

Chapter - One

INTRODUCTION

1.1 Background of the Study

The excess income over expenditure is called profit. The word profit is brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:925). The concept of profit is not new but the concept of profit planning and control is need word is business literature. It can be defined profit planning and control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long - term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So, we can conclude profit planning and control is as an organized and formal approach for realize the planning. Synchronization and control responsibilities of management which provides guidelines to the overall managerial task. Sound controlled profit planning and control programs facilitate the management to keep a level of profits which will make certain the continuation of the business and the accomplishment of organization responsibilities. "Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will at different level of operational and it include a study of the resultant effect due to this hanging relationship between volume and cost' (Young Dong, 2001:74) "A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect or in prospect of time. It is established against which actual accomplishment is regularly compared' (Niel, 2001:305)

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

Himalayan Bank Limited (HBL.) is one of the leading commercial banks of Nepal. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector, Himalayan Bank's head office is located in tourist center of city, Thamel. The bank act present has fifteen (15) branches in kathmandu valley. New Road Maharajgunj, Pulchowk, Teku, Nagarkot, Chabahil, Swoyanbhu, Dillibazar, Kalanki, New Banashwor, Battisputalli, Satodobato, Bhaktupur, Thamel and patan besides twenty two branches outside kathmandu respectively in Hetauda, Bhairahawa, Birgunj, Bharapur, Tandi, Biratnagar, Banepa, Pokhara, Butwal, Nepalgunj, Ithari, Palpa, Ghorahi, Dhading, Trishuli, Dmak, Baglung, Parsa, Dhangadi, Gordha, Barahabise and Kawasoti. The bank has very aggressive plan of establishing more branches in different parts of the country in the hear future.

Himalayan Bank Limited (HBL) has just cerebrated its eighteenth anniversary since January 18, 2011. During last fourteen years, the bank has confronted various banking scenarios, which is every changing. The bank has been a pioneer in several banking innovations. "Banking with a difference" has been the slogan and this has truly been implemented when it come to serving the valued customers keeping in view. Their comfort, time and effort.

Himalayan Bank Limited's policy is to extend quality and personalize service to its customers as promptly as possible. All customers are treated with courtesy as valued clients. The bank as for as possible, offers tailor made facilities to its clients to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

1.1.1 Nepalese Economy Current Macroeconomic Condition

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 1,47,981 sq. km. and only about 27 percentage of the total land area is under cultivation. Ecologically this country is divided into three regions: I) The Terai Region II) The Himalayan Region. III) The Mountain Region and politically divided into five development regions fourteen zones and seventy five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is significant. The commercialization of the agriculture activities has not yet taken place.

There is a will gap in the distribution of agricultural land. Most of the farmers are landless and the major portion of the land is in the hands of few landlords..

The share of manufacturing sector in the total GDP is 10 percent. The government of Nepal (previously called his majesty's government) has initiated liberal, open and market oriented economic policy since 1990s, immediately after the restoration of the democracy. The deteriorating law and order situation, political instability in the country in the past few years has adversely affected the country's economy. The government is required to make huge investment to develop the sufficient infrastructures like roads, powers, health and higher education etc. in order to make a favourable investment climate in the country. Because of the political unrest, Nepal has been facing very difficult situation. After a decade of insurgency, how the situation seems to be improved and business sectors seems to be much hopeful about the economic growth. Most of the Nepalese are depends on the traditional agricultural sector and the population skill reside in the rural area being engaged in agriculture related survival economic activities. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructures , inadequate human and financial resources, has locked position of the country, the political instability and the geography of the country.

1.2.2 Meaning and importance of financial institutions

"Financial institution" means an institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits. From the general public and the word also includes an institution prescribes as financial institution by government of Nepal by publishing notice in the Nepal Gazette. (NRB, Act. 2002). " Banking institution is inevitable for resource mobilization and all - round development of the country. It is resources for economic development; it maintains economic of various segments and extends credit to people" (Orryuhni, 1993-87).

Bank is most important financial intermediaries which accept the deposits from public and mobilize them in the productive sectors. Banks are the principal source of credit to household: individuals and family business all forms and local units of government. Financial intermediation is advanced to other forms of financing because it fulfills expectations of both savers and users it is the most popular form of moving excessive money from savers to users.

Among all financial intermediaries commercial bank is the most leading one. "A bank is an organization whose major function is concerns with the collection of the provisionally the money of general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while 'Financial institutions' are authorized to do limited transactions only' (Dhal and dhal, 2002:7).

1.1.3 Major Financial Policy of Nepal

The financial sector policies in the least developed countries have undergone drastic change during the last three decades and Nepal is not an exception. The elimination of credit control, deregulation of interest and exchange rate, easy entry of banks and financial institutions into the financial system privatization of financial and non financial banking policy, credit policy and the interest rate policy are the major financial policies. The NRB has a major role to play in the formulation, implementation monitoring and supervision of such policies.

A Monetary Policy

Nepal Rastra Baml began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash reserve ratio. In the 1970's liquidity requirement, credit limits, ceiling and directed credit programmers were introduced. Open market operation evolved only in the 1990's with policy shift from direct to indirect monetary control. Effective exercises of cash and credit policies have been fostering growth, generating employment, and addressing poverty, containing prices, promoting external trade, and attaining healthy balance of payment of the country. The NRB is the apex body assigned the task of designing and operating monetary policy. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output. So, the monetary policy purports to limit prices by disallowing money to increase in excess of desire demand for it. NRB has published its monetary policy for the fiscal year 2011/012. The few main features of new monetary policy are as follows:

- Primarily focused towards curbing acceleration in the pace of inflation.
- Economic growth targeted at 55 % on the basis of budget of 2011/012.
- Average inflation based on consumer price index estimated to be 6.5% compares to that of 7 % in 2011/012.

- Maintaining financial sector stability and to increase the financial intermediation.
- Addressing the fluctuation in short - term interest rates and the risks through open market operations.
- Maximum usage of the financial resources by the private sector.

B Banking policy

The NRB has issued its new licensing policy for the establishment of commercial banks on 1st Shrawan 2063. The main provisions contained in the new licensing policy are as follows:

- Change in minimum capital requirement of the financial institutions while starting the financial institutions.
- List of documents to be presented for carrying out the financial transaction in Nepal.
- Minimum requirements of the directors and promoters.
- Commitment by the prospective directors of the proposed financial institutions with Nepal. Rastra Bank for compliance of the entire rules and regulation formed by Nepal Rastra Bank.
- Probable conditions where NRB may reject the application for establishment of the financial institution.
- Provisions regarding the expansion of business of the financial institutions.
- Provisions regarding the preliminary expenses.
- Formats of the applications and commitments.

C. Credit Policy

Often monetary policy and credit policy are interpreted in the same way. Nepal Rastra Bank has also been exerting monetary and credit policies through the same manner. But monetary and credit policies are not exactly the same. Monetary policy is defines as a policy affecting change in the quantity of money while credit policy is defined as a policy affecting the cost, availability and the allocation of credit. Money differs from credit because money to the liability of the banking system whereas credit is an asset. In the past, NRB has introduced the priority sector lending programmed. Under this programmed all the banks were required to extend certain percentage of their lending to the prescribed priority sector. However, this priority sector lending requirement is now phased out. With an objective of minimizing the concentration of the credit risk, the NRB has prescribed the single borrower limit for fund

based as well as non-fund based. The maximum amount of fund based as well as non-fund based lending to a single borrower has been limited with the core capital of the institution.

D. Interest Rate Policy

Interest is paid for the sacrifice made by the income holder by differing consumption for the time being and importing with liquidity and to reward the income holder for making savings. There exists a wide array of interest rate in the economy. This is either because of wider varieties of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with money supply and credit. In the process of financial system liberalization, initiatives to deregulate interest rate structure in Nepal were taken since Mid 1980s. The complete liberalization of the instructor, however, took place in 1989 only whereby the commercial banks were set free to determine the deposit and lending rates. However, the existing number of commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market. Informal market rate for borrowing are much higher than the formal market rates. One noteworthy situation of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by the Nepal Rastra Bank. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities. (Source of financial policy is: risibility study report of purposes civil Development banks, 2008 : 27).

1.1.4 Development of Banks

"The history of bank started from the merchants, goldsmith and money lenders they are called ancestors of modern banking. Before 1848 Gold was used to store people's gold and other valuable goods and charges against the deposit, that time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848/BC (Paul, 1996:12. The bank means institute, which deals with money. A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Broadly speaking banks collect surplus money from the people who are not using it at present and hoarding for the future and supply loan to who are in the position to use it for productive purpose, basically banks perform various types

of service i.e. collection of deposits from the public supply loans to toes investors who want to invest in business industry and other sectors, overdraft, letter of credit, bills discounting, promissory notes, merchant banking, agency function of tasks guarantee against any disable of payment remittance services etc. Nowadays banking sector is involving in the planning and construction of land housing. The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal Bank ltd as a first commercial bank in Nepal. The banks was established to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank; it plays the role of central banks also with the establishment of NRB 1955. The new Nepal Rastra bank act was brought out in 2002 by replacing the previous act of 1955. This new act was brought out in 2002 by replacing the previous act of 1955. This new Act has provided operational auto my and independence to the banks. Then after government of Nepal and NRB has establishment the Nepal Industrial Development Corporation (NIDC) capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of government of Nepal and Agriculture Development Banks Act, 1967 by incorporating the assets and liabilities of the co-operative bank (Sharma, 2002 : 3).

Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 sat out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. It the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Government of Nepal emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further, deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. The Nepal Arab Bank (NABIL). Limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal indorses Banks ltd. (now Nepal investment bank limited) and Nepal Grindlays Bank Ltd. (Now standard character Bank Ltd) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the

people of different walk as of life, they have become an essential part of modern society. Life without a bank is it brick bank or click bank (internet banking, is beyond imagination Dahal and Dahal 2002 : 7).

1.2 Profile of HBL

Himalayan bank was established in 1993 in joint venture with habit bank limited of Pakistan. Despite the cut-throat competition in the Nepalese banking sector. Himalayan Bank has been able to maintain a lead in the primary banking activities loans and deposits.

Legacy of Himalayan lives on in institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as premium saving account, HBL proprietary card and Millionaire deposited scheme besides services such as ATMS and Tel-bancial institutions in the country have been following its lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our customers besides modernizing the banding sector. With the highest deposit base and loan protiofllo amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal.

All branches of HBL are integrated into Globes (developed by tremens), the single banking software where the bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facilities. Internet Banking and SMS Banking. Living up to the expectations and aspirations of the customers and other staholders of being innovative, HBL very recently introduced several new products and services. Millional deposit scheme, small business enterprises loan, pre-paid visa card, international travel auota credit card, consumer finance through credit card and olive TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management system. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software. Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling bank in Nepal. All this only reflects that HBL has and outside in rather than inside out approach where customer's needs and wants and first.

1.3 Statement of the Problems

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 financial institutions, as a 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 different interest income 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-fund based business activities of the bank.

The present study aims to analyze and examines the application of PPC tool in the commercial banks taking a case of Himalayan Bank Limited (HBL). Furthermore the study has tried to answer the following research questions.

- What is the solve current problems of merger and acquisition's strategy development of HBL and other Bank in the condition?
- Does Himalayan Bank Limited have appropriate profit planning system?
- What is the gap between budgeted and actual performance?
- Does the bank mobilize the deposit and other resources optimally?
- What is the trend of overall performance of Himalayan Bank Limited?

1.4 Rational of the Study

Achievement of objective in every organization depends on the application of available resources most effectively. Mobilization of internal resources is one of the key factors in economic and social development of a country. Financial institutions are the major players in this field. The more healthy banking practice in an economy, the better becomes the economic development. The research study is connected with the profit planning in commercial banks with a case study of Himalayan Bank limited (HBL), with the major objective of examining the proper applicability of profit planning system in the bank. Profit

planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources.

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

Other research study may be useful for those who want to know PPC in the Himalayan Bank limited (HBL). It may also helpful for future researchers as a reference material. Profit planning is the most useful technique for the analysis the profitability and its performance. Hence, this study provides the guideline for the technique of profit planning.

1.5 Objective of the Study

This study is mainly concerned with budgeting system of Himalayan Bank limited (HBL). The fundamental objective of this study is to assess the budgeting system of Himalayan Bank Limited (HBL). To study the application of comprehensive PPC system in Himalayan Bank Limited (HBL). Apart from this following are the objectives of the study:

- To focus the current profit planning adopted and its effectiveness in Himalayan Bank Limited.
- To study the of budgeted and actual achievements.
- To 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.

1.6 Limitations of the Study

This study is focused on profit planning of Himalayan bank limited (HBL). So, it believes the past "patterns" and "trends" of bank report will reel in the future and can therefore be used for prediction purpose. Nothing is out from the limitation this study also is not an exception. Here researcher has tried to eliminate as for as possible yet here are some limitations these are as follows:

-) The study focuses on profit planning and application in Himalayan bank limited.
-) Since, the report is preparer in short time based on secondary data and some published sources, the outcome of the study may not be exactly this study covers the related date of the bank from FY 2003 to 2010.

-) In this study, the sample of Himalayan Bank Limited is selected among all the commercial banks. But these may not represent the character of financial institutions.
-) This study is analysis with help of financial tools and few statistical tools.
-) This study is means only for the fulfillment of requirement master of business studies (MBS)
-) As detailed analysis and presentation requires enough time and high cost but due to financial and time constraint, this study could not use all the theory of profit planning.

1.7 Organization of the Study

The whole study is divided into five chapters, which includes:

Chapter - I - Introduction

Chapter - II - Review of Literature

Chapter - III- Research Methodology

Chapter - IV- Data presentation and Analysis.

