

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Profit is the difference between revenue and costs (expenses). So, profit is the excess of firm's revenue over the expenses of producing revenues in a given fiscal period. Profit is an important element of profit planning in every profit oriented business organization. It is the primary objectives of a business. Profit plays important role in measuring utility, for better incentives to work and in selecting proper resources. Also profit plays important role in allocating it along with maximizing social economic welfare. It does not occur usually because it is not the contribution of single factor of production. Profits are associated with entrepreneur and his important works. But different economist from time to time has expressed diverse and conflicting views about the nature, origin and role of profit. Till today, there is no complete agreement among different economist about the true nature and origin of profits. According to accounting definition –Profit is the residual of sales revenue minus the explicit (accounting) cost of doing business (Joshi, 2066, P. 51). This profit is the amount available for ownership or equity after payments are made to all others factors used by the business organization.

Profit is the lifeblood of business enterprises which not only keeps it alive but also assures the future and makes it should in other works every such organization need profit to survive and complete in the competitive market. The success and failure of the business depends upon the margin of profit because profit is the primary requirement for its success.

Every profit oriented business concerns involve to profit generating activities. The word profit is brings for visions of reserves. Lynch and Williamson, (1990) define Profit does not just happen; profits are managed. The concept of profit is not new but the concept of profit planning and control is new word in business literature. 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, 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 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.

Every business or institution is established on the definite goals and objectives. All the tasks performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and another is service oriented enterprises. 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. Financial institutions include financial intermediaries like banks, credit unions, saving and credit, money market funds, life insurance companies, pension's funds mutual funds finance companies.

Financial institutions play important role in the economic development. Commercial Banks are one of the vital aspects of this sector. It is the intermediary between the deficit and financial resources. Financial institutions, like banks are necessary to collect scattered saving and put them into productive channels ,in the absence of such institution, it is possible that the saving will not be safety and profitable utilize within economy Banking sector is necessary. Commercial banks perform all kind of banking function such as accepting deposit, providing loans and advance, creating and advancing loan agency function, purchase and discounted of bills etc. They provided short term, medium term and long term loans to the trade and industry for financial facilities.

The relation of profit planning and commercial banks are very important. Commercial banks help to develop national economy by providing financial facilities (credit facilities) for different sector i.e. agriculture, industry, trade etc. profit helps for organization to successfully running in present and future. Planning is predetermined course of action for achieving organization goals. At present thirty two commercial banks are helping not only in sector of deposit mobilization and lending but also to the like different product and service

development and employment generation etc. now Nepal can take pride in the remarkable growth and progress in the banking sector.

Specially, profit planning and control (PPC) model involves:

- 1) Developments and application of broad and long- range objectives of enterprises.
- 2) Development of a strategic long range profit plan in broad terms.
- 3) Development of following of procedures.
- 4) Specification of tactical short range profit plan detailed by assigned responsibilities.
- 5) Specification of enterprises goals.

Establishment of a system of periodic performs report detailed by assigned responsibility etc.

The profit planning and control (PPC) has some requirements, which are as follows.

- a) Comparative and coordinated plans : The budget prepared by all departments, divisions and projects inside the organization have to be coordinated for profit planning and control model.
- b) Express in financial terms : The budget has to be express in monitory units. All activities covered by budget. The budget is express in rupees, dolor and pounds etc.
- c) Operating and recourse plan : The budget must be prepared for specific operation. It must plan for quantity revenue and expenses. The planning for resources will involve planning for assets and source of fund.
- d) Future plan : The budget is a future plan for specific period to be relevant.

As a like in the other profit oriented business enterprises a commercial bank has also to make reasonable profit for its survival. Most of the commercial bank is formed as a company with company with joint stock and the shares being traded at stock exchanges. Therefore profit is a tool of measurement for performance of commercial banks.

1.1.1 Historical Background of Banking Sector in Nepal

Profit planning in commercial bank is interesting research in current situation. Banking sector is very important organization, which helps to other organization by providing financial facility. Before conducting this research we found the knowledge of historical background of banking sector in Nepal is very necessary.

