the other sectors in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued growing. Nepalese Financial sector is comprised of organized and unorganized sector. The Nepalese organized financial sector is composed of banking sector and non- banking sector. Besides commercial banks, there are sizeable numbers of development banks, finance companies, micro-credit development banks, cooperative, NGOs and postal saving offices that undertake limited banking and financial services. Non-bank financial sector comprises Funds, Trusts and thrifts like, Employee Provident Fund, Citizen Investment Trusts, and Mutual fund. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the



larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. Following table reflects the present development of commercial banking institutions in Nepal.

### **Licensed Commercial Banks in Nepal**

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. NABIL Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commerce Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.

18. Agriculture Development Bank Ltd.

19. Global Bank Ltd.

20. Citizens Bank International Ltd.

21. Prime Commercial Bank Ltd.

22. Bank of Asia Nepal Ltd.

23. Sunrise Bank Ltd.

24. Development Credit Bank Ltd.\*

25. NMB Bank Ltd. +

26. Kist Bank Ltd. +

27. Megha Bank Ltd.

28. Janta Bank Ltd.

29. Commerze and Trust Bank Ltd.

30. Civil Bank Ltd.

31. Century Bank Ltd.

32. Sanima Bank Ltd.+

\* Upgraded by Development bank

+ Upgraded by Merchant bank & Finance

(Sources: NRB 2012)

### **2.3.3 Existing Scenario of Banking Sector:**

As mention in the previous section, there are 32 commercial banks presently in operation. Among these banks some are established under joint venture with foreign banks while some are fully domestic bank. Out of total commercial banks, 6 commercial banks are with foreign joint venture rest of all are fully domestic banks.

**a) Capital Structure of Banks:** The current regulation of NRB prescribes that all the new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital Rs.2 billion, the existing banks in operation are required to enhance the capital level to Rs 2 billion by the end of F/Y 2065/66 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. In the mean time, there are separate provisions on capital requirements for the national level banks to be operated outside the Kathmandu. **b) Banks under foreign participation:** All together nine banks were established under foreign participation in Nepal but three of these have divested their stake to Nepalese promoters. Six banks still have foreign joint ventures. The banks operation under foreign participation is NABIL, Standard Chartered, Himalayan Bank, Nepal SBI bank, Everest Bank and Nepal Bangladesh Bank. Initially, Bank of Kathmandu, Nepal Credit and Commerce Bank and Nepal investment Bank were also established under foreign joint venture. The banking asset with the foreign joint venture banks is gradually increasing. As of July 2005, the commercial banks under foreign participation hold 37.54 percent of total banking assets. The deposits and credits are still of greater proportion. Foreign joint venture banks possess 39.35 percent of total deposits and 38.45 percent of total credit of the banking system ([www.banking.in.nepal.com.np](http://www.banking.in.nepal.com.np)).

#### **2.3.4 Domestic Legal Provisions Regarding Banking Sector:**

Nepal Rastra Bank Act, 2002 has given full authority to the Nepal Rastra Bank regarding regulation, inspection and supervision of the banks and financial institutions. Bank and financial institution ordinance 2060, Which is popularly known as Umbrella Act, has recently been enacted in unified form Agricultural Development Bank Act, 1967. Commercial Bank Act, 1974, Finance Company Act, 1986, Nepal industrial Development Corporation Act, 1990 and Development Bank Act 1996 have been repealed with the promulgation of this ordinance. The ordinance governs the functional aspect of banks and financial institutions. Some of the important provisions in the ordinance regarding the banking sector have been analyzed in the chapter as follows:

Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the ordinance. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval

with the prescribed documents. The NRB is required to conduct necessary investigation and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with Nepali citizen or as subsidiary company with 100 % share is eligible to furnish the application to establish a bank or financial institution. However, the ordinance is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75 %. The ordinance prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution. If the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this ordinance and its regulation, directive, order or provisions of memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction ([www.banking in nepal.com.np](http://www.banking.in.nepal.com.np)).

The NRB will classify the institutions into A, B, C, D groups on the basis of the minimum paid up capital and provide the suitable license to increase its authorized, issued and paid up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets, and other transactions. At the same time the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to be borne from off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity.

The bank or financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing

asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions. The NRB is in full power to deny license for financial transaction if the conditions stipulated in ordinance are not met and it is also authorized to impose necessary conditions taking into account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase, decrease or modify the terms and conditions time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this ordinance to carry on the financial transaction of the license holder under the certain circumstances as stipulated in the ordinance.

A foreign bank or financial institution desiring to open its office within the kingdom of Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open office within the kingdom of Nepal taking into account the situation of competition existing in the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign bank or financial institution. The NRB may specify necessary terms and conditions in the course of granting transaction license and it shall be duty of the foreign bank or financial institution to comply with such terms and conditions ([www.bankinginnepal.com.np](http://www.bankinginnepal.com.np)).

### **2.3.5 Existing rules and regulations relating to the commercial banks:**

#### **a) Paid up capital:**

1. A commercial bank of national level, the paid up capital of such bank must be at least 200 crores.

2. To have an office in Kathmandu, the bank is required to have either joint venture with foreign banks and financial institutions or a technical service agreement (TSA) at least for three years with such institutions.
3. The share capital of commercial banks will be available for the promoters up to 70% and 30 % to general public. The foreign banks and financial institutions could have maximum of 75 % share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepali promoters in National level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institution are going to acquire 50 % of total share.
4. Banks to be established with foreign promoters' participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.
5. Banks that are already in operation and those who have already obtained letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e., by 16 July 2009 as per this recently declared provision. In order to increase in the capital such increase should be at a rate of 10 percent per annum at the minimum.
6. Among total committed share capital, the promoters has to deposit in NRB an amount equal to 20 % along with the application and another 30 % at the time of receiving the letter of intent on the interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes in to operation. Normally, with 4 months from the date of filling of the application, NRB should give it decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concern body.

**b) Promoters Qualifications & Sale of Share:**

1. Action on the promoter's application will not be initiated by the Nepal Rastra Bank if it is proved that their collateral has been put on auction by the bank and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit information Bureau and five years have not elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process of license issuance if the above events are proved.

2. Out of the total promoters, one-third should be its chartered accountants or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, bank in or statistics. Likewise, at least 25 percent of promoters group should have the work experience of the bank or financial institution or similar professional experience.
3. An individual, who is already serving as a director in one of the bank and financial institutions licensed by Nepal Rastra Bank, Cannot be considered eligible to become the director in other banks or financial institutions.
4. Stockbrokers, market makers, or any individual or institution involved as an auditor of the bank and institution carrying on financial transactions can't be a director.
5. Promoter group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of three year from the date t has been registered in the stock exchange. Prior to the disposal of such shares, it is mandatory to get approval from the Nepal Rastra Bank.
6. The share allotted to the general public has to be issued and sold within three years from the date the bank has come in to operation. Failing to fulfill such provisions, the bank cannot issue bonus share or declare and distribute dividends.
7. Shareholders of the promoters group and their family members can't have access to loans or facilities from the same institution. For this purpose, the meaning of the family members will comprise of husband, wife, son daughter, adopted-son, adopted-daughter, father, mother, step mother and depended brother and sister ([www.bankinginnepal.com.np](http://www.bankinginnepal.com.np)).

### **2.3.6 Activities of a commercial Bank:**

As per the commercial bank act 2031 , a 'Bank' is a commercial bank established under this act 'banking transaction' are the activities of accepting deposits from the others for the purpose of lending or investing , repayable on demand or after some stipulated time period by means of generally accepted procedure (Commercial Bank Act, 2031).

The functions of receiving money from his customers and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking

business from any other kind of business. The major activities of a commercial bank essentially accepting deposits and making loans and advances. In the present scenario banking activities are not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time span like remittance services, land development and housing projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided in to two parts are as follows:

1. Collection of Resources
2. Deployment or mobilization of Resources

#### **2.3.6.1 Collection of Resources:**

Sustainable economic growth requires intermediary channels for efficient allocation of resources. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by financial institutions and financial markets in this process is referred to as the activities of commercial banks.

Resources in commercial banks collected from two sources internal and external internal means owners fund and external means borrowed fund.

#### **Internal Fund or Capital fund:**

Internal fund of the bank is capital fund, which consists paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions. A commercial bank must have paid up capital of Rs. 200 crores in order to establish as a national level commercial bank. NRB has also prescribed the capital adequacy norms to be of at least 12 %. Likewise the commercial banking act 2031 has made a mandatory provision for every commercial bank to build the general reserve out of the allocation of at least 20 % of net profit amount each year until the amount becomes double the paid up capital.

The external fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some part by the short-term fund borrowed from other banks called inter bank loan or central banks.



### **Deposits & others liabilities:**

Deposits are collected from their customers in various types of savings. Customer's deposit is a major source of bank's resources. It is very important for a bank for its liquidity supply that banks are often engaged in competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits.

There are various types of deposits like, call deposit, savings deposit, fixed deposit, current deposit etc. All of above are on demand deposit whereas fixed is time base deposit. As per commercial banking act of Nepal, a current account is the bank account having money, which is subject to repayable whenever demanded. Like-wise fixed deposit are time based deposit which is withdrawn only after the expiry of the time period. Banks offer interest on these accounts varying the duration of deposit maturation. The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031 as "the bank account having money which is deposited for the purpose of saving" (commercial bank Act 2031).

Resources except customer's deposit and capital fund are called other liabilities of the bank. It consists of short term borrowed fund from other banks and central bank. This types of resources are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity position of the bank. This borrowings rate is directed by the Central bank of Nepal. In other resources also includes, payables in the account of the banks.

### **2.3.6.2 Deployment of Resources:**

The prime purpose of collection of resources is to use it in productive sector this function of commercial bank called deployment of resources. Deployment of resources of the bank means use for the bank's fund in such a way that it ensures liquidity as well as gives some income for meeting its operating expenses and optimum return to shareholder. The overall performance of the banker reflects by such activity. Every financial institution tries to maximize it's earning by using its excessive cash by lending it to the sensible borrowers in a manner which in no way impairs its capacity to pay on demand the acquired funds to their owners.

Mobilization of resources in bank is a challenging job. Resources of banks are mobilized basically for two purposes one is for liquidity and another is for profitability. The importance of liquidity and profitability in a bank is dominant. Liquidity is defined as bank's capacity to

pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Bank maintains liquidity in the form of cash and Bank balance, money at call, investment in government security etc.

In other hand banks always pays their attention to maximization their profitability. Depositors always expects better interest on their deposit , employees expects better salary , perks and bonus this is to because its shareholders expect a fair rate of return. If the bank can not satisfy either of these parties, the success of the bank is always questioned. The profit is excess of incomes over expenses. To maximize profit, incomes should be reasonably excess over expenses. The major sources of income of a bank are interest income from loans and investments and fee based income.

#### **A. Resources for Liquidity:**

Liquidity means portfolio of such assets which are convertible in to cash with in very short period of time. As major portion of a bank's resources comprise customer deposit which are subject to repayable on demand. So banks maintain sufficient amount of liquid assets in the form of cash in their vault balance at their account of Central Bank and inter- bank.

#### **B. Investment in Securities:**

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. Such investments can easily be liquidated if required thus they also called liquid assets.

#### **C. Loan and Advances:**

Granting the loan and advance is a major function of bank. Overall profitability of bank depends on interest margin. Banking business essentially involves lending of loan and advances. In fact the deposits are accepted for loan and advance. Loan and advances dominate the asset side of the balance sheet of any bank. The income statement of bank occupy by interest. Hence, loan is known as risky assets. Risk of non- repayment of loan is known as credit risk. Commercial banks generally lend for short term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selecting the

borrowers. Generally, bank's lending is guided by their lending policies. General principles of a sound lending policy should be followed by a bank while taking decision towards the lending such as safety, liquidity, profitability, risk diversifications etc.

The types of loans may be collateral loan, demand loan, Hire purchase, educational loan, foreign employment loan, social loan, housing loan, import and export loan, loan against fixed deposit, against securities, OD loan etc. There are some approval process of bank loan .The entire amount is disbursed to the borrower account after completing the approval process which in repayable in terms and conditions of a banks i.e. periodicals installments basis or limp sum on the expiry of loans. Overdrafts are granted in current account of a customer. It is the permission given to overdraw from the account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only.

NRB has made a mandatory provision on loan loss. NRB regulation on classification and provisioning is pass loan ( Principal overdue up to 3 months) is 1 % , Substandard loan ( principal overdue up to 6 months) 25 % , Doubtful ( Principle overdue up to 1 year) 50 % , and Bad loan ( Principle overdue above 1 year) is 100 % .Pass loan is called ' Performing' assets where as others are called ' Non performing' assets. Provision requirement in case of loan given against personal guarantee only is additional 20 % for pass substandard and doubtful loans. Provision for restructured, rescheduled and swapped loan is 12.5 % only. The amount of loan loss provision is treated as the expenses items. Therefore, in order to improve the profitability, the banker should be more attentive toward timely realization of dues so that the amount of loan loss provision may be maintained at the least possible level(Dahal & Dahal 2002:120).

#### **D. Other activities for mobilization of resources:**

Granting loan and advance is a major functions besides this bank involves other income generating activities such as bank guarantee , issuing letter of credit, cheque collection, remittance services, bills payment services, traveler's cheques etc. In such cases banks do not have to involve their fund and yet they are charging some fee as commission for such services.

### **2.3.7 Impact of National and International Situation on Commercial Bank:**

Despite the current political instability in the country, the total flow of domestic credit has increased during the year. This is mainly because of substantial growth of credit flow to government and non-financial government corporations like NOC, RNAC, and National Trading etc. However, the prolonged conflict in the economy has started taking its toll on the private sector. The delay in peace process, the current security condition, and the significant imbalance in the political situation of the country have opened up few doors for new investment opportunities. On the one hand, private sector credit is steadily declining & on the other what little extension there is, is getting riskier. On the positive side, the living standard of Nepalese people has risen due to the direct impact of more and more Nepalese people working abroad. The Nepal Living Standard Survey (NLSS)-II

Released by the Central Bureau of Statistics (CBS) states that in nominal terms, average household income has grown by more than 80 percent. This is an important factor which the Banks have capitalized on, as is evident from the growing competition amongst the banks to extend consumer loans. Nepal has shown good initiation and commitment in following the rules and regulations laid down by the South Asian Free Trade Agreement (SAFTA), scheduled to become a reality from January 1 2006, and Bay of Bengal initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC). Nepal's recent entry to SAFTA and BIMSTEC has setup a ladder for possible economic growth in the future. Similarly, Nepal's accession to the World Trade Organization (WTO) would permit international banks to operate in Nepal, which will require enhancement in our service quality in order to compete with them. In view of these, it is imperative for the Bank to have its business plan and strategy accordingly ([www.gbl.com.np](http://www.gbl.com.np)).

### **2.4 Profit Planning as a Concept:**

Profit planning and control is also called comprehensive budgeting, managerial budgeting and budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools.

"A profit planning & control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise understanding of responsibilities and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that , focus on assigned responsibilities like- wise enhance the degree of communication essential to sound management" ( Welsch, Hilton & Gordon, 2001 : 215) "Profit planning is an example of short range planning . This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245).

"Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus is can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance "(Gupta, 1992:3).

"Profit planning is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future" ( Fremgen, 1973:12).

"Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management. (Welsch, Hilton & Gordon, 2001:45) Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures (International management institution Geneva conference 1980).

The role of profit planning and control is very important in profit oriented enterprises. Roles of PPC are as follows:

- To provide definite goals and objectives that serve as benchmarks for evaluation performance of business.
- To provide information to management timely.

- To point out efficiency and inefficiency.
- To reduce cost and make profit more.
- It provides a valuable means of controlling income and expenditure of a business, as it is a 'plan for spending'.
- It reflects weakness in the organization very promptly.
- To fix responsibility center for manager.
- It provides a tool through which managerial policies and goals are periodically evaluated tested and established as guidelines for the entire organization.

"Profit plan is estimation and predetermination of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss"(Ninemeir and Schmidgall, 1984:125).

Profit plan stand for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a days profit planning system is mainly common to business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events in the future. In conclusion profit planning is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of achieving the most favorable profit in the enterprises.

## **2.5 Components of Profit Planning and Control**

### **2.5.1 Meaning and Concepts of Profit**

Profit is a basic element of profit planning and control. There is no meaning of profit planning and control without profit. Every profit oriented business concerns involves to profit generating activities. "Oxford dictionary defines profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amount

spent.” Likewise, advantage or benefits gained from something is called profit (Hornby & Cowie, 1992:63).

