CHAPTER I
INTRODUCTION

1.1 Background of the Study:

The speedy economic development of any country in this modern era is largely depends upon financial activities of the country, Financial activities play a role of catalyst in the process of economic development of the country. In Nepal financial sectors (banks, finance companies etc.) plays a vital role in the economic development of the country. The current state of Nepalese economy is characterized by unutilized natural resources, miserable agriculture, deficit trade, mass poverty, illiteracy and so forth. Agriculture is the main occupation of almost village people but agricultural activities are not commercialized and no scientific methods of agriculture have yet been implemented. It in one of the richest country in the world in terms of natural resources and poorest in terms of economic development. The major reason behind this fact is lack of financial resources and strong institutions for resources mobilization. Existence of strong financial institutions serves as a basis for happening of financial activities, the frequency and scale of financial activities determines the profitability of financial institution and profitability is the only measure for sustainability of financial institutions.

Every company or institution is established based on the definite goals and objectives. According to the set up objectives, the company performs tasks. Two types of institutions such as profit oriented and service oriented institution are established. But most of them are profit oriented because profit is the life-blood of the business which not only keeps it alive but also assures the future and makes it sound. Profit planning is an important tool of the firm to achieve the objective. Profit do not just happen, profits are managed. So, to manage the profit, the management should follow various processes of profit planning because the management process and profit planning and control are interrelated to each other.

Unlike other non-bank financial companies, commercial banks do not produce any physical goods. They produce loan and financial innovation to facilitate trade transaction. Because of special role they play in the economy, they are heavily regulated by the concerned authorities. Analysis of banks profit planning is different from that of other companies due to the special nature of revenue, cost, assets and liabilities structure of the banking industry.

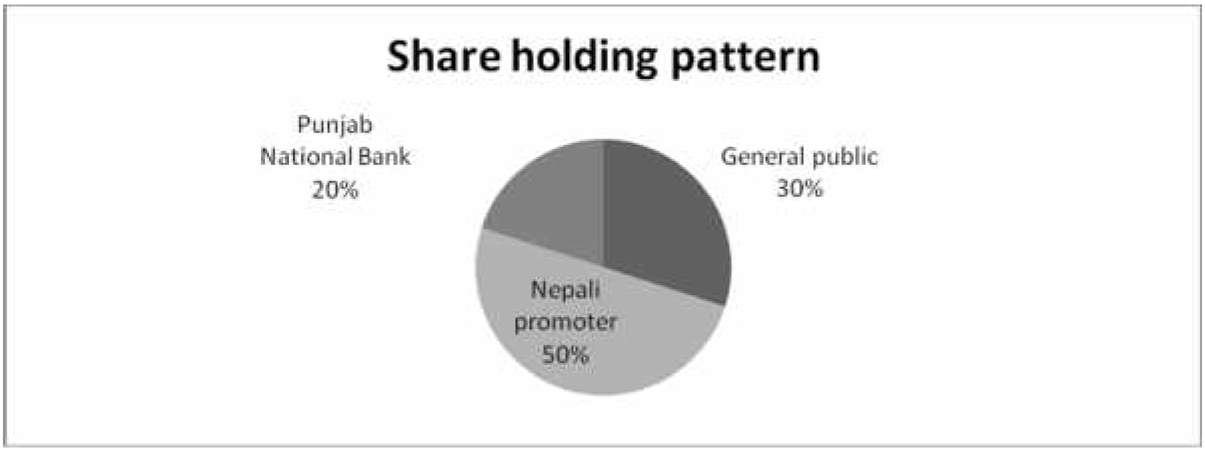
The profit planning and control mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing/service sectors. However this concept it equally applicable to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving goals.

1.2 Profile of Everest Bank Limited and Nepal SBI Bank limited

1.2.1 Everest Bank Limited

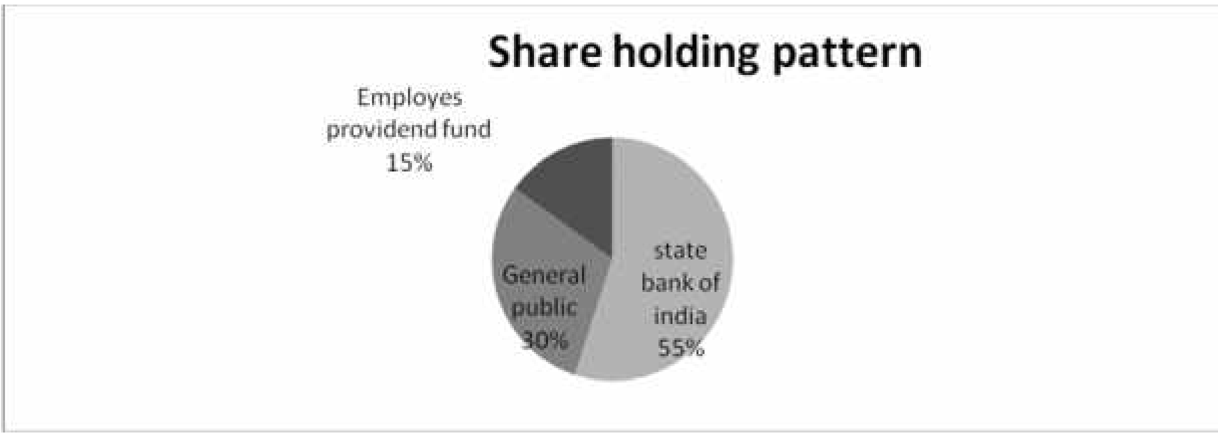
EBL was registered under Company Act 1964 in 19th November 1993 (2049/09/03 B.S) and started banking transaction on 16th October 1994(2051/07/01 B.S). The promoter of the bank decided to enter into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), a leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professional deputed by PNB is under this arrangement. The new bank branches including main branch (i.e. head office) in Nepal.

On equity holding PNB has 20% equity participation in its total shareholding and also has under taking management responsibility under technical service agreement and other balance is maintain by Nepali investor. Nepalese promoter holding 50% and rest 30% held by general public .The main purpose of EBL is to extend professional banking services to various sector of the society in the Nepal and there by contributing in the economic development of Nepal.



1.2.2 Nepal SBI Bank Limited

Nepal SBI Bank Ltd. was incorporated with the office of Company Register (OCR), Kathmandu, Nepal on 28th April, 1993 under Regd. No. 17-049/50 and licensed by Nepal Rastra Bank on July 6, 1993 to operate under the Commercial Bank Act 1974. Nepal SBI Bank Ltd. commenced operation on 7th July, 1993 with their corporate office at Hattisar, Kathmandu. Nepal SBI Bank Ltd. is a joint venture partner of State Bank of India-India's largest bank, with over 203 years of history and expertise in banking which has 55 percent ownership. The remaining shares are held by Employees' Provident Fund of Nepal 15 percent and the Nepalese general public 30 percent. Authorized capital of this bank is (20,000,000 ordinary shares @ Rs. 100 each) Rs. 2,000,000,000, Issued capital is (8,775,000 ordinary shares @ Rs. 100 each) Rs.877, 500,000 and paid up capital is (8,745,278.4 ordinary shares @ Rs. 100 each) Rs. 874,527,840.



It covered a remarkable market share, among the financial institutions, within a short period of time. It is the fifth bank as Joint Venture Banks.

Since its establishment this bank has been giving all commercial banking facilities like Nepal Bank Limited, Rastriya Banijya Bank, Nepal Arab Bank Limited (Nabil), Nepal Grindlays (Standard Chartered) Bank Limited and etc. It performs almost all kind of commercial banking operations inclusive of the most modern ones. The fund based activities include short-term as well as long-term loans covering purchases like export credit, import LC, industrial loan, commercial loan, priority sector credit, working capital loan, term loan, education loans, housing finance, hire purchase, lease financing, overdraft and loan against fixed deposit receipts, Nepal Government bond and guarantees including cash credit. With respect to non-financing activities, the bank issue guarantees (Besides providing forward covering, foreign exchange transactions, partially for import payments). Even today, who makes plan to travel India used to take SBI Rupee Traveler's Cheques from Nepal SBI Bank Limited. Indians take it (Indian Rupee Traveler's Cheques) as cash equivalent.

1.2.2.1 Personnel and Organizational Pattern:

The bank was started with the total staff of 25 of which 5 were expatriates at senior management level and 5 were local based officers and 15 local staff at assistant level. The total number of staff in the bank reached 445 by the end of July, 2010.

1.2.2.2 Services Offered By Nepal SBI Bank Limited:

- Deposits-current, saving, fixed, Margin and others
- Remittances/Money Transfer to and from SBI in India
- Loans and Advances/Priority and Deprived Sector Lending
- Consortium Lending's
- Letters of Credit
- Bank Guarantees/Bid Bonds
- Sale and Encashment of Foreign Currency Travelers' Cheques
- ATM and Bharat Yatra Card Services
- Other Services: Safe Deposit Boxes, Nepal SBI Online Banking etc.

(Source: www. nepalsbibank.com.np)

1.3 Statement of the problem: -

Profit planning is a tool, which directs the organization achieving profit. Profit is the very basic primary short term and long-term objective of every business organization. The increasing ratio of profit is a good symbol of organization. By nature profit is a yardstick judging of managerial efficiency in term of a means of measurement for the success. "Profit is the primary measure of success of the business enterprises." (Joel & Dean, 1992:37)

The profit-planning tool is a newly developed concept as a crucial way in the business organization. The concept of profit planning has not even familiarized in the most of the business concern. By proper profit planning a business can be managed more effectively and efficiently.

Every Commercial Bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. Major activities of a commercial bank comprise mobilization of resources, which involves cost and profitable deployment of those resources, which generates income. The difference between interest incomes over the interest cost, which is popularly called as interest margin, can be considered as the contribution margin in the profit of the bank. The bank attempts to compensate the other operational expenses by generating other income out of non-found based business activities of the bank.

The present study is intended to analyze and examine the application of PPC tool in the commercial banks taking a case of Everest Bank and Nepal SBI Bank ltd. The following are the major problems that have been identified for the purpose of this study.

1. To what extent, the comprehensive profit planning has been applying in commercial banks?
2. Do the banks mobilize the deposit and other resources?
3. Do the banks deploy the resources generalization satisfactorily?
4. Does the profit plan affect the actual performance of Everest Bank & NEPAL SBI Bank?
5. What are the problems of profit planning in commercial banks?

1.4 Objectives of the Study

The basic objective of this study is to appraise EBL and NEPAL SBI Ltd. appropriately for the application of comprehensive PPC system. Thus the major objectives are:

1. To highlight the current profit planning premises adopted and its effectiveness in EBL and NEPAL SBI.
2. To analyze the variance of budgeted and actual achievements.
3. To study the growth of the business of the Banks over the period.
4. To provide suggestions and recommendations for improvements of the overall profitability of the banks.

1.5 Significance of the study

The study is connected with the profit planning in commercial Banks with a comparative study of NEPAL SBI and EBL 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.

Accomplishment of objective in every organization depends on the application of scare resources most effectively. Also the functional performance of an organization depends purely on the use of its resources. Budgeting is the key, to productive functional planning. So, all the organizations running under commercial principals have to give regards to these most important tools, while managing their physical and financial targets. If the planning process of an organization is effective and result oriented, the pace of development naturally steps forwards.

Profit planning is the heart of management. It tells us profit is the most important indicator for judging managerial efficiency and it do not fast happen. For this every organization has to manage its profits. Various functional budgets are the basic tools for proper planning of profit and of control over them.

The research study is useful for those who want to know PPC in NEPAL SBI and EBL. It is also helpful for future researchers as a reference material.

1.6 Limitations of the study:

In this dynamic world nothing existing is free from limitation. This study also is not an exception. The researcher has however tried to eliminate the limitation to the best possible extent, yet it suffers from the following limitations.

1. Profit planning of Everest bank Ltd and Nepal SBI Bank Ltd was analyzed, leaving other area uncovered.

2. The study covers the related data of the Banks from fiscal year 2004/05 to 2010/11.

3. The data are primary as well as secondary but mostly secondary data were used.

4. The accuracy of this study is based on the data available from the managements of NEPAL SBI and EBL through various published documents of the Bank and the response made by the respondent during the informal discussion.

1.7 Organization of the Study:

The study is divided into following chapters:

Chapter I: First chapter dealt with the background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study, and organization of the study.

Chapter II: Second chapter dealt with available literature review. It's include conceptual framework, review of the published and unpublished books, journals, articles, previous unpublished masters' degree thesis etc.

Chapter III: Third chapter contained the research methodology used in the study, which included research design, sources of data, population and samples, data analysis tools etc.

Chapter IV: Fourth chapter is the heart of the study. This chapter included presentation and analysis of data using different financial and statistical tools.

Chapter V: Last chapter revolves with suggestion. It included the summary of the main findings conclusion of the study and recommendations.

Bibliography & appendixes have been included at the end of the study.

CHAPTER- II

REVIEW OF LITERATURE

2.1 Concepts of Profit Plan:

A profit plan has an immense value in management; it helps in planning and coordinating, if used appropriately, but not a replacement for management. Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specific period in the future. Profit planning is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as a base for measuring actual performance of managers and their units.

"Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as partial basis for the subsequent evaluation of performance. Thus it 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, 1997; 141)

Every company or institution is established based on the definite goals and objectives. According to the objectives, the company performs tasks. Mainly two types of institutions such as profit oriented and service oriented instructions are established, but most of them are profit oriented because profit is the lifeblood of the business which not only keeps it alive but also assures the future and makes it sound. Profit planning is an important tool of the firm to achieve the objectives. "Profit do not just happened profits are managed" (Lynch, 1989; 30) so to manage the profit, the management should follow various processes for profit planning because the management process and profit planning and control are related to each other.

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or prospect of time it is established against which actual accomplishment is regularly compared.

Profit maximization is the basic objectives of a firm and to make it render reliable service to its customers. Profit is a device to measure efficiency of a firm.

The term comprehensive profit planning and control it defined as a systematic and formalized approach for performing significant phase of the management planning and control function. Especially it involves:

1 The development and application of broad and long range objectives for the enterprises.
2 The specification of enterprises goals.
3 The development of strategic long range profit plan in broad terms.
4 The specification of tactical short range profit plan detailed by assigned responsibility (division, products, projects).
5 The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures

In many of the better-managed companies, comprehensive PPC has been identified as a way of managing. It focuses directly up on a rational and systematic approach to management by objectives and realistic flexibility in performing the management process.

2.1.1 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 of cheques.

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, 2031:2)

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

(Source: Commercial Bank Act, 2031:2)

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 is set up to collect spread funds and employ them to creative sector.

2.1.2 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 as mentioned in 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.

2.1.3 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.

2.1.4 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 depositors for people’s 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.banking in nepal.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 bank in modern time 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". (Vanish, 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. Tejarathe 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 Rastra 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 health 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 Tejarathe Adda 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. *(www.nrb.org.np)*

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.

There are 32 commercial banks operating in the country which are mentioned under the table below:

SN	Name of Commercial Bank	Date of establishment
1	Nepal Bank Limited	7/30/1994
2	Rastriya Banijya Bank	10/10/2022
3	Nepal Arab Bank Limited, first joint venture bank of Nepal (A joint venture with Dubai Bank Limited of Dubai)	3/29/2041
4	Nepal Investment Bank Limited (A joint venture with Banque Indosuez of France)	12/6/2042
5	Standard Chartered Bank Limited (A joint venture with Grind lays Bank Limited of London)	10/16/2043
6	Himalayan Bank Limited (A joint venture with Habib Bank Limited of Pakistan)	10/5/2049
7	Nepal SBI Bank Limited (A joint venture with State Bank Limited of India	3/23/2050
8	Nepal Bangladesh Bank Limited (A joint venture with IFIC of Bangladesh)	3/23/2050
9	Everest Bank Limited (A joint venture with Punjab National Bank Limited of India)	7/1/2051
10	Bank Of Kathmandu Limited	11/28/2051
11	Nepal Industrial and Commercial Bank Limited	4/5/2055
12	Agricultural Development Bank Limited	11/7/2024
13	Machhapuchhre Bank Limited	6/17/2057
14	Kumari Bank Limited	12/21/2057
15	Laxmi Bank Limited	12/21/2058
16	Siddhartha Bank Limited	9/9/2059
17	Sunrise Bank Ltd.	6/25/2064
18	Lumbini Bank Limited	4/1/2055
19	Global Bank Limited	10/18/2063
20	Citizen Bank Limited	1/7/2064
21	Nepal Credit and Commercial Bank Limited (A joint	6/28/2053

	venture with Bank of Ceylon of Srilanka)	
22	Kist Bank Limited	1/24/2066
23	Nepal Merchant Bank Ltd. (NMB)	2/20/2065
24	Development Credit Bank Ltd. (DCBL)	12/2/2065
25	Prime Bank Ltd.	6/7/2064
26	Bank of Asia Ltd.	6/25/2064
27	Janata Bank Nepal Limited	1/15/2067
28	Mega Bank Nepal Limited	6/20/2067
29	Commerz and Trust Bank Nepal Limited	6/4/2067
30	Civil Bank Limited	8/29/2067
31	Century Commercial Bank	2067
32	Sanima Bank Limited	2068

(Source: www.nrb.org.np)

2.1.5 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 of 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 valley.

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 their banking system. *(www.banking in nepal.com.np).*

2.1.6 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 most submits 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)*

The NRB will classify the institutions into different A (Commercial Bank), B (Development Bank), C(Finance Company), and D (Cooperatives Society) 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 suffering from 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 with in 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 an office with the kingdom of Nepal taking into account the situation of competition existing tin 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.banking in nepal.com.np)*

2.1.7 Existing rules and regulations relating to the commercial banks:

a) Paid up capital:

1. A commercial bank of national level should have paid up capital of Rs 200 caror.
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 with in 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". *(www.banking in nepal.com.np).*

b) Promoters Qualifications & Sale of Share:

1. Action on the promoter's application will not be initiated by the Nepal Rastra Bank if it s 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 cannot 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 late 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 not 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.banking in nepal.com.np).*

2.2 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, 2031:3)*

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 accept 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

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.

a. Internal Fund or Capital fund:

Internal fund of the bank is capital fund, which consists of paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions. A commercial bank must have paid up capital of Rs 200 caror 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.

b. 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 the above are on demand deposit where as 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. Likewise fixed deposits 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 2031:4)*

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.

2.2.1 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 its 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.

On the other hand banks always pay attention to maximization their profitability. Depositors always expects better interest on their deposit , employees expects better salary , perks and bonus this is 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 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 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 careful in selecting the borrowers. Generally banks 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 lump 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 (Principal 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, cheques collection, remittance services, bills payment services, traveler's cheques etc. In such cases banks do not need to involve their fund and yet they are charging some fee as commission for such services.

2.2.2 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, NAC, 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 present issue 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 per cent. 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- Secretarial Technical and Economic Cooperation (BIMSTEC). “Nepal’s recent entry to SAFTA and BBIMSTEC 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.nibl.com.np)*

2.3 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 likewise 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". (Fregmen, 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 polices and goals are periodically evaluated tested and established as guidelines for the entire organization.