Chapter - V- Summary, conclusion and Recommendations

Chapter - One : Introduction

The first chapter deals with introduction. This includes Background of the study, Nepalese economy current macroeconomic situation, important of problems, objectives of the study, profile of Himalayan Bank limited (HBL), Rational of the study, limitations of the study, organization of the study.

Chapter Two : Review of Literature

Second chapter deals with the review of available literature. It includes review of books, reports, journals, previous unpublished thesis related websites etc.

Chapter Three : Research Mythology

Third chapter explains the research mythology used in the study which includes research design resource of data, population and samples, methods of data analysis.

Chapter Four : Data Presentation and Analysis

The fourth chapter, which is the important chapter of the study, has been included presentation and analysis of data.

Chapter Five : Summary, Conclusion and Recommendations

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestion of the study. A bibliography and appendices have been attached at the end of the study.

Chapter - Two

REVIEW OF LITERATURE

2.1 Introduction

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

2.2 Concept of Commercial Bank

Meaning of 'Bank' in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheques. According to commercial bank Act 2031 "Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs specially established with the objectives of co-operative, agricultural, industrial or any other of such' and of specified purpose" (Commercial bank Act 2031)

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 the reasearher can bring to a close that a commercial bank it set up to collect spread funds and employ them to creative sector.

2.2.1 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 gazlte on 2063/7/19 B.S.

2.2.2 Existing Scenario of Banking Sector

As mention in previous section, there are commercial banks presently ion operation. Commercial are registered in NRB and they are coming shortly in operation. Among these banks some are established under joint venture with foreign bank while some are fully domestic bank. Out of total commercial banks, commercial banks are with foreign joint venture rest of all are fully domestic banks. Capital structure of banks: The current regulation of NRB prescribe that all the new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital billon, the existing banks in operation are required to enhance the capital level to Rs billon by the end of F/Y 2065/066 B.S. for this purpose and objective all the commercial banks have furbished their plans to enhance the level of capital according. In the mean time, there are separate provisions on capital requirements outside the Kathmandu. Banks under foreign participation: All together nine banks were established under foreign participation is NABIL, standard charade, 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 37.34 percent of total banking assest. The deposits and credits are still of greater proportion. Foreign joint venture banks possess 39.65 percent of total deposits and 38.45 percent credit of their banking system (www.bankinginnepal.com.np)

2.2.3 Domestic Legal Provisions Regarding Banking Sector.

Nepal Rastra Bank Act, 2002 has given full authority to 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 bank 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 as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 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 bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution. If the issuance of license for operation 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.bankinginnepal.com.np)

The NRB will classify the institutions into A,B,C,D, groups on the basis of the minimum paid up capital and provide the suitable license to increase its authorized issued and paid up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets, and other transaction. At the same time the license holder entity must maintain 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 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 issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this ordinance to carry on the financial transaction of the license holder under the certain circumstances as stipulated in the ordinance.

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

2.2.4 Existing Rules and Regulations Relating to the Commercial Banks.

a) Paid up capital

1. A commercial bank of national level, the paid up capital of such bank must be at Rs 1000 million.
2. To have an office in Kathmandu, the bank is required to have either a 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 a maximum of 75% share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepal 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 Nepal processes prescribed by the prevalent Nepal laws.
5. Among total committed share capital, the promoters have 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 bank comes in to

operation. Normally, with 4 months from the date of filling of the application, NRB should give its 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 concerned body. Banks that are already in operation and those who have already obtained letter of intent before the enforcement of these provisions have to bring their capital level within seven years. i.e., by 16 July 2009 as per this recently declared provision. In order to increase in the capital such increase should be at a rate of 10 percent per annum at the minimum.

6. To establish the commercial banks in all the places in the kingdom other than in the Kathmandu valley the paid up capital must be the Kathmandu valley the paid up capital must be Rs. 250 million. In the case, the commercial banks to be established outside Kathmandu valley, share investment of promoters and general public should stand at 70 percent and 30 percent respectively.(www.bankingnepal.com.np)

b) Promoter Qualifications at sale of share

1. Action on the promoter Qualifications at sale of share. 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, which 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 license issuance if the above events are proved.
2. Out of the total promoters, one third should be its chartered accounts or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, bank or statistics. Likewise, at least 25 percent of promoters group should have the work experience of the banks 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 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 time 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 institutions. 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 dependent brother and sister,
(www.bankingnepal.com.np)

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

2.2.5 Impact of National and International Situation on Commercial Bank

Despite the current⁵ political instability in the country, the total flow of domestic credit has increased during the year. This is mainly because of substantial growth of credit flow to government and non - financial government corporations like NOC, RNAC. And national trading etc. However, the prolonged conflict in the economy has started taking its toll on the private sector. The delay in peace process, the current security condition, and the significant imbalance in the political situation of the country have opened up few doors for new investment opportunities. On the one hand, private sector credit is steadily declining and on the other what little extension there is, is getting riskier. On the positive side, the living standard on Nepalese people has risen due to the direct impact of more and more Nepalese people working abroad. The Nepal Living standard survey (NLSS)- II released by the central

bureau of statistics (CBS) states that in nominal terms, average household income has grown by more than 80 percent. This is an important factor which the banks have capitalized on, as is evident from the growing competition amongst the 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 - Sectarian 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, accession to the world trade organization (WTO) would permit international banks to operate with them. In view of these, it is imperative for the bank to have its business plan and strategy accordingly (www.hbl.com.np.)

2.3 Profits Planning as a Concept

Profit planning and control is also called comprehensive budgeting managerial budgeting and budgeting only. The world 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 and 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 or responsibilities 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 and 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 cost rendition program" (Terry, 1968:245). "Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus is can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance "(Gupta, 1992:3). "Profit planning is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future" (Fremgen, 1973:12) "Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management (Welsch, Hilton and 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 substitution 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 1990). The role of profit planning and control is very important in profit oriented enterprises. Role of PPC are as follow:

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

"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 exaction of policy. And a purpose establishment 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 (Ojha K.P. 1995 : 132).

2.4 Mechanism of Profit Planning

2.4.1 Profit as a Concept

Profit is excess income over expenditure. Profit is a basic element of profit planning 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 and 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 stock holder is profit so organization always wants to maximization of profit. Performance of management of organization is by measured by profit and loss. Survivability and sustainability of enterprises depends on profit. (Ojha K.P. 1995 : 133)

2.4.2 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 board 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 yeas is process that involves managerial decision and ideally a high level of management participation" (Welsch Hilto and Gordon, 2006:173). While preparing the strategic profit plan state of economy political stability population study etc. are keep in considerations. Likewise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month quarter, half year and a year. (Ojha K.P. 1995 : 135).

2.4.3 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

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 board direction that it hopes be heading in. the strategic plan will incorporate the into achievable short term goals" (Lynch 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 accomplisher" (Welsch. Hilton, Gordon 2001:45). Arrangement for doing or using something considered or worked out in advance is planning "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 or 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 power to regulate something standard of comparison for checking the result 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 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. (Khatiwada, 2010 : 47).

2.5 Budgetary Control

2.5.1 Concept of Budgeting and Budget

Budgeting is future plan and projection taking some managerial assumption. 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 the business is taking out organizations that do not plan are likely to wonder aimlessly and ultimately give way to the swirl of current events. (Khatiwada, 2010)

2.5.2 Budgeting in Profit plan

Budgeting is a tool for management control it is forward planning. It is quite pivot of any successful design of control "Budgeting is the principal tool of planning and control offered to management by accounting function" (Welsch, 1999). The primary purpose of budgeting is to help out in organized planning and in controlling the operations of business concerns. Actually budgeting is greatest sources of message and an important means in the hands of management. Since, budgeting deals with essential policies and objectives, it is prepared by top management. A formal budget by itself will not make sure that a firm's operations will be automatically run to the accomplishment of the goals set in the budget. For this to happen, the top level managers and lower level employee have to understand the goals and support them and co-ordinate their efforts to achieve them. (Khatiwada, 2010 : 49)

2.6 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 process 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 is curious about the variables which are directly and indirectly impact to the enterprises. Variables, which have a direct and significant impact on the enterprises, are called relevant various. The management defines the purpose of the enterprise; clarify the character, environmental analysis, others decisions are taken in favor of the company.
- b. Design of Goals and objectives of the enterprises: A major responsibility of management is to design the objective and goals of the enterprise. Executive management can specify or re-state this phase of the PPC process based on realistic

evaluation of the relevant variable. 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 the statement of planning guidelines is set executive management instructions.
- e. Project plan preparation and evaluation: project plans are different from periodical plan. It is a long term strategy. It is prepares and evaluated in the profit planning and 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 upcoming 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 mangers.

2.7 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, 2006:1.6).

- The profit plans based on estimates.
- Execution is not automatics.
- 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 considerations to make sure intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to plan when there are compelling business reasons" (Welsch 1998:265).

2.8 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 based 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.

2.8.1 Planning for Resources

Planning for resources is functional plan for banking sector. This is also a starting functional all the planning depends on resource planning. The major 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 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 assets portfolio is determined by the planning for deployment. Bank can utilize their fund basically in three types of investment sector like liquid assets, lower income generating assets higher income generation assets. Liquid asset 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.

2.8.2 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.

2.8.3 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. 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 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.

2.8.4 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 of 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
- 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. (Goet, Bhattarai, Gautam, 2006 : 1.6)

2.9 Application of Profit Plan in Banking Sector

Traditionally comprehensive profit planning and control was applicable only to large manufacturing and complex organization. But in the modern concept the profit planning and control is applicable non - manufacturing enterprises too, like service companies, financial institutions, hospitals, retail business, construction companies etc. the fact is that a company has peculiar circumstances or critical problem is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there may be a need for profit planning and control application. Now a day's banking sector are also curious about preparing profit plan budget. Functional budget only gives their operational plan where as PPC gives idea about profit maximization. (Goet, Bhatarai, Gautam, 2063 : 1.6)

2.10 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. (Welsch, 1999 : 265)

2.11 Review of Previous Studies

Profit planning and control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studies have been conducted for the behavior of profit planning. Regarding this various empirical studies have been conducting related area of profit planning. There are many researchers carried out by different research in this topic. The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could find some studies that have been made in this topic. Here are reviewed thesis some are manufacturing sector and some are related with financial sector which can help us to understand about their objectives, used statistical tools and major findings about this topic.

Ojha (1995) has conducted a research on "Budgeting system in public enterprises in Nepal, a comparative study of royal limited and herbs production and processing industry". His objectives and some of major findings are listed below:

Objective:

- To highlight the current practice of budgeting system.
- To focus the effectiveness of budgeting system in public enterprises.
- To draw a picture of budgeting system process adopted in those enterprises.

Some of major finding:

- RDL and HPPC have not adequately considered controllable and non-controllable variables affecting the company furthermore strengths and weakness.
- The objectives of Nepalese enterprise are not clear RDL and HPPC both also have no any objective to create a maintain an optimum enterprises environment that maximizes the interest and motivation of all employees.

- RDL and HPPC both have to marketing specialists so these enterprises are unable to develop the alternative marketing policy for sales expansion and for new supply sources of raw materials.
- These enterprises are no operated on commercial basis.

Sharma (2002) is conducted a study on "profit planning in commercial banks: a case study of Nepal Bangladesh bank". The major concern of Mr. Sharma is to study the profit planning in commercial bank by taking a case study of Nepal Bangladesh bank. His major objectives and some of major findings are as follows:

Objectives:

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

Major findings:

- NB bank has adopting a policy of keep minimum number of employees as possible.
- The decision making process in highly centralized.
- NB bank lacks active and organized planning department to undertake innovative products R and D works.
- Lack of staff training.
- NB bank has policy of taking highly qualified employees.
- The rate of expansion of branches of NB was increased.
- Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in the days to come because of its wide geographical extend.
- Objectives of the bank are expressed in literary form and not specified clearly.

- The major resource of NB bank are cost bearing deposit.
- The budgeted and actual deposit mobilization by the bank has been well meet every year.
- Major portion of resources has been deployed in loan and advances.
- The budgeted and actual deployment has been met every year.
- The interest expenses of the bank are fund increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.
- The amount of interest income is increasing every corresponding to increase in LDO.
- There is a perfect and positive correlation between interest income and loan and advances.
- The other income of bank is also in increasing trend.
- The bank has suffered off by loss during the first year of its operation. It is in constantly increasing trend afterward. As the rate of growth of spreads is higher than burden the profitability of the bank is increasing.

Karki (2002) has conducted a research in "A comparative study on Budgeting system of Rastriya Banizya Bank and Himalayan Bank limited". Some of major objectives and findings are as follows:

Objectives:

- To determine comparative systematic budgeting capacity.
- To identify comparative revenue and cost efficiency.
- To know the comparative fund mobilization and lending policy.
- Some findings are:
 - Total revenue and total cost of RBB is higher than HBL but its profits are lower.
 - Government seems less conscious in the present situation of RBB.
 - In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuation in cost.

- As the accounting system, of RBB is careless that it has not been audited form the FY 1993-94 and it difficult to take decision about data analysis.
- No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- Interest coverage ratio of both banks is more than 1 except in the FY 1995-96 of RBB it shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
- Interest spread is higher in RBB than in HBL.
- Return on paid of capital is always negative in RBB.

Dhungana (2003) entitled "A study of joint venture banks profitability" this study was conducted with main objectives of assessing the profitability of joint venture bank in Nepal (during the period of five years from 1997/88 to 2001/02). Other objectives of the study were:

- To identify whether the profitability of joint venture banks are optimal or not.
- To identify the pattern of profitability of joint venture banks especially of Nepal investment bank limited.
- To suggested on the basis of findings and analysis.