The successes and failure of business entity measure by profit earned by them in certain period of time. The major concern of stock holder is profit so organization always wants to maximization of profit. Performance of management of organization is measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

### **2.5.2 Meaning and Concept of Planning & Control**

Planning is the basic element of profit planning and control. Planning is going according to plan the primary purpose of planning are to reduce uncertainty about future profit, to incorporate management judgment and decisions in to the planning process, to provide necessary information for developing other elements of comprehensive profit plan and to facilitate management control of sales activities. “Operational planning is often referred to as short term budgeting and looks at resources, production etc. for a financial period, usually a year. It provides a detailed plan of what the organization hopes will be achieved within the next financial year. Strategic planning often referred to as the long term plan and looks at where the organization is heading over a number of years, for example of five year plan would be a long term plan it presents the organization with an idea of the broad direction that it hopes o be heading in. The Strategic plan will incorporate the operational plans of the organization. The operational plan translating the strategic plan into achievable short term goals" (Lynch2003:158).

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished" (Welsch, Hilton & Gordon, 2001:45).

Arrangement for doing or using something considered or worked out in advance is planning. "Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny" (Pandey, 1991:325).

Planning is a quantified assessment of future condition about a particular subject based on one or more explicit assumption. The management of organization make plan and it may accept, modify or reject. Planning is the intellectual mental process. It is goal oriented primary function of management. It is goal oriented primary function of management.

"The major component of profit planning and control is controlling. The dictionary meaning of control is having a power to regulate something standard of comparison for checking the results of the experiment"(Hornby1992:84).

Control is the process that measures current performance and guides it towards some pre-determined goals control is the process of checking to determine whether or not plans are being adhered to whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct deviations. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprises control is exercised by using personal evaluation periodic performance, reports and special reports. Comparison with standard and actual is called controlling. Controlling is a one of the important aspect of managerial function.

### **2.5.3 Long Term and Short Term Profit Planning**

Strategic profit plan and tactical sales plan is known as long term short term profit planning. Strategic sales plan is prepared for 5 to 10 years. It is wide and universal in nature and developed by year and amount. The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and encompasses one year time horizon the upcoming year. "The development of strategic and tactical profit plans, each year is a process that involves managerial decisions and ideally a high level of management participation" (Welsch, Hilton & Gordon,2006:173). While preparing the strategic profit plan state of economy, political stability, population study etc are keep in considerations. Likewise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter half year and a year.

### **2.5.4 Corporate Planning**

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives. Corporate planning is one of the parts of profit plan. It was first started in the USA in 1950 and it is however being used in one form in another in many companies there. Long Term Planning is



included in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objectives of corporate planning are as follows:

- Achieving objectives.
- Embodiment of goals and objectives in the enterprises.
- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.
- Involvement of personnel in developing the goals of the enterprises.
- Formulating realistic and attainable objectives.

## **2.6 Budgetary Control:**

### **2.6.1 Concept of Budgeting and Budget**

Budgeting is future plan and projection taking some managerial assumptions. Budgeting involves the preparation advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. An effective budgeting system is vital to the success and survival of a business firm. Without a fully coordinated budgeting system, management can't know the directions the business is taking out organizations that do not plan are likely to wonder aimlessly and ultimately give way to the swirl of current events.

### **2.6.2 Budgeting in Profit Plan:**

Budgeting is a tool for management control it is forward planning. It is quite pivot of any successful design of control." Budgeting is the principal tool of planning and control offered to management by accounting function" (Welsch, 1999). The primary purpose of budgeting is to help out in organized planning and in controlling the operations of business concerns. Actually budgeting is greatest sources of message and an important means in the hands of management. Since, budgeting deals with essential policies and objectives, it is prepared by top management. A formal budget by itself will not make sure that a firm's operations will be automatically run to the accomplishment of the goals set in the budget. For this to happen, the

top level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to achieve them.

### **2.6.3 Prerequisites of Budgeting:**

A successful budgeting structure should follow some crucial features to ensure best results. Some of the features are discussed below.

#### **a. Effective Future Forecasting:**

One of the major components of budgeting is forecasting. The future forecast is made by the past events and future assumptions. Forecast is groundwork of budget these forecasts are argued by the administrative and when most profitable combinations of forecast are selected they becomes budgets. The sound budgeting system gives the better result.

#### **b. A Sound Accounting System:**

Budgeting requires adequate and accurate information of past records. This can be ensured only by having a sound accounting system.

#### **c. Effective Business Policy:**

Budgeting depends of the top level business policy. Policy should be made for the success of business. Every budget reflects the business policies formulated by the management level. Policies should clearly pre-defined and budget is prepared by taking it on consideration.

#### **d. Support of Budget Working group:**

In the process of budget preparation the support of budget working group is essential. Thus in order to make a budget system more and more effective, a budget committee should be set up.

#### **e. Availability of information:**

Without right information in right time budgeting system will not be complete. Information from department and other areas should be timely available in the budget preparation process.

### **2.7 Basic Concept of Profit Planning:**

The concept of budgeting was originally established with function of an accountant .But in the modern day budgeting is given much more importance and is regarded as a way of

management and in more important sense is regarded as basic technique of decision making and is given the name ' profit planning and control program'. The basic concepts of PPC include the various activities that should be followed to attain maximum usefulness form profit planning and control. These activities are mentioned below.

**a. Managerial Involvement and Commitment:**

Managerial involvement entails managerial support, confidence, participation and performance orientation. Top level of management should understand the nature and characteristics of PPC, Be convinced that particular approach to manage is preferable for their situation support the program in all it's planning process as performance commitments.

**b. Responsibility Accounting:**

A sound profit planning and control system must consist of responsibility accounting. Within the primary accounting structure secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with the needs of the enterprise.

**c. Organizational Adaptation:**

A successful PPC program must test on sound organizational structure, for the enterprises and clear cut designation of lines of authorities and responsibilities of all the department of enterprises. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprise objectives may be attained in a co-ordinate and effective way on a continuing basis. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility control responsibility is further classified by cost center, profit center, investment center.

**d. Full communication:**

Communication is transferring information from one to another. Communication can be defined as interchange of thought or information to bring about a mutual understanding between two or more parties. For profit planning and control, effective communication means development of well- defined objective, specification of goals, development of profit plan and reporting and follows up activities related to performance evaluation for each responsibility center.

**e. Flexible application:**

"This stress that a PPC program must not dominate the business and the flexibility in applying the plan must be forthright management policy. So that strait Jackets are not imposed and all favorable opportunities are seized even though they are not covered by the budget rigidity in practicability will be the harmful boundary in an association in an occasion of r the enterprise. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of the organization (Goet and all 2063:1.5).

**f. Realistic Expectation:**

Profit Planning and Control must be based on realistic approach or estimation. Management must be realistic assumption and must not take either irrational optimism or unnecessary conservation so for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

**g. Timeless:**

Time is going on it can't be stop whether an individual or organization busy or idle. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types one is timing planning horizons and another is timing of planning activities.

**h. Individual and group recognition:**

Behavioral aspects of human being are for the field of the study of the psychologist, educators and businessman, and finding was that there can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization the fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioral problems.

**i. Zero-Based Budgeting:**

The budgeting which is always start from Zero is called zero base budgeting. "Begin with where you are an establish a business as usual budget for next year the same way and the

same things you would do if you weren't concerned about constraint and total justification" (Welsch, Hilton, Gordon 2006:43).

**j. Follow Up:**

The important of follow up action on profit planning and control approach is more. A careful study is needed to correct the action of substandard performance in a constructive manner, to recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control program.

## **2.8 Profit Planning and Control Process**

A PPC program includes more than the traditional idea of a periodic or master budget rather it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps. These steps are outlined in this study in the following manner:

- a. Identification and evaluation of external variables.
- b. Development of the broad objectives of the enterprise.
- c. Development of specific goals for the enterprise.
- d. Development and evaluation of company strategy.
- e. Executive management planning instruction.
- f. Preparation and evaluation of project plans.
- g. Development of strategies and tactical profit plan.
- h. Implementation of profit plans
- i. Use of periodic performance reports
- j. Follow up.

## **2.9 Merits and Demerits of Profit Planning and Control:**

Profit planning and control has both merits and demerits even though merits are dominant one. Merits of profit planning and control listed below.

- Profit planning and control brings organizational policy in to action.
- Organizational structure will be sound and effective by the means of PPC
- Historical statistical and accounting data is used by PPC.
- It compels management to plan for the most economical use of labor material and capital.
- Efficiency and inefficiency can be measured by PPC.
- Management attention can be drawn by PPC for the general business condition
- It reduces cost by increasing the span of control because fewer supervisors are needed.
- PPC creates understanding between management and their co-workers.
- PPC reduces the uncertainty and gives guidelines to achieve organizational goals.
- It provides to all levels of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

Profit planning and control model can't be assumed that it is free from problems. Some of its demerits listed below.

- Preparing a profit plan is a difficult task.
- Some traditional types of managers don't like to prepare a profit plan.
- It is not realistic to whiteout and distribute goals, policies and guidelines to all the supervisors.
- It takes away management flexibility.
- It creates all kinds of behavioral problems
- It adds a level of complexity that is not needed.

- The manager's supervisors and other employees do not like the budget.

## **2.10 Basic Assumptions and Limitations of Profit Plan**

Profit planning systems are more common in business organization and non-business organization. But there are so many assumptions of using profit-planning process. Firstly, the basic plans of the business must be measured in terms of money, if there is to be any assurance that money will be available for the business must for the needs of the business. Secondly, it is possible to plan for the future of a business in a comprehensive way, coordinating every aspects of the business with every other aspect to establish optimum profit goals. Thirdly, profit planning is preplanning not merely what to do if thing workout as forecasted, but also what to do if things work-out differently from the forecast. In developing and using a profit plan and control (PPC) program, the following limitations should be kept in mind:

- a. The profit plan is based on estimates.
- b. A PPC program must be continually adapted to fit changing circumstances.
- c. Execution of a profit plan will not occur automatically, the profit plan is not a substitute for management.

The profit plan should be required not as a master but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan there are compelling business reasons.

## **2.11 Profit Planning in Commercial Banks:**

Profit planning in manufacturing sector is common it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending

expenditure, income, investment , non- fund base business etc. these budget are taken as functional budgets despite this budget now a days bank also prepare for future plan this is called profit plan.

### **2.11.1 Planning for Resources:**

Planning for resources is functional plan for banking sector. This is also a starting function all the planning depends on resource planning. The major resources of bank share capital and deposit .The lending and investment plan depends on the resources plan. Deposit is a primary sources of resources collection. There are various types of deposit in the bank some are interest free and some are with interest. A proper mix of cost free and costly deposits corresponding to short term and long term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit at the some time having comfortable mix of income yielding assets. Besides the deposits other resources are borrowing by inter bank loan. Certain rate of interest is directed by the NRB for inter-bank loan the bank can fulfill short term requirement by taking inter bank loan too. Another resource is reserves and provision of banks.

Collection of resources is one of the major functions of bank whereas deployment of such resource is also as important as this. The assts portfolio is determines by the planning for deployment. Bank can utilized their fund basically in three types of investment sector like liquid assets, lower income generating assets higher income generating assets. Liquid assets means banks should maintain certain percentage of total deposit for their short term fund requirement i.e called liquid assets management. Secondly bank can invest in securities, treasury bills etc. i.e lower income generating assets and last in higher income generating assets is interest generating sector like loan and advance. Most of the portion of deployment is in the loan and advance of a bank. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets.

### **2.11.2 Non-Fund Consuming Income Plan:**

Income without investing of banks fund is called non funded income. They are LC, Bank guarantee payment of bills etc. A source of income which is generating without any investment is called non funded business activities.



### **2.11.3 Planning for Expenditure:**

Income can't imagine without expenditure so expenditure should be planned in proper way. The expenses planning and controlling are very essential for supporting the objectives and planned programs of the business concerns. The income after deducting all of expenditure is called profit so in the process of profit planning the expenditure planning plays the vital role. A bank always tries to control their expenses by preparing periodical budget. Expenditure minimization means that the profit maximization so the expenses must be planned carefully for developing a profit plan. In a bank there are generally following expenses.

- Administrative expenses.
- Interest expenses.
- Operating expenses.
- Loan loss provisions
- Bad debts
- Non-operative expenses.
- Expenses by the exchange fluctuation, etc.

Interest expenses in direct expenses for the financial institution. It is paid in to customer interest bearing deposit as per the bank's rules or agreed rate between bank and customer. Payment of interest is capitalized in same account of customer after deducting government tax prevailing rate of tax is 5 % for persons and 15% for corporate. The expenditure side of bank's income statement is covered by interest by the large amount than other expenses so interest expenses are major and direct expenses. In the total income after deducting the interest expenses rest amount called contribution margin. Other expenses are administrative expenses those are generally incurred by the bank during the course of its day to day operation. Other expenses depend of the volume of the transaction. Higher the volume of transacting higher will be operating expenses.

### **2.11.4 Planning for Revenue:**

The major expenditure of banks is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund

by taking some margin. The sources of income for bank is not only the interest other non-funded sources are also can generate income whereas interest is dominant one. The major sources of revenue for a bank are listed below:

- Interest income.
- Commission and Discount.
- Miscellaneous income.
- Foreign exchange income.
- Remittance income.
- Other non- funded incomes.

Income of a bank is basically activity based it depends of the volume of business. Higher the income generating activities of bank, higher will be the amount of its revenues. Therefore the bank develops its plans for various activities in such a way that it maximizes its income (Source: GBL, 2012).

## **2.12 Application of Profit Plan in Banking Sector**

Traditionally comprehensive profit planning and control was applicable only to large manufacturing and complex organization. But in the modern concept the profit planning and control is applicable non-manufacturing enterprises too, like service companies, financial institutions, hospitals, retail business, construction companies etc. The fact is that a company has peculiar circumstances or critical problem is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there may be a need for profit planning and control application. Now a day's banking sector are also curious about preparing profit plan budget. Functional budget only gives their operational plan whereas PPC gives idea about profit maximization (Source: GBL, 2012).

## **2.13 Execution of Profit Planning and Control**

The only preparing profit is useless while it doesn't come in execution. The plan should be developed with the confidence that the enterprises are going to meet or exceed all major objectives. The final examination of whether the hard work and cost in developing a profit plan are worthwhile is its helpfulness to top management. "The development of an annual profit plan ends with the planned income statement, the balance sheet and planned statement of changes in financial position. These three statements summarize and integrate the details of plans developed by the management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of budget potential. Timely completion of Planning budget suggest the need for a budget calendar" (Welsch et al., 1999:265).

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and selection considerable coordinate and controlling belongings. After execution of profit planning the performance should be reported. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

## **2.14 Review of Previous Studies:**

Profit planning and Control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studied has been conducted for the behavior of Profit planning. Regarding this various

empirical studies have been conducting related area of profit planning. There are many researchers carried out by different research in this topic.

The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could found some studies that have been made in this topic. Here are reviewed thesis some are manufacturing sector and some are related with financial sector which can help us to understand about their objectives, used statistical tools and major findings about this topic.

Gurung (2011) is conducted a study on “Profit Planning and Control: A Case Study of Nepal SBI Bank Limited ” The major concern of Mr. Gurung is to study the profit planning in commercial bank by taking a case study of Nepal SBI Bank. He use both primary and secondary method for data collection. His major objectives and some of major findings are as follows:

**Objectives:**

- To highlight the current profit planning premises adopted and it's effectiveness in SBI Bank.
- To observe SBI bank's profit planning on the basis of overall managerial budgets developed by the bank.
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.

**Major Findings:**

- SBI bank has adopting a policy of keep minimum number of employees as possible.
- SBI bank has policy of taking highly qualified employees.
- The rate of expansion of branches of SBI was increased.
- Objectives of the Bank are expressed in literary form and not specified clearly.

- The major resources of SBI bank are cost bearing deposit.
- The budgeted and actual deployment has been met every year.

Karki (2002) has conducted a research in "A comparative study on Budgeting system of Rastriya Banijya Bank and Himalayan Ban limited". Mr. Karki use primary and secondary data for this research. Some of major objectives and findings are as follows:

**Objectives:**

- To determine comparative systematic budgeting capacity.
- To identify comparative revenue and cost efficiency.
- To know the comparative fund mobilization and lending policy.