(Source: Goet, Bhattarai,Gautam, 2063:1.5)

"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 day's 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.

2.3.1 Mechanism of Profit Planning:

A. Profit as a concept:

Profit is excess income over expenditure. 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 measures by profit earned by them in certain period of time. The major concern of stack holder is profit so organization always wants to maximization of profit. The performance of organization is measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

B. 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 kept 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.

C. Concept of Planning and 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”. (Lynch& Williamson, 2003:158)

"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" (Hornby, 1992:84) " 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.

2.4 Budgetary Control:

2.4.1 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 cannot know the directions that the business is taking out organizations do not plan are likely to wonder aimlessly and ultimately give way to the swirl of current events.

2.4.2 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,1999:132) 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.

2.4.3 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. 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.

2.5 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 its 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 are 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 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, Bhattarai,Gautam, 2063: 1.5)

f. Realistic Expectation:

Profit Planning and Control (PPC) 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 starting from Zero is called zero base budgeting. "Begin with where you are establishing 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 a 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 s 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.

2.6 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 a capital.
- Efficiency and inefficiency can be measured by PPC.
- Management attention can drawn by PPC for the general business condition
- It reduced cost by increasing the span of control because fewer supervisors are needed.
- PPC creates understanding between management and their co-workers.
- PPC reduce the uncertainty and gives guidelines to achieve organizational goal.
- It provides to all level of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

(Source: Goet, Bhattarai, Gautam, 2063:9.2)

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

- Preparing profit plan is a difficult task.
- Some of traditional types manager don't like to prepare profit plan.
- It is not realistic to whiteout and distributes 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. (Source: Goet, Bhattarai, Gautam, 2063:9.2)

2.7 Profit Planning and Control Process:

Profit planning and control has its own process from preparing plans to implementation and feedback. “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”. (Welsch ,Gordon, Hilton, 2006:71) The processes of PPC are listed below:

a. Identification and Evaluation of External Variables: Organization is always affected by two variables i.e. internal and external. Management always e curious about the variables which are directly and indirectly impact to the enterprises. Variables, which have a direct and significant impact on the enterprises, re called relevant variable. Variables may have their different relevancy according to the market nature.
b. Design of Goals and Objectives of the Enterprises: A major responsibility of management is to design the objectives & goals of the enterprise. Executive management can specify or re-state this phase of the PPC process based on realistic evaluation of the relevant variables. The management defines the purpose of the enterprise; clarify the character, environmental analysis, others decisions are taken in favor of the company.
c. Strategy formulation and Implementation: Strategy should be set out for the betterment of the enterprises. Timely implementation and evaluation is major consideration of such strategy to achieve planed goals and objectives.
d. Management Planning Instructions: Management planning instruction is communication between top management to lower level of management and it should adopt the basic of full communication. Top management establishes a planning foundation. On the basis of this planning foundation. On the basis of this planning foundation. On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions.
e. Project Plan Preparation & Evaluation: Project plans are different from periodical plan. It is a long term strategy. It is prepares and evaluated in the profit planning & control process. Consistent with this approach during the formal planning cycle, management must evaluated decide up on the plan states of each project in process and select any new projects to be initiated

during time dimension covered by the coming strategies and tactical profit plans.

f. Development of Long term and Short term Profit Plan: In the profit planning and control process developing long term and short term profit plan is a major task of management executive. Certain information are collected from related sources, to develop profit plan general format is available to management Two profit plans completed , management should subject the entire planning payable to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be develop under the circumstances. When this point reaches the two profit plans should be formally approved by the top executive and distributed to the related managers.
g. Implementation of Profit Plan: Formulation is one of the major tasks of manager whereas implementation is more and more important factor of profit planning & control. The profit plan should be implemented by every concern designation. Implementation of plans and strategy is a function of management. Effective management at all levels requires that enterprise objectives goals, strategies, and policy to be communicated and understood by subordinates.

2.8 Limitation of Profit Plan:

Profit planning and control is an important tool for management. “Every planning is not out from limitation also profit plan is not free from limitation. So it is essential that the user of profit planning and control must be having a full knowledge of its limitations. In developing and using a profit planning and control program the following limitations kept in consideration”. (Goet, Bhattarai, Gautam, 2063:1.6)

- The profit plans based on estimates.
- Execution is not automatic.
- Danger of inflexibility
- Costly
- Lower moral and productivity.

“The profit plan should regard not as a master but as servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals 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 when there are compelling business reasons". (Welsch,1998:265)

2.9 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 day's bank also prepare for future plan this is called profit plan.

2.9.1 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 source 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 sometime 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.

2.9.2 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.

2.9.3 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.

2.9.4 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
- Dividend
- 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.

2.10 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 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 where as PPC gives idea about profit maximization.

2.11 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 the planning budget suggests the need for a budget calendar." (Welsch,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.

2.12 Review of the Previous Thesis:

Profit planning and Control plays the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various were conducted on Profit planning. There are many researchers carried out by different research on the 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 on the topic. In review of previous thesis comparing manufacturing sector and financial sector which help to understand about their objectives, used statistical tools and major findings about this topic.

Mr. Tiwari, Udaya Kishor (2003) is conducted a research entitled "*Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Nepal Limited*". An unpublished Master Level thesis, submitted to Nepal Commerce Campus, Faculty of Management TU.

. His objectives and some of major findings are as follows:

Objectives:

- To highlight the current profit planning premises adopted and it's effectiveness in SCBNL 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:

- Bank is awarded by ' Bank of the year 2002 Nepal'
- Bank management policy is very strong. It keep minimum number of employees number of employees and highly qualified for maintain the job
- The bank always adopt new technology
- 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.

- Customer deposit collection is the main resources mobilization of the bank.
- Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend.

Mr. Thapa, Roshan (2004) has conducted a research work on the topic of "*A Case study on profit planning and control of Nepal SBI Bank limited".* An unpublished Master Level thesis submitted to Shanker Dev Campus, Faculty of Management TU. His objectives and major finding are as follows:

Objectives:

- To identify the profit planning process and adopted by Nepal SBI bank limited.
- To sketch the trend of profit and loss.
- To evaluate the variance between target and actual performance.
- To recommend the steps to be taken to improve the profit planning process.

Major Findings:

- Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
- The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted year.
- Nepal SBI has not made any in depth analysis of its strength and weakness.
- Its mission and objectives have not clearly defined and delegated to the lower levels.
- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
- The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.

- The bank is facing competition from increasing number of financial institutions in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
- Budgets are prepared just to fulfill the formalities but these are not used effectively from the profit planning process.

Mr. Kharel, Sushank (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 Kathamdnu Limited". An unpublished Master Level thesis submitted to Shanker Dev Campus, Faculty of Management TU. 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.

Major Findings:

- The liquidity position of EBL is comparatively better than that of Nabil and Bok. In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- 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.
- Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- 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 ratio suggests that the earning capacity of the banks loan and advances is satisfactory.
- 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.
- The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BOK.

Mr. Bajgai, Ganesh (2009) has conducted a research on "Profit Planning in Commercial Bank: A Case Study of Nepal Investment Bank Limited". An unpublished Master Level thesis, submitted to Nepal Commerce Campus, Faculty of Management TU.

Objectives:

- To focus the current profit planning premises adopted and its effectiveness in NIBL.
- To study the variance of budgeted and actual achievements.
- Te analyzes 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:

- The bank is conscious about the human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services banks supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D.
- The bank has 2000 Million of authorized capital and the purposed amendment of authorized capital of bank is Rs 4000 million for the purpose of bonus share and issue of right share
- NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit. The researcher have find (r) is 0.9977 and PE is 0.0014. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is r>6PE, it is significant so the actual deposit going on same direction. The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2065/066 will be RS 42599150 thousand stated by the regression line.
- The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 54 % in average out of total deployment amount throughout the five years of study period.
- The statistical tool CV represents that NIBL's actual LDO is the variable nature than budgeted LDO. The correlation between budgeted and actual LDO is 0.9980 it means the relation between budgeted and actual LDO are perfectly co-related. Significance of r is tested with PE there is r > 6 PE this means the value of r is more significant. So it is no doubtful that actual LDO will go on same direction that of budgeted LDO. The regression line shows the expected LDO for the F/Y 2065/66 will be 33118520 thousand.
- LDO is in increasing trend over the period. The average ratio of LDO to deposit is 71.89 %.
- The relationship between actual deposit and actual O/S LDO is in increasing trend over the period.
- The non-fund consuming business activities like LC, Bank Guarantee, Foreign exchange, others are adopted by NIBL. These types of business activities

reduced the burden of expenses. The non fund consuming business increasing every year but the Foreign exchange in fluctuating trend and very nominal figure over the period where as LC has highest contribution which is 49 percent.

- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NIBL is in the range of 2.48 % to 2.88 % it means the bank pays the interest 2.71 % in average over the period.
- The loan loss provision ranges between 1.93 to 3.13 % the average loan loss provision of NIBL is 2.74 % over the study period.

Mr. Shrestha, Shiva (2010) has conducted a research entitled **"***Profit planning practice and its effectiveness in Nepalese Commercial Bank, A case study of Nepal SBI Bank***".** An unpublished Master Level thesis submitted to Shanker Dev Campus, Faculty of Management TU.

His objectives and some of major findings are listed below.

Objectives:

- To sketch the trend of profit and loss.
- To evaluate the variance between target and actual performance of the bank.
- To examine the system of profit planning applied in the bank.
- To analyze the major functional and financial plans formulated and implemented by the bank.
- To examine the outcome of those plans in terms of achievement.
- To point out possible suggestions and recommendations to improve the performance of the banks with means to profit planning system comparatively.

Major Findings:

- In the light of growing competition in the banking sector the business of the bank is customer oriented. It should strengthen and active its marketing function, as it is an effective tool of attracting and retaining customers. The bank should develop on innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.

- In practice joint ventured banks are urban based; service quite a few elite, a fluent big customer are heavily dependent on free based activities. To overcome its situation they should be accessible to rural areas and possible loans and advances to its deposit. So the customers is enjoying by getting deposit borrowing and other services.
- Expenses cannot be avoided and always are growing with increasing acivities, but it should be optimize and should be related with the income generating activities. Bank should minimize those expenses which are not related to income earning. Other expenses than interest form a burden to the gross profit margin (interest margin) of the bank; therefore lowering the other expenses the bank shall enhance its profit.
- The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of the bank (i.e. spread) not to exceed 6%. Therefore the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.
- The average cost of deposit of the bank is high, therefore the bank should try to lower it by mobilizing more and more low cost or cost free deposits there by reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risky for the bank.
- Proper profit planning are the major means to achieve the desired objectives and constant growth from its focused activities, so the banks are advised to prepare better plans. As a result, there would not be highly fluctuating increments.

Ms. Shrestha, Smriti (2011) has conducted a research “Profit Planning of Nepal Investment Bank” An unpublished Master Level thesis submitted to Patan Campus, Faculty of Management TU.

Objectives:

- Te analyzes the growth of the business of the bank over the period.
- To study the variance of budgeted and actual achievements.
- To focus the current profit planning premises adopted and its effectiveness in NIBL.

- To provide suggestion and recommendations for improvements of the overall profitability of the bank.

Major Findings:

- The bank has 2000 Million of authorized capital and the purposed amendment of authorized capital of bank is Rs 4000 million for the purpose of bonus share and issue of right share
- The bank is conscious about the human resources due to rapid growth and advent new branches. Develop skills to employees to empower them to provide excellent customer services banks supports to employees further advanced courses. Currently there are 622 employees over the 22 branches of NIBL and bank has aim to rise up to 50 branches with in the year 2010 A.D.
- NIBL is well performing in the deposit collection sector. Budgeted figure is higher than the actual deposit. The researcher have find (r) is 0.9977 and PE is 0.0014. The figure of ‘r’ shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is r>6PE, it is significant so the actual deposit going on same direction. The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2067/068 will be RS 48699150 thousand stated by the regression line.
- The statistical tool CV represents that NIBL’s actual LDO is the variable nature than budgeted LDO. The correlation between budgeted and actual LDO is 0.9980 it means the relation between budgeted and actual LDO are perfectly co-related. Significance of r is tested with PE there is r > 6 PE this means the value of r is more significant. So it is no doubtful that actual LDO will go on same direction that of budgeted LDO. The regression line shows the expected LDO for the F/Y 2067/68 will be 69248520 thousand.
- The non-fund consuming business activities like LC, Bank Guarantee, Foreign exchange, others are adopted by NIBL. These types of business activities reduced the burden of expenses. The non fund consuming business increasing every year but the Foreign exchange in fluctuating trend and very nominal figure over the period where as LC has highest contribution which is 49 percent.

- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NIBL is in the range of 2.48 % to 2.88 % it means the bank pays the interest 2.71 % in average over the period.
- The loan loss provision ranges between 1.93 to 3.13 % the average loan loss provision of NIBL is 2.74 % over the study period.

2.13 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to profit planning of Everest Bank Limited and Nepal SBI Bank Limited. Thus, the previous studies can't be ignored because they provide the foundation to present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on the exact topic, i.e. “Profit Planning and Control of Everest Bank Limited and Nepal SBI Bank Limited”. Therefore, to fulfill this gap, this research is selected

Previous researchers could not cover all the aspects of profit planning in Nepalese context. They analyzed the profit planning by using secondary source formation in terms of profit practices. But actually, profit planning covers many other areas such as total deposit collection, total lending, NPL level, loan loss provision and relationship between them which are very much important for profit appraisal. Present study tries to define profit planning by applying those facts.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research design:

. This study is an examination and evaluation of process in profit planning programs of EBL and NEPAL SBI Bank. Various functional budgets and other related accounting information's and statement of the 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 comparative study research of two commercial Banks.

3.2 Data Collection Procedures and Sources of Data

This study is mostly based on secondary data. However, primary data and information have been obtained through informal discussions with the executives and other staffs of the Bank. Secondary data have been collected from the annual published accounting and financial statement of EBL and NEPAL SBI. Similarly, other necessary data have collected from publication of the Nepal Rastra Bank, Central Bureau of statistic and related publications.

3.3 Population and Sample

As this research aims at studying the profit planning aspect of the commercial bank taking the reference of NEPAL SBI and EBL and data have been analyze for several years of its operation. Here, all the commercial banks are population of the study and NEPAL SBI and EBL (joint venture with Indian banks) have been selected as sample for the present study.

3.4 Research variables:

Loan / advance overdrafts and Bills Discounted (LDO), customer deposits, total resources, total deployment, outstanding balance of Letter of Credit and Bank Guarantees, Interest Expenses, Interest Income, Other income etc of Everest Bank Limited and Nepal SBI Bank ltd. are the research variable for this study.

Time Period of Profit Plan

As per NRB directives, all the commercial banks have identically to follow the accounting year of twelve months. It starts from first Shrawan to end of Asadh. Which covers the last nine months of years (B.S) to the first three months of succeeding years (B.S) NEPAL SBI and EBL prepares the profit plan for twelve months of upcoming year, which includes the business budget, expenditure and profit plan for the year.

This study covers seven years period from the fiscal year 2004/05 to 2010/11 for its analysis. For the case of specific year's study the data of fiscal year 2010/11are has to analyze.

Tools and Technique Employed

This study is confined to examine the profit planning of Everest Bank Limited and Nepal SBI Bank. Therefore, the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentation have been interpreted and explained wherever necessary various Financial, Accounting, Mathematical and Statistical tools are used to analyze, the presented data as stated below:

Financial and Accounting Tools

Following financial tools have been used to analyze the data in this study.

a) Ratio analysis:

By ratio analysis, study of the arithmetical relationship of two data is conducted. In this study liquidity ratio, capital structure ratio, activity ratio and profitability ratios of the bank have been applied.

b) Statistical and Mathematical Tools:

The data presented in this study are analyzed by applying following statistical and mathematical tools.

1. Percentage increment
2. Mean.
3. Standard deviation
4. Coefficient of variance.
5. Regression analysis.
6. Correlation of coefficient.
7. Probable error.
8. Coefficient of determination.
9. Time series.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Resources Mobilization

The resources are used for the fulfillments of its activities. Banks mobilizes its resources from the following sources.

1. Deposit collection
2. Loans and borrowing from other Banks.
3. Capital fund
4. Other liabilities

Among the above four sources, the deposit collection is the major sources of mobilization. Which is one of the most important activities of commercial banks? Loan and borrowing is obtained from local banks, foreign banks central bank and other financial institution generally for a short period.

The capital fund is the shareholder's equity; this is the net worth of the Bank. Commercial Banks' capital fund has been divided in two categorize via, capital and supplementary capital and other liabilities is also sources of capital.

Table no. 1

Status of Resources Mobilization of EBL

(Rs in lakhs)

	EBL								
	Deposit	% of deposit in total	Borrowing	% of borrowing in total	Capital fund	%of capital fund on	Other liabilities	% of liabilities on total	Total
2004/05	1,00,977	83.64	3,000	2.48	8,326	6.9	8,432	6.98	1,20,735
05/06	1,38,024	84.71	3,000	1.84	9,628	5.91	12,288	7.54	1,62,940
06/07	1,81,862	83.23	3,000	1.37	12,015	5.5	21,634	9.9	2,18,511
07/08	2,39,763	86.72	3,000	1.09	19,212	6.35	14,490	5.24	2,76,465
08/09	3,33,229	88.86	6,120	1.63	22,036	5.88	13,632	3.64	3,75,017
09/10	3,69,323	87.97	7,046	1.68	27,591	6.57	15,868	3.78	4,19,828
10/11	4,12,79	87.80	7,820	1.67	31,136	6.65	1,168	3.88	4,68,403
Average		86.13		1.68		6.25		5.85	

Sources: Annual report 2004/05 to 2010/11

Table no. 2

Status of Resources Mobilization of Nepal SBI

(Rs in lakhs)

	Nepal SBI								
	Deposit	% of deposit in total	Borrowing	% of borrowing in total	Capital fund	%of capital fund on total	Other liabilities	% of liabilities on total	Total
2004/05	71,983	85.28	1,172	1.39	6,266	7.42	4,983	5.9	84,404
05/06	86,548	83.66	4,696	4.54	6,890	6.66	5,320	5.14	1,03,454
06/07	1,10,020	84.40	8,124	6.23	9,824	7.54	2,390	1.83	1,30,358
07/08	1,14,453	82.33	10,154	7.30	11,633	8.37	2,773	1.99	1,39,012
08/09	1,37,154	79.80	18,275	10.63	14,146	8.23	2,299	1.34	1,71,874
09/10	2,79,572	92.68	2,000	0.66	17,126	5.68	2,966	0.98	3,01,664
10/11	3,48,964	91.72	2,000	0.53	2,506	6.44	5,007	1.32	3,80,477
Average		85.70		4.47		7.19		2.64	

Sources: Annual report 2004/05 to 2010/11

The above table shows the resources mobilized by the banks over the period of the study. It is clear that deposit is major portion of collection. In average, deposit contributes 86.13 percent of EBL and 86.77 percent of Nepal SBI on total collection. Nepal SBI deposit contribution is more by 0.64 percent of EBL, Borrowing of Nepal SBI is higher than EBL by 2.59 percent, and Capital fund of Nepal SBI is more than EBL by .78 percent and other liabilities of EBL is higher than Nepal SBI by 3.92 percent.