The major findings, he had presented were as follows:

- Interest income of NBL was highest.
- SCB's commission and discount earnings and foreign exchange income were higher than both of NIBL and Nabil were.
- Nabil's other operating income was appeared higher than other banks.
- NIBL had paid highest tax per share than other banks and SCB paid the same least.
- In average, Nabil, NIBL and SCB had highest personnel expenses, interest expenses on deposit and other operating expenses respectively.

Tiwari (2003) is conducted a research entitled "Profit planning in commercial Banks" A case study of standard chartered bank limited". For this purpose of the study he used the data. The major concern of Mr. Tiwari is the to study profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major findings are as follows:

Objectives:

- To highlight the current profit planning premises adopted and its effectiveness in 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 keeps minimum number of employees and highly qualified for maintain the job.
- The bank always adopts 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.

Rayamajhi (2004) is conducted a research on profitability of NB bank limited with comparison to other J/V Banks"

Objective:

- To find out the profitability position of JB banks and to disseminate quality information.
- To analyze the profit trends of NB Bank.
- To ascertain the comparative position of profitability of NB bank with respect to other JV banks.
- Some of major findings:
 - NB bank has not been able to perform well the bank is in serious position.
 - ROE, EPS, Net profit, Loan loss provision and interest payout ratio is worse in comparison with other JB bank's average.
 - Staff expenses per employees. Credit deposit ratio is better with comparison of other JV banks.
 - The assets quality of bank is very poor.

Thapa (2004) is conducted a research on "A study on profit planning and control of Nepal SBI Bank Limited" his objectives and major finding are as follows:

Objective

- 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 planning process.

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 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 rate 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.

Paudel (2006) has conducted a study on "Sales budget of profit planning and control in manufacturing public enterprises. A case study of Dairy development corporation". His objectives and some of major finding are as follows:

Objectives:

- To analyzed the sales budget prepared by DDC.
- To evaluate the variance between budgeted and actual achievement of DDC.
- To compare the sales with profit of the DDC.
- To provide the suitable suggestion and recommendations for the improvement of planning system of DDC.

Major findings are:

- DDC has fulfilled the national demand but sales achievement is below than targeted sales.
- DDC is following traditional budgeting approach.
- DDC has burden of staff, loan and other expenses which directly influenced the profitability.
- Different statistical tools show the positive relationship with actual and budgeted sales.
- DDC is adopted traditional pricing method to determine the selling price.

- Profit and loss trend of DDC showed that it has huge loss but from F/Y 2059/60 losses in its decreasing trend.

Dhal (2006) is conducted a research entitled "Planning process and its impact on profitability" A case study of Gorkha patra corporation" his objective and some of major findings are listed below.

Objectives of their study are:

- To examine the present practice and effectiveness of profit planning in Gorkhapatra corporation.
- To evaluate the variance between target and actual performance of this corporation.
- To analyze the preparation of various functional budget of Gorkhapatra corporation.
- To point out the suggestion and recommendation for improving the profit plan.

Major findings are:

- GC does not prepare the long term strategic profit plan but it prepares tactical short term profit plan.
- GC has not adequately considered controllable and non-controllable variables affecting the corporation. They has no in depth analysis of the corporation's strength and weakness.
- The objectives of He Corporation are not clear, with regard to profit making and market penetration.
- The plans are prepared from top level only. There is no letter communication between the top level and lower level management regarding the corporation's goals and objectives.
- GC has not a system of periodical performance reports. Corporation is not done according to the budgeted production but this done according to the recent data of actual sales.

Thapa (2006) has study on "Profit planning in merchandising company: A case study of national trading limited" his objectives and major findings are follows:

Objectives:

- To examine the practical and effectiveness of profit planning in national trading limited.

- To analyze the various functional budgets adopted by national trading limited.
- To analyze the various functional budgets adopted by national trading limited.
- To evaluate the performance of budgeted and actual in NTL.
- To provide summary finding and recommendation.

Some of Major findings:

- NTL does not take in account it weakness and strength to support planned activities.
- NTL fails to maintain its periodic performance report for the evaluation of performance to find the underlying cause of poor achievements.
- It seems that budgeted sales are higher than actual sales.
- Financial position of NTL is not satisfactory.
- There is low degreed of positive correlation between sales and profit and negative correlation between profit and assets.
- There is not complete and comprehensive budgeting system.
- NTL is operating above BEP and enjoining profit but not appropriate.

Kharel (2008) has conducted a research on "Profit planning of commercial banks in Nepal. A comparative study of Everest bank limited, Nabil bank limited, and bank of kathmandu limited" 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 or five years of commercial banks.

Some of major findings:

- The liquidity position of EBL is comparatively better that of Nabil and BOK.
- In spite of the current ratio is average amount the other two banks EBL has maintained the cash and bank balance to met the customers demand.

- EBL has invested higher 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 from loan loss provision.
- BOK has higher investment on shares and debentures to total working fund ratio 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 earning capacity of the bank's 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 than 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 risk 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.

Chapter - Three

RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample. Data collection technique and analytical tools of the research study. It is widely accepted that research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood a science of studying that how research is done scientifically" (Kothari, 1990, Shakya 2008:57). Research methodology, as a vital part of research study, describes the various sequential steps to be adopted by researcher in studying research problem along with the logical behind them. This study has intense relation with application of planning and control in a commercial bank with specific reference to Himalayan bank regarding the objectives to analyze, examine and in and interpret the application of profit planning in the Bank. The research design, data collection procedures, and research variable and tools use. For our purpose the following steps provides useful procedural guidelines so far as research methodology is concerned.

3.2 Research Design

This study is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researcher to take an appropriate measure and direction towards the for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answer to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Himalayan Bank. Various functional budgets and other related accounting information's and statement of Bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a comparative study research of commercial banks and a case study research.

3.3 Population and Sample

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

3.4 Sources and Collection Data

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

3.5 Study Variables

Share capital, customer deposit, loan and advances, overdrafts, total resources and deployment, LC, Bank guarantee, interest expenses, other expenses, interest income, and other income of Himalayan bank are research variables of this study.

3.6 Analytical Tools

We have analyzed the data by using various statistical, mathematical and financial tools in this study.

3.6.1 Statistical and Mathematical Tolls

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

-) Percentile increment.
-) Mean
-) Standard Deviation
-) Correlation of coefficient
-) Probable error
-) Regression analysis
-) Test of goodness of fit of the regression estimate
-) Coefficient of determination

3.6.1.2 Arithmetic Mean Average

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

The formula for mean

$$\bar{X} = \frac{\sum x}{n}$$

Mean (\bar{X}) = (X bar)

Sum x ($\sum x$) = total of the numerical values

n = sample number.

3.6.1.3 Correlation of Coefficient

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

The formula for computing Person's "r" is:

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

Where,

r=the correlation coefficient

$$x = X - \bar{X}$$

$$y = Y - \bar{Y}$$

X=Independent variable

Y=Dependent variable

Following general rules are applied to interpret the coefficient of correlation: when $r = +1$, it means there is a perfect positive relationship between the variables. When $r = -1$, it means

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

3.6.1.4 Regression Analysis

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

Using the L.S.E. for equation (1), we obtain the following two normal equations as:

$$Y = a + bX \quad \dots\dots(i)$$

$$XY = aX + bX^2 \quad \dots\dots(ii)$$

By solving the normal equations (i) and (ii), we will get the best value of 'a' and 'b'. However, these values can be obtained using following relations.

The regression coefficient of Y on X is.

$$b_{YX} = \frac{\sum XY - n\bar{X}\bar{Y}}{\sum X^2 - n\bar{X}^2} \quad \text{and} \quad a = \bar{Y} - b\bar{X}$$

$$\text{or, } b_{YX} = \frac{\frac{1}{n}\sum XY - \bar{X}\bar{Y}}{\frac{1}{n}\sum X^2 - n\bar{X}^2} = \frac{\frac{1}{n}\sum (X - \bar{X})(Y - \bar{Y})}{\frac{1}{n}\sum (X - \bar{X})^2}$$

$$= \frac{\sum XY}{\sum X^2}, \quad \text{where, } x = X - \bar{X} \quad \text{and} \quad Y = Y - \bar{Y}$$

or, i.e. $Y_e = a + bX$ and $X = a + bY$

3.6.1.5 Standard Deviation (q)

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

This standard deviation of a set of n numbers X_1, X_2, \dots, X_n is given by

$$\sigma = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Where, \bar{X} = Arithmetic mean.

σ = Standard Deviation.

If $x = X - \bar{X}$ = Deviation from exact arithmetic mean, then (I) becomes

$$= \sqrt{\frac{1}{n} \sum X^2}$$

By further simplification, (I) can be written as.

$$= \sqrt{\frac{1}{n} \sum x^2 - \left(\frac{\sum x}{n}\right)^2}$$
$$= \sqrt{\frac{1}{n} \sum x^2 - (\bar{X})^2}$$

Where n = Total number of observation

3.6.2 Financial Tools

Ratio analysis and CVP analysis has been used in this study as financial analytical tools. Ratio is main focus as financial tools throughout the study as "Ratio analysis is such powerful tool of financial analysis that throughout the help of it economic and financial position of business unit can fully X-rayed" (Kothari, 1971:187).

Chapter - Four

DATA PRESENTATION AND ANALYSIS

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

4.1 Mission Statement of HBL

To be the leading Nepali Bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff to achieve sound financial health with sustainable value addition to all our stakeholder. HBL is committed to do this mission while ensuring the highest levels of ethical standards professional integrity, corporate government and regulatory compliance (www.hbl.com.np).

4.2 Resource Mobilization Planning

The resource means required fund for the bank operation, it includes capital fund, loan and borrowing, deposit collection and other liabilities. Among these, some recourse is cost bearing and some are cost free source. Here the researcher going to present status of available resources of HBL in tabular and figure form.

Table 4.1
Status of Available Resource of HBL

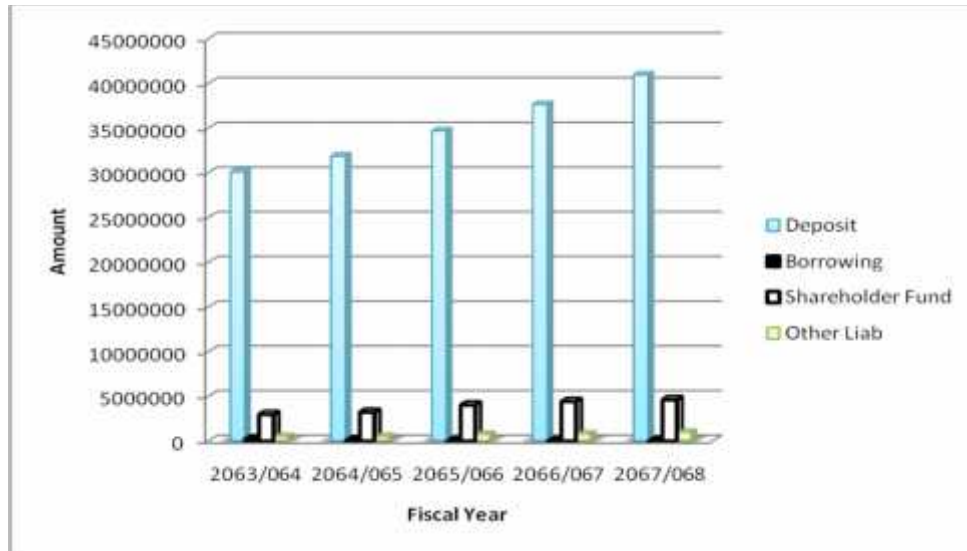
(Amount '000')

F/Y	Deposit		Borrowing		Shareholder fund		Other Liab		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2063/064	30048418	89.10	235968	0.69	2942226	8.72	494099	1.49	33720711
2064/065	31842789	89.41	83178	0.23	3195466	8.97	491696	1.39	35613129
2065/066	34681345	87.98	-		4004669	10.16	733327	1.86	39419341
2066/067	37611202	87.96	-		4386025	10.26	761085	1.78	42758312
2067/068	40920627	88.07	1000	0.02	4593262	9.89	941601	2.03	46465490
Total of Resources	175104381		329146		13121648	3421808	3421808		

Source: Annual Report of HBL 2063-064 to 2067/068

The above table and figure shows the sources of available resources used by the bank. Figure is shown in the pie-chart by year wise and resource wise.