**Some findings are:**

- Total revenue and total cost of RBB is higher than HBL but its profits are lower.
- Government seems less conscious in the present situation of RBB.
- In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuation in cost.
- As the accounting system, of RBB is careless that it has not been audited form the FY 1993-94 and it difficult to take decision about data analysis.
- Interest spread is higher in RBB than in HBL.
- Return on paid of capital is always negative in RBB. Net profits also negative in RBB.

Maharjan (2009) is conducted a research entitled "Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited" For this purpose of the study he used the data the major concern of Mr. Maharjan is to study the profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major findings are as follows:

**Objectives:**

- To highlight the current profit planning premises adopted and its effectiveness in SCBL Bank.
- To study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.
- To analyze the variance of budgeted and actual achievements.

**Major Findings:**

- Bank is awarded by ' Bank of the year 2002 Nepal'.
- The Bank is provides ATM and 365 days of services for customers.
- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP.

Kharel (2008) has conducted a research on "Profit Planning of Commercial Banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank limited, and Bank of Kathmandu Limited". By using secondary data and statistical tools this research was completed. His objectives and major findings are as follows:

**Objectives:**

- To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.

### **Some of major Findings:**

- The liquidity position of EBL is comparatively better than that of Nabil and Bok.
- EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of Nabil and Bok.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- BOK has higher investment on shares and debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.
- The return on loan and advances ratio and return on assets of EBL is lowest of all.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.
- EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.

Khataiwada (2010) is conducted a research entitled “Profit Planning in Commercial Banks: A Case Study of Himalayan Bank Limited” For this purpose of the study he used the secondary data with CVP analysis and statistical tools. The major concern of Mr. Khataiwada is to study the profit planning in commercial bank by taking a case study of Himalayan Bank Ltd.

## **Objectives**

- To focus the current profit planning adopted and its effectiveness in Himalayan Bank Limited (HBL).
- To study the variance of budgeted and actual achievements.
- To analyze the growth of the business of the bank over the period.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.

## **Major Findings**

- Profit Planning and control system of HBL is very effective.
- Budgeted is always lower than Actual Performance since it means Forecasting system of HBL is not good.
- The relationship between budgeted and actual figures is positively correlated.
- The major income source is interest margin the trend of interest margin.

## **2.15 Research Gap**

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. Most of the past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in Nepal SBI Bank, Rastriya Banijya Bank, Standard Chartered Bank, Everest Bank, Nabil Bank, Bank of Kathmandu, Himalayan Bank. This study may be a new study in this field as no study has been made profit planning of GBL. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extra ordinary



items of income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. . In my research effort had been made to understand the Profit Planning and control in commercial bank and I hope this research will be fruitful for future researchers, students, civil society, stakeholders,, scholars, businessman and government for academically as well as policy perspectives.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample. Data collection technique and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood as science of studying how research is done scientifically” (Kothari, 1990 / Shakya 2008: 57). Research methodology, as a vital part of research study, describes the various sequential steps to be adopted by researcher in studying research problem along with the logical behind them.

This study has intense relation with application of planning and control in a commercial bank with a specific reference to Nepal Investment Bank regarding the objectives to analyze, examine and interpret the application of profit planning in the Bank. The Research methodology includes, research design, data collection procedures, and research variable and tools use. . For our purpose the following steps provides useful procedural guidelines so far as research methodology is concerned.

#### **3.2 Research Design**

This study is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Global Bank. Various functional budgets and other related accounting information's and statement of Bank

are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study research.

### **3.3 Population and sample**

This research aims to studying the profit planning aspect of commercial bank taking the case study of a single bank Global Bank, and data have been analyzed for five years so the five years data have been taken as sample for this case study.

### **3.4 Sources and collection of data**

Here both primary and secondary data has been used for this study. The primary data can be taken from informal discussion with executives. But this study is mainly based on secondary data. The main sources of secondary data are quarterly and annual financial reports, official records, web site, brochures, prospectus and other relevant publications of GBL, NRB, Central Bureau of Statistic and relevant publications. From these sources the relevant historical data are gathered for analysis purpose.

### **3.5 Study Variables:**

Share capital, Customer deposit, loan and advances, Overdrafts, total resources and deployment, Bank Guarantees, Interest Expenses, Other Expenses, Interest Income, and Other Income of Global Bank research variables of this study.

### **3.6 Analytical Tools**

It has been analyzed the data by using various statistical, Mathematical and financial tools in this study.

#### **3.6.1 Statistical and Mathematical tools:**

We have analyzed the data by using following statistical and mathematical tools.

- Percentile Increment
- Mean

- Standard Deviation
- Correlation of coefficient
- Coefficient of variation
- Probable Error
- Regression analysis
- Test of Goodness of fit of the Regression Estimate

### **3.6.1.1 Percentile Incensement:**

This statistical tool gives the percentage change of previous year to current year. This tool helps to find out the increment in the study variable. Simply, the word percentage means per hundred. In other word, the fraction with 100 as its denominator is known as percentage and numerator of this fraction is known as rate of percent.

### **3.6.1.2 Arithmetic Mean Average:**

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observation.

$$\text{Mean (x)} = \frac{\sum x}{N}$$

### **3.6.1.3 Correlation of coefficient:**

Correlation analysis is a statistical tool. It is used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus correlation is statistical device, which helps us in analysis the co-variation of two or more variables. Karl Pearson's Coefficient of correlation is widely used in practice. The Pearson's coefficient of correlation is widely used

in practice. The Person's Coefficient of correlation is denoted by the symbol "r". The formula for computing Person's "r" is:

$$r = \frac{\sum xy}{\sqrt{x^2} \sqrt{y^2}}$$

Where,

r= the correlation coefficient

x=  $X - \bar{X}$

y=  $Y - \bar{Y}$

X= Independent variable

Y= Dependent variable

Following general rules are applied to interpret the coefficient of correlation:

When r= +1, it means there is a perfect positive relationship between the variables.

When r= -1, it means there is a perfect negative relationship between the variables.

When r= 0, it means that there is no relationship between the variables i.e. the variable are uncorrelated.

#### **3.6.1.4 Regression Analysis:**

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis other variables in other words regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable.

$$Y = a + bx$$

### **3.6.1.5 Standard Deviation ( ):**

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite.

$$\text{S.D.} = \sqrt{\frac{\sum x^2}{N}}$$

### **3.6.2 Financial tools:**

This study has been confined to examine the profit planning of GBL bank. In this study, financial and statistical tools has been used to analyze the presented data. In financial tools financial ratio analysis, CVP analysis has been used. Similarly the statistical tools used are: coefficient of variance, standard deviation, graphs, diagrams have been used.

## CHAPTER - IV

### PRESENTATION AND ANALYSIS OF DATA

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated objective of the study researcher has tabulated the available data in different figure, table and analyzed using the tools where necessary and applicable stated in the research methodology.

#### 4.1 Budgeting

##### 4.1.1 Total Revenue of GBL

There are various sources of creating revenue. Interest income is the major source of revenue. In addition commission and discount, other operating income (safe deposit rent, credit card issue and renew, ATM card issue and renew, telex, service charge, renew charge and others), income on foreign exchange and non-operating incomes are also the sources of income.

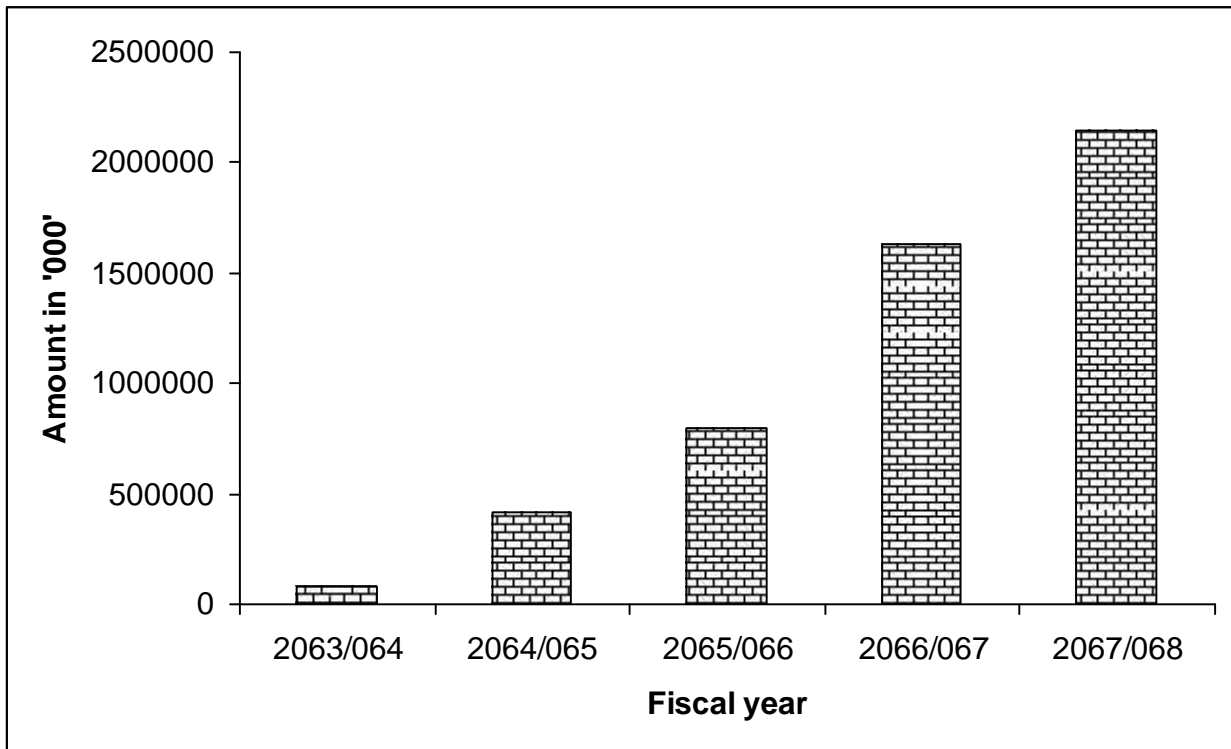
**Table 4.1: Total Revenue**

**Rs. in '000'**

<b>Income revenue sources</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>
a) Interest on loan and advances including interest on government securities.	65103.181	357910.911	683933.210	1464977.690	1963603.757
b) Commission and Discount	3969.422	18990.994	46019.205	54618.494	67518.016
c) Other operating income	2085.421	9670.313	33840.785	75488.363	84979.378
d) Non-operating income	-	-	-	440.325	(132.689)
e) Income on Forex	6479.001	26541.441	30210.099	35362.777	30936.320
<b>Total Revenue</b>	<b>77637.025</b>	<b>413113.659</b>	<b>794003.299</b>	<b>1630887.649</b>	<b>2146904.782</b>

Source: Annual reports of GBL (Fy 2063/64 – 2067/68 B.S.).

**Figure No. 4.1: Total Revenue**



Above table and figure 4.1 indicate interest income is in rising trend, which is Rs. 65103.181 thousand in 2063/64 and Rs. 1963603.757 thousand in Fy 2067/68. Similarly, commission and discount in increasing trend, which is slightly increasing. It is Rs. 3969.422 thousand in Fy 2063/64 and reaches to Rs. 67518.016 thousand in Fy 2067/68. In the same way, other operating income is in increasing trend. But, non-operating income is rise by Rs. 440.325 thousand in Fy 2066/067 and suddenly, decrease in minus Rs. 132.639 thousand in Fy 2067/068. Similarly, on forex. is also in rising trend, which is Rs. 6479.001 thousand in Fy 2063/064 and reaches to Rs. 30936.320 thousand in Fy 2067/068. Non-operating income, which contributes a little part in total income is negative, positive and zero. This figure of total revenues shows the satisfactory condition because the income is increasing every year.

#### **4.2.1.1 Interest Income from Loan and Advances Including Government Securities and Other Interest**

GBL's main source of income is interest on its investment in different sectors like interest income on loan and advances, investment, agency stock, short-term financing and others. The following table 4.2 shows the interest income on loan and advances.



**Table 4.2: Interest on Loan and Advances****Rs. in '000'**

<b>Fy</b>	<b>Amount (Rs.)</b>	<b>Change (Rs)</b>	<b>% change</b>	<b>Index (%)</b>
2063/064	65103.181	-	-	100.00
2064/065	357910.911	292807.730	449.76	559.76
2065/066	683933.210	326022.299	91.09	650.85
2066/067	1464977.690	781044.480	114.20	765.05
2067/068	1963603.757	816626.067	55.74	820.79

Source: Table 4.1.

Above table 4.2 shows that interest income is increasing in all fiscal years. It is Rs. 65103.181 thousand in Fy 2063/64. It has reached to Rs. 1963603.757 thousand i.e. (820.79% increased from 2063/64). In Fy 2064/65 to 2067/68 percentage increment in interest collection is 449.761%, 91.09%, 114.20% and 55.74% respectively. It shows the strong position of bank in collecting interest income.

#### **4.2.1.2 Revenue from Commission and Discount**

Revenue from commission and discount is not fund based revenue source of GBL. It includes bills purchase and discount, commission on L/C, bank guarantee, remittance fees, collection fee, credit card, share issue, discount income and other. The following table 4.3 shows the details of revenue form commission and discount.

**Table 4.3: Revenue from Commission and Discount****Rs. in '000'**

<b>Fy</b>	<b>Amount (Rs.)</b>	<b>Change (Rs)</b>	<b>% change</b>	<b>Index (%)</b>
2063/064	3969.422	-	-	100.00
2064/065	18990.994	15021.572	378.43	478.43
2065/066	46019.205	27028.211	142.32	620.75
2066/067	54618.494	8599.289	18.69	639.44
2067/068	67518.016	12899.522	23.62	663.06

Source: Table 4.1.

Above table 4.3 indicates that the revenue form commission and discount is in increasing trend in every fiscal year. In Fy 2063/64 it is Rs. 3969.422 thousand, reached to Rs. 67518.016thousand (i.e. 663.06% index) in Fy 2067/68. The increment is positive every fiscal year i.e. 378.43%, 142.32%, 18.69% and 23.62% in Fy 2064/065 to 2067/68 respectively. This shows the sound condition of collection of commission and discount.

**4.2.1.3 Revenue from Other Income**

Revenue from other income is non-fund based revenue sources. Revenue from other income consists of rent of safe deposit, credit card issue and renew, ATM card issue and renew, telex, service charge, renew charge and others. The following table 4.4 shows the details of revenue from other income.

**Table 4.4: Revenue from Other Income****Rs. in '000'**

<b>Fy</b>	<b>Amount (Rs.)</b>	<b>Change (Rs)</b>	<b>% change</b>	<b>Index (%)</b>
2063/064	2085.421	-	-	100.00
2064/065	9670.313	7584.892	363.71	463.71
2065/066	33840.785	24170.472	249.95	713.66
2066/067	75488.363	41647.578	123.07	836.73
2067/068	84979.378	9491.015	12.57	849.30

Source: Table 4.1.

Above table 4.4 indicates the revenue from other income is in increasing trend in every fiscal year. In Fy 2063/64 other income is Rs. 2085.421 thousand, reached in Rs. 84979.378 thousand (i.e. 849.30% index) in Fy 2067/68. The increment is positive every fiscal year i.e. 363.71%, 249.95%, 123.07% and 12.57% in Fy 2064/065 to 2067/68 respectively.

From the above result we can easily conclude that the bank is able to collect the other income promptly.

#### 4.2.1.4 Revenue from Income on Foreign Currency Exchange

Among different kind of revenue, income on forex is one of the important sources. It is non-fund based income of GBL. Income on foreign currency exchange consists of income form difference in exchange rate and income from foreign currency transactions.

The following table 4.5 shows the revenue from income on foreign currency income in details:

**Table 4.5: Revenue from Income on Foreign Currency Exchange**

<b>Rs. in '000'</b>				
<b>Fy</b>	<b>Amount (Rs.)</b>	<b>Change (Rs)</b>	<b>% change</b>	<b>Index (%)</b>
2063/064	6479.001	-	-	100.00
2064/065	26541.441	20062.440	309.65	409.65
2065/066	30210.099	3668.658	13.82	423.47
2066/067	35362.777	5152.678	17.06	440.53
2067/068	30936.320	(4426.457)	(12.52)	428.01

**Source: Table 4.1.**

Above table 4.5 indicates that the income on foreign currency exchange in fluctuating trend. It is Rs. 6479.001 thousand in Fy 2063/64. In Fy 2064/65, 2065/66 and 2066/067 it is increased by 309.65% (409.65% index), 13.82% (423.47% index) and 17.06% (440.53% index) respectively. But, in Fy 2067/68 it decreased by 12.52%.