4.1.1 Deposit Collection

Customer Deposit is the most important source of resources mobilization of the bank. As per the above data of the FY 2010/2011 the contribution of customer deposit to total resources of EBL and Nepal SBI were 87.80 percent and 92.78 percent respectively. Deposit were collected from various sectors such as the general public business entities, NGO'S, schools, Trust and other individuals and institutions.

Deposit is collected on customer's account, which is opened as per the bank policy. The customer's deposits are of two types.

1. Interest free deposit accounts.
    a. Current Deposit a/c
    b. Margin Deposit a/c
    c. Other Deposit a/c
2. Interest bearing deposit a/c
    a. Saving Deposit a/c
    b. Call Deposit a/c
    c. Fixed Deposit a/c

(Source: Deposit collection budget of EBL and Nepal SBI)

The following table shows the budgeted amount of deposit collection and achievements. Since budgeted figure for deposit collection from the FY 2004/05 to FY 2009/2010 could not be available, this study has assumed by using trend analysis amount.

Table no. 3

Status of Budgeted and Actual Total Deposit

(Rs in lakhs)

	EBL			NEPAL SBI		
	Budget	Actual Total Deposit	Growth (%)	Budget	Actual Total Deposit	Growth (%)
2004/05	84,500	1,00,977	19.5	75,800	86,548	14.14
05/06	1,22,000	1,38,024	13.13	96,456	1,10,020	14.06
06/07	1,68,400	1,81,862	7.99	1,11,456	1,14,453	2.69
07/08	2,04,000	2,39,763	17.53	1,31,144	1,37,154	4.58
08/09	2,50,800	3,33,229	32.87	2,14,320	2,79,572	30.5
09/10	3,40,600	3,69,323	8.43	2,95,732	3,48,964	18
10/11	3,80,500	4,11,279	8.09	3,54,580	4,24,154	19.62
Average			15.36			14.80

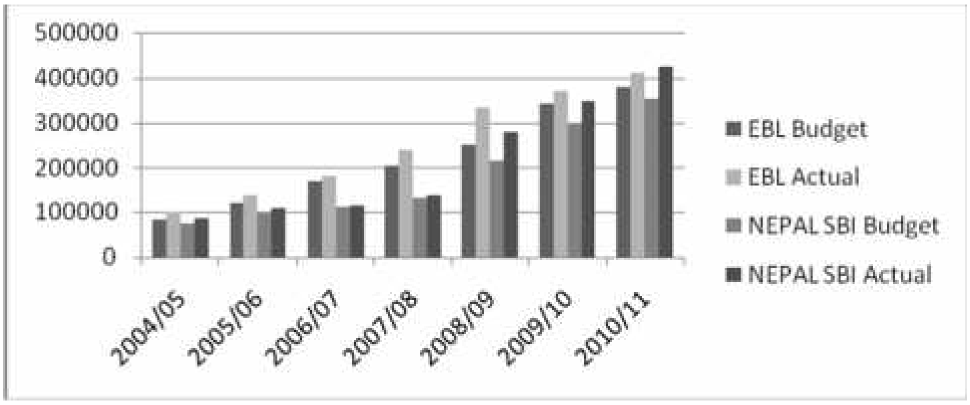
Sources: Annual report 2004/05 to 2010/11

The above table shows that the deposit collection exceeded than its target more in every year by both banks. So both banks need to increase their budgeted deposit figure to give challenge for their human resources for higher achievement.

The yearly status of budgeted and actual deposit achievements is shown in the Bar diagram below:

Diagram 1

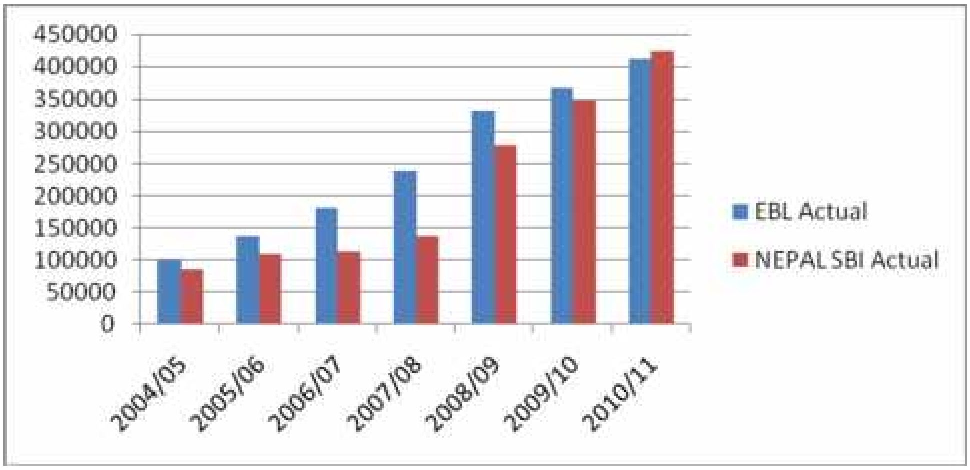
Bar diagram of budgeted and actual total deposit collection of EBL and NEPAL SBI



The above diagram shows high level of achievement made by the banks towards deposit collection sector. The bar diagram shows the achievement level higher than the budgeted level. It shows both banks have good collection of deposit.

Diagram 2

Comparatively Actual Total Deposit collection of EBL and NEPAL SBI



The above scatter diagram reflects that the high achievements are made by EBL than NEPAL SBI. The above figure gives the high level of performance of the EBL in the deposit collection sector. The relationship between the budgeted deposit collections with that of actual for different year can be analyzed with the help of statistical tools shown in appendix -1. Now the result of appendix-1 can be presented:

Table no 4

Summary of the deposited and achievement (Rs in lakhs)

	EBL		Nepal SBI	
	Budgeted Y	Actual X	Budgeted Y	Actual X
Mean	1,77,828.57	2,06,259.57	1,40,955	1,64,099.24
Standard deviation	88,718.70	1,04,162.31	78,166.70	98,649.96
C.V	0.4989	0.5050	0.5546	0.6012
Correlation (r)	0.9821		0.9920	

(Source: Appendix 1&2)

The above table shows that actual deposits are little more variable than the budgeted deposit, since the coefficients of variation of deposits are more of variable nature. In both the banks the actual deposit is more consistent and homogeneous than the budgeted deposits. A great coefficient of variation is said to be more heterogeneous. Here the budgeted and actual deposits of EBL are more homogeneous than Nepal SBI.

Another statistical tool correlation coefficient can be used to analyze the relationship between the budgeted and actual deposit of both the banks. Karl Person's Coefficients of Correlation can be denoted by (r). BY calculating 'r' Coefficients of Correlation between the budgeted deposits and actual total deposits can be examined. The actual deposit will change in the same direction, as the budgeted deposits for this purpose budgeted deposits is denoted by 'X' and assumed to be independent variable and actual deposits is denoted by 'Y' is assumed to be dependent variable upon budgeted deposit so that increase in budgeted is supported to increase in actual achievement or vice versa. Which means that there should be positive correlation between, budgeted figure and achievement figures? Significance of correlation of (r) is tested with probable error (PE). Probable error of EBL is 0.009045 and PE of Nepal SBI is 0.004063.

The detail calculation of 'r' and probable error PE is presented in Appendix 1(a) and (b). From that appendix, the calculated the value of 'r' of EBL is 0.9821 and 'r' of

Nepal SBI is 0.9920. This figure of ‘r’ shows that is positively perfect correlation between budgeted deposit and actual deposits.

Now the coefficient of determination, which explains the change in Y variable i.e. actual deposit, can be calculated as r^2 therefore, the coefficient of determination of the EBL is 0.9645 and Nepal SBI is 0.9841.

Since, r of EBL is greater than six times of probable error (0.9821>6×0.009045) and ‘r’ of Nepal SBI is also greater than six times of PE i.e. 0.9920>6×0.004063. So the value of ‘r’ is more significant so it is no doubtful that actual deposit will go on same direction that at budgeted.

Another statistical tool, regression line can also be fitted to show the degree of relationship between budgeted deposits and actual deposits and to forecast the achievement with given target. For this purpose achievement figure have been supposed to be dependent upon independent target, So that regression line of achievement ‘Y’ on target (X) or ‘Y’ on ‘X’ is as follows.

$$Y - Y = r\frac{\sigma y}{\sigma x} \times (X - X)$$

We have the following value as calculated below:

Table No. 5

Summary of mean and standard deviation of budgeted and Actual Deposit

	EBL		NEPAL SBI	
	Budgeted (X)	Actual (Y)	Budgeted (X)	Actual (Y)
Mean	1,77,828.57	2,06,259.57	1,40,955	1,64,099.24
Standard deviation (σ)	88,718.70	1,04,162.31	78,166.70	98,649.96
r(X;Y)	0.9821		0.9920	
$Y - 206259.57 = 0.9821 \times \frac{104162.31}{88718.70(X - 177828.57)}$ $Y = 1.1531x + 1212.9190$			$Y - 1.4099.24 = 0.9920 \times \frac{98649.96}{78166.70}(X - 140955)$ $Y = 0.124163x - 3402.09$	

(Source: Appendix 1&2)

From the above equations (i) & (ii), it is clear that actual deposits are in increasing trend. By the help of these regression equations, we can ascertain the expected deposit achievement with given value of target deposits say (X) ascertain the expected deposits. Achievements for the fiscal year 2009/10:

For EBL (Rs in lakhs)	For Nepal SBI (Rs in lakhs)
When X=3, 70,000	when X=3, 55,000
The expected deposit achievement	the expected deposit achievement
Y=1.1531×3, 70,000+1,212.9190	Y=1.2519×3, 55,000-12,369.30
Y= 4, 27,859.919	Y= 4, 32,055.2

If the relation between deposits and actual deposits remain same as previous year than the actual deposits of EBL & Nepal SBI for the fiscal year 2010/2011 will be Rs 4,27,859.919 and Rs 4,32,055.2 respectively as stated by the above regression line equations.

4.1.2 Resources Mobilization other than Customer Deposit (RMOD)

This is another resource of Bank which is formed with the capital fund (the net worth) and the liabilities other than customer deposits.

Table no 6

Status of Resources (capital fund) other than Deposit

(Rs in lakhs)

	EBL			NEPAL SBI		
	Capital fund	Growth	Percent	Capital fund	Growth	Percent
2004/05	16,758	-806	-4.59	11,249.01	-------	------
2005/06	21,916	5,158	30.78	12,209.71	960.7	8.54
2006/07	33,649	11,733	53.54	12,213.7	3.99	0.03
2007/08	33,702	53	0.16	14,405.5	2,191.8	17.95
2008/09	35,668	1,966	5.83	16,445.71	2,040.21	14.16
2009/10	43,459	7,791	21.84	20,092.18	3,646.47	22.17
2010/11	49,304	5,845	13.45	29,512.55	9,420.37	4.71
Average			17.29			9.65

Sources: Annual report 2004/05 to 2010/11

The table shows the RMOD status of EBL is greater than that of Nepal SBI .The actual RMOD of EBL is negative at first year then increasing next two year and huge decreasing on the FY 2007/08 but increasing trend in last two year. Similarly Nepal SBI has fluctuating trend with increasing from the FY 2007/08.

The status of the resources mobilized from the source other than customer deposit is shown by the scattered and bar diagram as below.

Diagram No -3

Status of RMOD

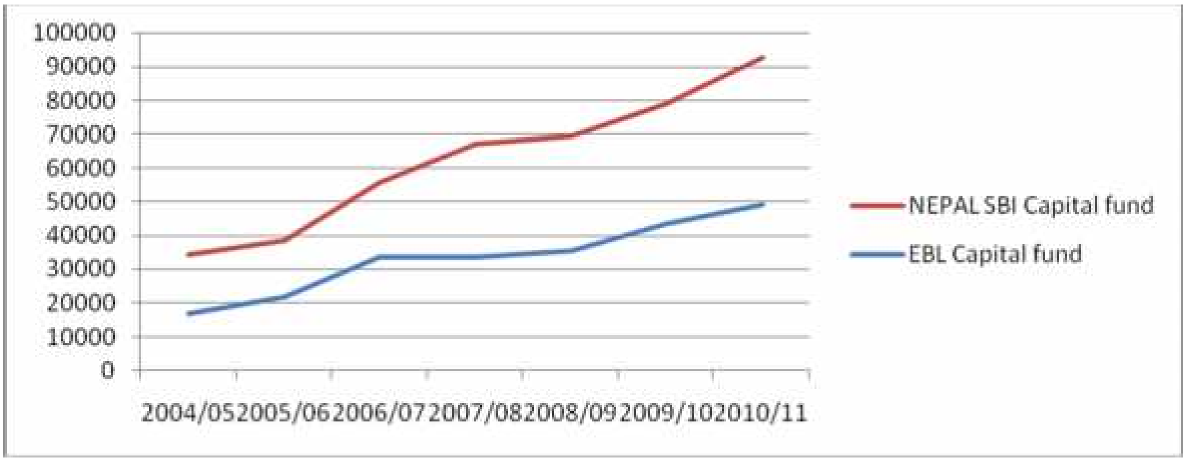
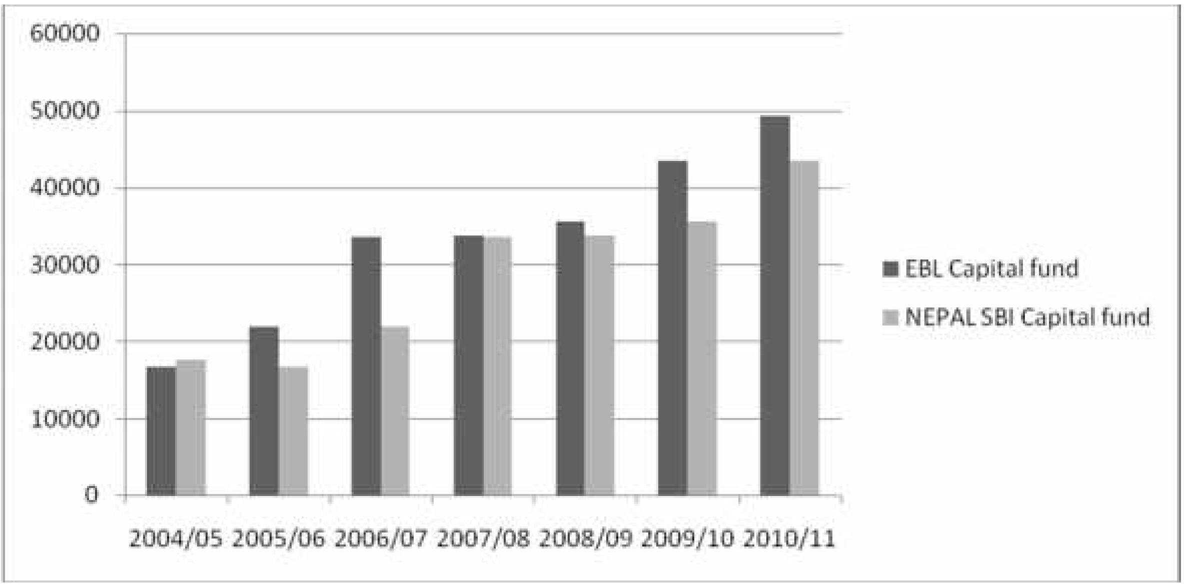


Diagram No 4

Status of Resources (capital fund) other than Deposit



The above scatter and bar diagram shows both banks have increasing RMOD. Comparatively EBL has higher RMOD than NEPAL SBI.

4.2 Resources Deployment Plan

Deployment of the resources refers to the reasonable allocation of the resources of the making comfortable liquidity as well as investing in income generating activities. Beside these, some investments have to be made in fixed assets and other operating assets for the bank. The deployment of available resources can be objectively categorized as below.

i. Deployment for liquidity.
ii. Deployment for income generating activities.
iii. Deployment for other asset.

i) Deployment for liquidity:

This is made for meeting expected withdrawal and other kind of payment obligations of the bank. The resources for this purpose are kept in liquid form such as cash in vault, cash at bank etc. Generally there is no yield on this type of deployment except in the cash money placed in interest bearing account. The Central Bank of Nepal (NRB) has instructed commercial bank to mandatory maintain approximately 10% of their total customer deposit liability in liquid form (cash in vault) and at (NRB). For this study, cash and bank balance is grouped in one dependent portfolio. The following table shows the cash and Bank balance figure of the banks.

Table no -7

Status of cash and Bank balance (Rs in Lakhs)

	EBL			NEPAL SBI		
	Actual	Growth	Percent	Actual	Growth	Percent
2004/05	10,500	-	-	8,568	-76	-0.88
2005/06	15,529	5,029	48	14,813	6,245	72.89
2006/07	23913	8,384	54	14,726	-87	-0.59
2007/08	26,679	2,766	12	16,469	1,743	11.84
2008/09	61,644	34,965	131	11,764	-4,705	-28.57
2009/10	78,188	16,544	27	34,412.61	22,648	192.52
2010/11	6,228	-16,960	-21.69	48,778	14,365.39	41.74
Average			41.72			41.28

Sources: Annual report 2004/05 to 2010/11

The cash and bank balance of EBL is in increasing trend during the study period of seven years. In the FY 2007/08 it increases by 131 percent, which is the largest increment. It shows public believes upon EBL .Nepal SBI has fluctuating cash and bank balance with negative growth on the FY 2004/05,2005/06 and 2007/08.

ii) Deployment for income generating activities:

Bank deploys the major portion of the resources for income generating activities popularly called as fund based exposure. Fund based exposure are taken by the bank in following two portfolio.

a) Loan & advance, and Bill purchased (LABP)
b) Other Investment.

LABP includes all loans, advances, overdrafts, bills purchased/discounted, provision and other types of loans availed to the borrowers of the bank in return of which the bank earns interest income. Other investment include investment in shares, Treasury bill (TB), Placement of fund on call market etc. the following table shows the status of LABP and other investment made by banks.