In Nepal financial system is still in evolutionary phase. The existence of unorganized money market consisting of landlord's Shahukar (rich merchant) shoppers and others and indigenous individual moneylenders has acted as a barriers to business credit. During the prime minister ship of Ranoddip around 1887 A.D. a number of economics and financial returns were establishment of the "Tejarath Adda" fully subscribed by the government in the Kathmandu valley was one of them the "Tejarath Adda" disbursed credit to the people, especially on the collateral of valuable things i.e. silver, gold, etc.

In Nepal 75 years ago, modern financial system is established. The history of the modern financial system in Nepal is beginning in 1994.B.S. with establishment of Nepal bank limited as first commercial bank of Nepal. The Nepal bank limited was established under the bank act 1993 with the authorized capital 10 million and paid up capital 0.845 million. The government provided 51 percent equity of the bank and the promoters shares the rest. The bank also performed central banks function until Nepal Rasta bank was established. Nepal Rasta bank the central bank of Nepal is established in 2013 B.S. under Rasta bank act 2012B.S. it started issuing currency in 2016. After establishment, it has been providing policies and guidelines to the financial sectors in one hand and monitoring & controlling them. Nepal Rasta bank proved to be great event towards the development of Nepalese banking sector. At that time there is Nepal bank limited as an only one commercial bank with its 13 branches. At that time Commercial banks are needed for national economic development by financial facilities industry sector and other economic sector. Therefore Rastriya banijya bank came in existence in 2022 B.S. under the Rastriya banijya bank act 2021 B.S. with 100% government equity (www.bankinginnepal.com.np/history.htm).

There after by the purpose of enhancing agriculture development "Agriculture development bank" was establishment in 2024 B.S. under the "Agriculture Development Bank Act 2023 B.S". Agriculture development bank also performing commercial transactions since 2041B.S. now a day's agriculture development bank is running as "A" class commercial bank.

Then in early 1980's His majesty government (HMG) of Nepal permitted for the establishment of new commercial banks under the joint venture with foreign collaboration with in the limits that foreign investment. That should not be more than 50% equity capital. Further "Commercial Bank Act 2031 B.S". Was a view to provide modern banking facilities to introduce advance banking technique and to inform international banking system in

Nepalese society? New banking system helps to sound healthy competition and improving efficiency in commercial banks. After establishment of new policy, Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal Indosez Bank Ltd. (now Nepal Investment Bank Limited) and Nepal Grindlays Bank Ltd. (Now Standard Chartered Bank Ltd.) two other joint venture commercial banks, were established in 1986 and 1987 respectively. There is a tremendous growth in the number of financial institution in Nepal in the last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in Nepal. There were no micro-credit development banks, finance companies, cooperatives and NGOs with limited banking transactions (www.nrb.org.np/banks_in_nepal).

Numbers of Banks, Financial Institutions and financial system in Nepal are as follows:

Table 1.1
List of Bank and Financial Institutions

Bank & Financial Institutions	Numbers
Commercial banks	31
Development banks	87
Finance Company	59
Other Financial Institutions	
Micro Finance (Registered In NRB)	35
Co-Operatives (Registered In NRB)	15
NGO's (Registered In NRB)	31

(www.nrb.org.np/directives, notification : 2070 Aswain)

Table 1.2
Structure of Financial System in Nepal

Regulator	Participants
Nepal Rastra Bank	Commercial banks Development banks Finance companies Micro finance development banks Some of savings and credit co-operatives Some of non-governmental organization
Nepal Government	Postal Saving Banks

	Specialized financial institutions like Employees Provident Fund, Citizen Investment Trust etc
Insurance Board	Insurance Companies

(www.nrb.org.np/directives, notification)

The banks further classified in to various categories on the basis of their functions:

- ❖ Central Bank
- ❖ Commercial Bank
- ❖ Development Bank
- ❖ Merchant Bank

The central bank controls the whole currency and credit of the country. It also undertakes the major functional operation of the government and through this influences the behavior of other financial institutions so as to support and develop the country's economy as a whole.