Figure 4.1
Bar diagram showing status of available resources of HBL



The above table, pie chart, bar diagram show deposit collection is the major source of resource collection so the researcher have divided total resources in two parts one is deposit collection and another is other resources (other than deposit)

-) Customer deposit collection
-) Other resources

4.3 Customer Deposit Collection

as deposit collection is major activities for commercial bank, it is important source of resource mobilization. As per the data F/Y 2063/04 to 2067/068 the customer deposit is high as 89%. These deposits are collected from different sectors that are individual and corporate customer. Deposits are collected as per the bank's rules. Some deposits are interest bearing and some are interest free. The bank has categorized the deposit into two types which is as follows:

1. Interest Bearing Account

- a. Saving Account
- c. Call Deposit Account

d. Fixed Deposit Account

d. Certificate of Deposit

2. Interest Free Account

a. Current Deposit Account

b. Margin Deposit Account

c. Other Deposit Account

4.3.1 Deposit Collection Budget of HBL

HBL prepares the plan for the deposit collection. The budgeted and actual deposit collection of HBL has presented in table below:

Table 4.2
Status of Budgeted and Actual Deposit Collection

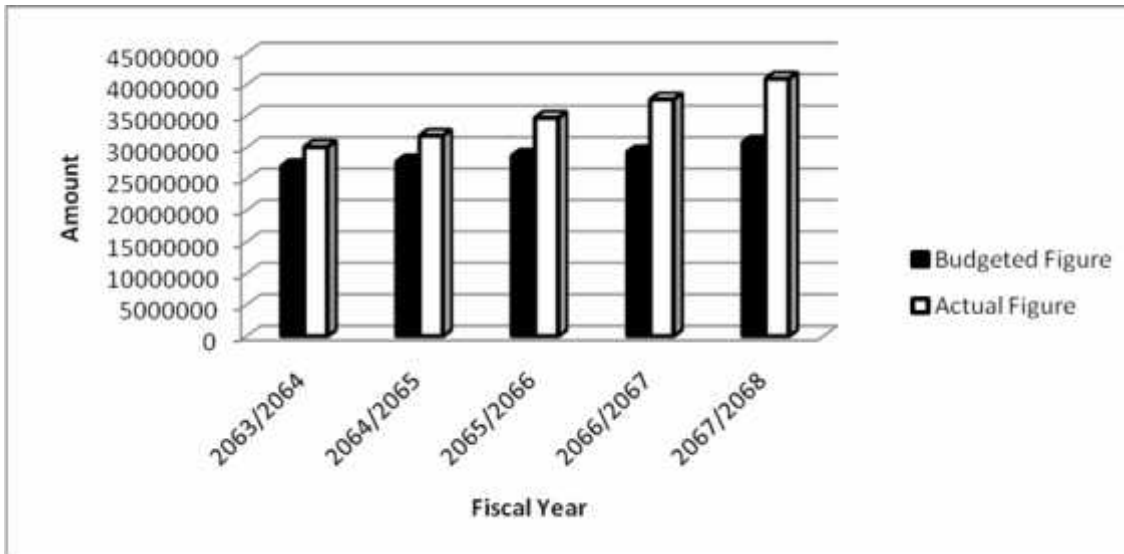
(Amount '000')

Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2063/2064	26997680	30048418	111.3%
2064/2065	27737621	31842789	114.8%
2065/2066	28662298	34681345	120.9%
2066/2067	29229379	37611202	128.7%
2067/2068	30774425	40920627	132.9%

Source: Annual Reports and Budgeted Statement of HBL.

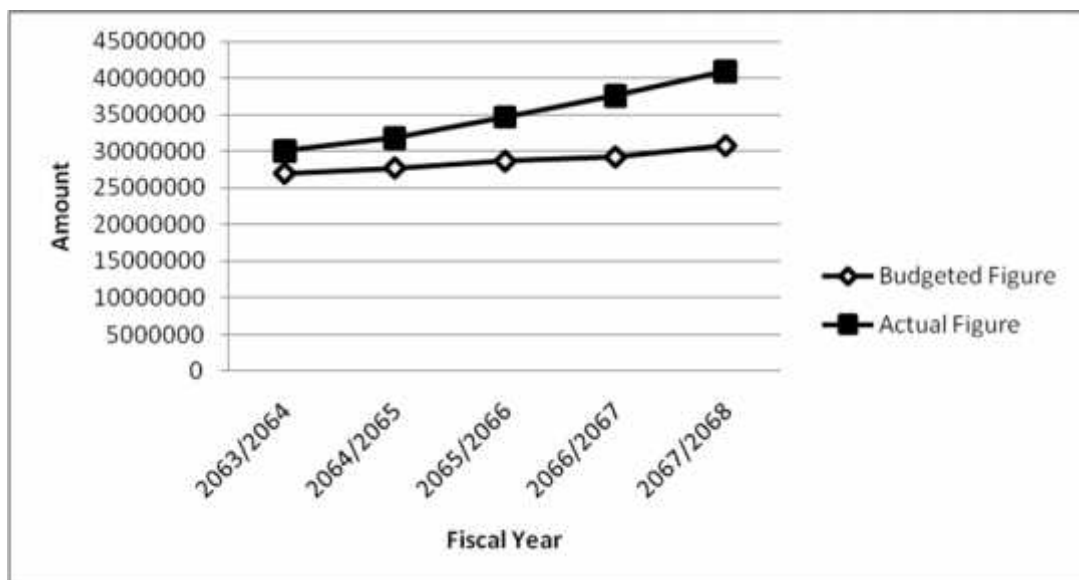
The above table shows the status of budgeted and actual deposit collection of HBL. The bank has achieved its objectives of deposit collection every year more than 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuating. It ranged between 111.3% to 132.9% through the five year of study period. The data of table are presenting in bar diagram for the analysis purpose.

Figure 4.2
Bar Diagram Showing Budgeted and Actual Deposit Collection



The above bar diagram shows the budgeted actual figure of deposit collection of HBL. The actual deposit is over the budgeted figure so that the targeted collection of deposit has met every year by HBL. The position of budgeted and deposit collection showing in the trend line.

Figure 4.3
Trend Line Showing Budgeted and Actual Figure



Above table and figures shows the deposit collection target has more than the budgeted amount. This gives the high level of achievement made by bank toward deposit collection sector. In the above bar diagram, it shows the achievement level higher than budgeted likewise scatter diagram shows actual collection is higher than budgeted amount. HBL is well performing in the deposit collection sector. The researcher finds the relationship and statistical results between budgeted and actual deposit collection by using some statistical tools like arithmetic mean, standard deviation, coefficient of variation, correlation and regression and probable error.

It can be concluded that the researcher is wanted to find positive analysis by using some of different data's different year of deposit collection budget and actual deposit of HBL. The above, status (tables), bar diagram and trend line are become positive analysis by using some different data. So, the deposit (actual) deployment in their sector is in higher positive than budgeted deposit throughout the study period; it means the table shows that the relation between actual deposit achievements is higher than budgeted deposit. In this condition, the researcher can be made to good research and reports about the related topic. Then, the researcher can be done very easily analysis and find real reports. In that case, the researcher is using primary and secondary data in this reports of them related topic. So, the resources are must importance each and every reports and analysis for the researcher. When, each and every researcher is doing dippy research and understanding the major source of researches mobilization of related topic. In this time the research gets a good knowledge about this related topic.

Table 4.3
Summary of Deposit Collection Budget and Actual Deposit

(Amount in '000')

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	28680221	35020876
Standard Deviation	1296687	3910440
Coefficient of Variation	4.5%	11.16%
Correlation of coefficient (r)	0.9918	
Probable Error (PE)	0.0049 (r>6 PE)	

Source: Appendix-1

The above table shows that actual deposit is more variable than budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent and homogeneous actual deposit is more variable in nature. A greater CV represents less homogeneous. By using another statistical tool correlation coefficient to analyze the relationship between budgeted deposit and actual deposits. It is used Karl Pearson's coefficient of correlation which is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposits and actual deposit is or not. Budgeted deposit is denoted by X and assumed to be independent variable and actual deposit is denoted by Y is assumed to be dependent variable. So that increased in budget is support to increase in actual achievement or vice versa, this meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix 1. The researchers have found (r) is 0.9918 and PE is 0.0049. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$ so it is significant so the actual deposit going on same direction. Another statistical tool regression line can also be fitted to show the degree of relationship between budgeted deposits and actual deposit and to forecast the achievement with given target so that the regression line of 'Y' on 'X' is as follows:

$$y - \bar{y} = r \times \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

$$y - 35020876 = 0.9918 \times \frac{3910440.684}{1296687.203} (X - 28680281)$$

$$y = 2.99 \times X - 3071469.16$$

From the above equation it is clear that actual deposit is in increasing trend. By the help of this equation the researcher determine the expected deposits achievement with given value of budgeted deposit ($X=35000000$) ascertain the expected deposits achievement for F/Y 2068/2069.

When $X=35000000$

The expected deposit for the year 2068/2069

$$Y = 2.99 \times 35000000 - 30761469.16$$

= 73888530.84 (000)

The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2068/2069 will be Rs. 73888530.84 stated by above regression line.

4.4 Resources Deployment Plan of HBL

Allocation of available resources into different sector is called deployment of resources plan. Resources can be used for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated into three purposes these are listed below.

) To maintain the liquidity position

) To invest in income generating activity

) To purchase fixed and other assets

a) Deployment to Maintain Liquidity Position

Liquidity need to be maintained for the purpose of payment of withdrawals from deposit amount and payment for other liabilities and expenses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal or no return at all. The central bank of Nepal NRB has instructed to commercial bank to maintain certain liquidity as per their deposits. The liquidity position should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

b) Deployment for Income Generating Activities

The major function of a commercial bank is to collection of deposit and invests the min different sector as loan Deployment of fund in income generating activities can divided in to two categories.

) Loan, Discount, Overdrafts (LDO)

) Other investment

LDO refers loan, advances, O/D, Bills Purchase and Discount and other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

Table 4.4
Total Income Generating Deployment of HBL

(Amount in '000')

Fiscal Year	Other Investment		Loan and advance		Total
	Amount	%	Amount	%	
2063/2064	11822985	39.92	17793724	60.08	29616709
2064/2065	13340177	39.79	20179995	60.21	33520172
2065/2066	8730691	28.84	21495440	71.16	30206131
2066/2067	8444910	25.83	24253403	74.17	32698313
2067/2068	8710691	24.49	26859694	75.51	35570385

Source: Annual Reports and Budgeted Statement of HBL.

The above table shows the status of income generating deployment of HBL. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 60.08% to 75.511% where as the range of other investment is 39.92% to 24.49%.

c) Deployment in Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. These assets can't give returns directly but without these others activities can't be run smoothly. Fixed assets subject to write off at certain period of time as expenses.

4.4.1 Budgeted and Actual LDO of HBL

Since the LDO is a major sector of deployment of the bank the researcher going to analyze about the position of LDO of HBL. Following table shows the budgeted amount of LDO and the same achieved actually.

Table 4.5

Comparative Table show Budgeted and Actual Loan Overdraft of HBL

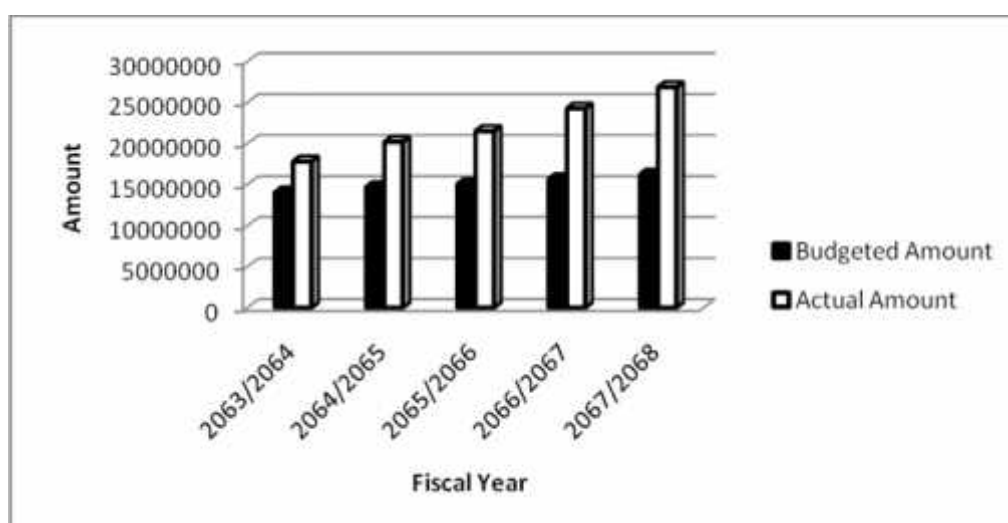
(Amount in '000')

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2063/2064	14019638	17793724	126.92%
2064/2065	14660367	20179995	137.65%
2065/2066	15029683	21495440	143.02%
2066/2067	15645667	24253403	155.02%
2067/2068	16209873	26859694	165.70%

Source: Annual Reports and Budgeted Statement of HBL.

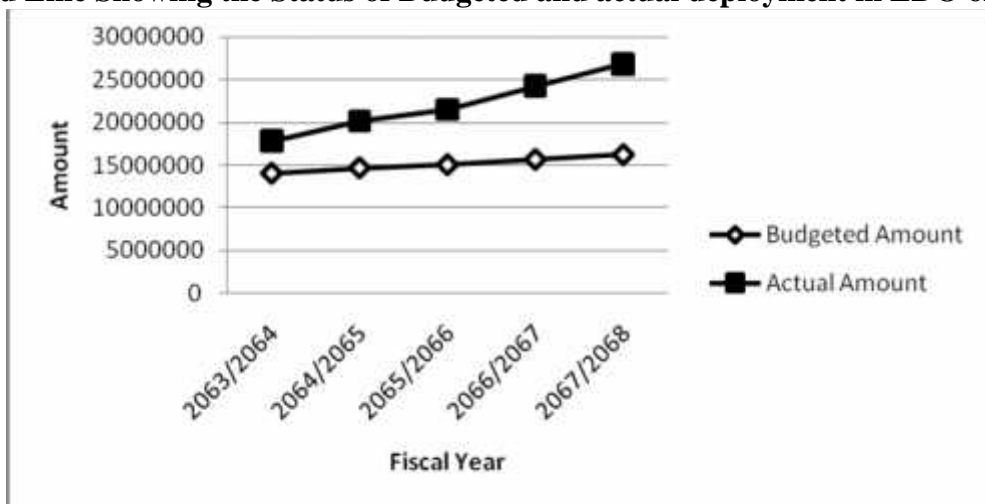
Above table shows that status of budgeted and actual LDO of HBL. The actual achievement of LDO is more than the 100% in every year. The investment in LDO is increasing trend in terms of amount where as the achievement percentage with budgeted figure is fluctuating trend. The range of achievement over the five year period is 126.92% to 165.70% it shows that HBL has meet the targeted investment in LDO in every year but the achievement trend is not same increment trend. For the study purpose the figure of LDO are presented in Bar and scatter diagram and draw some conclusion accordingly.