Table no 8

Status of LABP and Investment

(Rs in lakhs)

	EBL				NEPAL SBI			
	LABP	%	Investment	%	LABP	%	Investment	%
2004/05	79,000	29.6	21,289	-16.04	62,138	20.81	26,076	36.71
05/06	1,01,362	28.31	42,005	97.31	76,267	22.74	36,107	38.47
06/07	1,40,827	38.93	49,843	18.66	94,604	24.04	26,594	-26.35
07/08	1,88,364	33.76	50,596	1.51	1,21,136	28.05	30,888	16.15
08/09	2,44,696	29.91	59,485	17.57	1,51,317	24.91	1,32,861	417.54
09/10	2,81,564	15.07	50,083	-15.81	1,74,805	15.52	1,63,056	22.73
10/11	3,16,618	12.45	77,439	54.62	2,13,657	22.23	1,89,110	15.98
Average		29.26		17.2		22.68		84.20

Sources: Annual report 2004/05 to 2010/11

The above table shows the status of LABP and investment of both banks .LABP and investment is the major portion of the resources deployment. The LABP of EBL is increasing for three years and decline then before but investment is increasing for all years except FY 2003/04 and FY2009/10. LABP of Nepal SBI is increasing in every year but investment of Nepal SBI is increasing in all years expect in FY2006/07.The main causes of decrease in investment is national crises and political instability.

iii) Deployment for other assets:

This includes assets such as fixed assets, other capital expenditure subject to write off in future course of times income receivables, advance payments, sundry debtors etc. the following table shows the status of resources deployed by bank in other assets.

Table no -9

Status of other assets

(Rs in lakhs)

	EBL				NEPAL SBI			
	Net fixed assets	%	Other assets	%	Net fixed assets	%	Other assets	%
2004/05	1,436	----	2,260	------	664	6.58	6,105	32.02
2005/06	1,595	9.68	2,651	17.30	667	0.39	2,502	-59.01
2006/07	1,595	----	1,780	-32.86	972	0.46	2,113	-15.53
2007/08	1,701	6.65	2,227	25.11	1202	23.66	2,176	2.97
2008/09	3,605	111.93	3,761	68.88	2,535	110.93	3,184	46.32
2009/10	4,271	18.47	3,621	30.84	4,182	64.94	4,019	26.22
2010/11	4,631	8.43	5,362	8.09	4,170	-0.28	5,166	22.20
Average		31.03		19.56		29.52		7.88

Sources: Annual report 2004/05 to 2010/11

The above table shows the increase in net fixed assets and other assets of EBL except in the FY 2005/06. Nepal SBI is increasing its net fixed assets for every year and increasing in other assets except in the FY 2005/06 and 2006/07. The deployment of the banks available resources in to various portfolios among which the LABP holds the biggest outlet of resources deployment. Resource deployment of EBL is higher than Nepal SBI's deployment. Hence, we have segregated the deployment into two categories in this study.

1. Deployment in LABP 2.Deployment in others sector then LABP(NLABP)

4.2.1 LABP Budget

The following table shows the status of LABP

Table no 10

Status of LABP

(Rs in lakhs)

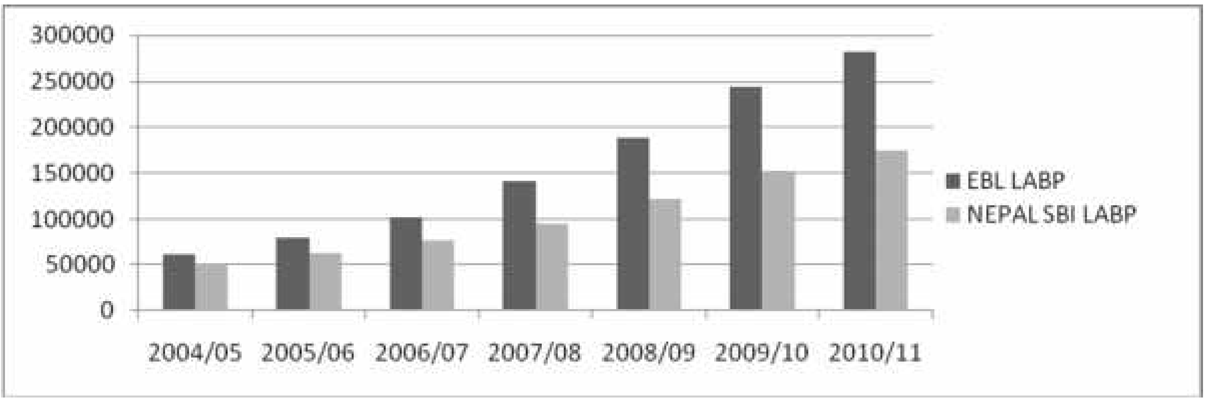
	EBL			NEPAL SBI		
	LABP	Growth	Percent	LABP	Growth	Percent
2004/05	79,000	....	....	62138	....	....
2005/06	1,01,362	18,042	29.60	76,267	10,702.17	20.81
2006/07	1,40,827	22,362	28.31	94,604	14,128.57	22.74
2007/08	1,88,364	39,465	38.93	1,21,136	18,337.15	24.04
2008/09	2,44,696	47537	33076	1,51,317	26,532.47	28.05
2009/10	2,81,564	56,332	29.91	1,74,805	30,180.52	24.91
2010/11	3,16,618	36,868	15.07	2,13,657	23,488	15.52
Average			25.08			19.44

Sources: Annual report 2004/05 to 2010/11

The above table shows growth rate of LABP. The growth rate of EBL is fluctuating for five years. It has decreased on fourth and fifth years then after the LABP shows increasing trend. Similarly the growth rate of Nepal SBI is increasing up to fourth year. From fourth year onwards it reveal decreasing trend. The main reason for fluctuating LABP is investor's own security and there business security. Most of the industry and business are closed form strike.

Diagram no 5

Bar Diagram of LABP Status



From the above table and diagram, it is clear that the LABP are increasing. The LABP of EBL is higher than NEPAL SBI. Both the Bank's LABP are increasing positively.

4.2.2 Resources Deployments in other portfolio than LABP (NLABP)

Deployments in other portfolio than LABP include cash and bank, investment, fixed assets and other assets. The following table shows the status of NLABP.

Table no 11

Status of NLABP

(Rs in lakhs)

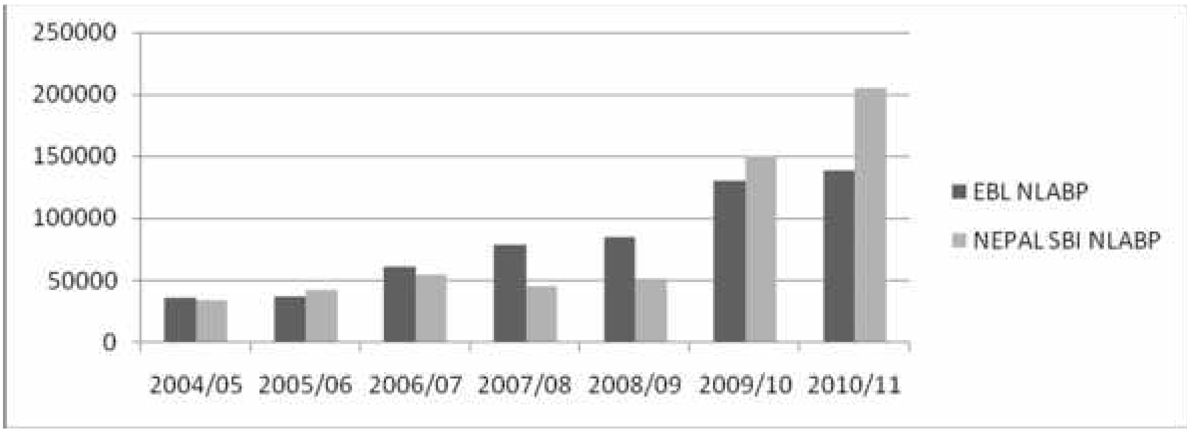
	EBL			NEPAL SBI		
	NLABP	Growth	Percent	NLABP	Growth	Percent
2004/05	35,371	-----	-------	32,967	......	....
2005/06	36,035	664	1.88	41,314	8,347.51	25.32
2006/07	60909	24,874	69.03	54,091	12,776.07	30.92
2007/08	77,684	16,775	27.54	44,407	-9,683.52	-17.90
2008/09	84,641	6,957	8.96	50,737	6,329.97	14.25
2009/10	1,30,321	45,680	53.97	1,50,346	99,609.45	196.32
2010/11	1,38,264	7,943	6.09	2,05,671	55,324.39	36.80
Average			23.92			40.82

Sources: Annual report 2004/05 to 2010/11

The above table shows NLABP of EBL is gradually increasing for first two years then after it is fluctuating but Nepal SBI's growth is gradually increasing in last four years to now. Nepal SBI's average growth is higher than EBL's.

Diagram no 6

Bar diagram of the status of NLABP



The above bar diagram shows the NLABP of Nepal SBI is higher than EBL. The growth rate of Nepal SBI is satisfactory than EBL.

4.2.3 Expenditure Planning

Planning for expenses is most essential to achieve the objectives and planned programs of the bank. Every bank has to bear certain expenses to operate its day to day activities like staff salaries, bonus and remuneration, interest amount to the deposit holders, administrative costs, provision for possible loss, house rent, fuel for vehicles, water and electricity expenses, stationery etc. These expenses are necessary to have service to gain maximum profit. The following table shows the status of expenditure incurred by the bank during the study period.

Table no -12

Status of Expenses

(Rs in Lakhs)

	NEPAL SBI													
	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Interest	2584	55.18	3348	57.01	4123	58.08	4549	55.67	8247	61.47	14437	68.15	20960	76.48
Salaries, allowance	376	8.03	505	8.60	532	7.49	749	9.17	1219	9.09	1303	6.15	2554	6.29
Provision for bonus	139	2.97	200	3.41	346	4.87	348	4.26	443	3.30	538	2.54	653	1.61
Other expenses	906	19.35	992	16.89	1201	16.92	1524	18.65	2240	16.70	3439	16.23	4451	10.97
Provision for taxes	678	14.48	828	14.10	897	12.64	1002	12.26	1267	9.44	1466	6.92	1889	4.65
Total	4683	100	5873	100	7099	100	8172	100	13416	100	21183	100	40589	100

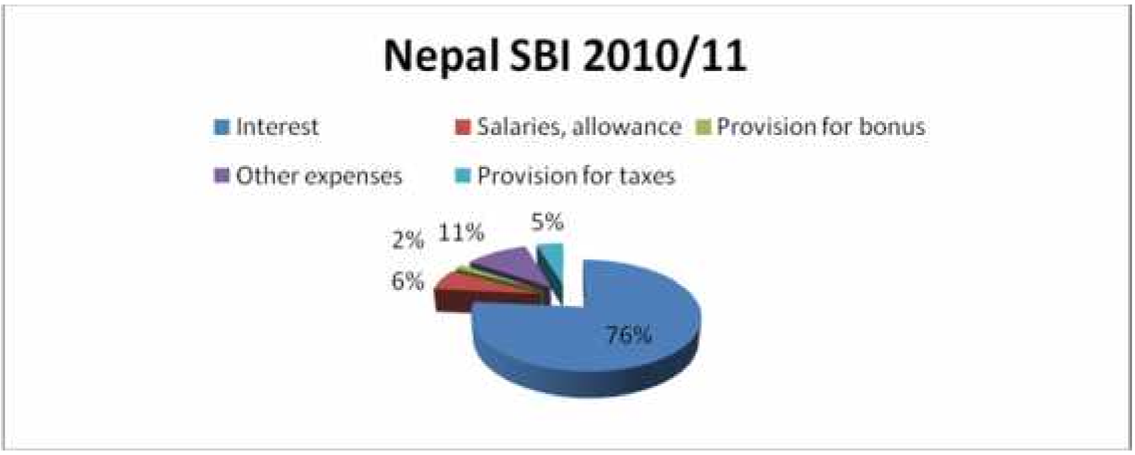
Sources: Annual report 2004/05 to 2010/11

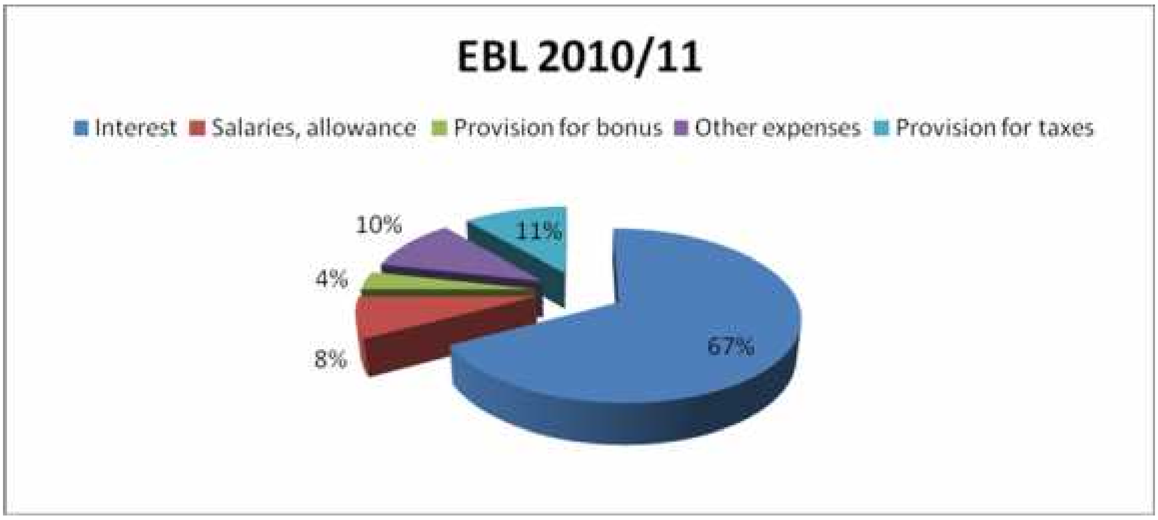
The interest expenses of Nepal SBI Bank reveals increasing trend but EBL reveals fluctuating tread up to fifth year and increasing trend thereafter .It means Nepal SBI has rapidly increasing deposit interest rate and EBL has fluctuating increase in deposit interest rate .Salary ,allowance and provisions for bonus are increasing in both banks. It shows both banks are in expansion period. Operating expenses of both banks are increasing gradually. Both banks needs decrease their own operating expenses in comparison other of expenses. The above table shows that the each type of expenses is increasing both the banks. The interest payment is the highest portion of total cost of each year.

	EBL													
	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Interest	2996	50.45	4014	53.08	5172	52.96	6326	49.90	10129	55.97	15728	60.31	25358	67.22
Salaries, allowance	551	9.28	684	9.05	781	8.00	1281	10.10	1630	9.01	2077	7.96	2931	7.77
Provision for bonus	281	4.73	345	4.56	455	4.66	659	5.20	891	4.92	1188	4.56	1331	3.53
Other expenses	1291	21.74	1436	18.99	1775	18.18	2337	18.43	2920	16.14	3525	13.52	3831	10.15
Provision for taxes	819	13.79	1083	14.32	1583	16.21	2074	16.36	2527	13.96	3562	13.66	4275	11.33
Total	5938	100	7562	100	9766	100	12677	100	18097	100	26080	100	37726	100.00

Diagram no 7

Pie chart of expenses





4.2.3.1 Interest Expenses:

Interest Expenses are the expenditure incurred for making payment of interest to the borrowing and deposit mobilized by the bank. As the customer deposit holds a major share on total resources of the bank, so the interest expenses remained highest among other in total Expenses of the bank. Both banks have no long term loan provisions so far. They have only short term loan and pay less amount of interest on borrowing than deposits. Hence, the percentage of the interest expenses to the total deposit is presented in the following table.

Table no 13

Status of Interest Expenses (Rs in Lakhs)

	NEPAL SBI			EBL		
	Interest expenses	Total deposit	Cost of deposit	Interest Expenses	Total deposit	Cost of deposit
2004/05	2,584	1,00,977	2.99	2,996	86,548	2.97
2005/06	3,348	1,38024	3.04	4,014	1,10020	2.91
2006/07	4123	1,81862	3.6	5,172	1,14,453	2.84
2007/08	4,549	2,39763	3.32	6,326	1,37,154	2.64
2008/09	8,247	3,33,229	2.95	10,129	2,79,572	3.04
2009/10	14,437	3,69,323	4.14	15,728	3,48,964	4.26
2010/11	20,960	4,11,279	7.32	25,358	4,24,154	4.26
Average			3.91			3.23

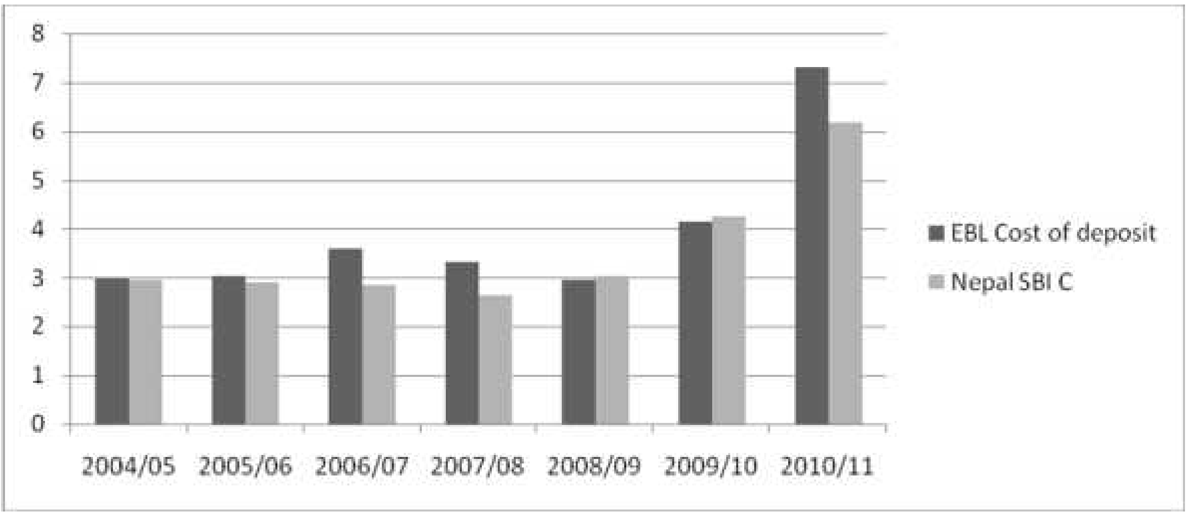
There are various kinds of deposit accounts like interest free deposit and varying interest deposit accounts. The average cost incurred by the banks is the cost of deposit (COD) of the bank. The lower COD refers to better position in terms of profitability.