NRB has following objectives:

-) To formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for sustainable development of economy, and manage it;
-) To promote stability and liquidity required in banking and financial sector;
-) To regulate, inspect, supervise and monitor the banking and financial system.
-) To promote entire banking and financial system in Nepal
-) To enhance its public credibility.

Commercial banks have different functions like accepting deposits, capital formation, granting loans, remittance, foreign exchanges. Various new functions have been introduced by commercial banks like Credit Card, Debit Card, ATM, Tele-banking, e-banking lockers, SWIFT, L.C. etc. The overall operations are similar to commercial bank of development and merchant bank.

Development bank is focused on the development of the certain sectors of the economy and the services of merchant banking cover project counseling, per investment activities, feasibility studies, project reports, design of capital structure, issue management, underwriting, loan syndication, and mobilization of funds, venture capital and public deposits.

Merchant Banking is skill based activities and involves serving financial need of every client. Merchant Bankers can turn to any of the activities depending upon resources such as capital, foreign tie-ups for overseas activities and skills. The issue of securities is the core of merchant banking function. The issue function may be broadly divided into pre-issue management and post-issue management (www.nidc.org.np/merchant_banking).

Banking sector is a very important sector for economic development of countries. Commercial bank is a resources mobilizing organization, which accept deposit from different sources and mobilize the loan disbursement in different sectors i.e. industry, trade, agriculture, tourism, education, etc. It maintains economic confidence of various segments and extends credit to people. Commercial bank considers supplying of credit facilities. The systematic banking function is as follows.

- It lends money.
- It accepts money on deposits
- It creates and lends its own credit etc.

1.1.2 Functions of Commercial Bank

Commercial bank is one of the most important sectors for economic development. It provides financial resources for economic activities. i.e. trade, industry, agriculture etc. which plays an essential role in acceleration of the economy growth in nation. They help in formation of the capital by investing the saving in productive area. Rural people of underdeveloped countries like Nepal various banking facilities to enhance its economy. Commercial banks are those financial institutions which performed widest range of economics and financial function of any business firm in the economy moreover they also provide technical help. Commercial banks provide suggestion relating to administration and safe keeping of valuable items. Commercial bank provides modern banking service to industries and commerce are also carried out by these banks. Financial institution like bank are necessary to collect the scattered saving and put them into productive channels. It is possible that the saving will not be safely and profitably utilize within the economy. Underdeveloped countries are affected circle of poverty line. Per capita income and GDP face many economic problems in Nepal in order to collect the enough saving and put them into productive sector, so sector is necessary.

It will be utilizing within the economy and will either divert abroad or used for unproductive consumption speculative activities.

Function of commercial banks is necessary for economic development in our country. The major function of commercial is as follows

-) Commercial bank accepts deposit in any time as a current deposit, saving deposit, and fixed deposit.
-) Commercial bank provide loan on investment sector as a short term loan, medium term loan and long term loan for industry and commerce.
-) They can advance loan to individual or companies against securities of share and debenture silver, gold bill, promissory notes, and note government security.
-) Help to issue share and debenture of any company guarantee or underwriter such share or debenture and undertake any agency business but not become a managing agent.
-) Issue letter of credit and credit instrument.
-) Remit or transmit money to different place within or outside the kingdom.
-) Purchase and sale of the securities of government.
-) Running under the regulation of Nepal Rasta bank.
-) Collecting and discounting inland and foreign bills.
-) Dealing of foreign exchange.
-) Economics information and statistics.
-) Cash credit.
-) Overdraft payment.
-) Reference etc.