Figure 4.4
Bar Diagram Showing Budgeted and Actual LDO of HBL



The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LDO. The trend of actual deployment is in increasing trend and budgeted too. The actual achievement of LDO has met the budgeted LDO in every year for the more analysis purpose the figure of budgeted and actual LDO in presenting in scatter diagram to show the relationship between budgeted figure and actual achievement throughout the study period.

Figure 4.5
Trend Line Showing the Status of Budgeted and actual deployment in LDO of HBL



The actual deployment in LDO is in higher position than budgeted LDO throughout the study period it means the scatter diagram shows that the relation between actual achievements is higher than budgeted LDO. This researcher is going to find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tools. The summary of LDO budget and achievement are presented below.

It can be concluded that the research is wanted to find positive analysis by using some statistical tools. The researcher is using different data's different year of budgeted and actual LDO of HBL. The above comparative table, bar diagram and trend line are become positive analysis by using some different data of HBL. So, the actual deployment in LDO is higher position than budgeted LDO throughout the study period, it means, the bar diagram shows that the relation between actual achievements is higher than budgeted LDO. The researcher can make a good research about this related topic. Than the researcher can be done very easily analysis and find real reports. In that ease, the researcher is using primary and secondary data in these reports. So resources are must importance each and every report and analysis for the researcher. When, each and every researcher is doing dipply research and

understanding the major sources of resources mobilization of related topic. In this time, the researcher gets a good knowledge about this related topic.

Table 4.6
Summary of Budgeted LDO and Achievement

(Amount in '000')

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	15113046	22116451
Standard Deviation	4938825	3158683
C.V.	32.6%	14.28%
r	0.1537	
PE	0.2945 ($r > 6PE$)	

Source: Appendix-2

The above table shows that budgeted LDO is less variable than actual LDO. Since the coefficient of variations of actual LDO is greater than that of budgeted LDO, actual LDO are more variable nature. On the other hand budgeted LDO more consistent and homogeneous than actual a greater coefficient of variation is said to be more heterogeneous. Here NIBL bank actual LDO is the variable nature than budgeted LDO.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted LDO and actual LDO. There should be positive correlation between budgeted and actual LDO. The researcher can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. For this purpose budgeted LDO is denoted by X and actual LDO is denoted by Y. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual LDO 1537 it means the relation between budgeted and actual LDO are perfectly correlated. Significance of r is tested with PE researcher have $r > 6PE$ 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.

From the calculation in appendix no 2, the researcher has obtained the value of r being 0.1537. Now the coefficient of determination which explains the change in Y variable i.e. actual LDO by X variable i.e. budgeted LDO can be calculated as the square of r. $r^2 = (0.1537)^2$. Another statistical tool regression line can also be fitted to show the degree of relationship between budgeted LDO and actual LDO and the forecast the achievement with given target. For this purpose, achievement figure have been supposed to be depended up on independent target. So that the regression line of achievement 'Y' on targeted 'X' or Y on X is as follows.

$$y - \bar{y} = y \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

$$y - 2211645 = 0.1357 \times \frac{3158683}{4938825} (X - 15113046)$$

$$y = 0.983 \times X + 20630829$$

From the above equation, it's clear that actual LDO are in increasing trend. By the help of this regression equation, the researcher ascertain the expected LDO achievement with the given value of target LDO say X for fiscal year 2068/2069=25000000

When X=3000000

Then expected LDO achievement

$$y = 1.1468 \times 30000000 - 15113046$$

$$y = 19290954 \text{ (000)}$$

4.4.2 Resources Deployment in Other Sector (NLDO)

The portfolio of NLDO consists of liquidity in terms of cash and bank balance, investment, fixed and current assets. The budgeted and actual deployment in other sector listed in following table over the study period.

Table 4.7

Status of Budgeted and Actual Deployment in Other Sector (NLDO)

(Amount in '000')

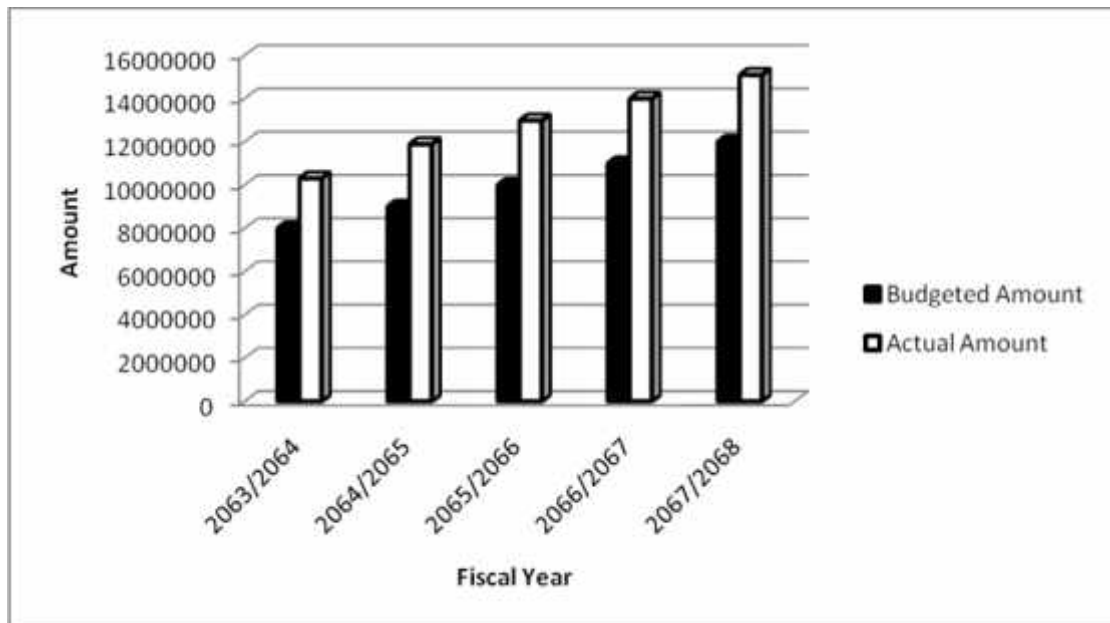
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2063/2064	8000000	10304417	128.81%
2064/2065	9000000	11876655	131.96%
2065/2066	10000000	12976754	129.77%
2066/2067	11000000	13987645	127.16%
2067/2068	12000000	15086735	125.72%

Source: Annual Reports and Budgeted Statement of HBL.

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has more than 100% on each year. The rate of such achievement is fluctuating trend over the study period. The achievement is 128.81% in F/Y 2063/2064 and it decreased in F/Y 2067/2068 to 125.72%.

Again in F/Y 2067/2065 it increases to 131.96% and slightly fluctuating up to F/Y 2067/2068. The average rate of achievement over the five year is 124.56% this indicate that the bank achieved its target by 25% approximately. For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Figure 4.6
Bar Diagram showing status of budgeted and actual NLDO and HBL



Above table and diagrams shows that more than 100% of achievement of targets in deployment of resources other than LDO that is NLDO to show the relationship between budgeted and actual NLDO the researcher have calculated some values by using statistical tool below.

It can be conclude that the researcher is wanted to find positive analysis by using some different data's different year of related topics. The above table and bar diagram are become positive analysis by using some of data. So the actual deployment in their sector (NLDO) is in higher position than budgeted (NLDO) throughout the study period, it means, the bar diagram shows that the relation between actual achievements is higher than budgeted (NLDO). In this condition the researcher can be made to good resources about the related topic. Then the researcher can be denied very easily analysis and find real reports. In that case, the researcher is using primary and secondary data in these reports of the related topic. So, resources are must importance each and every researcher. When, each and every

researcher is doing dipply research in this related topic. In this time, the researcher gets a good knowledge about this related topic.

Table 4.8
Summary of NLDO of HBL

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	10000000	12846441
Standard Deviation	1414214	1657746
C.V.	14.12%	12.90%
r	0.996	
PE	0.024 ($r > 6PE$)	

Source: Appendix-3

The above table shows the summary of investment in other sector (NLDO). The average investment in other sector is highest than the budgeted figure. It means the target has been achieved. The actual NLDO is more variable in nature since it has higher C.V. it means that the budgeted figure is more consistent a greater c.v is said to be more heterogeneous. The correlation between budgeted and actual NLDO is denoted by r. The value of r is 1 so the relationship between budgeted and actual figure is perfectly correlated. The significant of r can be measured by the probable error here the $r > 6PE$ so the r is significant.

4.4.3 Actual deposit and outstanding LDO of HBL

Customer deposit and deployment in LDO is major activities of NIBL. As it is understood the major source of resources mobilization of HBL is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advance and bills discount (LDO). It is desirable to analyze the comparative status of the same for the study period. Following table shows actual balance of deposit and actual position of deployment toward LDO.

Table 4.9
Status of LDO vs Actual Deposit of HBL

(Amount in '000')

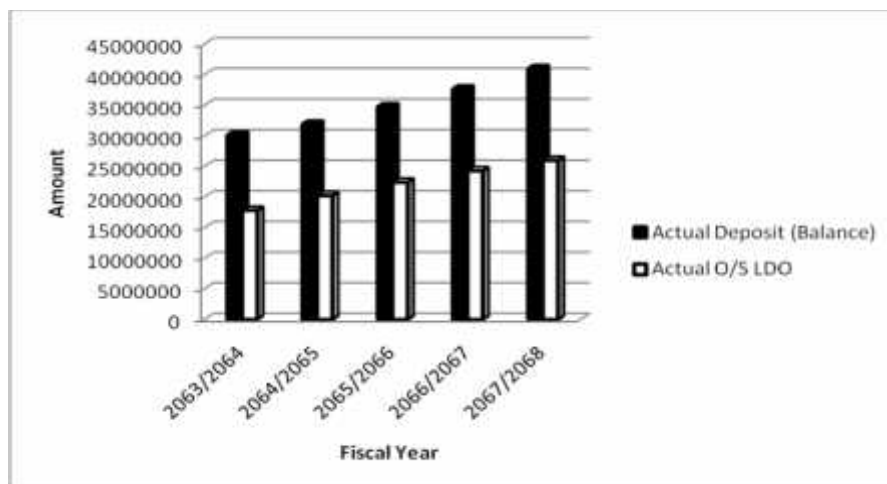
Fiscal Year	Actual Deposit (Balance)	Actual O/S LDO	LDO to deposit Ratio
2063/2064	30048418	17793724	59.21%
2064/2065	31842789	20179995	63.37%
2065/2066	34681345	22378955	64.53%
2066/2067	37611202	24257965	64.50%
2067/2068	40920627	25968786	63.46%

Source: Annual Reports of HBL 2063-2067/068

The above table shows the status of actual deposit balance and actual o/s LDO. The actual deposit balance and actual o/s LDO both are in increasing trend except 2063/2064 throughout the study period. The utilization of deposit collection in terms of LDO is fluctuating trend in percentage. The range of LDO to deposit ratio is 59.21% to 64.53% this indicate that the bank invest in LDO out of total deposit in the range of 59.21% to 64.53% over the five year time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presenting in the figures.

Figure 4.7

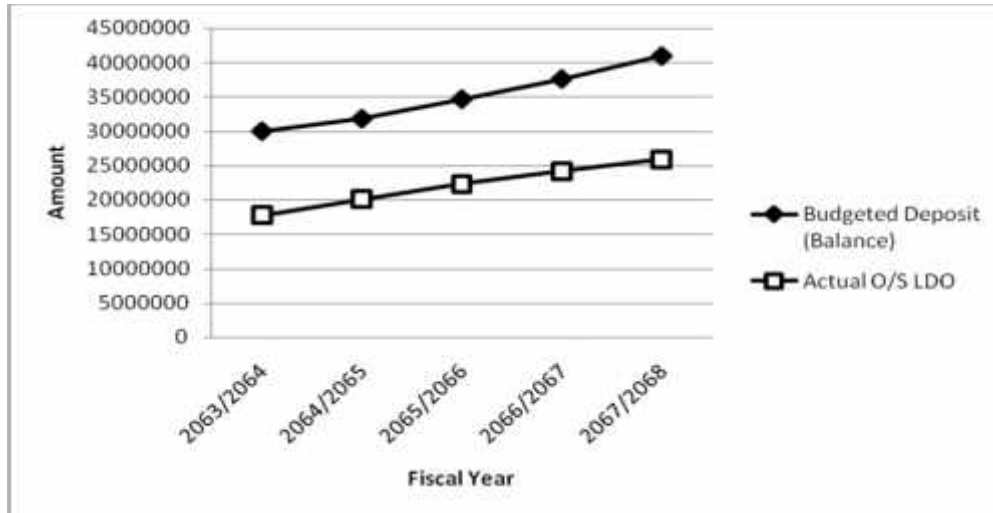
Bar diagram showing actual deposit and actual LDO of HBL



The above diagram is showing the position of actual deposit balance and actual outstanding balance of LDO. The position of actual deposit is higher than the actual LDO. Both are in increasing trend throughout the study period.

Figure 4.8

Trend line showing actual deposit and actual LDO of HBL



From the above table and figures it can be found that both the deposit and LDO is in increasing trend over the period. The average ratio of LDO to deposit is 59.00%. It means that the bank invest in NLDO 41.00% in average. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LDO. The researcher has have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error.