The above figure shows the income on foreign exchange is very fluctuating in trend.

## 4.2.2 Total Expenditure

GBL's interest expenses are playing major role in expenses. The bank is generating expenditure from different sources. Interest is major source. In addition, employee's expenses, operating expenses, staff bonus, Providing for losses and income taxes.

The below table 4.6 shows the details picture of total expenditure of GBL.

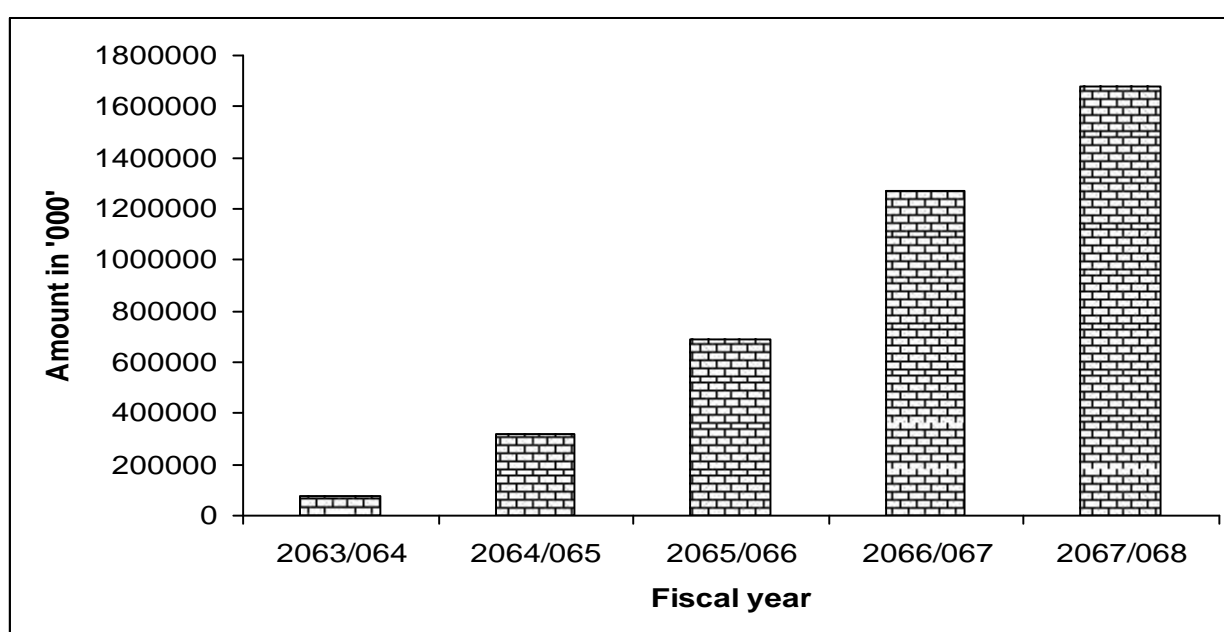
**Table 4.6: Situation of Total Expenditure**

**Rs. in '000'**

Expenditure heads	2063/064	2064/065	2065/066	2066/067	2067/068
<b>a. Interest on deposit including interest on loan</b>	40324.760	218946.870	489783.694	962009.866	1288050.872
<b>b. Employee expenses</b>	12705.980	41961.770	66322.187	100256.551	155003.585
<b>c. Operating expenses</b>	24793.727	60107.196	132893.774	209346.154	237364.199
<b>Total expenditure</b>	77824.467	321015.836	688999.655	1271612.571	1680418.656

Source: Annual reports of GBL (Fy 2063/064 – 2067/068 B.S.).

**Figure 4.2: Total Expenditure**



Above table 4.6 and figure 4.2 indicates that interest on deposit including interest on loan and borrowing, employee expenses and operating expenses is the major expenses. Interest on deposit is in increasing trend from first to last 5 years. In Fy 2063/064 the bank beard interest expenses Rs. 40324.76 thousand and in Fy 2067/068Rs. 1288050.872 thousand. Operating expenses is second major expenses of the bank, which is also in increasing trend. It is Rs. 24793.727 thousand and Rs. 237364.199 thousand in Fy 2063/064 and 2067/068 respectively. Employee expenses are one of the sources of expenditure. It is also increasing trend every year.

#### 4.2.2.1 Interest Expenses

Interest expenditure is the major part of expenditure of GBL. Interest is paid on deposit, loan and others. The following table 4.7 shows the details of interest expenditure upto 5 years.

**Table 4.7: Interest Expenses**

**Rs. in '000'**

<b>Fy</b>	<b>Amount (Rs.)</b>	<b>Change (Rs.)</b>	<b>% change</b>	<b>Index (%)</b>
2063/064	40324.760	-	-	100.00
2064/065	218946.870	178622.11	442.96	542.96
2065/066	489783.694	270836.824	123.7	666.66
2066/067	962009.866	472226.172	96.42	763.08
2067/068	1288050.872	326041.006	33.89	796.97

**Source: Table 4.6.**

Above table 4.7 reveals that the interest expenses is increasing every year. If we take 2063/064 as base year the index of interest expenses is 100%, 542.96%, 666.66%, 763.08% and 796.97% in Fy 2063/064 to 2067/068 respectively. In Fy 2063/064 interest expenses is Rs. 40324.760 thousand, in Fy 2067/068, it became Rs. 1288050.872 thousand.

The above figure shows the interest expenses on borrowing of loan is decreasing in percentage every year.

#### 4.2.2.2 Employee Expenses

Employee expenses is the third major part of expenditure, which consists of salary, allowances, contribution to provident fund, training expenses, uniform, medical, insurance, pension and gratuity and others. The following table 4.8 reveals in details of employee expenses.

**Table 4.8: Employee Expenses**

**Rs. in '000'**

<b>Fy</b>	<b>Amount (Rs.)</b>	<b>Change (Rs.)</b>	<b>% change</b>	<b>Index (%)</b>
2063/064	12705.980	-	-	100.00
2064/065	41961.770	29255.79	230.25	330.25
2065/066	66322.187	24360.42	58.05	388.30
2066/067	100256.551	33934.36	51.17	439.47
2067/068	155003.585	54747.03	54.61	494.08

Source: Table 4.6.

Above table 4.8 indicates that the employee expenses is increasing every year. It is Rs.12705.980 thousand in Fy 2063/064 which is increased to Rs. 155003.585 thousand in Fy 2067/068. The employee expenses index is 100%, 330.25%, 388.30%, 439.47% and 494.08% in Fy 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The highest increment is 230.25% in Fy 2064/065 and lowest increment is 51.17% in Fy 2066/067.

From above table, it has been concluded that more employees has more expenses.

#### 4.2.2.3 Operating Expenses

Operating expenses is the second major part of total expenditure of GBL. It includes all the operating costs like house rent, electricity, repair and maintenance, insurance, office equipment and furniture, stationery, advertisement, donations, legal expenses, security, commission, discount and many others. The following table 4.9 shows the details of operating expenditures.

**Table 4.9: Operating Expenses**

**Rs. in '000'**

<b>Fy</b>	<b>Amount (Rs.)</b>	<b>Change (Rs.)</b>	<b>% change</b>	<b>Index (%)</b>
2063/064	24793.727	-	-	100.00
2064/065	60107.196	35313.469	142.43	242.43
2065/066	132893.774	72786.578	121.10	363.53
2066/067	209346.154	76452.380	57.53	421.06
2067/068	237364.199	28018.045	13.38	434.44

Source: Table 4.6.

The table 4.9 reveals that the operating expenses is in increasing trend. In Fy 2063/064, it is Rs. 24793.727 thousand, which is increased by 142.43% i.e. Rs. 60107.196 thousand in Fy 2066/065. In the same way, it is increased by 121.10%, 57.53% and 13.38% in Fy 2065/066, 2066/067 and 2067/068 respectively. The index of operating expenses is 100% at base year i.e. Fy 2063/064, reached to 434.44% in Fy 2067/068. This shows that operating expenses is increasing trend every year.

#### **4.2.3 Analysis of Cost and Income**

Cost is the means of achieving revenue proper utilization of cost result is greater volume of revenue otherwise its result becomes hardened. Interest expenses are playing a major role in cost, office operating cost and staff costs are other important cost that GBL facing.

GBL generating revenue from different foreign exchange, interest income is the major source of revenue in addition a commission and discounts on exchange, income on forex are also important source of income, interest income is fund based income while other are non-fund based incomes.

Profit is the difference between revenue and cost. Higher is the difference greater will be profit, such difference may happen in the following conditions:

- a. Increasing in income, cost remaining the same.
- b. Decrease in cost, income remaining the same.
- c. Increase in income, increase in cost.

- d. Higher increase in income than increase in cost.
- e. Higher decrease in cost than decrease in income.

Out of these five conditions GBL is following third condition nowadays.

#### 4.2.3.1 Revenue, Cost and Net Profit

GBL's revenue, cost and net profit is presented in the following table 4.10.

**Table 4.10: Revenue, Cost and Net Profit**

**Rs. in '000'**

<b>Fy</b>	<b>Total revenue</b>	<b>Total costs (excluding tax)</b>	<b>NPBT</b>
2063/064	77637.025	77824.467	(187.442)
2064/065	413113.659	321015.836	92097.823
2065/066	794003.299	688999.655	105003.644
2066/067	1630887.649	1271612.571	359275.078
2067/068	2146904.782	1680418.656	466486.126

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

The above table 4.10 shows the total revenue, total costs and NPBT. In Fy 2063/064, total revenue is Rs. 77637.025 thousand and cost is Rs. 77824.467 thousand, whereas net loss is Rs. 187.442 thousand. In Fy 2064/065, 2065/066, 2066/067 and 2067/068, total revenue and total cost is increased, and NPBT is also in increasing trend. In Fy 2064/065, NPBT is increased, in Fy 2065/066, it is increased slightly. In Fy 2066/067 it is increased to Rs. 359275.078 thousand from Rs. 105003.644 thousand of Fy2065/066. In Fy 2067/068, NPBT is increased highly to Rs. 466486.126 thousand.

From the above revenue, cost and net profit figure we can conclude that revenue and costs are increasing and also NPBT is in rising trend. It is Successful to GBL.



#### 4.2.3.2 Analysis of Deposit Liabilities and Interest Expenses

GBL has been accepting mainly in super saving account, Global Saving plus account, Global Nari saving account, Normal Saving and fixed accounts. There are Foreign currency saving deposits and Call deposits account also. The bank pays interest on saving, call deposit, fixed deposit and certificate of deposit. Interest on fixed deposit account differs according to time range. Bank pays interest on super saving account on daily basis and on normal saving account, monthly basis.

An interest ratio of different account is different and in various within the fixed deposit too. So the analysis is made computing the simple average ratio interest dividing total deposit by total interest dividing total deposit and its effect on interest expenses is also analyzed.

**Table 4.11: Deposit Liabilities and Interest Expenses**

Fy	Total deposit	Interest expenses	Rs. in '000'	
			Increase in interest (Rs)	% increase in interest
2063/064	1612990.400	40324.760	-	2.50
2064/065	7319702.268	218946.870	178622.110	3.00
2065/066	10930397.411	489783.694	270836.824	4.50
2066/067	15031548.347	962009.866	472226.172	6.40
2067/068	15066490.196	1288050.872	326041.006	8.50

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

The above table 4.11 shows the interest expenses on total deposit. Average interest rate is calculated in above table. In Fy 2063/064, the bank has Rs. 1612990.400 thousand of total deposit. On which bank paid Rs. 40324.760 thousand in interest which is 2.50% in average. In every fiscal year, interest expenses increasing along with deposit too. So, interest rate is in increasing trend. In Fy 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068, interest rate is 2.50%, 3.00%, 4.50%, 6.40% and 8.50% respectively.

A question may arise whether collection of only deposit has been fruitful to GBL. Deposit in itself produces so higher costs. It is possible only when it is invested.

#### 4.2.4 Budgeting System of GBL and Its Application

GBL has not practiced of preparing budget systematically but we cannot say how it is successfully run its business without making budget. According to the higher level staff of GBL, it has practiced to forecast only short-term plan for three to twelve months depend on actual progress of the bank. According to staff report they predict 20% more on actual achievement. Management always engages to improve its operation, market aspects and make the personnel full skilled their job. Bank has been trying to improve profit by giving best training to the personnel.

##### 4.2.4.1 Long-Term Plan

In the context of Nepal, a few commercial banks are prepared two periodic profit plan. A long-range profit plan encompasses a time horizon of five years beyond the upcoming year. And a tactical short-range is for each four months period of following budget year.

##### 4.2.4.1.1 Total Capital Fund

In this context, GBL follows the directives of NRB. According to the NRB directives commercial bank should maintain their capital fund 8%. The following table 4.12 shows the capital fund of GBL.

**Table 4.12: Total Capital Fund**

**Rs. in '000'**

<b>Fy</b>	<b>Paid-up capital</b>	<b>Reserve and surplus</b>	<b>Total</b>
2063/064	510000.000	(40508.904)	469491.096
2064/065	700000.000	22621.940	722621.940
2065/066	1000000.000	48926.568	1048926.568
2066/067	1473350.200	47671.695	1521021.895
2067/068	1500000.000	108027.365	1608027.365

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.12 shows the paid-up capital is in increasing every year. In Fy 2063/064 paid-up capital is Rs. 510000.000 thousand and reserve and surplus is Rs. (40508.904) thousand. Similarly, it is increased every year. In Fy 2064/065, paid-up capital is Rs. 700000.000 thousand and reserve and surplus is Rs. 22621.940 thousand. In Fy 2065/066, paid-up capital

and reserve and surplus is Rs. 1000000.000 thousand and reserve and surplus is Rs. 48926.568 thousand. Similarly, in Fy 2066/067, paid-up capital is Rs. 1473350.200 thousand and reserve and surplus is Rs. 47671.365 thousand. But reserve and surplus is increasing all other fiscal year except Fy 2066/067. Again in Fy 2067/068, paid-up capital is Rs. 1500000.000 thousand and reserve and surplus is Rs. 108027.365 thousand which is increased than Fy 2066/067.

Reserve and surplus is created form profit. Due to decreased in net profit, in Fy 2063/064, reserve and surplus is decreased.

#### 4.2.4.1.2 Long-Term Credit Investment Plan

GBL has no practice of preparing long-term plan in systematically but it predicts 20% more for each fiscal year on actual achievement. The following table shows the picture of long-term credit investment trends of GBL from Fy 2063/064 to 2067/068.

**Table 4.13: Budgeted and Actual Credit Investment**

**Rs. in '000'**

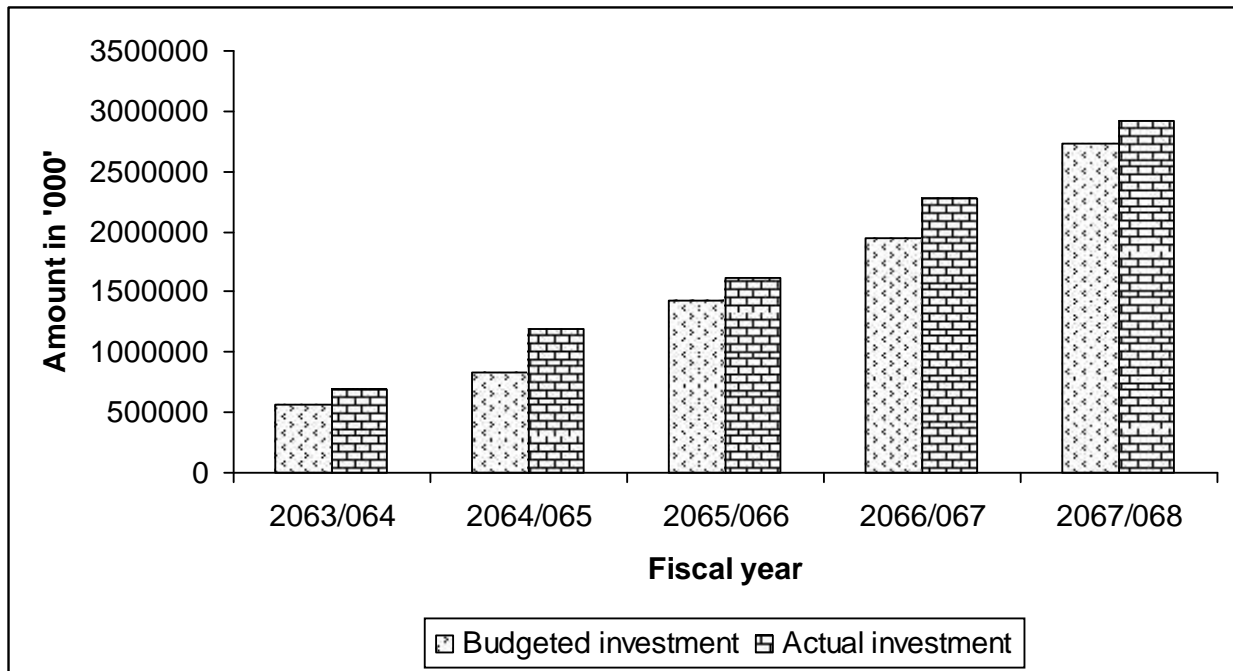
<b>Fy</b>	<b>Budgeted investment</b>	<b>Actual investment</b>	<b>Achievement (%)</b>
2063/064	568729.369	687356.264	120.89
2064/065	824827.517	1187415.380	143.96
2065/066	1424898.456	1620120.728	113.70
2066/067	1944144.874	2270487.367	116.79
2067/068	2724584.840	2920246.931	107.18

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.13 shows that the achievement is in fluctuating trend. In Fy 2063/064, the achievement is made by 120.89%, In Fy 2064/065, it is increased or achievement has been met i.e. 143.96%. But, in Fy 2065/066 achievement is decreased which is only 113.70%, Again, in Fy 2066/067 it increased to 116.79%. But in Fy 2067/068 it is achieved i.e.