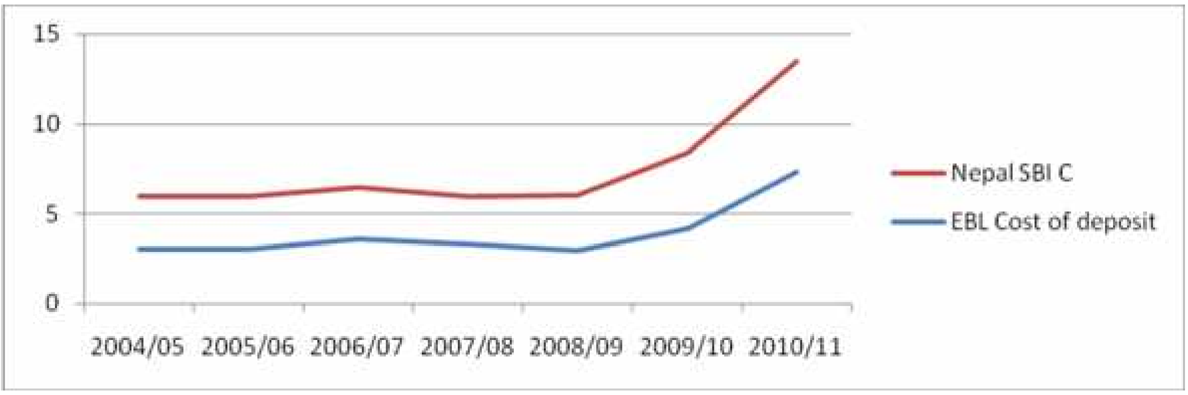
The above table shows that the yearly COD of deposit of SBI ranges from 2.95 to 7.32 percent and cost of deposit of EBL ranges from 2.64 to 4.26 percent. The average cost of deposit for the study period of SBI is 3.91 percent and EBL is 3.23 percent. Hence the cost of deposit of EBL is better than COD of NEPAL SBI. The status of COD is shown in bar diagram and scattered diagram as below.

Diagram no -8

Status of COD

(In percent %)





The figure of actual deposit and interest expenses can be presented in tabular form. In order to find out the variability of deposit collection and interest on deposit of different years the calculations of arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient are required. The detailed of application of those statistical tools are presented in appendix 2. The summary of the results of appendix 2 are given below:

Table no 14

Summary of the Deposit & Interest Expenses relation

(Rs in lakhs)

	EBL		NEPAL SBI	
	Deposit (x)	Interest exp.(Y)	Deposit (X)	Interest exp (Y)
Mean	2,06,259.57	6,789.86	1,64,099	5,698.14
S.D	1,04169.28	4,294.82	39,402.4	1,959
C.V	0.5050	0.6325	0.2401	0.3438
'r'	0.9342		0.6806	

(Source: Appendix 3)

The above results show that the customer deposit is more variable than interest expenses in both banks. Hence the coefficient of variation of deposit is higher of EBL than NEPAL SBI and C.V (coefficient of variation) of interest expenses of EBL is higher than NEPAL SBI. Another statistical tool correlation of coefficient can be used to a show relationship between total deposit and interest expenses. In this analysis deposit is independent variable (x) and Interest Expenses is dependent Variable (Y). The main objective of this analysis is to find out whether deposit is significantly used to interest Expenses in proper way or not. The above table show the relationship between X and Y variables.

Above table show correlation coefficient of EBL is highly positive and correlation coefficient of NEPAL SBI is also positive.

After this significance of 'r' is tested with probable error of r, the detail calculation of 'r' and probable error of 'r' is presented in Appendix 2a, 2b. The value of 'r' and P.E of NEPAL SBI are 0.6806 and 0.1368 respectively. Similarly value of 'r' and P.E of EBL are 0.9342 and 0.0324 respectively.

Since $r > 6\,PE$

NEPAL SBI	EBLL
$=0.9242>6\times0.0324$	$=0.6806>6\times0.1368$
$=0.9242>0.1944$	$=0.6806<0.8208$

Hence, there is positive correlation between deposit and interest expenses of both NEPAL SBI and EBL.

4.3 Revenue Planning

Banks generate revenue from its income earning activities. Such activities are mostly fund based, that is generated out of the deployment of fund, and some portion from non fund based business activities. It can be categorized into two types like interest income and other income. Interest income is the interest earned from the loan advances and overdraft provided to the borrower’s and from investment in Nepal government bonds etc. Interest income holds major share in total income portfolio of the banks. Other income consists excluding interest incomes, which are as follows.

a) Income from commission and discount.
b) Dividend received from investment in shares.
c) Income from foreign exchange transactions.
d) Various kinds of service fees and charges etc.

Table no 15

Status of Yearly Income structure

(Rs in lakhs)

	EBL													
	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Interest	7193	83.74	9034	85	11444	84.16	15487	83.84	21868	85.33	31025	88.31	43310	92
Commission & discount	781	9.09	968	9.08	1177	8.66	1503	8.14	2021	7.89	2081	5.92	2034	4.30
Foreign exchange	271	3.15	144	1.35	284	2.09	645	3.49	625	2.44	479	1.36	463	0.98
Other income	315	3.67	489	4.59	680	5.0	791	4.28	1064	4.15	1 423	4.05	1480	3.13
Non operating	30	0.35	30	0.28	13	0.10	45	0.24	50	0.20	123	0.35	14	0.03
Total	8590	100	10665	100	13598	100	18471	100	25628	100	35131	100	47301	100

Sources: Annual report 2004/05 to 2010/11

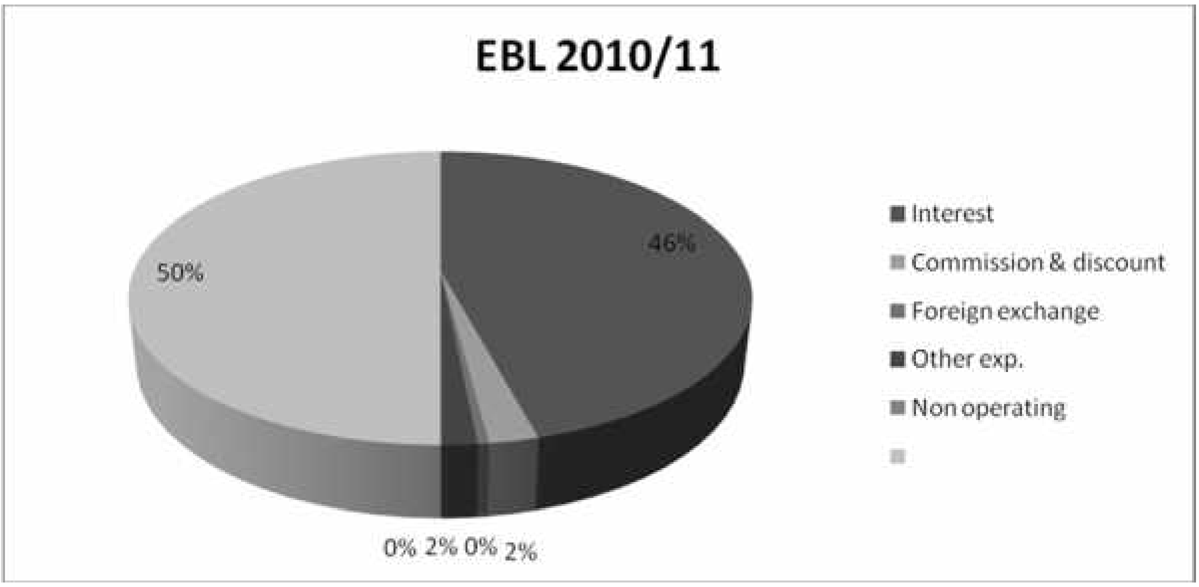
	NEPAL SBI													
	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Interest	5784	86.85	7087	88.97	8311	87.91	9705	88.83	14604	88.79	22697	89.18	31042	61.94
Commission & discount	426	6.40	407	5.11	526	5.56	509	4.66	788	4.79	1317	5.17	2471	4.93
Foreign exchange	324	4.86	430	5.40	494	5.23	519	4.75	612	3.72	703	2.76	7053	14.07
Other Income	112	1.68	71	.89	126	1.30	195	1.78	528	3.21	788	2.78	9517	18.99
Non operating	14	0.21	-29	-.36	-2	-.03	-2	0.02	25	0.15	26	2.10	31	0.06
Total	6660	100	7966	100	9454	100	10925	100	16557	100	25531	100	50114	100

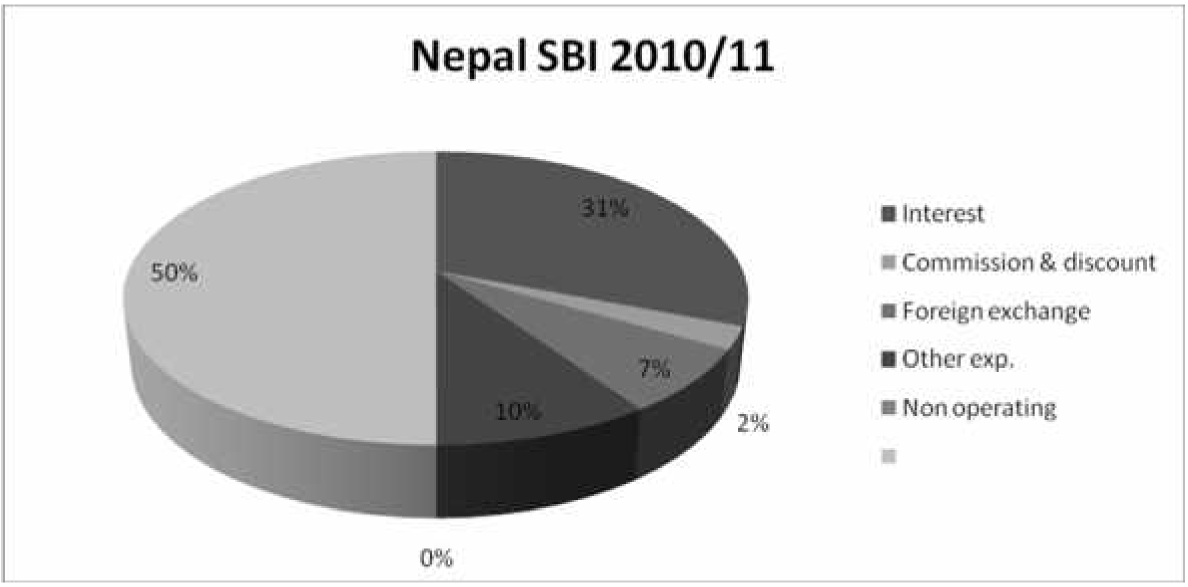
Sources: Annual report 2004/05 to 2010/11

The above table shows that interest income of both banks are increasing. Both banks should continue the trend. Foreign exchange of EBL is fluctuating and NEPAL SBI has increasing because of operating new branches and agencies for remittance. Commission and discount of both banks is increasing because of expansion of business area and new scheme of business.

Diagram no 9

Pie charts of income generated





4.3.1 Interest Income

Interest income contributes the major portion of total revenue mix. This study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore, this is popularly called yield on fund (YOF) Bills discounting is also one form of advances therefore, for this study purpose, we have grouped the outstanding loan, advance and overdraft and the bills discounting commission too into the total interest income amount . The picture of total YOF with the total LABP are presented with the help of the following table, bar and scatter diagram.

Table no 16

Status of Interest and LABP of EBL & NEPAL SBI

(Rs in lakhs)

	EBL			NEPAL SBI		
	Interest income	LABP	Yield on LABP	Interest income	LABP	Yield on LABP
2004/05	7,193	79,000	9.11	5,784	62,138	9.31
2005/06	9,034	1,01,362	8.91	7,087	76,267	9.29
2006/07	11,444	1,40,827	8.13	8,311	94,604	8.78
2007/08	15,487	1,88,364	8.22	9,705	1,21,136	8.01
2008/09	21,868	2,44,696	8.94	14,604	1,51,317	9.65
2009/10	31,025	2,81,564	11.02	22,697	1,74,805	12.98
2010/11	43,310	3,16,618	13.68	31,042	2,13,657	14.53
Average			9.72			9.11

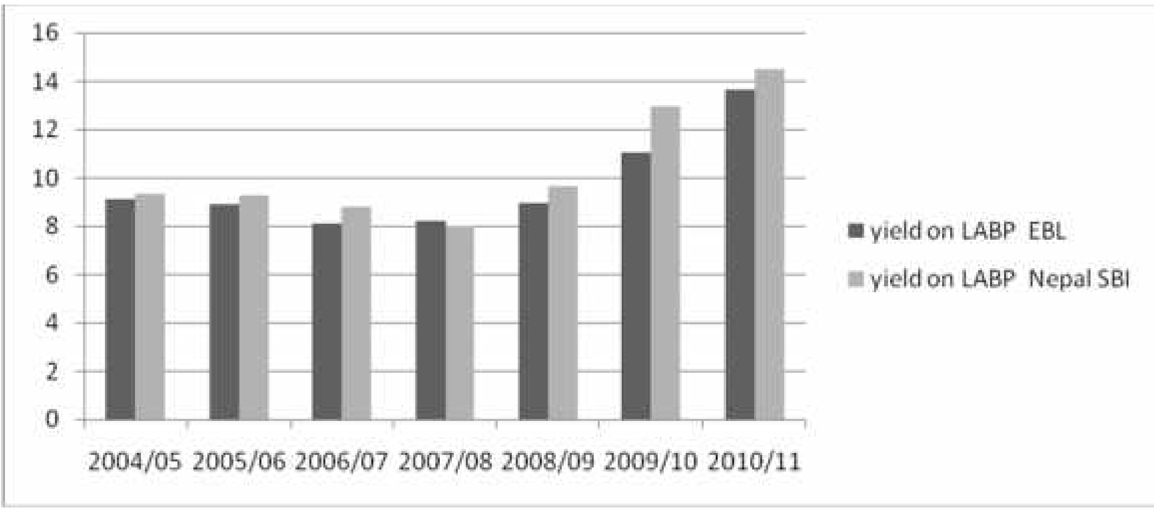
Sources: Annual report 2004/05 to 2010/11

Yield on LABP of EBL is fluctuating during first four year then after it shows increasing trend. The main reason for increasing of EBL is more LABP in high interest rate.

Diagram no. 10

Bar diagram showing interest to total LABP.

In percent (%)



4.4 Interest Spread

Interest spread refers to the deviation of total interest expenses and the total interest earned. It is the margin on interest earned. It is the margin on interest or net interest income of the bank. It can be shown in formula:

Interest spread = interest income-interest expenses.

The following table showed the interest shows in the different year:

Table no 17

Net spread of the Banks

(Rs in lakhs)

	EBL				NEPAL SBI			
	Interest income	Interest expenses	Interest spread	%	Interest income	Interest expenses	Interest spread	%
2004/05	7,193	2,996	4,197	100	5,784	2,584	3,200	100
2005/06	9,034	4,014	5,020	119.61	7,087	3,348	3,739	116.84
2006/07	11,444	5,172	6,272	124.94	8,311	4,123	4,188	112.01
2007/08	15,487	6,326	9,161	146.06	9,705	4,549	5,156	123.11
2008/09	21,868	10,129	11,739	128.14	14,604	8,247	6,357	123.29
2009/10	31,025	15,728	15,297	130.31	22,697	14,437	8,260	129.94
2010/11	25,358	17,952	7,406	48.41	31,042	20,960	10,082	122.06
Average			8,441.71				5,854.57	

Sources: Annual report 2004/05 to 2010/11

Percentage change of interest spread in compare last year for every year of EBL and NEPAL SBI is fluctuating. The main causes of fluctuating of EBL and NEPAL SBI is high interest rate in deposit and low interest rate in loan because in competition with other joint venture bank and new commercial bank. The main causes of fluctuating are investment police in different interest rate.

Diagram no.11

Bar diagram of interest spread

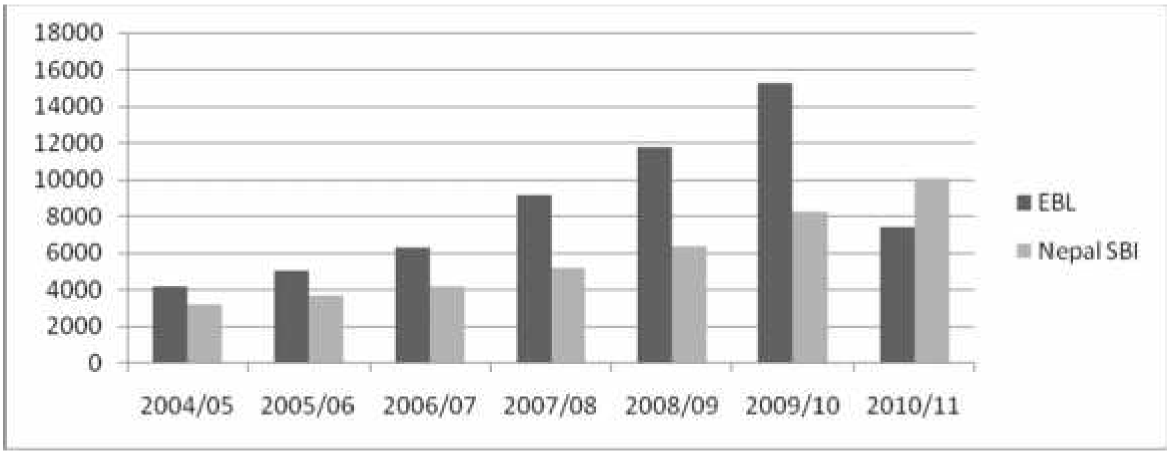
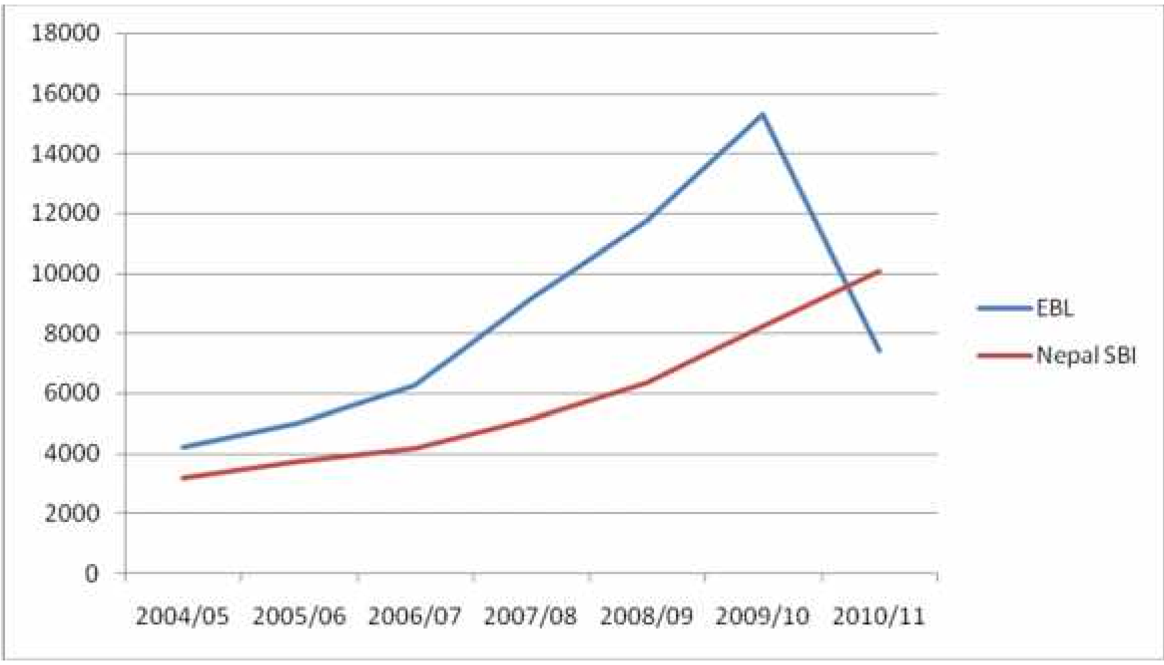


Diagram no 12

Scatter diagram of interest spread



The above bar diagram and scatter diagram show that the interest spread is in increasing trend in both the bank, But the increasing trend of EBL is higher than that of NEPAL SBI Bank.