It can be conclude that the researcher is wanted to find positive analysis by using some different data's different year of actual deposit and actual o/s LDO of HBL. The above table and trend line are become positive analysis by using some of data. So the actual deposit deployment in their sector is in higher position than actual o/s LDO throughout the study period, it means, the bar diagram shows that the relation between actual o/s LDO. In this condition the researcher can be made to good research and report about the related topic. Then the researcher can be done very easily analysis and find real reports. In that case, the researcher is using primary and secondary data in these reports of the related topic. So, resources are must importance each and every researcher. When, each and every researcher is doing dipply research in this related topic. In this time, the researcher gets a good knowledge about this related topic.

Table 4.10
Summary of actual deposit and actual O/S LDO

Statistical Tools	Actual Deposit	Actual O/S LDO
Mean	35020876	22116451
Standard Deviation	3910440	3158683
C.V.	11.16	14.28
r	0.9043	
PE	0.0055 ($r > 6PE$)	

Source: Appendix-4

The above table shows that actual O/S LDO is more variable than actual deposit since it has higher C.V. On the other hand actual deposit more consistent than outstanding LDO it means the outstanding LDO is variable in nature. The relationship between actual deposit and actual outstanding LDO can be measured by co-relation between them. The researcher can take the help of Karl Person's Co-efficient of correlation to find correlation between actual deposit and actual outstanding LDO. The correlation r is 0.9043 this means it is perfectly correlated between actual deposit and actual outstanding LDO. Significance of correlation r is tested with problem error (PE) here the $6PE < r$ so the calculation of r is highly significance.

4.5 Interest Expenses

The bank collected from various sources. Among them some are non cost bearing and some are cost bearing sources. Interest expenses incurred for making payment of cost of such deposit amount which are interest bearing deposit. The interest holds highest percentage of expenses amount because deposit hold highest portion of total available resources. The bank may have different interest rate in different types of account. Here, the researcher is going to analyze the average cost of deposit throughout the study period.

Table 4.11
Status of average cost of deposit

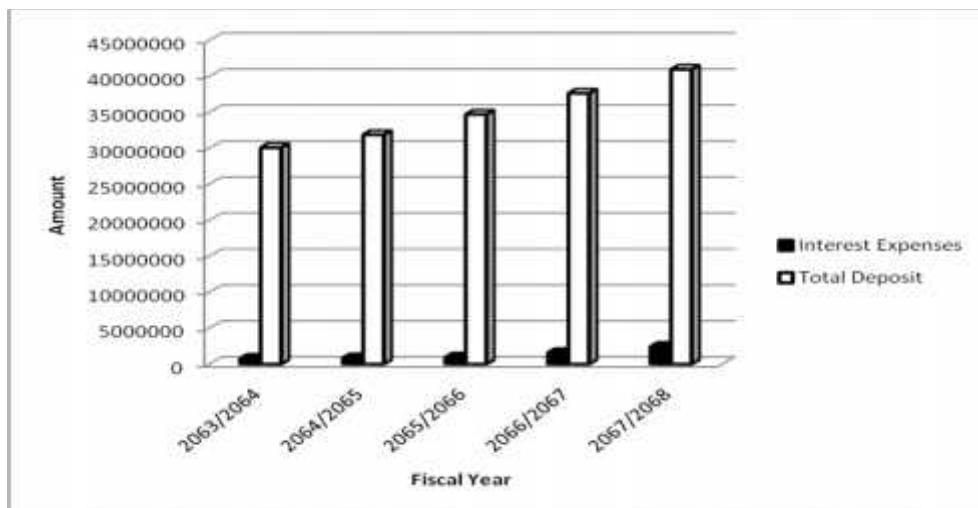
(Amount in '000')

Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit (%)
2063/2064	767411	30048418	2.55%
2064/2065	823745	31842789	2.58%
2065/2066	934778	34681345	2.69%
2066/2067	1553531	37611202	4.13%
2067/2068	2414807	40920627	5.90%

Source: Annual Reports of HBL 2063/064-2067/068

The above table shows the total deposit and interest expenses of respective year. The deposit amount is in increasing trend likewise the interest too. The tables show the cost of deposit in percentage. The HBL cost of deposit (interest) range between 2.25% to 5.90% over the study period. The cost do deposit of the bank is increasing trend. The relation between COD and total deposit can shows on the bar diagram below.

Figure 4.9
Bar Diagram Showing Average Cost of Deposit



The bar diagram shows the status of interest expenses and total deposit in respective fiscal year. The amount of total deposit is in increasing trend likewise interest is changing trend accordingly. The amount of interest expenses is increasing every year.

4.6 Interest Income

Interest income also called return of LDO contributes major portion of total revenue mix. Now, researcher is going to analyze the comparative status of total return on LDO with the help of table and diagram.

Table 4.12
Status of average return of LDO

(Amount in '000')

Fiscal Year	Interest income	Total O/S LDO	Average Rate of Return
2063/2064	1617038	17793724	9.08
2064/2065	1444245	20179995	7.15
2065/2066	2342198	22368843	10.47
2066/2067	3148605	25456757	12.36
2067/2068	4326141	27645765	15.65

Source: Annual Reports of HBL 2063/064-2067/068

The above table shows the comparative status of interest income with the o/s LDO and the return on same LDO. The interest income is in fluctuating trend. As the LDO has increased where as the rate of return on LDO is alienating trend. The range of rate of return lies between 15.65% to 9.08% in the five years period. It is effective to analyze the relationship between o/s LDO and interest income by using the statistical tools to find out the variability of actual LDO and actual income of different years the researcher has to calculate arithmetic mean, standard deviation coefficient of variation, coefficient of determination and correlation of coefficient. The detail calculations of these statistical tools are presented in appendix no 6 now summary of calculation listed below.

It can be conclude that the researcher is wanted to find positive analysis by using some different data's different year of interest income and total o/s LDO of HBL. The above status of average return of LDO table becomes positive analysis by using some of data. So the total O/S LDO deployment in their sector is in higher position than interest income throughout the study period, it means, the table shows that the relation between total O/S LDO achievements is higher than interest income. In this condition the researcher can be made to good research and report about the related topic. Then the researcher can be done very easily analysis and find real reports. In that case, the researcher is using primary and secondary data in these reports of the related topic. So, resources are must importance each and every researcher.

When, each and every researcher is doing dipply research in this related topic. In this time, the researcher gets a good knowledge about this related topic.

Table 4.13
Summary of Actual LDO and Interest Income

Statistical tools	Actual LDO (X)	Interest Income (Y)
Mean	2575645	22689017
Standard Deviation	106295	3538107
CV	41.25%	15.59%
R	0.95	
PE	0.029 ($r > 6PE$)	

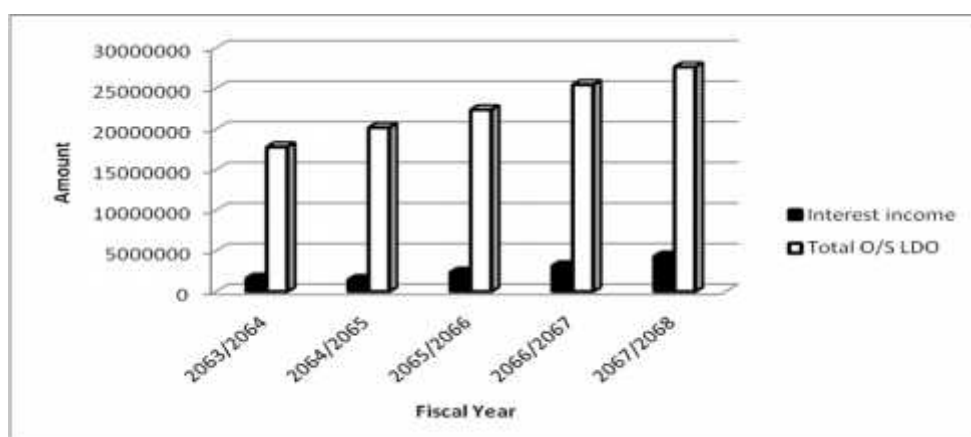
Source: Appendix 5

The above table shows that actual o/s LDO is more variable than interest income since CV and LDO is higher than of interest. There should be positive correlation between o/s LDO and interest income. In other words the interest income increases as the o/s LDO increase or vice versa. To find the correlation between interest income and actual o/s LDO the researcher can take the help of Karl person's coefficient of correlation and it is denoted by 'r' the researcher can examine whether there is positive correlation between interest income and actual LDO. The actual LDO (X) is assumed as independent variable and interest income (Y) is assumed to be dependent variable. So that increase in LDO will support to increase in interest income and vice verse. After this significance of 'r' is tested with the probable error of 'r'. The value of r is 0.95 and P.E is 0.029 since $r < 6PE$ the value of r is insignificant. From the calculation shown in appendix no 6 the value of r is 0.95. Now the coefficient of determination which explains the change in Y variable i.e. interest income by x variable i.e. LDO can be calculated as the $r^2 = (0.95)^2 = 0.9025$.

For more analysis purpose the data of interest income and o/s LDO presenting in bar diagram.

Figure 4.10

Bar Diagram Showing Average Cost of Deposit



From the figure research can find that they yearly interest income is in fluctuating trend in amount were as o/s LDO is increasing trend. In the term of average of return is fluctuating trend.

4.6.1 Interest Margin

The difference between interest income and interest expenses is called interest margin. Following table shows the movement in interest margin throughout the study period of HBL.

Table 4.14
Movements in Interest Margin of HBL

(Amount in '000')

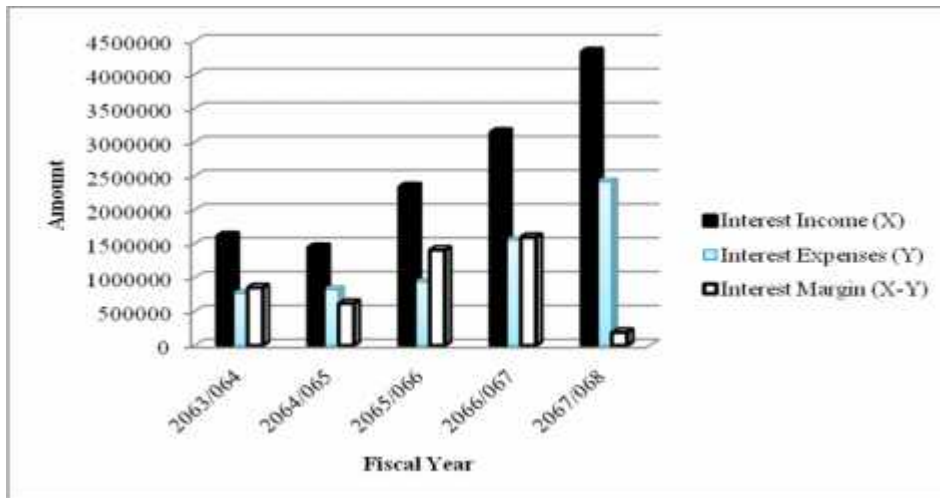
F/Y	Interest Income (X)	Interest Expenses (Y)	Interest Margin (X-Y)	Growth in Interest Margin
2063/064	1617038	767411	849627	10%
2064/065	1444245	823744	620501	-27%
2065/066	2342198	934778	1407420	12%
2066/067	3148605	1553531	1595074	14%
2067/068	4336341	2414807	1911334	-25%

Source: Annual Report of HBL 2063/2064 to 2067/2068

The above table shows the position of interest margin and its growth throughout the study period. The figure of interest margin is fluctuating trend every year. The base year to calculate the interest margin is F/Y 2063/064. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

Figure 4.11

Bar Diagram Showing Interest Margin of HBL



The above bar diagram is showing the status of interest margin with comparison with interest income and interest expenses of HBL. The fundamental purpose of this diagram is to show the relationship of interest margin so the trend of interest margin throughout the five years period is fluctuating.

4.7 Performance Evaluation of HBL

Performance evaluation can help to outline the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organization goal. Here, researcher is going to analyze by using various technique and criteria to evaluate performance of NIBL some financial tools is as follows:

- Ratio Analysis
- Cost Volume Profit Analysis

4.8 Ratio Analysis

"Ratio refers to the numerical relation of component parts of financial statement to each other. Ratio relationship are computed to obtain information about various characteristics and conditions of firm" (Bagavati & Pillai, 2000: 1339). Ratio analysis is a technique of analysis is a technique of analysis and interpretation of financial statement through mathematical expression. It may be defined as the mathematical expression of the relationship between two accounting figures. To evaluate the different performance of an organization by creating the

rations from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to four categories.