107.18%. From above table we can conclude that the actual and budgeted investment is not related each other. It is increased by 143.96% in Fy 2064/065 and decreased to 107.18% in Fy 2067/068.

**Figure 4.3: Budgeted and Actual Credit Investment**



The graphical presentation indicates that the actual achievement in credit investment is more in three fiscal years (Fy 2063/064, 2065/066 and 2067/068) and less in two fiscal years (Fy 2064/065 and 2066/067). The gap between budgeted investment and achievement is also more.

The above figure shows that budgeted investment is less than actual investment in every year, it shows that bank has good performance in these five years.

#### 4.2.4.1.3 Total Deposit Collection Plan

GBL has plan to collect deposit 20% above the actual collection. But this is not systematic projected plan. How much money needed to the bank and how can it be collected is not question to the bank but providing best services to the customers and collect all the money, who open account in the bank. Bank cannot deny excess collecting and can't stop issuing money to the authenticate cheque. But bank always aware towards utilization of money.

**Table 4.14: Budgeted and Actual Deposit Collection**

**Rs. in '000'**

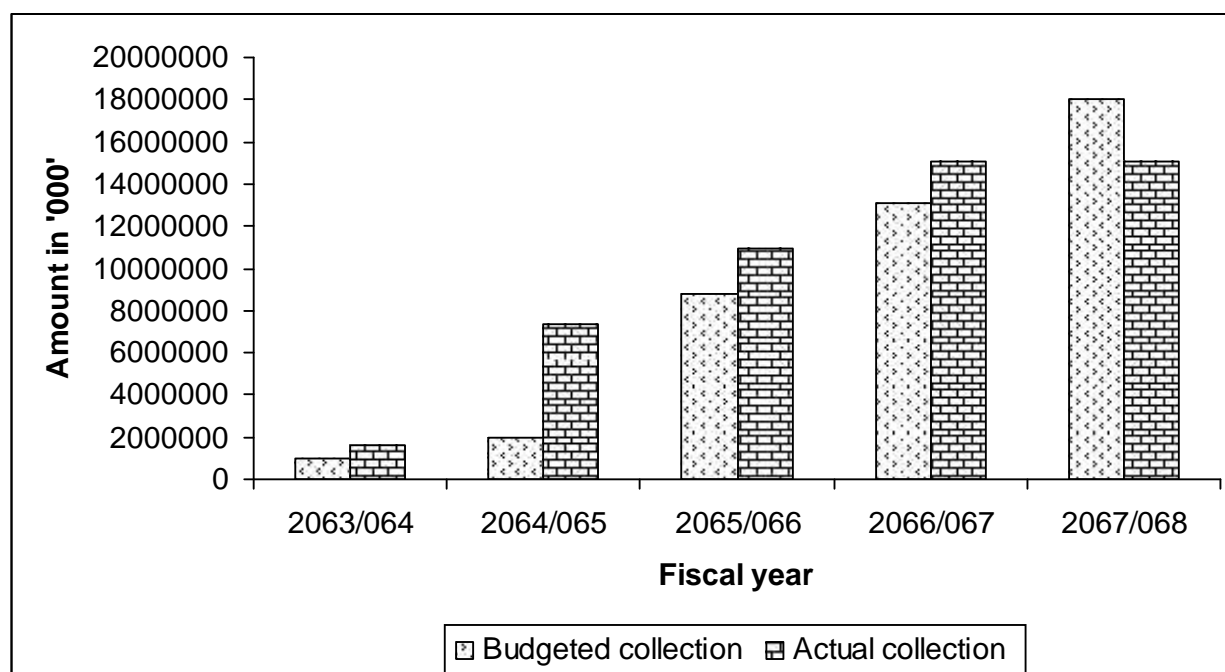
<b>Fy</b>	<b>Budgeted collection</b>	<b>Actual collection</b>	<b>Achievement</b>
2063/064	985625.652	1612990.400	163.65
2064/065	1935588.480	7319702.268	378.16
2065/066	8783642.722	10930397.411	124.44
2066/067	13116476.89	15031548.347	114.60
2067/068	18037858.01	15066490.196	83.53

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

From above table 4.14 it is known that the achievement of GBL of deposit collection is satisfactory. Because, the achievement is in rising trend higher than budgeted. In Fy 2063/064 it has collected total deposit more than budgeted i.e. 163.65%, in Fy 2064/065 budgeted collection is very higher than actual collection. In Fy 2065/066, 2066/67 and 2067/068 it is also more than budgeted collection i.e.124.44%, 114.60%.and 83.53%. From above data, we can conclude that the budgeted and actual collection of GBL is satisfactory.

This can be presented in graph which as:

**Figure 4.4: Budgeted and Actual Deposit Collection**



#### 4.2.4.1.4 Actual Loan Disbursement and Actual Deposit Collection

It is necessary to analyze whether deposits meet to disbursement or investment or not and it is significant to analyze the relationship between credit investment and deposit collection.

Following table 4.15 shows the GBL's actual investment and actual deposit collection.

**Table 4.15: Actual Loan Disbursement and Actual Deposit Collection**

<b>Rs. in '000'</b>			
<b>Fy</b>	<b>Actual credit investment</b>	<b>Actual deposit collection</b>	<b>% of investment</b>
2063/064	687356.264	1612990.400	42.61
2064/065	1187415.380	7319702.268	18.95
2065/066	1620120.728	10930397.411	14.82
2066/067	2270487.367	15031548.347	15.10
2067/068	2920246.931	15066490.196	19.38

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

From the above table 4.15, it is clear that the investment on actual deposit collection is 42.61%, 18.95%, 14.82%, 15.10% and 19.38%. The bank has invested highest amount on its deposit i.e. 42.61% in Fy 2063/064 and lowest investment is in Fy 2065/66 i.e. 14.82%.

Above table 4.17 shows that actual deposit collection is more variable than actual credit investment.

#### 4.2.5 Operational Profit and Net Profit

Profit and loss account shows the final position of the company. The below table 4.16 shows the profit and loss account and profit trend of GBL form 2063/064 to 2067/068.

**Table 4.16: Operational Profit and Net Profit**

**Rs. in '000'**

<b>Fy</b>	<b>Operational profit</b>	<b>Net profit</b>
2063/064	(98.623)	(187.442)
2064/065	75180.320	92097.823
2065/066	64785.222	105003.644
2066/067	163769.137	359275.078
2067/068	213687.624	466486.126

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.16 shows the operational profit and net profit of GBL. In Fy 2063/064 operational profit is Rs. (98.623) thousand and net profit is Rs. (187.442) thousand. In fy 2064/065 operational and net profit both are increased. In Fy 2065/066 operational profit is increased and also net profit has been increased. Similarly, in Fy 2066/067 and 2067/068 operational profit and net profit both are increased.

Operating loss and net loss occurred in Fy 2063/064, the cause may be opening year of bank and also open branches along with increase in staffing cost.

#### **4.2.6 Cash Budget**

Cashflow planning or cash budget is not an expense budget, but it is a plan of cashflows. It provides relevant information about the cash receipts and cash payments of enterprises during a period. Information about enterprises cashflows is useful in assessing its liquidity, financial flexibility, profitability and risk. Planning of cashflow indicates:

- i. The need for financing probable cash deficit.
- ii. The need of investment planning to put excess cash for profitable use. Cash budget is prepared with the help of other financial budget such as: sales plan, account receivable and expenditure budget.

The major sources of cashflows of GBL is the collection of deposit from the customers and the other source are income from interest, income from exchange money, income by issuing

shares, loan received from other places. The main place of cash outflows is the capital expenditure, administrative expenses, interest payment of loan, loan reimbursement, advance to the staff and inventory.

**Table 4.17: Cash flow Analysis**

**Rs. in '000'**

<b>Particular</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>
A. Cashflow from operating activities	18420.841	1399280.414	301575.210	1471182.705	(807753.392)
B. Cashflow from investing activities	(55380.774)	(822440.154)	(533238.353)	(644562.808)	166000.552
C. Cashflow from financing activities	510000.000	218103.093	345821.740	463523.331	(38138.990)
D. Income/loss from change in exchange rate in cash and bank balance	-	-	-	-	-
E. Current year's cash flow from all activities	473040.068	794943.353	114158.597	1290143.228	(679891.830)
F. Opening balance of cash and bank	-	473040.062	1267983.415	1382142.012	2434337.947
G. Closing balance of cash and bank	473040.068	1267983.415	1382142.012	2434337.947	1754446.117

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

From above cash flow statement, it can say that the closing balance of cash and bank is positive every year and it is increasing every year except Fy 2067/068. Cash flow from operating activities, which shows the strong or weak position of organization, is positive in Fy 2063/64 to 2066/067. But in Fy 2067/068 Operating activities is negative figure and Investment activities is positive figure which indicates the weak position of GBL in that year.



#### 4.2.7 Profit and Loss Account

After preparing all functional budget, profit and loss account is prepared to know the future profit or loss for the budgeted. It shows the final conclusion of operation of an accounting year. GBL does not prepare profit and loss account in advance. At the end of each fiscal year, the account department prepares P/L account.

**Table 4.18: Profit and Loss Account**

	<b>Rs. in '000'</b>				
<b>Particular</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>
Net interest income	24778.422	138964.041	224149.516	502967.824	675552.882
Total operating income	37312.267	194166.789	334219.605	668437.458	858986.596
Operating profit before provision	(2084.259)	92097.823	135003.644	358834.825	466618.812
Operating profit after provision	(40508.904)	75180.320	64785.222	163769.137	213687.624
Profit form regular operation	(40508.904)	75180.320	64785.222	164209.462	379800.193
Net profit after considering all activities	(40508.904)	75180.320	64785.222	164209.462	286319.078
Net profit/(Loss)	(40508.904)	61234.001	26304.628	73003.292	224977.751

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

From above table 4.18 it is shown that net profit is increasing every year. Bank was able to make profit every year at increasing trend after establishing new branches.( Up to Fy 2067/068 it has increased to 31 branches), the bank was able to be a successful bank.

## 4.2 Financial Analysis

### 4.2.1 Liquidity Ratios

Liquidity ratio is a pre-requisite for every survival of a firm. The short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm but liquidity implies, from the view point of utilization of the fund of the firm that funds are idle or they earn very little. A proper balance between the two contradictory requirements i.e. liquidity ratio measures the

ability of a firm to meet its short term obligation and reflects the short term financial strength or solvency of a firm. According to the nature of the firm, various ratios may be calculated their liquidity position. Below here have been calculated some liquidity ratios which have been thought to be important to indicate the liquidity position of a bank and have been used to analyze the financial position of Global Bank Limited in term of its liquidity.

#### 4.2.1.1 Current Ratio

Current assets include cash and those assets, which can be converted into cash within a year. These include cash and bank balance, investment in government securities, loans and advances, money at call and short notice, bills for collection, interest receivables. All obligations maturing within year are included in current liabilities. These consists of current, saving and short term deposit, fixed deposit maturing in that year, borrowing, accrued expenses, bills for collection, dividend payable, customers acceptances etc.

**Table 4.19: Current Ratio**

<b>Rs. in lakh</b>			
Fiscal year	Current assets	Current liabilities	Ratio (times)
2063/064	25719.00	14309.00	1.80
2064/065	66551.70	46676.53	1.43
2065/066	90894.60	77625.90	1.17
2066/067	124540.00	104358.00	1.19
2067/068	134617.00	107357.00	1.25
Mean			1.37
S.D.			0.26
C.V.			18.98

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

The above table 4.19 shows current assets and current liabilities. The ratio of the bank are in fluctuation trend. The current ratio of the bank is not satisfactory because it is below the standard level of 2:1.

From the above table, it is seen that the ratio of current assets to current liabilities 1.80, 1.43, 1.17, 1.19 and 1.25 in the fiscal year 2063/064 to 2067/068 respectively. It is in fluctuation trend every year. Its mean deviation is 1.37, standard deviation is 0.26 and coefficient of variation is 18.98%.

According to the trend in ratio of commercial bank, the ratio below the normal standard may seen unsatisfactory, but it denotes that the bank has adequate liquidity in the fiscal year 2064/065. But in other fiscal year of has below has the standard level of liquidity i.e. 2:1. Coefficient of variation measures the risk. Bank having low C.V. is preferable than high C.V. From the overall point of view i.e. higher the CV, higher standard deviation and lower current assert ratio, it is unsatisfactory to Global Bank Limited.

#### 4.2.1.2 Cash and Bank Balance to Total Deposit Ratio

This ratio indicates the ability of banks immediately funded to cover their current margin call, saving, fixed, call deposit and other deposits.

Cash and bank balance to deposit ratio reflects the ability of bank immediate fund to meet / cover their current deposits margin call and saving deposit. Higher ratio shows the higher liquidity position and ability to cover the deposits and vice-versa.

**Table 4.20: Cash and Bank Balance to Current and Saving Deposit Ratio**

<b>Rs. in lakh</b>			
Fiscal year	Cash and bank balance	Current and saving deposits	Ratio (times)
2063/064	8139.24	16129.90	0.50
2064/065	12679.83	73197.02	0.17
2065/066	13821.42	109303.97	0.13
2066/067	24343.38	150315.48	0.16
2067/068	17544.46	150664.90	0.12
Mean			0.22
S.D.			0.16
C.V.			72.73

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

The above table 4.20 shows the ratio of cash and bank balance to total deposit. The lowest ratio in Fy 2067/068 is 0.12 and the highest is 0.50 in Fy 2063/064. In the fiscal year

2064/065 to 2067/068 are below the average. Thus, the ratio has inverse relationship in each other.

### 4.3.2 Leverage Ratio

To judge the long term financial position of the firm in financial leverage or capita structure ratios are calculated. These ratios indicate funds provided by owners and lenders as a general rule, there should be an appropriate mix debt and owner's equity in financing the firm's assets. The leverage ratio re calculated to measure the financial risk and firm ability of using debt for the benefit of shareholders.

#### 4.3.2.1 Debt to Equity Ratio

It shows the relationship between debt and equity. It shows the equity capacity toward the debt. Generally very high debt to equity ratio is unfavorable to the business because the debt gives third parties legal claims on the company, there claims are for interest payment at regular intervals, plus repayment of the principle by the agreed time. On the other hand low debt is also favorable from the shareholder's point of view. It measure creditors claim again owner. A high ratio shows the creditor claim are greater than those of owners such a situation introduces inflexibility in the firm's due to the increasing interference and pressure from creditors.