1.1.3 Profile of Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French Partners. The French partner (holding 50 percent of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50 percent shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rstra Bank and Company Registra's office with the following shareholding structure. A group of companies holding 50 percent of the capital. Rashtriya Banijya Bank holding 15 percent of the capital. Rashtriya Beema Sansthan holding 15 percent of the capital. The remaining 20 percent being held by the General Public. "The NIBL's vision is to be the most preferred provider of Financial Services in Nepal". The bank has 4000 Million of authorized capital and the proposed amendment of authorized capital of bank is NRs 4000 million for the purpose of bonus share and issue of right share. Issued capital of the bank is NRs 3768.01 Million and fully paid up. NIBL has a history of providing high quality services to valued customers and sound return to stakeholders over two decades. It is the mission to continue this legacy and sustain growth path. The Bank has been awarded the prestigious award "Bank of the Year 2010" by the London-based Financial Times Group's. The Banker making it the first Nepali Bank to win the award fourth times. NIBL had also won the "Bank of the Year 2003" award, "Bank of the year 2005" and "Bank of the year 2008". The Bank was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by the Banker. The award is based on the growth and performance in terms of capital, assets, and return on equity and management quality. The Bank of the Year 2010 award has energized to remain focused on NIBL mission. Winning this award for the fourth time has not only recognized the overall banking value it has created for the market but has testified endeavors to live up to the expectations of ever growing loyal customer base. Likewise the bank has awarded by "Best Presented Accounts Award 2006" by the institute of Chartered Accountants of Nepal (ICAN).

NIBL has the largest local network in the country. The head office of the bank is located at Durbarmarg, Kathmandu. Besides the head office, the bank has 44 numbers of branches with in the country and operates 75 ATMs all over Nepal. It has target 50 branches up to year 2014. The branch office of NIBL is shown in Appendix No. 9.

1.2 Statement of Problem

Profit planning and control model provides a tool for more effective supervision of individuals operations and practical administration of a business as a whole. Profit plan is one of the most important managerial devices that play key role of the effective formations and implementation of strategic as well as tactical plans of an organization. Profit planning

system requires the effective coordination between various functional budgets of an organization like as sales plan, production, material requirement budget, labour cost budget, cash budget and capital expenditures budget.

In our country, the industrialization is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including commercial banks. Commercial banks play vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form a burden to contribution margin which, the banks are attempting to compensate by other income generated out of non fund based business activities of the bank.

This study has tried to analyze and examine the PPC side of commercial bank taking a case of NIBL. Furthermore the study has tried to answer the following research questions.

- 1) Dose NIBL has appropriate profit planning system?
- 2) What is the budgeting approach of NIBL?
- 3) Dose the bank mobilize the deposit and other resources at minimum cost?
- 4) What is the situation of income and expenditure of banks?

1.3 Objectives of the Study

This study is mainly concerned with budgeting system of NIBL. The fundamental objective of this study is to assess the budgeting system of NIBL to study the application of comprehensive PPC system in NIBL. Apart from this following are the other objectives of the study.

- 1) To focus the current profit planning premises adopted and it's effectiveness in NIBL.
- 2) To study the Budgeting approach used in NIBL.
- 3) To analyze the variance of budgeting and actual achievement.
- 4) To analyze of income and expenditure of the NIBL.

1.4 Limitation of the Study

This study is focused on profit planning of NIBL. So, it believes the past “patterns” and “trends” of bank report will recur 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 far as possible yet here are some limitations these are as follows:

- 1) The study focuses on profit planning and its application in NIBL.
- 2) Since, the report is prepared 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 2009 to 2013.
- 3) In this study, the sample of NIBL is selected among all the commercial banks. But these may not represent the character of financial institutions.
- 4) This study is analysis with the help of financial tools and few statistical tools.
- 5) This study is meant only for the fulfillment of requirements Master of Business Studies (MBS).
- 6) 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.

1.5 Significance of the Study

This study is mainly concerned with profit planning and control of commercial bank with a case study of NIBL with the major objectives of examining 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 help of the best utilization of resources. Budgeting is the key to productive financial planning so all the organizations running under commercial principle have to give regard to these most important single tools while managing their physical and financial target. If planning process of an organization is effective and result oriented the pace of development naturally steps forwards.

Profit planning part is the heart of management. It tells us profit is the most important indicators for judging managerial efficiency and do not just happened for this every organization has to manage its profit. Various financial budget are the basic tools for proper planning of profit and control over them. It may be useful for those who want to know the Profit planning in the NIBL and may also be help for the future researchers as a reference material.