4.5 Burden

Burden is the overall expenses of the bank, except interest expenses incurred for the payment of interest on deposit. The operating cost of the bank except interest cost is called the burden. The net burden is the net amount of burden cost obtained which is the difference between other expenses and other income. The nature of the cost is semi fixed where as interest cost is variable cost. The following table shows the status of net burden.

Table no 18

Status of net burden (Rs in lakhs)

	EBL				NEPAL SBI			
	Other expenses	Other income	Net burden	%	Other expenses	Other income	Net burden	%
2004/05	1,290.67	314.79	975.88	100	906.28	112.75	793.53	100
05/06	1,435.62	489.02	946.6	97.00	992.14	71.36	920.78	116.04
06/07	1,775.65	679.68	1,095.97	115.78	1,201.11	126.01	1,075.1	116.76
07/08	2,337.67	791.34	1,546.33	141.09	1,523.79	195.57	1,328.22	123.54
08/09	2,920.11	1,064.04	1,856.07	120.03	2,239.65	787.96	1,451.69	109.30
09/10	3,525.11	1,423.11	2,102	113.25	3,438.5	527.9	2,910.6	200.50
10/11	4,275	1,480	2,795	132.97	4,451	1,575	2,876	98.81
Average			1,616.84	117.16			1,622.27	123.56

Sources: Annual report 2004/05 to 2010/11

Diagram no.13

Bar diagram of annual net burden

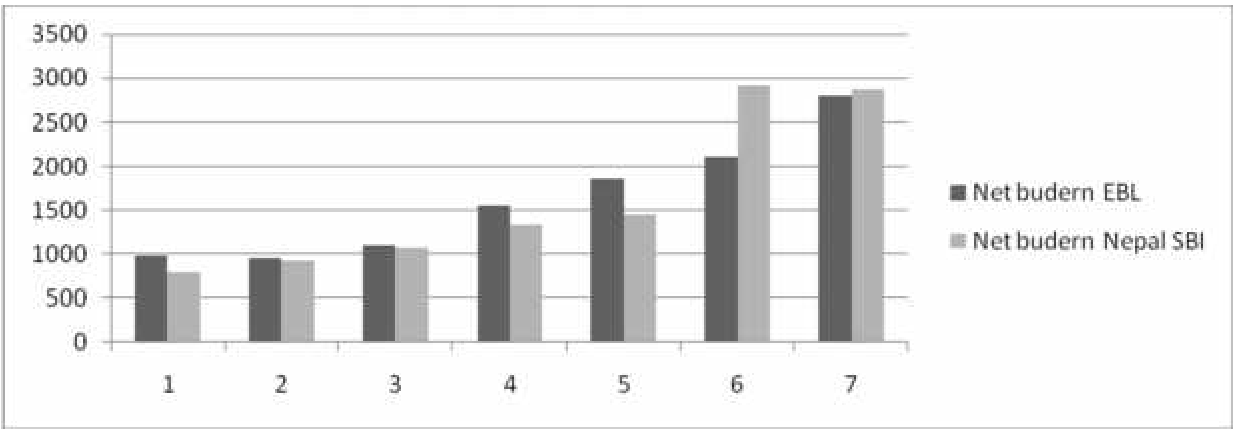
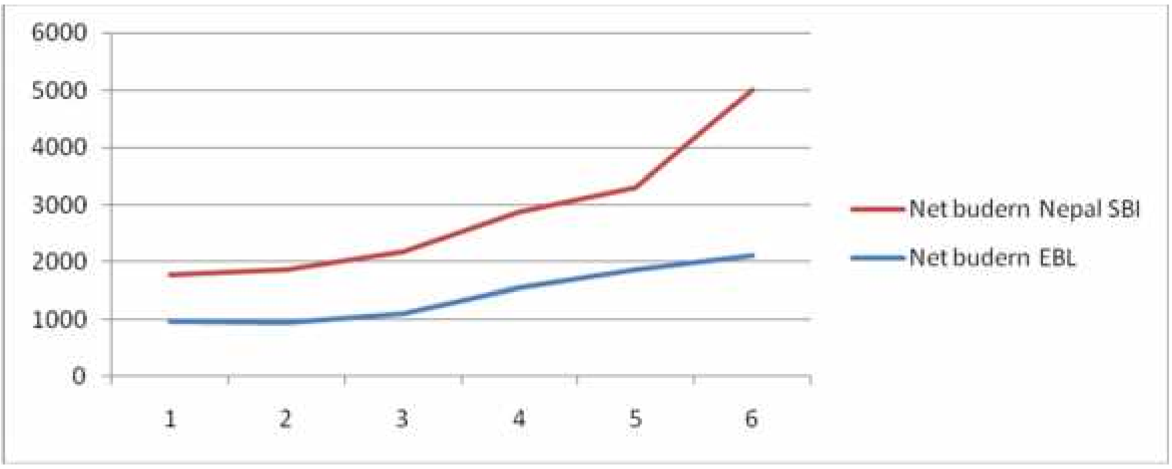


Diagram no 14

Scatter diagram of annual net burden



The above table, bar diagram and scatter diagram shows that the net burden of EBL and NEPAL SBI is fluctuating. EBL has higher net burden than NEPAL SBI except in the last year.

4.6 Net profit

Profit is excess of income over expenses. Net profit is a reward to the bank for efficient mobilization of its deposit. The net profit is the excess spread over the net burden. Spread is the net interest income (excess of interest income over interest expenses), and the net burden is the difference between other expenses and other income. The following table shows the status of net profit.

Table no 19

Status of net profit

(Rs in lakhs)

	EBL				NEPAL SBI			
	Spread	Burden	Profit	%	Spread	Burden	Profit	%
2004/05	4,197	975.88	3,221.12	100	3,200	793.53	2,406.47	100
2005/06	5,020	946.6	4,073.4	126.46	3,739	920.78	2,818.22	117.11
2006/07	6,272	1,095.97	5,176.03	127.07	4,188	1,075.1	3,112.9	110.46
2007/08	9,161	1,546.33	7,614.67	147.11	5,156	1,328.22	3,827.78	122.97
2008/09	11,739	1,856.07	9,882.93	129.79	6,357	1,451.69	4,905.31	128.15
2009/10	15,297	2,102	1,3195	133.51	8,260	2,910.6	5,349.4	109.05
2010/11	7,406	2,102	5,304	40.20	10,082	2,876	7,206	134.71
Average	84,412	1,517.84	6,923.88	115	5,855	1,622.27	4,232.3	117.53

Sources: Annual report 2004/05 to 2010/11

The above table shows that the profit of EBL is increasing rapidly. This is higher than Nepal SBI. Similarly Nepal SBI has also increasing trend of profit but lower than that of EBL.

Diagram no. 15

Bar diagram of net profit

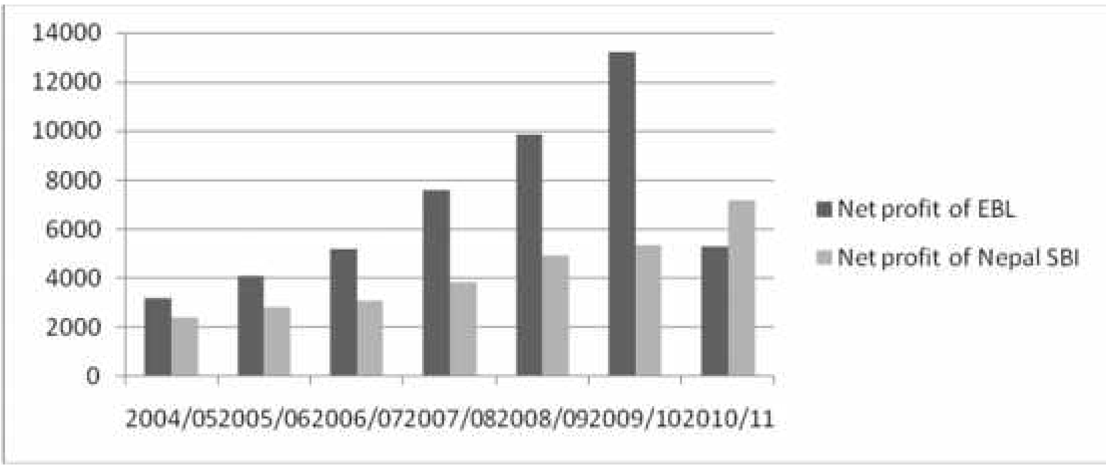
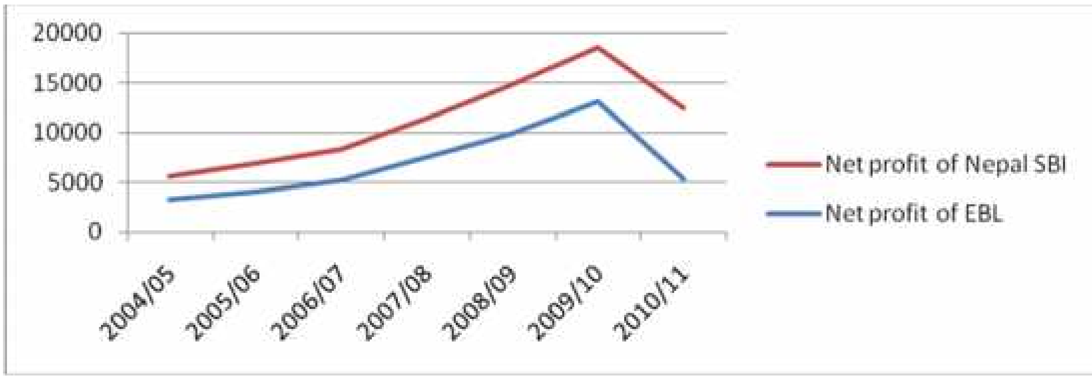


Diagram no 16

Scatter diagarm of net profit



4.7 Performance Evaluation

Performance evaluation is an important part for profit planning and control system. Non manufacturing or service firm can also use performance evaluation tools. We can use various techniques and criteria to evaluate performance. One of such tools is ratio analysis explain below.

4.7.1 Ratio Analysis

Ratio's measure a firm's crucial relationships by relating its inputs (costs) with outputs (benefits) and facilitate comparisons of these relationships over time and across firms. The objective of ratio analysis is a comparative measurement of risk and return, facilitating intelligent investment and credit decisions. The ratios can be classified as follows:

a. Liquidity ratio
b. Capital structure ratio
c. Activity ratio
d. Profitability ratio

a. Liquidity Ratio:

The purpose of these ratios is to test the solvency positions for the payment of short-term liabilities solvency positions or liquidity denotes ability for payment of short terms liabilities. It measures the ability of a firm to meet its short term obligations and reflect the short term financial strength or solvency of a firm. To measure the solvency position of EBL and Nepal SBI banks. There have been calculated some liquidity ratios which have been thought to be important.

i) Current Ratio

This ratio is calculated by dividing current assets by current assets by current liabilities. The current ratio measures the extent to which short-term assets covers the claims of short-term creditors. The current assets of a firm represent those assets that can in the ordinary course of the business, be converted into cash within a short period of time, normally not exceeding one year.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilites}}$$

Table no 20

Calculation of current ratios (Rs in lakhs)

	EBL			NEPAL SBI		
	Current assets	Current liabilities	Current ratio	Current assets	Current liabilities	Current ratio
2004/05	89,450	98,880	0.90:1	64,705	76,965	0.84:1
2005/06	94,450	1,05,999	0.89:1	76,712	91867	0.84:1
2006/07	1,15,992	1,46,065	0.79:1	93,582	1,11,947	0.84:1
2007/08	1,62,781	1,99,309	0.82:1	1,11,444	1,17,225	0.95:1
2008/09	2,17,292	2,49,279	0.87:1	1,39,783	1,39,453	1:1
2009/10	3,05,410	3,41,010	0.90:1	16,266	2,82,538	0.59:1
2010/11	3,5,112	3,79,189	0.95:1	2,13,235	3,53,970	0.60:1
Average			0.86:1			0.81:1

Sources: Annual report 2004/05 to 2010/11

The above table shows details current ratio of EBL and NEPAL SBI, Standard of current ratio generally considered is 2:1. The current ratio of both banks is less than standard ratio in the all FY years. Comparatively EBL's current ratio is better than that of NEPAL SBI's.

b) Capital Structure Ratio:

Capital structure is Ratio essential to evaluate firm's long-term risks and return prospects. To judge the long-term financial position of the bank, the leverage ratios are calculated.

b. Debt Equity Ratio:

A bank's financing is obtained from debt and equity. The relationship between borrowed fund and owner's equity is known as debt equity ratio. We have taken the amount of fixed deposit as long term debt of the banks.

Table no 21

Calculation of Debt Equity Ratio (Rs in lakhs)

	EBL			NEPAL SBI		
	Fixed deposit	Capital fund	Debt equity	Fixed deposit	Capital fund	Debt equity
2004/05	28,250	6,803	4.2:1	33,523	6,266	5.3:1
2005/06	34,040	8,326	4.1:1	40,863	6,890	5.9:1
2006/07	42,424	9,628	4.4:1	61,161	9,824	6.2:1
2007/08	56,267	12,015	4.7:1	64,148	11,633	5.5:1
2008/09	6,462	19,212	3.4:1	68,548	14,147	4.8:1
2009/10	70,499	22,036	3.2:1	1,74,384	17,126	10.2:1
2010/11	1,04,402	27,591	3.8:1	2,21,489	24,506	9:1
Average			4.0:1			6.7:1

Sources: Annual report 2004/05 to 2010/11

The debt equity ratio of both banks is fluctuating every year. The average ratio of EBL is 4.0 and average ratio of NEPAL SBI is 6.7.

c. Profitability Ratio

Profitability ratios are very helpful to measure the overall efficiency of operation of financial institutions. In the context of banks, strictly speaking no bank can survive without profit. Profit is the indicator of providing different services to its customers or by making investment of different kinds. Sufficient profit is a must to have good liquidity, grab investment opportunities, expand banking transaction, financing government in need of development fund, overcome the future contingencies and meet fixed internal obligation for a bank. Profitability ratios measure the efficiency of bank. Higher profit ratio shows the higher efficiency of a bank.

The following profitability ratios are related to study under this heading.

Net profit to total assets ratio

It is the ratio of net income and total asset. It measures the return on all the firm's assets after interest and taxes. ROA shows the management's capability to generate profit by using assets. A decrease in return on assets may mean that assets do not justify their investment. It is not considered as good trend.

$$\mathrm{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Table no 22

Net Profit to total assets ratio

(Rs in lakhs)

	EBL			NEPAL SBI		
	Net profit	Total asset	Ratio	Net profit	Total asset	Ratio
2004/05	3,221.12	98,203	3.28	2,406.47	84,404.1	2.33
2005/06	4,073.4	1,17,325	3.47	2,818.22	1,03,454	2.16
2006/07	5,176.03	1,59,593	3.24	3,112.9	1,30,358	2.24
2007/08	7,614.67	2,14,326	3.55	3,827.78	1,39,012	2.23
2008/09	9,882.93	2,71,493	3.64	4,905.31	1,71,874	1.63
2009/10	1,3195	3,69,168	3.57	5,349.4	3,01,664	1.41
2010/11	5,304	4,13,828	0.78	7,206	3,80,477	0.78
Average			3.08			1.94

Sources: Annual report 2004/05 to 2010/11

The above table shows the ratio of net profit to total assets of EBL is in fluctuating trend and has ranged .78 percent to 3.64 percent. Similarly, in NEPAL SBI ratios are also in fluctuating trend, and have ranged 0.78percent to 2.33 percent. Average ratio of EBL is 3.08 percent and NEPAL SBI is 1.94 percent. On the basis of average ratio, net profit to total assets ratio of EBL has appeared better than

NEPAL SBI. Comparatively, EBL has been able to earn more profit by utilizing their resources and profit planning tools.

i. Net income to total deposit ratio

Net income is a reward to the bank for efficiency in mobilization of its deposit. So, it would be reasonably meaningful and important from every angle to show the relationship between the net profit and total deposit. This ratio is used for measuring the internal ratio and indicates the return from deposit. Higher ratio indicates the return from investment on loans and advances are better utilized. It is computed by dividing the net profit by total deposit.

Table no 23

Net profit to total deposit ratio (in Percent %)

	EBL			NEPAL SBI		
	Net profit	Total deposit	Ratio	Net profit	Total deposit	Ratio
2004/05	3,221.12	80,639	1.77	2,406.47	71,983	0.85
2005/06	4,073.4	1,00,977	1.67	2,818.22	86,547	0.66
2006/07	5,176.03	1,38,024	1.72	3,112.9	1,10,020	1.06
2007/08	7,614.67	1,81,862	2.75	3,827.78	1,14,453	2.23
2008/09	9,882.93	2,39,763	3.02	4,905.31	13,154	1.81
2009/10	1,3195	3,33,229	1.92	5,349.4	2,79,572	1.13
2010/11	5,304	3,69,323	2.39	7206	3,48,964	1.12
Average			2.18			1.27

Sources: Annual report 2004/05 to 2010/11

The above table shows, in EBL the ratios are range from 1.67percent to 3.02percent. The average ratio is 2.18 percent. Similarly, in Nepal SBI the ratios ranged from 0.66percent to 1.81percent. The average ratio is 1.27 percent. On the basis of average ratio, net profit to total deposit ratio of EBL is than that of NEPAL SBI .Comparatively EBL is able to earn more profit by utilization of total deposit.

ii. Return on net worth (shareholders equity):

It is the ratio of net income to common equity. It measures the rate of return on common stockholder's investment. This is the king amongst ratio. Higher ROE ratios show better operating efficiency of a firm and vice versa.

$$ROE = \frac{\text{Net Income}}{\text{Common Equity}}$$

Following table shows the calculation of return of equity of the EBL and NEPAL SBI expressed in percent for the whole period of study.