**Table 4.21: Debt to Equity Ratio**

<b>Rs. in lakh</b>			
Fiscal year	Total debt	Shareholder's equity	Ratio (times)
2063/064	417.12	5100.00	0.08
2064/065	2233.92	7000.00	0.32
2065/066	6445.62	10000.00	0.64
2066/067	6458.46	14733.50	0.44
2067/068	7481.91	16000.00	0.47
Mean			0.39
S.D.			0.21
C.V.			51.28

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table shows that debt equity ratio is fluctuating trend. Its ratio is 0.08%, 0.32%, 0.64%, 0.44% and 0.47% in the year 2063/064 to 2067/068 respectively. In Fy 2065/066 is debt to equity ratio is high i.e.0.64% and in Fy 2063/064 its debt to equity ratio is low i.e. 0.08%.

From the point of S.D. and C.V., bank has satisfactorily debt equity ratio. This shows the bank is able to maintain debt equity ratio.

#### 4.3.2.2 Total Debt to Total Assets Ratio

Debt to Assets Ratio reflects the financial contribution of outsiders and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefer a low debt ratio and owners prefer high debt ratio in order to magnify their earning on the one hand and to maintain their concentrated control over the firm on the other.

The ratio shows the contribution in financing the assets of the bank. High ratio indicates that the greater portion of the bank's assets have been financing through the outsiders fund. The ratio should not be too high or too low. The ratio shows the contribution of creditors in financing the assets of the bank lower ratio indicates that the greater portion of the banks assets been financed through the equity fund. The ratio should not be too high nor too low.

**Table 4.22: Total Debt to Total Assets Ratio**

<b>Rs. in ' lakh'</b>			
Fiscal year	Total debt	Total assets	Ratio (times)
2063/064	417.12	35348.19	0.01
2064/065	2233.92	82657.16	0.03
2065/066	6445.62	126264.73	0.05
2066/067	6458.46	172014.15	0.04
2067/068	7481.91	175227.08	0.04
Mean			0.03
S.D.			0.015
C.V.			5.00

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table shows that banks debt to assets ratio is satisfactory. Total debt to total assets ratio is slightly changed in every fiscal year. It is stable in fiscal year 2066/067 and 2067/068. In

fiscal year 2063/064 it is only 0.01 due to starting year of bank. From the viewpoint of standard deviation and C.V. i.e. 0.015 and 5.00%.

#### 4.3.2.4 Total Debt to Total Capital Ratio

Total capital refers to the sum of interest bearing debt and net shareholder equity. it shows the proportion to debt in total capital employed by the bank, high ratio indicates greater claim of the creditors. Low ratio is indication of lesser claim of outsider. For the sound solvency position the ratio should not be too high nor too low.

**Table 4.23: Total Debt to Total Capital Ratio**

<b>Rs. in lakh</b>			
Fiscal year	Total debt	Capital	Ratio (%)
2063/064	417.12	4694.91	8.88
2064/065	2233.92	7226.22	30.91
2065/066	6445.62	10489.27	61.45
2066/067	6458.46	15210.22	42.46
2067/068	7481.91	17080.27	43.80
Mean			37.51
S.D.			19.37
C.V.			51.64

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.23 shows debt to total capital ratio of Global Bank Limited. The ratio has fluctuated on increasing trend during the year. During the Fy 2065/066 the ratio has increased.

Debt to total capital ratio of GBL is in slightly fluctuation on increasing trend during the study period. The highest ratio has been observed Fy 2065/066 which it is 61.45% and lowest ratio has been observed Fy 2063/064 which is 8.88 %. The least C.V. and S.D. i.e. 51.64% and 19.37 shows the higher consistency between total debt and capital of GBL.

The higher mean ratio of GBL indicates the higher claim of creditors that means higher capital employed by the bank and greater proportion of debt in total capital.

#### 4.3.2.5 Interest Coverage Ratio

The ratio is also known as time interest earned ratio is used to test the debt. It shows the numbers to times the interest charge are covered by funds that are ordinarily available for the payment. It indicates the event to which the earning may fall without causing any embarrassment to the regarding the payment to interest.

**Table 4.24: Interest Coverage Ratio**

<b>Rs. in lakh</b>			
Fiscal year	EBIT	Interest charge	Ratio (times)
2063/064	(1.84)	403.25	0.005
2064/065	2859.94	2189.47	1.31
2065/066	5132.35	4597.54	1.12
2066/067	11093.71	9620.10	1.15
2067/068	15702.99	12880.51	1.22
Mean			0.96
S.D.			0.54
C.V.			56.25

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.24 shows EBIT to interest charge ratio of banks. During the Fy 2064/065 to 2067/068 the ratio has increased. The ratio of GBL has fluctuating trend during the study period. The lowest ratio has been observed by 2063/064 which it is 0.005 times and highest ratio has been observed Fy 2064/065 which it is 1.31 times. The mean ratio of GBL is 1.35 times.

Standard deviation 0.54 and C.V. 56.25% shows the bank has consistency in interest coverage ratio. The higher mean ratio of GBL measure the higher percentage of net worth in relation to the total deposit collected in the bank.

#### 4.3.3 Turnover/Activity Ratios

Turnover/Activity ratios measure how effectively the company employees the resources at its command an activity ratio may be defined as a test of relationship between loan and advance and total deposit. In other words, the activity ratio represents the intensity with which the

firm used it as deposit amount. It is related with measuring the efficiency in invested management as well as deposit policy.

Activity ratios are intended to measure the effectiveness to employment of resources in a business concern. Through this ratio, it is known whether the funds have been used effectively in the business activities or not.

**Table 4.25: Loan and Advances to Total Deposit Ratio**

<b>Rs. in lakh</b>			
Fiscal year	Total loan and advances	Total deposit	Ratio (times)
2063/064	25641.40	30236.16	0.85
2064/065	51400.72	73197.02	0.70
2065/066	91597.99	109329.84	0.84
2066/067	121636.35	150315.48	0.81
2067/068	127791.75	150664.90	0.85
Mean			0.81
S.D.			0.064
C.V.			7.90

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.25 shows loan and advance to total deposit ratio of GBL. The ratio of GBL is in fluctuating trend. The highest ratio for the period has been observed in the Fy 2067/068 and 2063/064 which is 0.85 in both years and lowest ratio in the Fy 2064/065 which is 0.70.

The mean ratio of loan and advance to total deposit ratio of GBL reveals that the bank has highly used deposit for investing in loan and advance. The mean ratio of loan and advance to total deposit ratio of GBL reveals that the bank has greater use of deposit for investing in loan and advance.

Above description helps to conclude that the GBL is more successful to mobilize the total deposit on loan and advance.

Lower S.D. i.e. 0.064 and lower C.V. i.e. 7.90% shows the higher consistency between total loan and advance to total deposit ratio.



#### 4.3.3.1 Loan and Advance to Fixed Deposit Ratio

The ratio indicates what proportion of fixed deposit has been used for loan and advance. Since fixed deposit carry high ratio of interest funds so collected fund needs to be invested in such sectors which yield at least sufficient return to meet the obligation.

**Table 4.26: Loan and Advance to Fixed Deposit Ratio**

<b>Rs. in lakh</b>			
Fiscal year	Total loan and advances	Fixed deposit	Ratio (times)
2063/064	25641.40	13639.00	1.88
2064/065	51400.72	25738.07	2.00
2065/066	91597.99	45669.20	2.01
2066/067	121636.35	62066.16	1.96
2067/068	127791.75	64012.04	2.00
Mean			1.97
S.D.			0.054
C.V.			2.74

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

The ratio indicates what proportion of fixed deposit has been used for loan and advance. Since fixed deposit carry high ratio of interest funds. So, collected funds need to be invested in such sectors which yield at least sufficient return to meet the obligation.

Above table and figure shows loan and advance to fixed deposit ratio of GBL. The ratio is in fluctuating trend. It is 1.88, 2.00, 2.01, 1.96, 2.00 in the year 2063/064 to 2067/068 respectively. The mean ratio is 1.97, standard deviation is 0.054 and coefficient of variation is 2.74.

The mean ratio of loan and advance to saving deposit ratio of GBL reveals that the bank has been not able to turnover fixed deposit into loan and advance.

#### 4.3.3.2 Loan and Advance to Saving Deposit Ratio

The ratio indicates what proportion of fixed deposit has been used for loans and advance. Since fixed deposit carry high ratio of interest funds, collected funds need to be invested in such sectors which yield at least sufficient return to meet the obligation.

**Table 4.27: Loan and Advance to Saving Deposit Ratio****Rs. in lakh**

Fiscal year	Total loan and advances	Saving deposit	Ratio (times)
2063/064	25641.40	5976.00	4.29
2064/065	51400.72	11529.71	4.46
2065/066	91597.99	34019.44	2.69
2066/067	121636.35	43533.18	2.79
2067/068	127791.75	38607.68	3.31
Mean			3.51
S.D.			0.83
C.V.			23.65

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.27 shows loan and advance to saving deposit ratio of GBL. The ratio of loan and advance to saving deposit is 4.29 and 4.46 in 2063/064 and 2064/065, it decreases to 2.69, 2.79 in the year 2065/066 and 2066/067, then it is increased to 3.31 for the year 2067/068. Its mean ratio is 3.51, standard deviation is 0.83, co-efficient of variation is 23.65%, which shows slightly fluctuation in loan and advance to saving deposit ratio.

#### 4.3.3.3 Loan and Advance to Total Assets Ratio

It is measures what extent of total asset have been turnover to loan and advances.

**Table 4.28: Loan and Advance to Total Assets Ratio****Rs. in lakh**

Fiscal year	Total loan and advances	Total assets	Ratio (%)
2063/064	25641.40	35348.19	72.54
2064/065	51400.72	82657.16	62.19
2065/066	91597.99	126264.73	72.54
2066/067	121636.35	172014.15	70.71
2067/068	127791.75	175227.08	72.93
Mean			70.18
S.D.			4.55
C.V.			6.48

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.28 shows loan and advance to total deposit ratio GBL. The ratio of GBL has fluctuating trend. In Fy 2063/064, the ratio is 72.54% but it decreases 62.19 in Fy 2064/065.

The highest ratio for the period has been observed in the Fy 2067/068 which it is 72.93% and lowest ratio in the Fy 2064/065 which it is 62.19%.

The mean ratio of loan and advance to total assets of GBL is 70.18%, it has 4.55% standard deviation and 6.48% coefficient of variation. The highest mean ratio of loan and advance to total assets of GBL reveals the bank has been able to turnover total asset into loan and advance in higher extent.

#### 4.3.3.4 Investment to Total Deposit

Investment comprises of investment its government treasury bills, development bonds, company shares and other types of investment. The ratio shows how efficiently the major resources of the bank have been mobilized.

**Table 4.29: Investment to Total Deposit**

<b>Rs. in lakh</b>			
Fiscal year	Investment	Total deposit	(Ratio (%))
2063/064	6873.56	30236.16	22.73
2064/065	11874.15	73197.02	16.22
2065/066	16201.21	109329.84	14.82
2066/067	22704.87	150315.48	15.10
2067/068	29202.47	150664.90	19.38
Mean			17.65
S.D.			3.37
C.V.			19.09

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.29 shows investment to total deposit ratio of GBL. The highest ratio of GBL is 22.73% in Fy 2063/064 and lowest 14.82% in Fy 2065/066. During the Fy 2064/065 the ratio has 16.22% then decreased in Fy 2065/066 then increased in Fy 2066/067 and Fy 2067/068. This ratio indicates management efficiency regarding the utilization of deposit. Standard

deviation 3.37, coefficient of variation 19.09% was the bank has been able to maintain investment to total deposit ratio to some extent.

#### 4.3.4 Profitability Ratios

Profit is the difference between revenue and expenses over a period of time. A company should earn profit to provide service and grow over a long period of time. So profits are essential but profit earning is not the ultimate aim of the company and it should never be earned at the cost of employee, customers and society.

However, profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its profitability ratio and profitability ratios are these ratios which indicates degree of success in achieving desired profit levels.

Profit provides money for repaying the debt incurred to finance the project and resource for the internal financing expansion the profitability of a firm can be measured by its profitability ratios can be determined on the basis of investment. The following are the major profitability ratios used in this study.

##### 4.3.4.1 Return on Total Assets Ratios

Net profit refers to the profit after deduction of interest and tax. Total asset's mean that appear in asset right side of balance sheet. It measures the sufficiency of bank in utilization of the overall assets.

**Table 4.30: Return on Total Assets Ratios**

**Rs. in lakh**

Fiscal year	NPAT	Total assets	Ratio (%)
2063/064	(405.10)	35348.19	1.15
2064/065	612.34	82657.16	0.74
2065/066	263.05	126264.73	0.21
2066/067	730.03	172014.15	0.42
2067/068	2249.78	175227.08	1.28
	Mean		0.76
	S.D.		0.46
	C.V.		60.53

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above the table shows return on total deposit ratio of bank. In fiscal year 2063/064 it has (1.15)% then it is increased to 0.74% in 2064/065, and decreased to 0.21% in 2065/066 and again increased to 0.42% and 1.28% in fiscal year 2066/067, and 2067/068 respectively. Upto fiscal year 2065/066 to 2066/067 it is slightly increased. But in fiscal year 2067/068 it is highly increased to 1.28%.

From above table it is found that the highest ratio is 1.28% in 2067/068 and least is 1.15% in 2063/064. The mean ratio is 0.76%, standard deviation is 0.46% and co-efficient of variation is 60.53%. Higher the standard deviation, higher C.V. and negative correlation which shows the return on total assets ratio of GBL is not consistent i.e. riskier.

#### 4.3.4.2 Return to Total Deposit Ratios

The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is index of strong profitability position.

**Table No. 4.31: Return to Total Deposit Ratio**

<b>Rs. in lakh</b>			
Fiscal year	NPAT	Total deposit	Ratio (%)
2063/064	(405.10)	30236.16	1.34
2064/065	612.34	73197.02	0.84
2065/066	263.05	109329.84	0.24
2066/067	730.03	150315.48	0.49
2067/068	2249.78	150664.90	1.49
Mean			0.88
S.D.			0.54
C.V.			61.36

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above the table shows return on total deposits ratio of bank. Like in return on total assets ratio, return on total deposit ratio is changing every year. The ratio of return on total deposit of GBL has fluctuating trend every year. The highest return to total deposit ratio is 1.49% in Fy 2067/068 and least is (1.34) in 2063/064.

The mean ratio is 0.88%, standard deviation is 0.54 and coefficient of variation is 61.36%. Higher the standard deviation, higher C.V. and negative correlation shows the bank is not

able to maintain return to total deposit ratio promptly. From this figure we conclude that the bank should take corrective action to improve this negative situation of earning.

#### 4.3.4.3 Total Interest Expenses to Total Interest Income

Total interest expenses consist of interest expenses incurred for deposit, borrowing and loan taken by the bank. Total interest income includes interest income received from loan and advance, cash credit, overdrafts, government securities, inter-bank loans and other investment. Lower ratio is favorable from profitability point of view.

**Table 4.32: Total Interest Expenses to Total Interest Income**

**Rs. in lakh**

Fiscal year	Interest expenses	Interest income	Ratio (%)
2063/064	403.25	651.03	61.94
2064/065	2189.47	3579.11	61.17
2065/066	4897.84	6839.33	71.61
2066/067	9620.10	14649.78	65.67
2067/068	12880.51	19636.04	65.60
Mean			65.20
S.D.			4.13
C.V.			6.33

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.32 shows total interest expenses to total interest income ratio of GBL. The ratio of GBL has been fluctuated during the year. The highest ratio is 71.61% in the year 2065/066 and lowest in 2064/065 i.e. 61.17%. Lower the interest expenses to interest income shows the higher profit of the bank. Likewise, the bank is able to decrease this ratio except fiscal year 2065/066.

The mean ratio is 65.20%, standard deviation is 4.13%, C.V. is 6.33%. Higher standard deviation, higher C.V. shows the bank has fluctuating expenses and income. It is more risky for bank. This shows the bank has become failure to maintain interest expenses to interest income ratio properly.

As a whole, it can be concluded that GBL has been able to minimize interest expenses in relation to interest income.

#### 4.3.4.4 Interest Earned to Total Assets

The ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of banks assets for income generating purpose. Low ratio represents unsatisfactory performance.

**Table 4.33: Interest Earned to Total Assets**

**Rs. in lakh**

Fiscal year	Interest income	Total assets	Ratio (%)
2063/064	651.03	35348.19	1.84
2064/065	3579.11	82657.16	4.33
2065/066	6839.33	126264.73	5.42
2066/067	14649.78	172014.15	8.52
2067/068	19636.04	175227.08	11.21
Mean			6.26
S.D.			3.66
C.V.			58.47

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.33 shows the interest earned to total assets of GBL. The ratio of GBL has increased slightly during the year. The highest ratio is observed in Fy 2067/068 which is 11.21% and lowest ratio is 1.84% in Fy 2063/064.