1.6 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 & Analysis

Chapter V – Summary, Conclusion & Recommendation

Chapter I – Introduction:

The first chapter deals with introduction. This includes Background of the study, Nepalese Economy, Current Macroeconomic Situation, Importance of Financial Institutions, Histories and Development of Banks in Nepal, Statement of Problems, Objectives of the Study, Profile of NIBL, Rational of the study, Limitations of the study, Organization of the Study.

Chapter II – Review of Literature:

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

Chapter III – Research Methodology:

The Third chapter explains the research methodology used in the study, which includes research design, nature and source of data, data collection techniques and methods of data analysis.

Chapter IV – Data Presentation & Analysis:

The fourth chapter, which is the important chapter of the study, will be including presentation and analysis of data by using financial and statically tools.

Chapter V – Summary, Conclusion & Recommendation:

This chapter deals about summary and finding based on the facts and analysis presented in the fourth chapter. On the basis of this study: various recommendation and suggestion also have been presented for consideration.

A bibliography and appendices will be attached at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

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

2.1 Conceptual Review of Profit Planning

2.1.1 Concept of Profit Planning

Profit and planning is major element of profit planning. Before explanation of profit planning, it is necessary to understand about profit planning. So, these two element are explained separately are as follows.

2.1.1.1 Profit

Profits are the excess of income over cost of production. The expenses made on production are included in costs. The cash item such as salary that entrepreneurs would earn if they worked for others, rent that their land would earn if because, these opportunity cost do not appear in the books of account. But the economists hold the view that these factors should also be considered or subtracted to arrive at pure or net profits.

Profit is an important to a firm as water to the fish. Each business firm primary established a vied to earn profit (Joshi, 2009, P. 55). Profit earned by a firm its primary measure of success. Because, although in modern days many alternative objectives of firm has been cited, nobody has been able to completely wipe out the profit maximizing objectives or the objective of earning reasonable rate of profit . Profit is the main tests of individual firm's performance.

According to accounting definition- profit is the residual of sales revenue minus the explicit (accounting) cost of doing business (Joshi, 2009, P. 51). In other hand, calculating profit economists also include normal rate of return on equity and the opportunity cost of owner entrepreneur.

A view of profit state that the entrepreneur is special type of labor (hard work) and profit is a wages. The entrepreneur earns profit for organizing and co-ordinating the other factor of production land labor and capital (Shrestha, 2067, P. 6).

So, profit is the life blood and primary measures of organization. Profit is the best index of a business performance. Profit is the signal of the business men enterprises to change the level of production or to enter or leave the industry. Also profit is the heart of free enterprises system.

2.1.1.2 Planning

Planning is the important tool of management. Planning is a deciding in advance. What is to be done in future, it is the method of thinking out acts and purpose beforehand it is the determination of action achieves as desired result. Also planning is the basic function of management; it may be defined as the selection from among alternatives of course for future actions. It is the function by which the manager decides what goals are to be accomplished and how they are to be reached.

Environment is dynamic and changeable. So, planning is also changeable and continuous process because conditions do not remain static conditions change rapidly and therefore plans should be revised and reformulated to adapt to the changed conditions. Planning is tool of developing and achieving the organizational objectives. Planning is process of developing enterprises objectives and selecting a future course of action to accomplish them. it includes 1) SWOT analysis 2) Forecasting of assumption 3) Goal setting 4) Finding alternatives course of action 5) Evaluation of alterative 6) Selecting of best alterative 7) Formulating of action plan 8) Prepare budget 9) Evaluation.

Management planning involved the development of forecasts objectives, policies, programmers, procedures, schedules & budget (Allen, 2010, P. 17). From this definition

planning is the dream which is made systematic way to conduct for future work efficiently and effectively.

So, planning is very necessary thing or jobs for sector. Businessman cannot achieve effective goal without planning there are two categories of plan these are tactical or short-term plan and long term plan.