- Liquidity Ratio
- Leverage Ratio
- Activity Ratio
- Profitability Ratio

4.8.1 Liquidity Ratio

Liquidity Ratio is ability of a firm to pay short term liabilities. Liquidity ratio reflects the short tem financial strength of a firm. This ratio is calculated by the help of current assets and current liabilities. Here the researcher is going to calculate the current Ratio of HBL. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities are shown on appendix No. 5.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table No 4.15
Current Ratio of HBL

(Amount '000')

F/Y	Current Assets (X)	Current Liabilities (Y)	Current Ratio (X/Y)
2063/064	2414075	1324224	1.82:1
2064/065	2093237	1819751	1.15:1
2065/066	3693486	1519096	2.45:1
2066/067	4920875	166717	2.95:1
2067/068	4477795	1766825	2.53:1

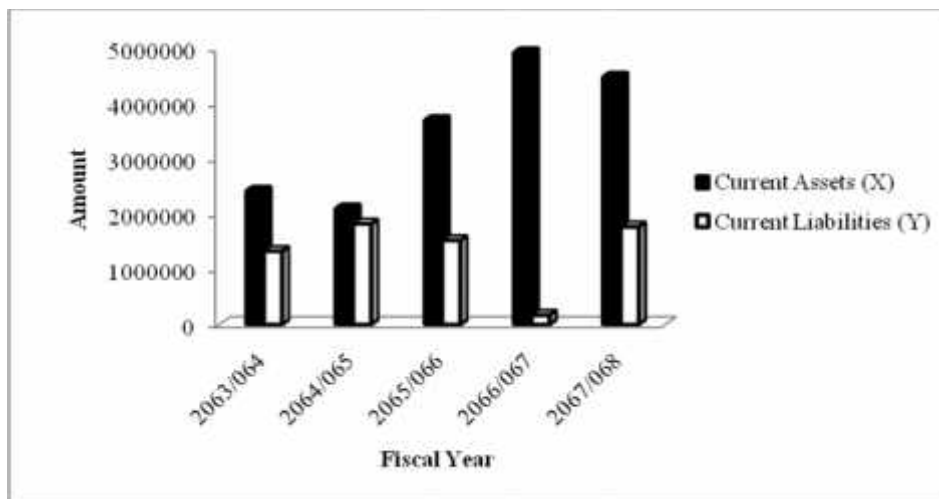
Source: Appendix 6

The above table shows that liquidity position of HBL. Higher the current ratio better the liquidity position, for the many types of business 1.95:1 is considered to be an adequate ratio. If the current ratio of a firm is less tan 1.95:1, it means the firm has difficulty in meeting its

current obligation. If the current ratio is more than 1.95:1 expect the low ratio in 2064/2065 HBL has higher current assets than current liabilities over the study period so HBL has utilized their fund in maximum level because there is no higher liquidity. The relationship between current assets and current liabilities presenting in the bar diagram for the analysis purpose.

Figure 4.12

Bar Diagram Showing Current Assets and Current Liabilities of HBL



Above bar diagram shows the status of current assets and current liabilities of HBL over the five years period. By the diagram the position of current assets is higher than the position of current liabilities. It means the bank maintained its liquidity position every year.

4.8.2 Leverage Ratio

The leverage ratio also called capital structure ratio. The leverage ratio calculated to judge the long term financial position of a firm. These ratios measure the firm's ability to pay the interest regularly and to pay the principal on maturity. The following ratios are included in leverage ratio.

- Debt-Equity Ratio
- Interest Coverage Ratio

4.8.3 Debt-Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt-Equity ratio measures the log term financial solvency of a business concern. It is

calculated by dividing to long term debt by share holder's equity. The Debt-Equity Ratio can be calculated dividing to borrowings by share holder's equity the details of borrowings and share holders equity shown on appendix No/ 6.

$$\text{Debt-Equity Ratio} = \frac{\text{Borrowings}}{\text{Shareholder's Equity}}$$

Table No. 4.16
Debt-Equity Ratio of HBL

(Amount in Rs. '000')

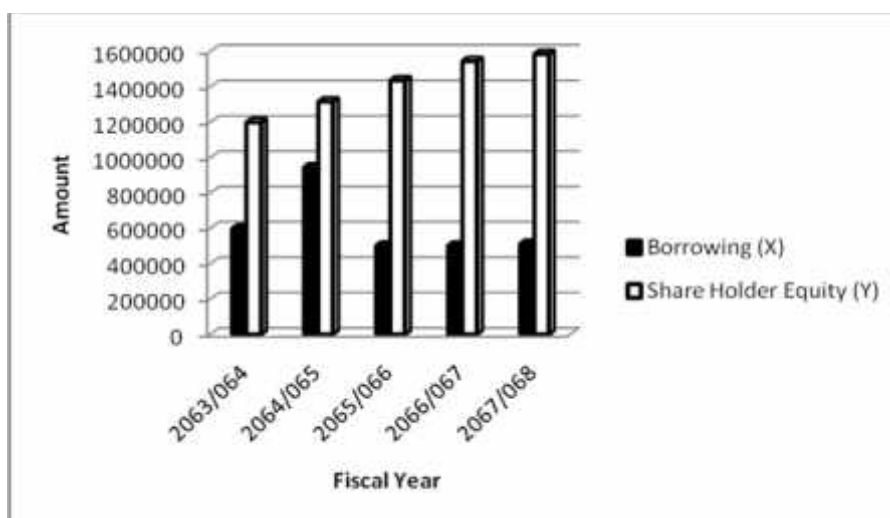
F/Y	Borrowing (X)	Share Holder Equity (Y)	Debt-Equity Ratio (X/Y)
2063/064	595968	1197899	0.49:1
2064/065	943178	1315058	0.71:1
2065/066	500000	1435095	0.35:1
2066/067	500000	1543905	0.32:1
2067/068	510000	1583850	0.33:1

Source: Appendix 7

The above table shows the debt equity ratio of HBL. The column X shows the figure of borrowings and column Y shows the figure of share holder's equity. By dividing the column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of HBL is 0.32:1 to 0.71:1. The trend of debt equity ratio is fluctuating every year. HBL has higher portion of equity than long term debenture where as for a banking sector fixed deposit is also considered as long term obligation but in above analysis researcher has calculated only borrowing as long term debt. The above table shows that HBL's financial strength is strong because it has more internal fund to repay the borrowing capital. The figure of long term debt and share holder's equity is presenting in the bar diagram below.

Figure 4.13

Bar Diagram Showing Borrowing and Shareholder's Equity of HBL



From the diagram it shows the status of long term debt and share holder's equity. The long term debt is in fluctuating trend and shareholder equity is increasing rapidly over the five year's period. The position of shareholder equity is higher than the long term debt. This indicates that the bank used more internal fund than external fund.

4.8.4 Interest Coverage Ratio (ICR)

ICR measure the capacity to pay interest expenses. This ratio is calculated by dividing Net profit before interest and tax (EBIT) by interest cost amount.

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expenses}}$$

Table 4.17
Calculation of Interest Coverage Ratio

(Amount in Rs '000")

F/Y	EBIT(X)	Interest Expenses (Y)	Time
2063/064	1484814	767411	1.93
2064/065	1772583	823744	2.14
2065/066	1962573	934778	2.10
2066/067	2173684	1553531	1.40
2067/068	2584565	2414807	0.99

Source: Annual Reports of HBL 2063/2064 to 2067/2068

The above table shows the position of interest coverage ratio (ICR) of HBL. The ICR is 0.099 times in F/Y 2067/068 this means EBIT is 1.93 times more than interest expenses. Likewise the ICR reached to 2.14 times in F/Y 2064/065. This result represents the HBL has increased its EBIT. Again the rate increased to 2.10 in F/Y 2065/066. The interest coverage ratio of HBL ranges between 1.93 to 0.95 Times. It means that the bank sufficiently capable to pay the interest expenses.

4.8.5 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here researcher is going to measure of HBL profitability by total assets and total capital fund to Net profit. It is computed by dividing to Net profit by Total Assets and Net profit to total capital fund.

Table 4.18
Profitability Ratio of HBL

(Amount '000')

F/Y	Net profit after Tax (A)	Total Assets (N)	Return on Assets (C=A/B)	Total Capital fund (D)	Return on Capital (E=A/D)
2063/064	491823	34314868	1.43%	2942226	16.71%
2064/065	635869	36858006	1.72%	3195466	91.81%
2065/066	852835	39350132	1.91%	3385645	22.24
2066/067	508798	42717125	1.19%	3500745	14.53%
2067/068	893115	46736204	1.91%	3850512	23.19%

Source: Annual Report of HBL 2063/064 to 2067/068

The above table shows the status of return on assets and return on capital employed of HBL. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of on assets is fluctuating trend and it is ranged between 1.43% to 1.91% throughout the five years period. Likewise the return on capital ratio presenting the

relation of net profit with the capital employed. The range of return capital employed is 16.71% to 23.19% it is increasing trend through five years without one years of study period.

4.9 Major Findings of the Study

- The bank has 89% average contribution of customer deposit in the resources mobilization as per the data F/Y 2063/064 to 2067/068 and uses the other resources of 11% in average.
- HBL is well performing in the deposit collection sector. Actual deposit is higher than the budgeted figure. It is found (r) is 0.938 and PE is 0.049. 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 2068/069 will be Rs 73888530.84 thousand stated by the regression line.
- The statistical tool CV represents that HBL's actual LDO is the variable nature than budgeted LDO. The correlation between budgeted and actual LDO is 0.1537 means the relation between budgeted and actual LDO are perfectly co-related. Significance of r is tested with PE there is $r > 6PE$ this means the value of r is more significant. So it is not doubtful that actual LDO will go on same direction that of budgeted LDO. The regression line shows the expected LDO for the F/Y 2068/069 will be 19290954 thousand.
- The researcher find that the 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO.
- LDO is in increasing trend over the period. The average ratio of LDO to deposit is 64.00%.
- The relationship between actual deposit and actual o/s LDO is in increasing trend over the period.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of HBL is in the range of 2.58% to 5.90% it means the bank pays the interest 4.24% in average over the period.

- The yearly interest income is in fluctuating trend in amount were the o/s LDO is increasing. In the term of average rate of return in fluctuating trend it is ranges of 7.15% to 15.65%. The average rate of return over the study period is 114.4%.
- The amount of interest margin of HBL is in fluctuating trend where the increment percentage is also in fluctuating trend over the study period.
- The current ratio of HBL has almost met the standard of 1.82:1.
- Debt-Equity ratio shows that the HBL's financial strength is very strong because it has more internal fund to repay the borrowing capital.
- The interest coverage ratio of HBL ranges between 1.93 o 0.99 times.
- The range of return on total assets is 1.43 to 1.91 % and range of return of total capital fund is 16.75 to 23.19% over the period.
- The cash flow analysis of the HBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

Chapter -Five

SUMMARY, CONCLUSION AND RECOMMENDATION

The chapter is focused on the findings and conclusions obtained from the study of "Profit Planning in commercial banks: A case Study of Himalayan Bank Limited" this chapter is comprised of three sections, the first section deals with the summary of the study; the second section draws the conclusions of the study. Lastly, the third section proposes the suggestions to the problems observed on the basis of the findings.

5.1 Summary

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject matter of economic development has been limited due to variety of geographical structural and economic constraints.

The economic growth of a country can't imagine without financial institutions. Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pool between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks also recognize its social responsibilities by contributing to various social and welfare organizations. The major income source of a bank is interest margin which depends upon the deployment of available resources. The bank generally deploys their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of a bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of HBL. The study is mostly based on secondary data and required data have been collected by using various sources. There are 32 commercial banks operating in Nepal which are taken as population of the study among them HBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

HBL is one of the well established commercial bank in Nepal. HBL is able to maintain. Its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

5.2 Conclusion

On the basis of major findings of study some conclusion has drawn about the HBL. Profit planning and controlling system of HBL is very effective because it has generated more profit year after year. There is variance in budgeted and actual performance but it has always crossed budgeted figure. Actual deposit is also more than budgeted one. Analysis concludes that growth of bank is significant. HBL is increasing its internal fund by increasing capital year by year this means strengthen their capability internally. HBL is able to meet its targeted deposit collection, deployment of LDO. The relationship between budgeted and actual figures is positively correlated. The non fund consuming business of HBL is also remarkable since it gives the return to bank without investing the fund. The average cost of deposit (COD) of bank is normal it means the bank is able to collect cost free deposit. The major income source is interest margin the trend of interest margin is increasing trend every year. The liquidity position of HBL is better position bank has maintained the cash and bank balance to met the current obligations. The financial strength of HBL is strong since Debt equity ratio shows the HBL use more internal fund to repay its borrowings. The return on assets and return on capital is satisfactory of HBL is shows the good earning capacity of the bank. The result of the study shows the overall performance of HBL is satisfactory and progressive.

5.3 Recommendations

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

1. Nepal's accession to the WTO would permit international banks to operate in Nepal so HBL need to make their business plan and strategy accordingly which can convert challenges in to opportunities.
2. Financial institutions increasing day by day in Nepal it grows the competition with the banks so HBL should make some policy to keep its position as before among the Nepalese financial institutions.

3. HBL should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainty etc.
4. HBL should pay more attention about the changing technological environment and need to provide innovative products and services that reduce the cost of fund it give more growth and profitability.
5. Every business concerns have one another obligation i.e. corporate social responsibility of HBL needs more involvement in social activities in the coming days.
6. HBL's major source of resources collection is deposit since this is the cost bearing sources the bank is suggest increasing cost free resources too, and reducing the burden of the bank.
7. The bank need to put more focus on the non fund consuming business activities like LC, Bank guarantee, foreign exchange and other. It supports in the overall profitability of the bank.
8. Expenses grow as the volume of activities increases so it can't be avoided but can be controlled. The bank can minimize those expenses not related for income generating activities so the bank enhances its profitability.
9. People in rural area of Nepal still out of banking services so HBL is suggested to take bold steps to expend and upgrade its network to reach such area with their products and services.
10. The 'Global Economic Crisis 2008' started from banking sector of USA this crisis may affects to Nepalese financial sectors too so the HBL suggested to make some policy to be safe from this crisis.
11. The bank provides new banking services facility each and every time for HBL's customers.
12. If the bank makes to keep transparency a profit planning and control up to five or ten years. Then, the bank flow-up this budget and achieve goal, objective very easily without budgeting can't be achieve goal each and every bank. So HBL is also flow up budget system.

13. Now of days, all of the commercial banks are taking merger and acquisition strategy development. But HBL bank is saving from this condition.
14. All of the commercial banks are becoming some strength and weakness. If each and every bank can't solve this weakness points immediately. This bank can't be goal achieve. So the HBL is a tool solving these problems very easily and understanding each and every time.
15. When, the researcher can be stop this research about HBL's bank. In that case, the researcher can't get goods promote (advertisement). So, the bank can't be high-light compeer between other banks. So, the bank has done to solve this problem immediately. Then the bank has been being goods position.