The mean ratio of 6.26%, standard deviation is 3.66% and coefficient of variation is 58.47%, shows, there is slightly changed in the ratio of interest income to total assets. But the correlation between interest income to total assets is perfectly correlated.

Lower the standard deviation, lower C.V. and perfect correlation shows the bank is able to maintain its interest earned to total assets ratio properly.

#### 4.3.4.5 Staff Expenses to Total Income Ratio

Staff expenses include salary and allowance, contribution to provident fund and gratuity fund, staff training expenses and other allowance and made for staff.

This ratio measures the proportion of income spent for the staff, whose contribution is of great significance in the success of the bank. High ratio indicates that the major portion of income is used for staff expense. From the firm's point of view, low ratio is advantage. But the staff prefer high ratio, as it is result of higher level of facilities and benefit provided to them.

**Table No. 4.34: Staff Expenses to Total Income Ratio**

**Rs. in lakh**

<b>Fiscal year</b>	<b>Staff/employee expenses</b>	<b>Total income</b>	<b>(Ratio (%))</b>
2063/064	127.06	776.37	16.37
2064/065	419.62	4131.14	10.16
2065/066	663.22	7940.03	8.35
2066/067	1002.57	16308.88	6.15
2067/068	1550.04	21469.05	7.22
	Mean		9.65
	S.D.		4.039
	C.V.		41.85

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.34 shows staff expenses to total income of the bank. The ratio of GBL has fluctuating during the year. The highest ratio is 16.37% in Fy 2063/064 and the lowest ratio i.e. 6.15% in Fy 2066/067.

Since the new branches i.e. 5, were launched by Global Bank Limited in fiscal year 2067/068, the operating expenses became high, so that the every aspects of banks seem weak in terms of profit.

The mean ratio of GBL is 9.65%, standard deviation is 4.039% and coefficient of variation is 41.85%. The higher mean ratio of GBL measure the highest percentage of staff expenses in relation to total income.

Higher the S.D., higher C.V. shows the riskier position of bank in terms of operating expenses to total income. To overcome this situation, GBL should maintain operating expenses properly.



#### 4.3.4.6 General Expenses to Total Income

General expenses comprise expenses of incurred in house rent, water and electricity, repair and maintenance, legal expenses, audit expenses and other miscellaneous expenses made in course of operation. It shows the percentage of income spent for the operating activity of the bank. High ratio shows the large amount of income is spent for the operating activity of the bank. Low ratio is favorable to the bank, as it is the reflection of operational efficiency.

**Table 4.35: Operating Expenses to Total Income**

**Rs. in lakh**

<b>Fiscal year</b>	<b>Operating expenses</b>	<b>Total income</b>	<b>(Ratio (%))</b>
2063/064	247.94	776.37	31.94
2064/065	601.07	4131.14	14.55
2065/066	1328.94	7940.03	16.74
2066/067	2093.46	16308.88	12.84
2067/068	2373.64	21469.05	11.06
	Mean		11.83
	S.D.		8.38
	C.V.		70.84

Source: Annual reports of GBL (Fy 2063/064 to 2067/068 B.S.).

Above table 4.35 shows general expenses to total income ratio of GBL. The ratio is fluctuating trend during the year i.e. 2063/064 to 2067/068. The lowest ratio is 11.06% in Fy 2067/068 and highest ratio is 31.94% in Fy 2063/064. The mean ratio is 11.83%, standard deviation is 8.38% and coefficient of variation is 70.84%.

From the above analysis it is concluded that the general/operating expenses is a part of expenses which is more than 300% than total income in the year 2067/068. The bank is not able to minimize it. This shows the bank is not able to maintain its operating expenses properly.

#### 4.4 Statistical Analysis

This chapter includes some statistical analysis such as Karl Pearson's coefficient correlation, regression analysis, t-test, straight line trend, which are used to analyze the data to achieve the objective of the study.

##### 4.4.1 Time Series Analysis

Time series is used to predict future forecasting and planning of variable on the basis of past and present information. In regard to GBL basically the trend of interest coverage ratio and interest income and interest expenses is analyzed. GBL has taken loan from different sources for certain period.

The projections are based on the following assumptions:

The main assumption is that other things will remain unchanged.

- i. The forecasted will be true only with the limitations of least square methods are carried out.
- ii. The GBL will continue to run in present position.
- iii. The economy will remain in the present stage.

##### Trend Analysis of Total Revenue

The analysis of total revenue ratio of GBL for five years from fiscal year 2063/064 to fiscal year 2067/068 and forecasted of the same for next 5 years are given in the following table.

$$Y=a+bx$$

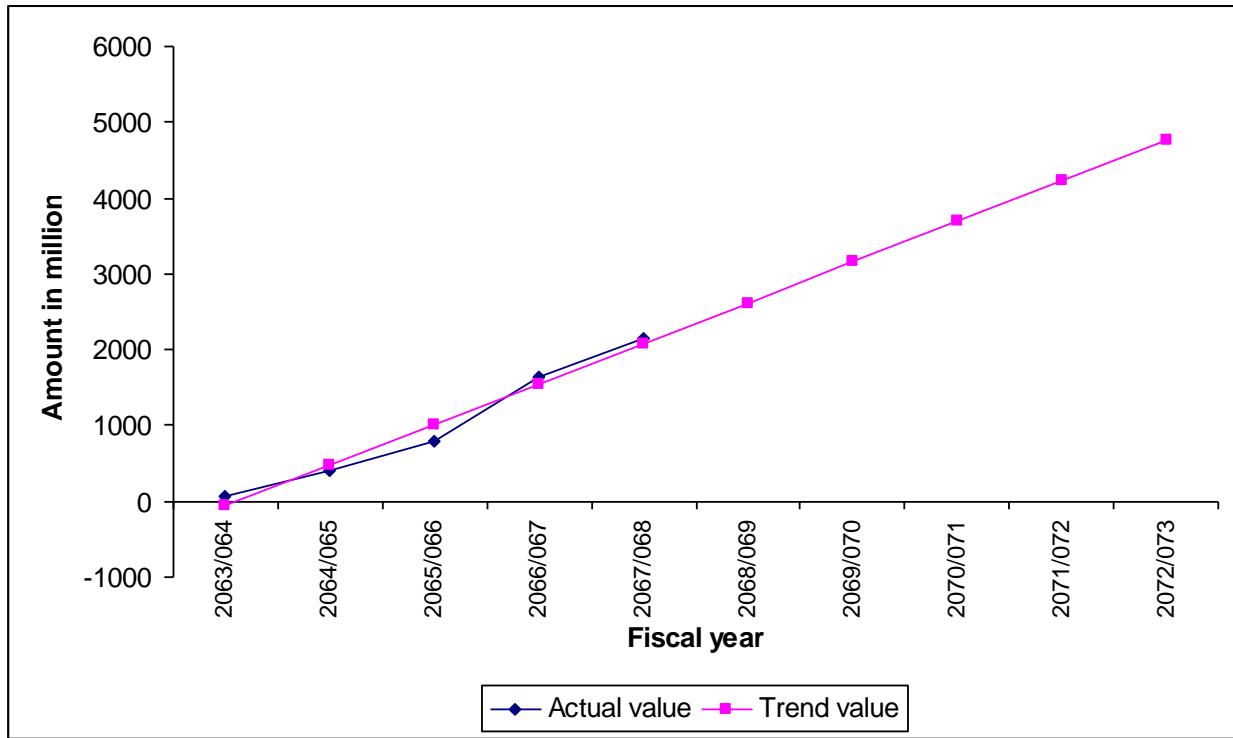
**Table No. 4.36: Trend Value of Total Revenue Ratio**

Fiscal year	Actual value	Trend value
2063/064	77.63	(58.75)
2064/065	413.11	476.88
2065/066	794.00	1012.51
2066/067	1630.89	1548.14
2067/068	2146.90	2083.77
2068/069	-	2619.40
2069/070	-	3155.03
2070/071	-	3690.66
2071/072	-	4226.29
2072/073	-	4761.92

Source: Appendix-I.

In the above table of trend value of total revenue ratio, shows increasing trend. In the fiscal year 2063/064, it was 58.75 times where as it will be increased to 4761.92 times for the forecasted year 2072/073. It means the company has ability to pay interest of Rs. 1000 by earning Rs. 4761.92. The above calculations of trend values are fitted in the following figure.

**Figure 4.5: Trend and Actual Line of TRR**



### Trend of Total Expenditure

The trend value of total expenditure GBL for five years from 2063/064 and forecasting for the next five years till 2072/073 are given in the below table

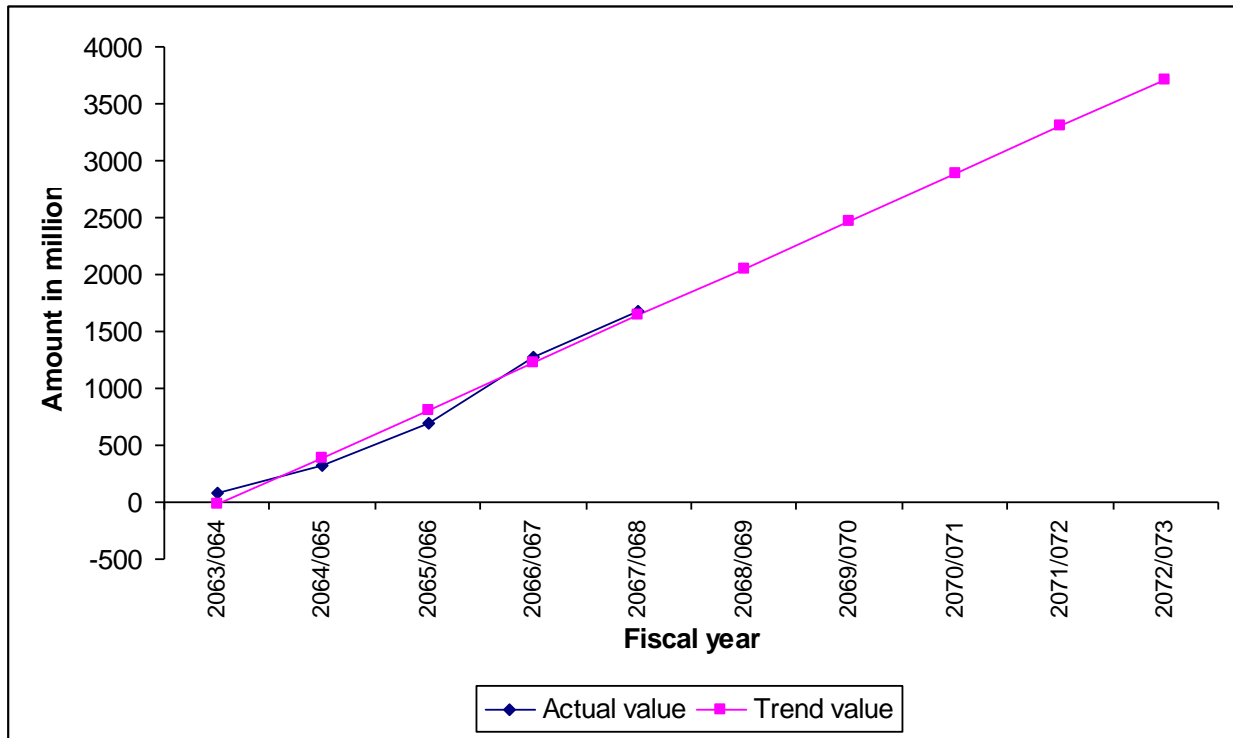
**Table No. 4.37: Trend Value of Total Expenditure**

Fiscal year	Actual value	Trend value
2063/064	77.82	(23.37)
2064/065	321.02	392.21
2065/066	688.10	807.79
2066/067	1271.61	1223.37
2067/068	1680.42	1638.95
2068/069	-	2054.53
2069/070	-	2470.11
2070/071	-	2885.69
2071/072	-	3301.27
2072/073	-	3716.85

Source: Appendix-II.

From the above table of trend value of total expenditure shows the decreasing trend from 23.37 % in Fy 2063/064 to 3716.85% for fiscal year 2072/073.

**Figure 4.6: Trend and Actual Line of TER**



### Trend of Total Deposit

The trend value of total deposit of GBL for five years from 2063/064 and forecasting for the next five years till 2072/073 are given in the below table

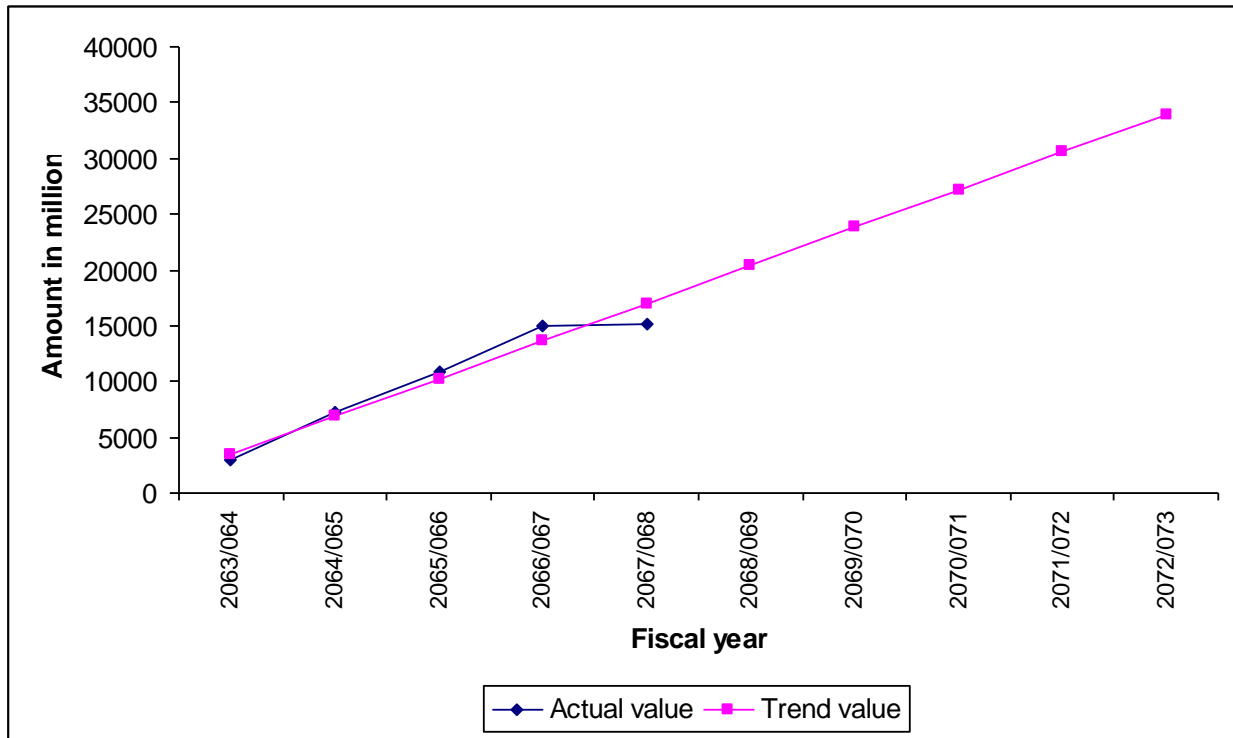
**Table No. 4.38: Trend Value of Total Deposit**

Fiscal year	Actual value	Trend value
2063/064	3023.62	3515.17
2064/065	7319.70	6894.93
2065/066	10932.10	10274.69
2066/067	15031.52	13654.45
2067/068	15066.49	17034.21
2068/069	-	20413.97
2069/070	-	23793.73
2070/071	-	27173.49
2071/072	-	30553.25
2072/073	-	33933.01

Source: Appendix-III.

From the above table of trend value of total deposit shows the increasing trend from 3515.17 % in Fy 2063/064 to 33933.01% for fiscal year 2072/073.