2.1.1.3 Profit Planning

The profit planning and control can be defines as a process/techniques of management that enhance the efficiency of management through planning revenues and expenses. It is a part of overall planning process of an organization. The profit planning and control is used for the development and acceptance of objectives and goals as well as moving an organization efficiently to achieve objectives and goals. It is not a separate technique that can be through of and operated in dependently of the total management process. The broad concept of profit planning and control, entails an integration of numerous managerial approach and techniques that might be exploited such as sales forecasting , quota system, cash flow analysis, variable budget, production planning and cost control. A profit planning and control programs helps the management to perform planning function by developing a long range and short range profit plan. Profit planning and control is an important approach, which has been developed for facilitating effective performance of management system mainly in profit oriented enterprises.

Some definitions given by scholars are;

Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management (Welsch, 2006, P. 35)

A profit plan or budget is the formal expression of the enterprises plans and objectives stated in financial terms for a specified future period of time (Pandey, 2008, P. 21)

The concept of a comprehensive budget covers its use in planning, organizing and controlling all financial and operating activities of the firm in the forth coming period (Williamson, 1989, P. 33)

Profit planning and control represents an overall plan of operations, providing guidelines to management and acting as signal light for the management. It enables the management to correct its policy profit planning and control covers a definite period of time and formulated the planning decision of management. It consists of three main budgets (Ojha and Gautam, 2067, P. 122).

Operational budget: Budget related with revenue and expenses, such as sales budget, production budget, purchase budget etc

Cash budget: Budget related to receipt and payment of cash.

Financial budget: Budget related with financial statement such as balance sheet, income statement etc.

Appropriation budget: Budget related with a advertising and publicity expenditure, research etc.

2.1.2 Origin of Profit Planning and Control

Towards the end of 1921 national budget for the FY 1922/23 was prepared in U.S.A. with the introduction of national budget in U.S.A businessman started realizing the importance of the budgeting National budgeting. National budget covers or implies on the following:

- 1) Forecast the probable future expenses.
- 2) Analysis of the source from which income is to be realized to meet the expenses.
- 3) Maintaining co-ordination between expenses and source of income.

During that time U.S.A. businessman was also suffering from the problem of co-ordination between expenses for materials, rent and labor etc. and receipt from sales, so they started thinking about adoption of the budget. Slowly and gradually they started adopting the budget. This can be considered as origin of profit planning and control.

The first book ever written in business budget was published in UK in 1932. The name of the book was “Business budget and budgetary control”. And the writer was A.W. Willsmore. This book is a collection of six articles written by him, which were published in “The Times”

engineering supplement published between 5-12-1931 to 6-12-1932 but this philosophy could not get popularity in U.K. before 1936.

Interest of British business was aroused by Mr. R. Dankerly who presented interesting reviews on several industries of U.S.A, which has introduced and adopted budgeting at the sixth international engineers for scientific management held in London in 1935 but actual popularity at PPC was gained after war.

2.1.3 Basic Assumption and Limitation of PPC

Profit planning is more useful in all kinds of profit oriented organization. The usefulness of PPC to very small business could have been circumvented by an early attempt to qualify the dreams of head strong but sloppy thinking entrepreneurs who never directly faced the uncertainties of their venture. But there are so many assumptions of using PPC systems. PPC has estimates on the business with every other aspect to establish optimum profit goals and PPC is preplanning not merely what to do if things work out as forecasted but what to do if things work out differently from the forecast.

PPC is an important tool for management. However, each tool suffers some limitation and its use is useful within these limits. PPC is also not a limitless tool, so it is essential that the user of PPC must be having a full knowledge of its limitations (Goet, Bhattarai and Gautam, 2063, P. 16).

The limitations of PPC are as follows

1) Based on estimates

It is not exact science. Its sources depend upon precision of estimates. The success of profit planning depends to large degree on the accuracy with which the Basic estimates will make. Therefore, estimates should be made on the basis of all the facts available. Management used modified statistical tools and can make the accurate estimates.

2) Application for long period

Profit planning is not possible in a short period. It is a continuous process in business. It should be revised and modified with changed situation in the business

3) Execution is not automatic

A skillfully prepared profit planning and control will not itself improve the management of enterprises, unless it is properly implemented for the success of profit planning and control. It is essential that all the related persons inside the enterprises should understand it. It mostly required that each executive must feel the responsibility and should make efforts to attain the budgeted goals.