The size of Nepali banking market is increasing day by day. The increase in number of financial institutions indicates the increasing competition in financial market. To monitor with proper regulation this even more, the government had to bring new strategies. Moreover, foreign banks are allowed to operate in Nepal form 2012 A.D. there will be more challenge for Nepalese financial institutions. The central bank of Nepal (NRB) should make some policies towards the banking sector to comfort and able to compete with this ever increasing financial institutions.

The research report is concluded with the above mentioned major findings, summary, conclusions and recommendations.

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Appendices-1

Deposit Collection Budget of HBL

Amount (000)

Year	X	Y	$X - \bar{X}$	$Y - \bar{Y}$	XY	$X^2 = (X - \bar{X})^2$	$Y^2 = (Y - \bar{Y})^2$
2063/064	26997680	30048418	-1682601	-4974458	8.347×10^{12}	2.8312×10^{12}	2.47×10^{13}
2064/065	27737621	31842789	-92660	-3180087	2.99586×10^{12}	8.8862×10^{11}	1.01×10^{13}
2065/066	28662298	34681345	-17983	-341531	6105785983	3.23388299	1.1528×10^{11}
2066/067	29229379	37611202	549098	2588326	1.42234×10^{12}	3.01509×10^{11}	6.709×10^{12}
2067/068	30774425	40920627	2094144	5897751	1.235×10^{13}	4.3854×10^{12}	3.481×10^{13}
	X=143401403	X=175104381	X=-548550	X=9999	XY=2.514599×10 ¹³	X ² =8.4069×10 ¹²	Y ² =7.645×10 ¹³

$$\bar{X} = \frac{\sum X}{n}, = \frac{143401403}{5} = 28680281$$

$$\bar{Y} = \frac{\sum Y}{n}, = \frac{175104381}{5} = 35022876$$

$$\sigma_X = \sqrt{\frac{\sum X^2}{n}}, = \sqrt{\frac{8.4069 \times 10^{12}}{5}}, = 1296687.203$$

$$\sigma_Y = \sqrt{\frac{\sum Y^2}{n}}, = \sqrt{\frac{7.645 \times 10^{13}}{5}}, = 3910440.064$$

$$C.V_X = \frac{\sigma_X}{\bar{X}} \times 100\%, = \frac{1296687}{28680281} \times 100\%, = 4.5\%$$

$$C.V_Y = \frac{\sigma_Y}{\bar{Y}} \times 100\%, = \frac{3910440.064}{35022876} \times 100\%, = 11.16\%$$

$$r_{xy} = \frac{\sum xy}{n\sigma_x\sigma_y}, = \frac{2.514599 \times 10^{13}}{5 \times 1296687 \times 3910440}, = 0.9918$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}, = 0.6745 \times \frac{1 - (0.9918)^2}{\sqrt{5}} = 0.0049$$

Here, (r>P.E)

Or, 6PE = 6×0.0049 = 0.0294 (r>6PE)

Appendices-2

Summary of Budgeted LDO and Achievement

Amount (000)

Year	X	Y	$X - \bar{X}$	$Y - \bar{Y}$	XY	$X^2 = (X - \bar{X})^2$	$Y^2 = (Y - \bar{Y})^2$
2063/064	14019638	17793724	-	-	4.7265×10^{12}	1.1955×10^{12}	1.8686×10^{13}
			10934076	4322727.2			
2064/065	14660.67	2017995	-452678.6	-	8.7659×10^{11}	2.0492×10^{11}	3.7499×10^{12}
				1936456.2			
2065/066	15029683	21495440	-83362.6	-621011.2	5.1769×10^{10}	6949323079	3.8565×10^{11}
2066/067	15645667	24253403	532621.4	2136951.8	1.13818×10^{12}	3.8368×10^{11}	4.5666×10^{12}
2067/068	16209873	26859694	1096827.4	4743242.8	5.2025×10^{12}	1.2030×10^{12}	2.2498×10^{13}
	X=75565228	X=110582256	X=0	X=-	$XY = 1.1995 \times 10^{13}$	$X^2 = 1.2196 \times 10^{14}$	$Y^2 = 4.988 \times 10^{13}$
				38904545			

$$\bar{X} = \frac{\sum X}{n}, = \frac{75565228}{5} = 15113046$$

$$\bar{Y} = \frac{\sum Y}{n}, = \frac{110582256}{5} = 22116451$$

$$\sigma_X = \sqrt{\frac{\sum X^2}{n}}, = \sqrt{\frac{2.2196 \times 10^{14}}{5}}, = 493882$$

$$\sigma_Y = \sqrt{\frac{\sum Y^2}{n}}, = \sqrt{\frac{4.988 \times 10^{13}}{5}}, = 3158683$$

$$C.V._X = \frac{\sigma_X}{\bar{X}} \times 100\%, = \frac{4938825}{15113046} \times 100\%, = 32.6\%$$

$$C.V._Y = \frac{\sigma_Y}{\bar{Y}} \times 100\%, = \frac{3158683}{22116453} \times 100\%, = 100\%$$

$$r_{xy} = \frac{\sum xy}{n\sigma_x\sigma_y}, = \frac{1.1995 \times 10^{13}}{5 \times 4938825 \times 3158683}, = 0.1537$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}, = 0.6745 \times \frac{1 - (0.1537)^2}{\sqrt{5}} = 0.2945$$

Here, ($r > P.E$)

Or, $6PE = 6 \times 0.2945 = 1.767$ ($r > 6PE$)

Appendices-3

Summary of Budgeted LDO and Achievement

Amount (000)

Year	X	Y	$X - \bar{X}$	$Y - \bar{Y}$	XY	$X^2 = (X - \bar{X})^2$	$Y^2 = (Y - \bar{Y})^2$
2063/064	8000000	10304417	-2000000	-2542024	5.0840×10^{12}	4×10^{12}	6.4619×10^{12}
2064/065	9000000	1187665	-1000000	-969786	9.6979×10^{11}	1×10^{10}	9.4048×10^{11}
2065/066	10000000	12976754	0	130313	0	0	1.6981×10^{10}
2066/067	11000000	1398745	1000000	1141204	1.1412×10^{12}	1×10^{12}	1.3023×10^{12}
2067/068	12000000	15086735	2000000	2240294	4.4806×10^{12}	4×10^{12}	5.0189×10^{12}
	$\Sigma X = 50000000$	$\Sigma Y = 64232206$	$\Sigma X - \bar{X} = 0$	$\Sigma Y - \bar{Y} = 0$	$\Sigma XY = 1.1675 \times 10^{13}$	$\Sigma X^2 = 1 \times 10^{13}$	$\Sigma Y^2 = 1.3741 \times 10^{13}$

$$\bar{X} = \frac{\Sigma X}{n}, = \frac{50000000}{5} = 10000000$$

$$\bar{Y} = \frac{\Sigma Y}{n}, = \frac{64262206}{5} = 12846441$$

$$\sigma_X = \sqrt{\frac{\Sigma X^2}{n}}, = \sqrt{\frac{1 \times 10^{13}}{5}}, = 1414214$$

$$\sigma_Y = \sqrt{\frac{\Sigma Y^2}{n}}, = \sqrt{\frac{1.3741 \times 10^{13}}{5}}, = 1657770$$

$$C.V_x = \frac{\sigma_X}{\bar{X}} \times 100\%, = \frac{1414214}{10000000} \times 100\%, = 14.14\%$$

$$C.V_Y = \frac{\sigma_Y}{\bar{Y}} \times 100\%, = \frac{1657770}{12846441} \times 100\%, = 12.90$$

$$r_{xy} = \frac{\Sigma xy}{n \sigma_x \sigma_y}, = \frac{1.1675 \times 10^{13}}{5 \times 1414214 \times 1657770}, = 0.996\%$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}, = 0.6745 \times \frac{1 - (0.996)^2}{\sqrt{5}} = 0.024$$

Here, ($r > P.E$)

Or, $6PE = 6 \times 0.024 = 0.144$ ($r > 6PE$)

Appendices-4

Summary of Actual Deposit and Actual O/S LDO

Amount (000)

Year	X	Y	$X - \bar{X}$	$Y - \bar{Y}$	XY	$X^2 = (X - \bar{X})^2$	$Y^2 = (Y - \bar{Y})^2$
2063/064	30048418	17793724	-4974458	-4322727.2	2.1503×10^{13}	2.47×10^{13}	1.8686×10^{13}
2064/065	31842789	2017995	-3180087	-1936456.2	6.1581×10^{12}	1.01×10^{13}	3.7499×10^{12}
2065/066	34681345	22378955	-341531	-621011.2	2.1209×10^{11}	1.1528×10^{11}	3.8565×10^{11}
2066/067	37611202	24257965	2588326	2136951.8	5.5311×10^{12}	6.709×10^{12}	4.5666×10^{12}
2067/068	40920627	25968786	5897751	4743242.8	2.7974×10^{13}	3.481×10^{13}	2.2498×10^{13}
	X=175104381	X=110582256	X=-999	X=-38904545	XY=5.5847×10 ¹³	X ² =7.645×10 ¹⁴	Y ² =4.988×10 ¹³

$$\bar{X} = \frac{\sum X}{n}, = \frac{175104381}{5} = 35020876$$

$$\bar{Y} = \frac{\sum Y}{n}, = \frac{110582256}{5} = 22116451$$

$$\sigma_X = \sqrt{\frac{\sum X^2}{n}}, = \sqrt{\frac{7.645 \times 10^{14}}{5}}, = 3910440$$

$$\sigma_Y = \sqrt{\frac{\sum Y^2}{n}}, = \sqrt{\frac{4.988 \times 10^{13}}{5}}, = 3158683$$

$$C.V_X = \frac{\sigma_X}{\bar{X}} \times 100\%, = \frac{3910440}{35020876} \times 100\%, = 11.16\%$$

$$C.V_Y = \frac{\sigma_Y}{\bar{Y}} \times 100\%, = \frac{3158683}{22116451} \times 100\%, = 14.28\%$$

$$r_{xy} = \frac{\sum xy}{n\sigma_x\sigma_y}, = \frac{5.5847 \times 10^{13}}{5 \times 3910440 \times 3158683}, = 0.9043$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}, = 0.6745 \times \frac{1 - (0.9043)^2}{\sqrt{5}} = 0.055$$

Here, (r>P.E)

Or, 6PE = 6×0.055 = 0.33 (r>6PE)

Appendices-5

Summary of Actual LDO and Interest Income

Amount (000)

Year	X	Y	$X - \bar{X}$	$Y - \bar{Y}$	XY	$X^2 = (X - \bar{X})^2$	$Y^2 = (Y - \bar{Y})^2$
2063/064	1617038	17793724	-958607	-4895293	4.6927×10^{12}	9.893×10^{11}	2.3964×10^{13}
2064/065	1444245	2017995	-1131400	-2509022	2.8387×10^{12}	1.2807×10^{12}	6.2952×10^{12}
2065/066	2342198	22368843	-233447	-32174	7.4744×10^{10}	5.4497×10^{10}	1.0251×10^{11}
2066/067	3148605	25456757	572960	2767740	1.5858×10^{12}	3.2828×10^{11}	7.6604×10^{12}
2067/068	4326141	27645765	1750496	4956748	8.6767×10^{12}	3.0642×10^{12}	2.4569×10^{13}
	X=12878227	X=113445084	X=2	X=-1	XY=1.7869×10 ¹³	X ² =5.6466×10 ¹²	Y ² =6.2591×10 ¹³

$$\bar{X} = \frac{\Sigma X}{n}, = \frac{12878227}{5} = 2575645$$

$$\bar{Y} = \frac{\Sigma Y}{n}, = \frac{113445084}{5} = 22689017$$

$$\sigma_X = \sqrt{\frac{\Sigma X^2}{n}}, = \sqrt{\frac{5.6466 \times 10^{12}}{5}}, = 106295$$

$$\sigma_Y = \sqrt{\frac{\Sigma Y^2}{n}}, = \sqrt{\frac{6.2591 \times 10^{13}}{5}}, = 3538107$$

$$C.V_x = \frac{\sigma_X}{\bar{X}} \times 100\%, = \frac{1062695}{2575645} \times 100\%, = 41.25\%$$

$$C.V_Y = \frac{\sigma_Y}{\bar{Y}} \times 100\%, = \frac{3538107}{22689017} \times 100\%, = 15.59\%$$

$$r_{xy} = \frac{\Sigma xy}{n\sigma_x\sigma_y}, = \frac{1.7869 \times 10^{13}}{5 \times 106295 \times 3538107}, = 0.95$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}, = 0.6745 \times \frac{1 - (0.95)^2}{\sqrt{5}} = 0.029$$

Here, (r>P.E)

Or, 6PE = 6×0.029 = 0.174 (r>6PE)

Appendices-6

Calculate of Current Assets and Current Liabilities

Amount (000)

F/Y	Cash and Bank Balance	Other Current Assets	Total Current Assets	Borrowing	Other Current Liabilities	Total Current Liabilities
2063/064	1757341	656734	2414075	595968	728256	1324224
2064/065	1448143	645094	2093237	943178	876573	1813751
2065/066	3048527	644959	3693486	500000	1019096	1519096
2066/067	3866491	1054384	4920875	500000	1166717	1666717
2067/068	2964651	1513144	447795	510000	1256825	1766825

Appendices-7

Calculation of Borrowing and Shareholder Equity of HBL

Amount (000)

F/Y	Borrowing	Paid Up Capital	Retained Earning	P/L	Shareholder Equity
2063/064	595968	810810	184386	202703	1197899
2064/065	943178	1013513	96842	202703	1315058
2065/066	500000	1216215	36526	383785	1435095
2066/067	500000	1600000	136587	400000	1543905
2067/068	510000	200000	32931	400000	1583850