**Figure 4.7: Trend and Actual Line of TD**



### Trend of Net Profit

The trend value of net profit of GBL for five years from 2063/064 and forecasting for the next five years till 2072/073 are given in the below table

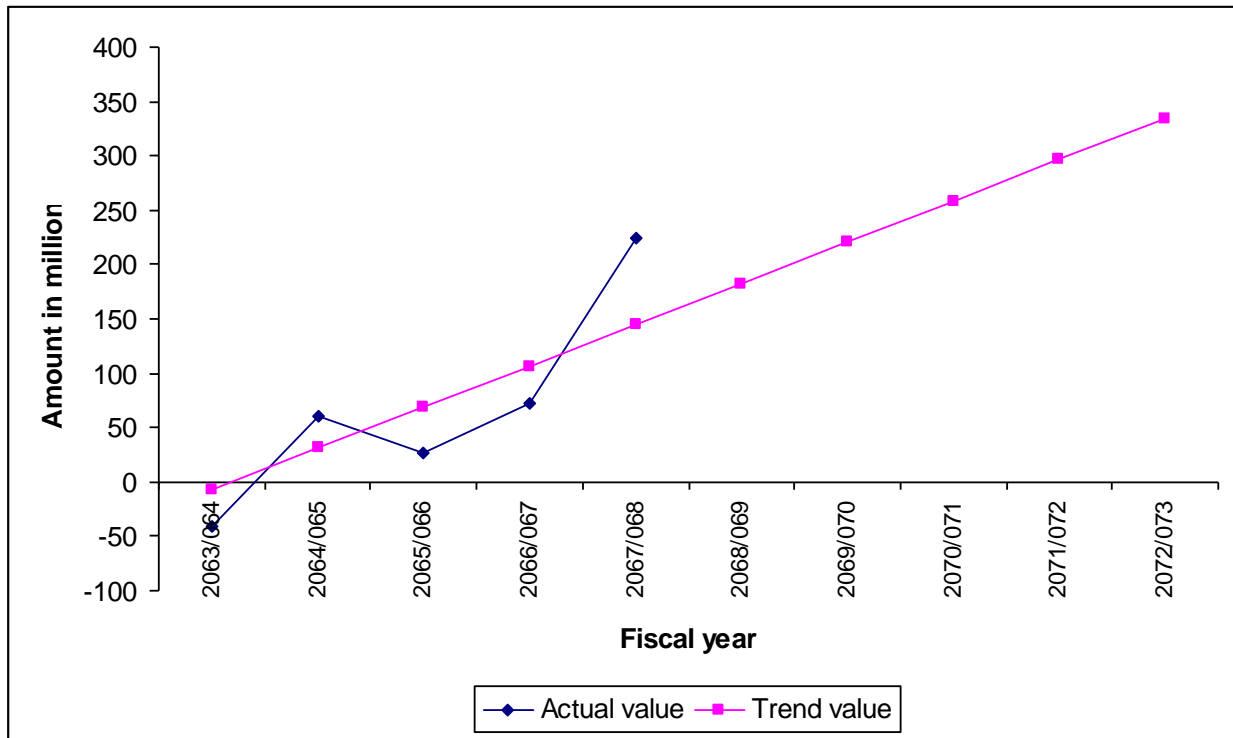
**Table No. 4.39: Trend Value of Net Profit**

Fiscal year	Actual value	Trend value
2063/064	(40.51)	(6.96)
2064/065	61.23	30.94
2065/066	26.31	68.83
2066/067	73.0	106.73
2067/068	224.10	144.62
2068/069	-	182.52
2069/070	-	220.41
2070/071	-	258.31
2071/072	-	296.20
2072/073	-	334.10

Source: Appendix-IV.

From the above table of trend value of net profit shows the increasing trend from 6.96 % in Fy 2063/064 to 334.10% for fiscal year 2072/073.

**Figure 4.8: Trend and Actual Line of NP**



#### 4.7 Major Findings of the Study

Following major findings has been obtained from the analysis.

1. Revenue is Rs. 77637.025 thousand in Fy 2063/064 and Rs. 2146904.782 thousand in Fy 2067/068. Interest income from loan and advance has been increasing every year. It is increased by 449.76%, 91.09%, 114.20% and 55.74% from Fy 2064/065 to 2067/068 respectively. Revenue from commission and discount has been increasing every year. index is 663.06% in Fy 2067/068. Revenue from foreign currency exchange and revenue from other income is in fluctuating trend.
2. Expenditure has been increasing every year which is Rs. 77824.467 thousand in Fy 2063/064 and Rs. 1680418.656 thousand in Fy 2067/068. An interest expense is the major part of the expenditure of GBL. It is increased every year. Its index in Fy 2067/068 is 796.97% assuming 2063/064 as base year. Operating expenses and employee expenses has been increasing every year, which indexes are 494.08% in Fy 2067/068 assuming 2063/064 as base year.

3. Along with the increment of total deposit, an interest expense is also increased every year. Total deposit is Rs. 1612990.400 thousand in Fy 2063/064 and Rs. 15066490.196 thousand in Fy 2067/068. An interest expense is Rs. 40324.760 thousand and 1288050.872 thousand in Fy 2063/064 and 2067/068 respectively.
4. Paid up capital is increased every year and reserve and surplus is also increased Paid up capital and reserve and surplus is Rs. 510000.000 thousand and Rs. (40508.904) thousand in Fy 2063/064 and Rs. 1500000.000 thousand and Rs. 108027.365 thousand in Fy 2067/068.
5. Actual credit investment plan has been achieved in Fy 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 which is 120.89%, 143.96%, 113.70%, 116.79% and 107.18% respectively.
6. Budgeted and actual deposit collection is achieved in Fy 2063/064, 2064/065, 2065/066, 2066/067. In Fy 2067/068 it is nearly achieved i.e. 83.53%.
7. Operational profit and net profit of GBL is increased unexpectedly. Operational profit is negative in Fy 2063/064 i.e. (187.442) thousand and net profit is Rs. 466486.126 thousand in positive figure, which were 359275.078 thousand and 105003.644 thousand in Fy 2066/067 and 2065/066 respectively.
8. Cash flow statement shows positive closing balance in every year. It is Rs. 473040.068 thousand in Fy 2063/064 and Rs. 1754446.117 thousand in Fy 2067/068.
9. The mean ratio of interest expenses to interest income is 65.20% shows the satisfactory condition of bank. It is 6.33 correlation coefficient, shows higher correlation between interest expenses to interest income.
10. Interest income on total assets is in increasing trend which is 1.84% in Fy 2063/064 and 11.21% in Fy 2067/068.
11. Staff expenses to total income ratio is in increasing trend which is 16.370% in Fy 2063/064 and 7.22% in Fy 2067/068. It shows the staff expenses in relation to total income. Higher S.D. and C.V. i.e. 4.039% and 41.85% shows the riskier position in terms of staff expenses to total income.
12. The mean ratio between investments to total deposit is 17.63%, S.D. 3.37%, C.V. 19.12%, shows the well management efficiency regarding the utilization of deposit.
13. Return to total assets ratio is increasing every year except Fy 2065/066. The mean ratio is 0.76% and C.V is 60.53.
14. Return to total deposit ratio is increasing order, and it has 0.87 mean, 0.54 S.D and 61.93 C.V, which shows the bank is able to mobilize total deposit ratio.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

For the sustainable existence and growth of a bank it must ensure reasonable profitability. As the bank are formed as joint stock companies promoted by shareholder further by the profit made by the bank. It may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the moral of the employees and them for better performance. This chapter highlights some selected actionable conclusion and recommendations on the basis of the major findings of the study derived from the analysis of GBL. The study has covered 5 years data from Fy 2063/064 to 2067/068. The major findings of the study based on financial and statistical analysis listed in chapter-IV of this report in order to carry out this study only secondary data have been used..

#### **5.1 Summary**

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject matter of economic development has been limited due to variety of geographical structural and economic constraints. The economic growth of a country can't imagine without financial institutions.

Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization. The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of GBL. The study is mostly based on secondary data



and required data have been collected by using various sources. There are many commercial banks operating in Nepal which are taken as population of the study among them GBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools. GBL is one of the well-established commercial bank in Nepal. GBL is able to maintain its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

## **5.2 Conclusion**

On the basis of major findings of study some conclusion has drawn about the GBL. Profit planning and controlling system of GBL is not effective because it can't generate more profit in F/Y 2064/065 to F/Y 2067/068. But this two current fiscal year the bank has been generated satisfactory profit level. There is variance in budgeted and actual performance and it cross budgeted figure during the study period. This analysis concludes that the growth of the bank is significant. But in all fiscal year, GBL is increasing its internal fund by increasing capital. This means the banks strengthen their capability internally. The relationship between budgeted and actual figures is positively correlated. The average cost of deposit (COD) of bank is normally high it means the bank is not able to collect cost free deposit. The major income source is interest margin. The trend of interest margin is fluctuating trend but it was highly increasing in current fiscal year.

The bank cant maintained the cash and bank balance to meet the current obligations so the liquidity position of GBL is better. The GBL use more external fund to repay its borrowings so the financial position or strength of GBL is strong. The current fiscal year shows that the return on assets and return on capital is satisfactory which shows the good earning capacity of the bank.

The result of the study shows that the overall performance of GBL is satisfactory and progressive because the bank not use more external fund to repay its borrowing. There is the declination of faith of customers towards the bank because of its heavy investment on non-performing assets.

### 5.3 Recommendations

This researcher would like to provide some suggestion for the better improvement of bank in future. This recommendation based on the study on profit planning of GBL these is as follows:

- Nepal's accession to the WTO would permit international banks to operate in Nepal so GBL need to make their business plan and strategy accordingly which can convert challenges in to opportunities by studying international level's banks business plan.
- Bank should develop its specific goal for the coming budget year. Such goal may be net profit on investment, net profit on capital employment, investment revenues etc. Without formulating such goals the operation of bank may not be effective. Bank should invest in hydropower, tourism and agriculture sector of country.
- In the interim time period, such kind of collection budget will help the bank to plan the necessary money fund and other deposit factors at appropriate time. Collection should be from small village to big cities of Country.
- Bank should be operated on purely commercial basis, so every manager of the bank should know the role of the budget. Effective programs should be launched to improve the productivity and morality employee to motivate them. Incentive plans should be started. Reward and punishment system should be effective and should be based on work performance.
- Non-performing assets do not provide any return to the bank, therefore GBL should increase its efforts to recover its credit on time. More facilities should be provided to credit department, so that credit officers will increase their efforts to recover the credit of the bank.
- Staff expenses to total income ratio is too high so the bank should try to minimize its staff expenses by recruitment of well trained and less staffs.
- Operating expenses is the second major part of expenses, which is increasing rapidly. It has negative correlation with total income. If the bank will try to minimize the expenses, income will highly increased. So the bank should try to minimize expenses using modern managerial tools and techniques.
- Global bank ltd. should recruit skilled manpower and provide equal opportunity to every people, not based on relationship of staff which can help in better performance of all staffs.

- Global bank ltd. should invest in research and development to carried new technology and invented new product. By taking survey and taking different research studies bank will able to invest in research and development of new technology.
- All level of management team should be involved in profit planning and decision making by analysis of own annual reports and other well established bank's reports as well as international level banks.
- Global bank ltd. should increase interest rate providing in deposit to all people by marketing different kinds of more interest bearing account in which all people can easily deposit their little savings.
- This study carries a lot of limitation. So, a more comprehensive study needs to be carried from the concerned authorities and the future researches to reach a more authentic conclusion depicting the picture of the banks.

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### Appendix-I

#### Trend of Total Revenue

Rs. in million

FY	Total revenue (y)	x	xy	x <sup>2</sup>
2063/64	77.63	-2	-155.26	4
2064/65	413.11	-1	-413.11	1
2065/66	794.00	0	0	0
2066/67	1630.89	1	1630.89	1
2067/68	2146.90	2	4293.80	4
N = 5	Σy = 5062.53	Σx = 0	Σxy = 5356.32	Σx <sup>2</sup> = 10

Simple regression equation,

$$y = a + bx \dots\dots\dots (i)$$

$$\Sigma y = na + b \Sigma x \dots\dots\dots(ii)$$

$$\Sigma xy = a \Sigma x + b \Sigma x^2 \dots\dots\dots(iii)$$

Substituting the above calculations in equations (ii) and (iii), we get,

From eq. (ii),

$$5062.53 = 5 \times a + b \times 0$$

$$a = 1012.51$$

From eq. (iii),

$$5356.32 = 1012.51 \times 0 + 10b$$

$$b = 535.63$$

Now, trend value:

FY	$y = 1012.51 + 535.63x$
2063/64	(58.75)
2064/65	476.88
2065/66	1012.51
2066/67	1548.14
2067/68	2083.77
2068/69	2619.40
2069/70	3155.03
2070/71	3690.66
2071/72	4226.29
2072/73	4761.92

### Appendix-II

#### Trend of Total Expenditure

Rs. in million

FY	Total revenue (y)	x	xy	$x^2$
2063/64	77.82	-2	-155.64	4
2064/65	321.02	-1	-321.02	1
2065/66	688.10	0	0	0
2066/67	1271.61	1	1271.61	1
2067/68	1680.42	2	3360.84	4
N = 5	$\Sigma y = 4038.97$	$\Sigma x = 0$	$\Sigma xy = 4155.70$	$\Sigma x^2 = 10$



Simple regression equation,

$$y = a + bx \dots\dots\dots (i)$$

$$\Sigma y = na + b \Sigma x \dots\dots\dots(ii)$$

$$\Sigma xy = a \Sigma x + b \Sigma x^2 \dots\dots\dots(iii)$$

Substituting the above calculations in equations (ii) and (iii), we get,

From eq. (ii),

$$4038.97 = 5 \times a + b \times 0$$

$$a = 807.79$$

From eq. (iii),

$$4155.79 = 4038.97 \times 0 + 10b$$

$$b = 415.56$$

Now, trend value:

FY	$y = 807.79 + 415.582x$
2063/64	(23.37)
2064/65	392.21
2065/66	807.79
2066/67	1223.37
2067/68	1638.95
2068/69	2054.53
2069/70	2470.11
2070/71	2885.69
2071/72	3301.27
2072/73	3716.85

### Appendix-III

#### Trend of Total Deposit

Rs. in million

FY	Total revenue (y)	x	xy	x <sup>2</sup>
2063/64	3023.62	-2	-4047.24	4
2064/65	7319.70	-1	-7319.70	1
2065/66	10932.10	0	0	0
2066/67	15031.52	1	15031.52	1
2067/68	15066.49	2	30132.98	4
N = 5	Σy = 51373.43	Σx = 0	Σxy = 33797.56	Σx <sup>2</sup> = 10

Simple regression equation,

$$y = a + bx \dots\dots\dots (i)$$

$$\Sigma y = na + b \Sigma x \dots\dots\dots(ii)$$

$$\Sigma xy = a \Sigma x + b \Sigma x^2 \dots\dots\dots(iii)$$

Substituting the above calculations in equations (ii) and (iii), we get,

From eq. (ii),

$$51373.43 = 5 \times a + b \times 0$$

$$a = 10274.69$$

From eq. (iii),

$$33797.56 = 10274.69 \times 0 + 10b$$

$$b = 3379.76$$

Now, trend value:

FY	$y = 10274.69 + 3379.76x$
----	---------------------------

2063/64	3515.17
2064/65	6894.93
2065/66	10274.69
2066/67	13654.45
2067/68	17034.21
2068/69	20413.97
2069/70	23793.73
2070/71	27173.49
2071/72	30553.25
2072/73	33933.01

**Appendix-IV**

**Trend of Net Profit**

**Rs. in million**

FY	Total revenue (y)	x	xy	x <sup>2</sup>
2063/64	(40.51)	-2	-81.02	4
2064/65	61.23	-1	-61.23	1
2065/66	26.31	0	0	0
2066/67	73.0	1	73.00	1
2067/68	224.10	2	448.20	4
N = 5	Σy = 344.13	Σx = 0	Σxy = 378.20	Σx <sup>2</sup> = 10

Simple regression equation,

$$y = a + bx \dots\dots\dots (i)$$

$$\Sigma y = na + b \Sigma x \dots\dots\dots(ii)$$

$$\Sigma xy = a\Sigma x + b\Sigma x^2 \dots\dots\dots(iii)$$

Substituting the above calculations in equations (ii) and (iii), we get,

From eq. (ii),

$$344.13 = 5 \times a + b \times 0$$

$$a = 68.83$$

From eq. (iii),

$$378.95 = 68.83 \times 0 + 10b$$

$$b = 37.895$$

Now, trend value:

FY	$y = 68.83 + 37.895x$
----	-----------------------

2063/64	(6.96)
2064/65	30.94
2065/66	68.83
2066/67	106.73
2067/68	144.62
2068/69	182.52
2069/70	220.41
2070/71	258.31
2071/72	296.20
2072/73	334.10