Table no 24

Return on Net worth (Rs in lakhs)

	EBL			NEPAL SBI		
	Net profit	Shareholder equity	Ratio	Net profit	Shareholder equity	Ratio
2004/05	3,221.12	6,803	20.96	2,406.47	6,266.37	9.71
2005/06	4,073.4	8,326	20.20	2,818.22	6,890.13	8.33
2006/07	5,176.03	9,628	24.65	3,112.9	9,823.74	11.91
2007/08	7,614.67	12,015	41.63	3,827.78	11,632.91	21.91
2008/09	9,882.93	19,212	37.71	4,905.31	14,146.45	17.51
2009/10	13,195	22,036	28.99	5,349.4	17,126.07	18.47
2010/11	5,304	27,591	31.96	7,206	24,505.54	15.99
Average			29.43			14.83

Sources: Annual report 2004/05 to 2010/11

The above table shows the ratio of return on net worth. The ratios of EBL range from 20.20 percent to 41.63 percent and average is 29.43 percent. Where the ratio of NEPAL SBI is the range between 8.33 percent to 21.91 percent and average is 14.83 percent. On the basis of average ratio, EBL has high ratio. So it can be stated that EBL is efficiently utilizing its shareholders fund in generating profit.

iii. Return on Loan and Advance Ratio:

It measures the earning capacity of a commercial bank on its deposits mobilized on loan & advances. Mostly loan & advances includes loan, cash credit, overdraft, bill purchased and discounted. We have

$$\textbf{Return on Loan \& } \textit{Advance Ratio} = \frac{\textbf{Net Profit}}{\textbf{Loan \& } \textit{Advance}}$$

Table no 25

Return on Loan and Advance Ratio:

(Rs in lakhs)

	EBL			NEPAL SBI		
	Net profit	Loan & advance	Ratio	Net profit	Loan & advance	Ratio
2004/05	3,221.12	47,218	3.02	2,406.47	51,436	1.18
2005/06	4,073.4	76,186	2.21	2,818.22	62,138	0.92
2006/07	5,176.03	98,013	2.42	3,112.9	76,267	1.53
2007/08	7,614.67	1,36,641	3.66	3,827.78	94,604	2.69
2008/09	9,882.93	1,83,391	3.95	4,905.31	1,21,136	2.05
2009/10	13,195	2,38,846	2.67	5,349.4	1,51,317	2.09
2010/11	5,304	2,75,563	3.20	7,206	1,74,805	2.24
Average			3.02			1.82

Sources: Annual report 2004/05 to 2010/11

The above table shows the ratio of return on loan and advance. Ratio of EBL range between 2.21 percent to 3.95 percent and average is 3.02 percent. Where the ratios of NEPAL SBI range from 0.95 percent to 2.69 percent and average is 1.82 percent. On the basis of average ratio, EBL has high ratio. So it can be stated that EBL is efficiently utilizing its loan & advance in generation of profit though the rate of return is marginal.

4.8 Statistical Tools

In this chapter, some statistical tools such as trend analysis of deposit, loan and advances, and net profit are used to achieve the objective of the study.

4.8.1 Trend Analysis and Projection for Next Five Years.

Under this topic, analysis of trend of deposit collection, its utilization and net profit of EBL and NEPAL SBI are studied. To utilize deposits a commercial bank may grant loan and advances and make investment in government securities and share & debentures of other companies. The objective of this topic is to reveal trend of deposit loan & advances, total investment and net profit are forecasted for next five years. The projections are based on the following assumptions.

Assumptions:

a) The main assumption is that other thing will remain unchanged.
b) The forecast will be true only when the limitation of least square method is carried out.
c) The bank will run in present position.
d) The economy will remain in the present stage.
e) Nepal Rastra Bank will not change its guide lines to commercial banks.

i) Trend Analysis of Total Deposit:

Under this topic, an effort has been made to calculate the trend values of deposit of EBL and NEPAL SBI for seven years from mid July 2004/05 to 2010/11 and forecast of next five years from the mid July 2009/2010 to 2014/2015. The following table no 26 shows the trend value of deposit for twelve years from 2003/04 to 2014/2015 of EBL and NEPAL SBI.

Table no 26

Trend value of Total Deposit of NEPAL SBI and EBL

(2011/12 to 2014/15)

(Rs in lakhs)

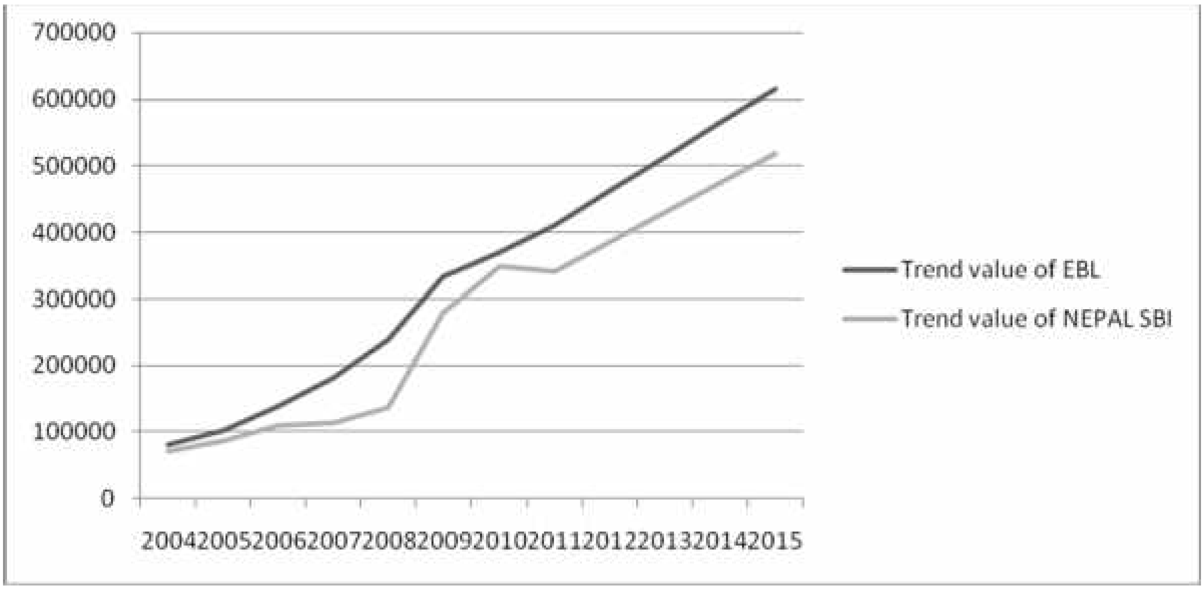
FY	Trend value of EBL	Trend value of NEPAL SBI
2004	80,639	71,983.27
2005	1,00,977	86,547.74
2006	1,38,024	1,10,020.41
2007	1,81,862	1,14,452.86
2008	2,39,763	1,37,153.95
2009	3,33,229	2,79,572.21
2010	3,69,323	3,48,964.24
2011	4,10,873.13	3,41,831.44
2012	4,62,026.52	3,86,264.49
2013	5,13,179.91	4,30,697.54
2014	5,64,333.3	4,75,130.59
2015	6,15,486.69	5,19,563.64

(Source: Appendix 4)

The above table shows that the deposits of both banks have the increasing trend. If other thing remains the same the total deposit of the EBL will be Rs 615486.69 Lakhs in the fiscal year 2014/2015. Similarly, the deposit of NEPAL SBI will be Rs 519563.64 Lakhs in the fiscal year 2014/2015. From the above trend analysis, it is found that the deposit collection position of EBL is higher in comparison to NEPAL SBI. The calculated trend value of total deposit of EBL and NEPAL SBI are fitted in the trend line given.

Diagram no.17

Trend value of total deposit of EBL and NEPAL SBI



ii) Trend Analysis of Loan & Advances:

Here, the trend value of loan & advances of EBL and NEPAL SBI have been calculated for seven years till 2014/2015 has also been done.

The following table no 27 shows that trend value of 12 years from 2004/05.

Table no 27

Trend value of Loan & Advances of NEPAL SBI & EBL

(2011/12 to 2014/15)

(Rs in lakhs)

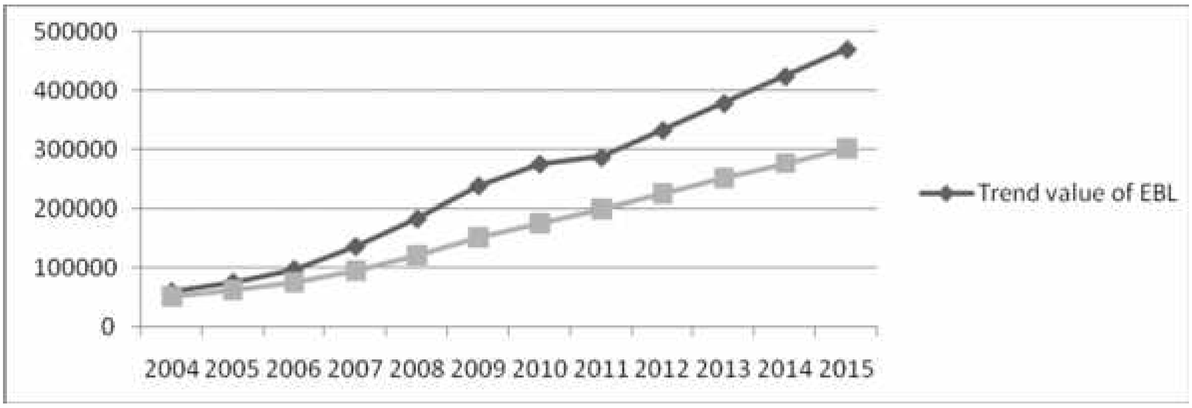
FY	Trend value of EBL	Trend value of NEPAL SBI
2004	60,185	51,436
2005	76,186	62,138
2006	98,013	76,267
2007	1,36,641	94,604
2008	1,83,391	1,21,136
2009	2,38,846	1,51,317
2010	2,75,563	1,74,805
2011	27,03,985.5	1,99,761.7
2012	3,16,129	2,25,140.5
2013	3,61,859.5	2,50,519.1
2014	4,07,590	2,75,897.8
2015	4,53,320.5	3,01,276.5

(Source: appendix 5)

The above table shows that the loan & advances of both banks have increasing trend. Other things remaining the same, the total loan & advances of EBL will be highest among the study period. Similarly, the total loan and advance of NEPAL SBI will be Rs 301276.5 Lakhs in the fiscal year 2014/15. From above trend analysis it is found that the loan and advances position of EBL is higher compared to NEPAL SBI. The calculated trend values of loan and advances of EBL and NEPAL SBI are fitted in the trend line.

Diagram no.18

Trend value of loan and advance of EBL and NEPAL SBI



iii) Trend Analysis of Net Profit

Here, the trend value of net profit of EBL and NEPAL SBI has been calculated for seven years from 2004/05 to 2010/11. The forecast for next five years till 2014/15 has also been done.

The following table no 28 shows the trend values of 12 years from 2004/2005.

Table No 28

Trend value of Net Profit of NEPAL SBI & EBL

(2011/12 to 2014/15) (Rs lakhs)

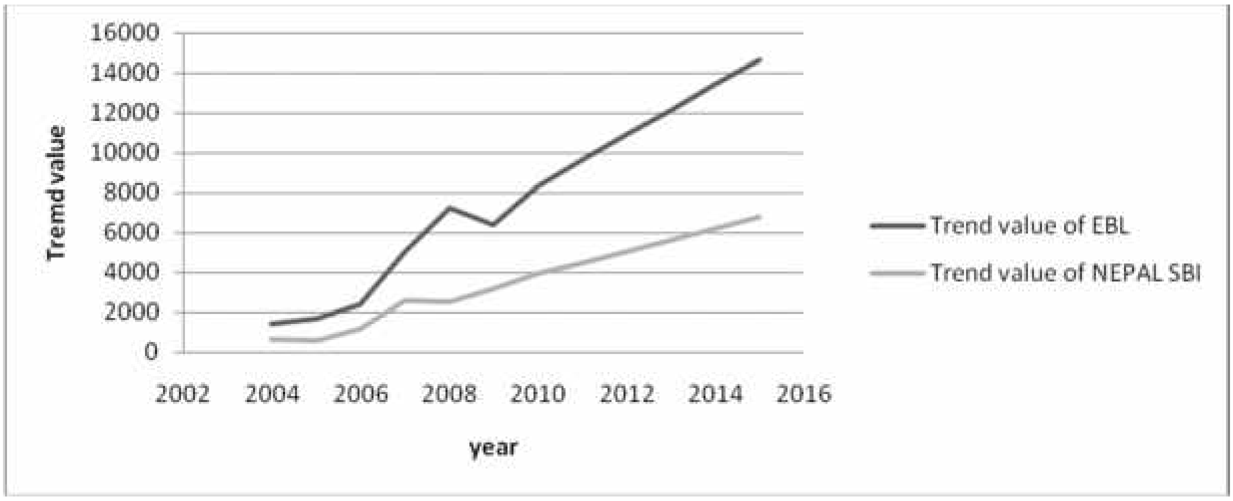
FY	Trend value of EBL	Trend value of NEPAL SBI
2004	1,426	608.52
2005	1,682.14	573.87
2006	2,372.90	1,170.02
2007	5,001.79	2,549.09
2008	7,245.55	2,477.71
2009	6,387.35	3,163.73
2010	8,317.35	3,917.42
2011	9,627.17	4,410.65
2012	10,875.64	4,996.87
2013	12,124.11	5,583.09
2014	13,372.58	6,169.31
2015	14,621.05	6,755.53

(Source: Appendix 6)

The above table shows that the net profit of both banks follow fluctuating trend. If other thing remains the same the net profit of EBL will be Rs 14621.05 Lakhs in the fiscal year 2014/15. Similarly the net profit of NEPAL SBI will be Rs 6755.53 Lakhs in the FY2014/15. From the above trend analysis, it is found that the net profit position of EBL is good in comparison to NEPAL SBI. The calculated trend values of net profit of EBL and NEPAL SBI are fitted in the trend line given below:

Diagram no 19

Scattered diagram of Trend value of Net Profit of NEPAL SBI & EBL



4.9 Major Findings

The following are the major findings drawn on the basis of the analysis of the profit planning of commercial Banks.

1. Major concentration of commercial banks is at deposit mobilization. In this respect, they are incurring higher cost toward deposit mobilizations. The average growth rate of total deposit of EBL is more than that of NEPAL SBI i.e. 15.36% > 14.80%.
2. Form the analysis of deposit budgeted and actual deposit, it is found that the actual deposit is more variable than the budgeted one.
3. The mean growth rate of capital fund of NEPAL SBI is less than of EBL i.e. 9.65% < 17.29%.
4. Banks resources deployments for non yielding liquid assets (cash and Bank balance) are fluctuating every year. EBL notice increase more than 100% on FY 2008/09.Similarly, NEPAL SBI has negative growth rate on FY 2004/05, 2006/07 and 2008/09.
5. Major portion of the resources, have been deployed in LABP and the banks have found it considerably increasing every year. EBL has increase up to fourth year at a decreasing rate. Similarly, NEPAL SBI has also increase up to fifth year then after it is increasing at decreasing rate. EBL has decreasing position than NEPAL SBI.

6. Investments of both banks have found to be considerably increasing every year except in FY 2004/05 and 2009/10 of EBL and FY 2006/07 of NEPAL SBI. Comparatively EBL has high investment than NEPAL SBI.
7. The LABP of both banks are fluctuating over the study period. EBL notice more fluctuation than NEPAL SBI. The average growth of EBL is higher than that of NEPAL SBI i.e. 25.05>19.44 respectively.
8. In the EBL, NLABP has found fluctuated every year. It increases for two years then after decreases for next two years then it is increasing trend for last two years. Similarly, NEPAL SBI has also fluctuating NLABP. It has increasing growth rate for first two years then negative growth rate is -17.90 percent (on the basis of 2008/09). Then after it has increasing growth rate for last three years. The average growth rate of NEPL SBI is higher than that of EBL i.e. 40.82%>23.92%.
9. Expenditure of both banks is increasing for every year. Comparatively EBL has more increasing trend than that of NEPAL SBI.
10. Interest expenses occupies highest portion in the total expenses items of the banks. The interest expenses of the banks are found increasing each year corresponding to the increase in deposit on the both bank. The cost of deposit (calculated as the ratio of total interest expenses during a year on the deposit) of EBL is higher than that of NEPAL SBI i.e. 3.37>3.23.
11. Interest income amount of both bank are the highest among other income items in the total revenue. The other income of bank is also in increasing trend.
12. The interest spread or the amount of interest margin is found to be increasing every year in both the banks. The increasing trend of EBL is high than that of NEPAL SBI.
13. Net burden of both banks are increasing, except in FY 2005/06 of EBL. Average net burden is1325.72 lakhs of EBL and 1247.78 lakhs of NEPAL SBI .The average rate of growth of other expenses are higher than other income. It can be expected that it would not hamper much to the profitability if the same trend were continued.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary:

The prosperity of every developing country can only be ensured by its economic growth. The role of commercial banks in the economic growth of the nation can be fairly estimated to be very prominent, by mobilizing the scattered idle resources from the savers, commercial banks pools the fund in a sizeable volume in order to feed to the fund requirement of productive sector of the economy. Such investments in the productive sector promote trade and industrialization in the country. Thereby raising the employment opportunities and earning to the labors, materials and service providers to such industries and trades, which as a chain effect promotes saving into the banks and more saving means more funds available in the banks for further investment. In this way, as the chain moves' rolling on the economics of the nation also grows.

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial Bank also, being a commercial institution, has to plan for the reasonable profit earnings. Profit planning, in short, is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. This study aims at examining the applications of profit planning and control of Everest Bank Limited and Nepal SBI Bank ltd.

To remain as the major contribution factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability. As the Banks are formed as joint stock companies promoted by shareholder's investment, it must give reasonable return on the fund of the shareholders. 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 employee, thereby enhancing the morale of the employees and motivates them for better performance.

Everest Bank Ltd is one the well-run commercial bank in Nepal established in the year 2049/09/03 B.S. with joint venture between Nepali promoter and Punjab National Bank, one of the largest commercial bank of India with 100 years successful banking history. Similarly, Nepal SBI Bank is also one of the well-running commercial bank in Nepal established in the year 2050 BS with a joint venture between Nepali promoter and State bank of India.

This study has tried to cover the various aspects of Budgeting and profit planning in the bank from the time of its latest seven fiscal years. This study is focused on the profit planning of those two commercial banks. It primarily focused on how commercial banks have planned their profit in order to maximize their return. The general objective of this study is to analyze the profit planning of commercial banks in Nepal.

The study is based on secondary as well as primary data. So various books, annual reports of the banks, NRB are the secondary sources of data official websites of the concerned companies have also been used for the collection of secondary data. Likewise, primary data have been collected through informal talk with concerned staffs of the banks. Collected data are presented in tabular and various diagrams form and are in a logical way.

5.2 Conclusions

The effectiveness of intermediation role played by the banking sector ultimately contributes to the economic development of a country. No doubt, the monetary and regulatory measure adopted by central banks to regulate and supervise the banks and financial institutions determine the extent of banking sector development. The trend thus far has been towards a more open and liberal policies that help the banking sector to grow and flourish. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments. Banking is no longer a national phenomenon. Now the banking business has crossed more risks and challenges to the regulatory framework in the SAARC countries and this call the needs for harmonization for banking policies to manage the banking business in this globalize world.

The banks have high resources mobilization in the both banks during the study period. Comparatively the EBL has good growth rate having than Nepal SBI. Both banks management policy is very strong. It keep minimum number of Employees & highly qualified for maintain the job. Both banks are provides 24 hours services and ATM services for the consumers.

The budgeted and actual deposits have highly perfect positive correlation in both the banks. Customer deposit collection is the main resources mobilization of the banks. Loan, allowance and bill purchasing hold the highest outlet of resources deployment. Deployment for liquidity of EBL is fluctuated increased for the whole period. It is increasing for first, third and fifth year .similarly, decreasing for second, fourth and sixth year. Deployment for liquidity of NEPAL SBI is negative for first, third and fifth year and positive for second, fourth and sixth year. It shows the fluctuated liquidity of NEPAL SBI .At the last year the increasing of liquidity is more than hundred percent. LABP of both banks has increasing trend for a whole study period and NLABP of both banks has increasing except in the FY 2006/07of NEPAL SBI. Average rate of NLABP of EBL is better than NEPAL SBI. Interest expenses amount is the highest among total expenses items of the bank every year interest expenses of the bank is found increasing each year corresponding to the increase in deposit of both banks. So interest expenses are positively correlation with deposit of EBL and NEPAL SBI. Interest income amount of both banks are the highest among other income in the total revenue. The average yield on LABP of both banks is 9.08 percent and 9.66 percent, EBL and NEPAL SBI respectively. The interest spread of the banks found to be increasing every year.

Net burden of both banks are increasing for whole study period except the FY 2006/07 of EBL has decreasing net burden. In average EBL has better position than NEPAL SBI.Net profit of both banks has increasing trend. EBL has high amount of profit then NEPAL SBI. The average current ratio of both banks have found to be always lower than standard ratio of 2:1, which shows dissatisfactory liquidity position of both banks. The mean ratio of debt equity of EBL is lower than that of NEPAL SBI. The average Shareholder equity of the banks are 29.43 times and 14.83 times of EBL & NEPAL SBI respectively.Net profit to assets shows the bank’s ability to earn a rate of return on the total assets invested. Both the banks have satisfactory return on assets ratio. Both banks have high net profit to total deposit ratio and average of 2.18 percent and 1.27 percent of EBL and NEPAL SBI. The mean ratio of return on loan and advance of EBL is greater than that of NEPAL SBI. Trend analysis of total deposit and loan & advance of both banks are increasing every year. EBL increasing rate is higher than NEPAL SBI.

5.3 Recommendations

One the basis of analysis and finding of this study following suggestion and recommendation can be advanced to overcome weakness, inefficiency and satisfactory improvement policy of EBL and NEPAL SBIL.

- Level wise specific job description and responsibility assignment should be maintained clearly in both banks.
- Banks management should adopt the policy of appropriate authority delegation at all
- Employee training at advance level should be given more focus in order to keep manpower updated with the changing practice and the technologies.
- It is suggested to the Banks to form a specific planning and research department, which shall be responsible for developing new innovative products, further development and up gradation of existing products, which in turn ensure better profitable business for the bank.
- Objectives of both banks should be clearly defined in order to avoid the risk of it being misinterpreted.
- The deposit collections of both the banks are increasing over the period but the collection of NEPAL SBIL is not satisfactory in comparison with EBL. So, it is recommended to NEPAL SBI to collect more amounts as deposit through large variety of deposit scheme and facilities, like cumulative deposit scheme, gift cheques recurring deposit scheme (life insurance), and monthly interest income. The minimum amount needed to open on account should be minimized so that it will attract other small deposits.
- The average cost of deposit of NEPAL SBIL is high than EBL. Therefore NEPAL SBIL should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost because due to high cost of deposit, bank is forced to invest its fund more on high yield assets, which are generally not liquid and obviously risky for the bank.

- Correlation between interest expenses and deposit of EBL is highly positive, it shows there is sound relation between interest expenses and deposit.EBL has to continue this trend.
- Expenses cannot be avoided and always are growing with increasing activities, but it should be optimized and should be related with income generating activities. The expense of EBL is higher than that of NEPAL SBI but the growth of resource mobilization of NEPAL SBIL is higher. It can be suggested that, both the bank should minimize these expenses, which are not related to income generating.
- The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e. spread) not to exceed 5 percent. Therefore the banks have to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.
- The liquidity positions in terms of current ratio of both banks are below normal standard. So both banks should increase current assets by investing in government securities not only in long term loan.
- Net profit of the EBL is higher than NEPAL SBIL during the study period. The profit planning of both banks are satisfactory. So, it can be suggested for both the banks that they should decrease burden to achieve higher net profit.
- Profitability position of EBL in term of net profit to total assets, net profit to shareholder equity and net profit it to loan & advance are better than NEPAL SBIL. In term of average net profit to total deposit is near about it. Here comparatively, EBL has better profitability position. However, both the banks are not in satisfactory level. So both the banks are required to utilize the resources more efficiently for profit generating sector.
- In banking history, there are many difficulties in the recovery of loan and advances and their large amount of loan is blocked as non- performing assets and which some time reduce income. So, it is essential to exercise a suitable mechanism through which the overdue loan can be recovered within time. To fulfill this purpose both banks are suggested to launch the special loan recovery package continuously.

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Appendix-1

Calculation of correlation coefficient and standard deviation of Actual and Budgeted deposit of EBL

Let, U=(X-170000)/1000 and V=(Y-200000)/1000

Column1	Budgeted X	Actual Y	U	V	U^2	V^2	UV
2004/05	84500	100977	-85.5	-99.023	7310.25	9805.55	8466.47
2005/06	122000	138024	-48	-61.976	2304	3841.02	2974.85
2006/07	168400	181862	-1.6	-18.138	2.56	328.99	29.02
2007/08	204000	239763	34	39.763	1156	1581.10	1351.94
2008/09	250800	333229	80.8	133.229	6528.64	17749.97	10764.90
2009/10	340600	369323	170.6	169.323	29104.36	28670.28	28886.50
2010/11	380500	411279	210.5	211.279	44310.25	44638.82	44474.23
	1550800	1774457	360.8	374.45	90716.06	106615.7	96947.91

Here, $\sum U=360.8, \sum V=374.45, \sum U^2=90716.06, \sum V^2=76223.96, \sum UV=63872.66$

$$r = \frac{n\sum U'V' - \sum U'\sum V'}{\sqrt{n\sum U'^2 - (\sum U')^2}\sqrt{n\sum V'^2 - (\sum V')^2}}$$

$$r = \frac{7 \times 90716.06 - 360.8 \times 374.45}{\sqrt{7 \times 90716.06 - 360.8^2}\sqrt{7 \times 106615.7 - 374.45^2}}$$

$$r = \frac{499910.86}{710.52 \times 778.52}$$

$$r = .9037$$

Standard deviation of actual and budgeted deposit

$$S.D(\sigma) = \sqrt{\frac{\sum U'^2}{n} - \left(\frac{\sum U'}{n}\right)^2} \times h$$

and $$S.D(\sigma) = \sqrt{\frac{\sum V'^2}{n} - \left(\frac{\sum V'}{n}\right)^2} \times h$$

Budgeted $$S.D(\sigma) = \sqrt{\frac{90716.06}{7} - \left(\frac{360.8}{7}\right)^2} \times 100$$

=88718.7

Actual $S.D(\sigma) = \sqrt{\frac{106615.7}{7} - \left(\frac{374.45}{7}\right)^2} \times 1000$

=88718.7

APPENDIX-2

Calculation of correlation coefficient and standard deviation of Actual and Budgeted deposit of Nepal SBI

Let, U=(X-140000)/1000 and V=(Y-160000)/1000

Year	Budgeted X	Actual Y	U	V	U^2	V^2	UV
2004/05	75800	86548	-78.14	-88.02	6105.55	7746.94	6877.45
2005/06	96456	110020	-64.2	-73.45	4121.64	5395.32	4715.67
2006/07	111456	114453	-43.54	-49.98	1896.08	2497.96	2176.31
2007/08	131144	137154	-28.54	-45.55	814.76	2074.53	1300.09
2008/09	214320	279572	-8.86	-22.85	78.43	521.94	202.32
2009/10	295732	348964	74.23	119.57	5510.09	14297.51	8875.85
2010/11	354580	424154	155.73	188.96	24252.46	35707.48	29427.78
	986680	1148694	6.68	28.69418	42779	68241.7	53575.48

$\sum U=6.68, \sum V=26.69, \sum U^2=42779, \sum V^2=68241.7, \sum UV=53575.48$

$$S.D(\sigma) = \sqrt{\frac{\sum V'^2}{n} - \left(\frac{\sum V'}{n}\right)^2} \times h$$

$$r = \frac{7 \times 53575.48 - 6.68 \times 28.69}{\sqrt{7 \times 42779 - 6.68^2}\sqrt{7 \times 68241.7 - 28.69^2}}$$

$$r = \frac{374822.56}{377845.98}$$

$$r = 0.9920$$

Standard deviation of actual and budgeted deposit

$$S.D(\sigma) = \sqrt{\frac{\Sigma U'^2}{n} - \left(\frac{\Sigma U'}{n}\right)^2} \times h$$ and

$$S.D(\sigma) = \sqrt{\frac{\Sigma V'^2}{n} - \left(\frac{\Sigma V'}{n}\right)^2} \times h$$

Budgeted $S.D(\sigma) = \sqrt{\frac{42776.63}{7} - \left(\frac{6.69}{7}\right)^2} \times 1000$

=78166.7

Actual $S.D(\sigma) = \sqrt{\frac{68240.21}{7} - \left(\frac{28.68}{7}\right)^2} \times 1000$

=88718.

Appendix-3

Calculation of S.D and correlation of EBL

Column1	**Deposit X**	**Interest expenses Y**	**U'**	**V'**	**U'²**	**V'²**	**U'V'**
2004/05	80639	3164	-119.36	-33.36	14247.0483	1112.89	3981.883
2005/06	100977	2996	-99.02	-35.04	9805.55453	1227.802	3469.766
2006/07	138024	4014	-61.98	-24.86	3841.02458	618.0196	1540.723
2007/08	181862	5172	-18.14	-13.28	328.987044	176.3584	240.8726
2008/09	239763	6326	39.76	-1.74	1581.09617	3.0276	-69.1876
2009/10	333229	10129	133.23	36.29	17749.9664	1316.964	4834.88
2010/11	369323	15728	169.32	92.28	28670.2783	8515.598	15625.13
	1443817	47529	43.817	20.29	76223.9554	12970.66	29624.06

Let , $U' = \frac{X - 200000}{1000}$, $V' = \frac{Y - 6500}{100}$

Standard deviation of deposit and interest expenses

$$S.D(\sigma) = \sqrt{\frac{\Sigma U'^2}{n} - \left(\frac{\Sigma U'}{n}\right)^2} \times h$$ and

$$S.D(\sigma) = \sqrt{\frac{\Sigma V'^2}{n} - \left(\frac{\Sigma V'}{n}\right)^2} \times h$$

Deposit

$$S.D(\sigma) = \sqrt{\frac{76223.9554}{7} - \left(\frac{43.817}{7}\right)^2} \times 1000$$

=104169.28

Interest expenses

$$S.D(\sigma) = \sqrt{\frac{12970.66}{7} - \left(\frac{20.29}{7}\right)^2} \times 100$$

=4294.82

Correlation coefficient between deposit and interest expenses

$$r = \frac{n\sum U'V' - \sum U'\sum V'}{\sqrt{n\sum U'^2 - (\sum U')^2}\sqrt{n\sum V'^2 - (\sum V')^2}}$$

$$r = \frac{7(29624.06) - (43.817 \times 20.29)}{\sqrt{7(76223.95) - (43.817)^2}\sqrt{7(12970.66) - (20.29)^2}}$$

=0.9342

Probable error (P.E) =0.6745× $\frac{1 - r^2}{\sqrt{n}}$

=0.6745× $\frac{1 - (0.9342)^2}{\sqrt{7}}$

=0.0324

Calculation of standard deviation and correlation of Nepal SBI

Column1	**Deposit X**	**Interest expenses y**	**U'**	**V'**	**U'²**	**V'²**	**U'V'**
2004/05	71983.27	2559	-128.0	-39.41	16388.28	1553.15	5045.14
2005/06	86547.74	2584	-113.5	-39.16	12871.42	1533.51	4442.79
2006/07	110020.41	3348	-90.0	-31.52	8096.33	993.51	2836.16
2007/08	114452.86	4123	-85.5	-23.77	7318.31	565.01	2033.46
2008/09	137153.95	4549	-62.8	-19.51	3949.63	380.64	1226.13
2009/10	279572.21	8247	79.6	17.47	6331.74	305.20	1390.13
2010/11	348964.24	14437	149.0	79.37	22190.34	6299.60	11823.29
	1148694.68	39847.00	-251.31	-56.53	77146.05	11630.61	28797.09

Standard deviation of deposit and interest expenses

$$S.D(\sigma) = \sqrt{\frac{\Sigma U'^2}{n} - \left(\frac{\Sigma U'}{n}\right)^2} \times h$$ and

$$S.D(\sigma) = \sqrt{\frac{\Sigma V'^2}{n} - \left(\frac{\Sigma V'}{n}\right)^2} \times h$$

Deposit

$$S.D(\sigma) = \sqrt{\frac{77146.05}{7} - \left(\frac{-251.31}{7}\right)^2} \times 1000$$

=98650.64

Interest expenses

$$S.D(\sigma) = \sqrt{\frac{11630.62}{7} - \left(\frac{-250.21}{7}\right)^2} \times 100$$

Correlation coefficient between deposit and interest expenses

$$r = \frac{n\sum U'V' - \sum U'\sum V'}{\sqrt{n\sum U'^2 - (\sum U')^2}\sqrt{n\sum V'^2 - (\sum V')^2}}$$

$$r = \frac{7(30921.55) - (-762.18 \times -250.21)}{\sqrt{7(11630.62) - (250.21)^2}\sqrt{7(93856.18) - (762.18)^2}}$$

= 0.6806

Probable error (P.E) =0.6745× $\frac{1 - r^2}{\sqrt{n}}$

Appendix -4

Trend value of Total Deposit of Nepal EBL

Year	Deposit Y	Year 2007 (X)	X^2	XY
2005	80639	-3	9	-241917
2006	100977	-2	4	-201954
2007	138024	-1	1	-138024
2008	181862	0	0	0
2009	239763	1	1	239763
2010	333229	2	4	666458
2011	369323	3	9	1107969
	1443817	0	28	1432295

Here

Trend equation is $y_c = a + b$

$a = \frac{\Sigma Y}{7} = \frac{1443817}{7}$ =206259.57

$b = \frac{\Sigma XY}{X^2} = \frac{1432295}{28}$ =51153.39

Now, substituting the value of ‘a ‘and ‘b’ respectively,

$y_c = 206259.57 + 51153.39x$

Now, the trend value of coming year is:

Year 2011 =410873.13

2012 =402026.52

2013 =513179.91

2014 =564333.30

2015 =615486.69

Trend value of Total Deposit of Nepal SBI

year	deposit y	X year 2007	x^2	xy	TV
2005	71983.27	-3	9	-215949.8	30800.09
2006	86547.74	-2	4	-173095.5	75233.14
2007	110020.4	-1	1	-110020.4	119666.2
2008	114452.9	0	0	0	0
2009	137154	1	1	137153.95	208532.3
2010	279572.2	2	4	559144.42	252965.3
2011	348964.2	3	9	1046892.7	297398.4
	1148695	0	28	1244125.4	984595.4

Here,

Tread equation is $y_c = a + bx$

Now, a= $\frac{\Sigma xy}{n} = \frac{1148694.68}{7} = 164099.24$

And b = $\frac{\Sigma xy}{x^2} = \frac{1244125.39}{28} = 44433.05$

Now, substituting value of 'a' and 'b'

We have, $y_c =$ 164099.24+44433.05

Year 2011 =341831.44

2012 =386264.49

2013 =430697.54

2014 =475130.59

2015 =519563.64

Appendix -5

Trend value of net profit of EBL

Year	Net profit(Y)	x=Year -2007	X^2	XY
2005	3221.12	-3	9	-4278
2006	4073.4	-2	4	-3364.28
2007	5176.03	-1	1	-2372.9
2008	7614.67	0	0	0
2009	9882.93	1	1	7245.55
2010	13195	2	4	12774.64
2011	5304	3	9	26452.95
	48467.15	0	28	36457.96

Here,

Tread equation is $y_c = a + bx$

Now, a= $\frac{\sum y}{n} = \frac{32933.35}{7} = 4704.76$ and

b = $\frac{\sum xy}{x^2} = \frac{36457.96}{28} = 1248.47$

Now, substituting value of ‘a’ and ‘b’

We have, $y_c = 4704.76 + 1248.47X$

Year 2011=9627.17

2012=10875.64

2013=12124.1

2014=13372.58

2015=14621.05

Trend value of net profit of Nepal SBI

Year	Net profit(Y)	x=Year -2007	X^2	XY
2005	2406.47	-3	9	-1825.56
2006	2818.22	-2	4	-1147.74
2007	3112.9	-1	1	-1170.02
2008	3827.78	0	0	0
2009	4905.31	1	1	2477.71
2010	5349.4	2	4	6327.46
2011	7206	3	9	11752.26
	29626.08	0	28	16414.11

Here,

Tread equation is $y_c = a + bx$

Now, a= $\frac{\Sigma y}{n} = \frac{14460.36}{7} = 2065.77$ and

b = $\frac{\Sigma xy}{x^2} = \frac{16414.11}{28} = 586.22$

Now, substituting value of ‘a’ and ‘b’

We have, $y_c = 2065.77 + 586.22X$

For Year 2011=4410.65

2012=4996.87

2013=5583.09

2014=6169.31

2015=6755.53

Appendix -6

Trend analysis of loan and advance of EBL

Year	loan and advance(Y)	x=Year -2007	X^2	XY
2007	98013	-2	4	-196026
2008	136641	-1	1	-136641
2009	183391	0	0	0
2010	238846	1	1	238846
2011	275563	2	4	551126
	932454	0	10	457305

Tread equation is $y_c = a + bx$

Now, a= $\frac{\Sigma y}{n} = \frac{932454}{7} =$ 133207.7 and

b = $\frac{\sum xy}{x^2} = \frac{457305}{28} =$ 45730.5

Now, substituting value of 'a' and 'b'

We have, $y_c = 133207.7 + 45730.5X$

For Year 2011=2703985.5

2012=316129

2013=361859.5

2014=407590

2015=453320.5

Trend analysis of loan and advance of Nepal SBI

Year	loan and advance(Y)	x=Year -2007	X^2	XY
2007	76267	-2	4	-152534
2008	94604	-1	1	-94604
2009	121136	0	0	0
2010	151317	1	1	151317
2011	174804	2	4	349608
	618128	0	10	253787

Now,

a= $\frac{\Sigma y}{n} = \frac{618128}{7} = 123625.6$ and

b = $\frac{\sum xy}{x^2} = \frac{253787}{28} = 25378.7$

Now, substituting value of ‘a’ and ‘b’

We have, $y_c = 123625.6 + 25378.7X$

For Year 2011=199761.7

2012=225140.5

2013=250519.1

2014=275897.8

2015=301276.5