4) Danger in rigidity

Profit planning and control is an estimation and quantitative expression of all relevant data. So, there can be tendency to attach some sort of rigidity or finality to them. However, rigidness makes profit planning and control useless for usefulness the profit planning and control must be flexible various techniques must be tried, improved or discarded and replaced with others; in other words, a profit planning and control programmed must be dynamic in every sense of the words.

5) Not a substitute for management

Profit planning and control is a management tool. It is not a substitute for the management. It is totally wrong to think that introduce of PPC is alone sufficient to ensure success and to guarantee future profits.

6) Costly affairs

The installation of PPC system is an elaborated process involving too much time and costs. Normally it is so costly that small column cannot afford to it. Even for a large concern, it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits derived from it.

7) Lower moral and productivity

Unrealistic targets should not be set and used as pressure tactic. By doing it PPC will lower moral and productivity to some extent, PPC may be used as pressure device but it extent must be carefully determined.

8) Proper evaluation

For finding out the inefficiencies, proper evaluation is made. In the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performance, standards also should be examined regularly.

2.1.4 Purpose of Profit Planning and Control

A comprehensive profit planning and control is a systematic and formularized approach, for stating and communicating the firm's expectation and accomplishing management function in such a way to maximize the use of a profit plan and to achieve the particulars span of time. It sense as a tool for management control. The purpose of budgeting of profit planning and control may be summarized as follows.

-) To communicate expectation to all concerned with the management to the Firm so that they are understood, supported and implemented.
-) To provide a details plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
-) To state the firm's expectation (goal) in formal terms clearly to avoid confusion and facilities their attainability.
-) To coordinate the activities and efforts, in such a way that the use of resources is maximized. It provides coordinated plan of action, which is design to achieve the estimates reflected in the budget.
-) To provide guide for a management decision in adjusting plans and objectives as condition change. It also expected to provide a ready basis for provide guidelines to managers in making day to day decisions.

2.1.5 Role of Budgeting: Profit Planning and Control

An effective budgeting system is vital to the success and survival of a business firm without a fully coordinate budgeting system, management cannot know the direction the business is taking out. Organizations that do not plan are likely to wonder aimlessly and ultimately succumb to the swirl of current events. Role of budgeting or PPC are as follows.

-) PPC has developed basic policies for direction to the business
-) It provides definite goals and objectives that serve as benchmarks for evaluating subsequent performance.
-) Managers at different levels have to participate in the development of the profit plan. This provides an excellent training ground for the managers to know the process of planning in debt.
-) PPC coordinates the activities of the entire organization by integrating the plans objectives of the various parts.
-) It uncovers subsequent bottlenecks before they occur.

-) It compels management to plan for the most economical use of labor, material and capital.
-) It reduces cost by increasing the span of control because less supervision is needed.
-) It aids in obtaining bank credit bank commonly require a projection of future operations and flows to support large loans.
-) It provides a tool through which managerial policies and goals are periodically evaluated, tested and established as guidelines for the entire organization.
-) It develops an attitude of cost consciousness, stimulates the effective use of resources, and creates an environment of profit consciousness throughout the organization.
-) It helps one distinguish between actual need and wants. It enables the management to lay down an order of priorities and reflects some planning of long and short term requirements in a business etc.

2.1.6 Fundamental Concept of Management

The fundamental concept of management concept of PPC includes the underlying activities or tasks that must generally be carried out to attain maximum usefulness from PPC. The concept of budgeting was originally established with the function of an accountant. At its origin, the function of budgeting was assigned to the accountant. But in modern day budgeting is given much more importance and is regarded as a way of management and in more important sense is regarded as a basic technique of decision making and is given the name “profit planning and control programmed”. The following are some of the importance essentials or fundamentals for successful profit planning and control.

1. Managerial involvement and commitment

Managerial involvement entails managerial supports, confidence, and participation and performance orientation. In order to engage competently in comprehensive profit planning and control, must 1) understand the nature and characteristics of profit planning and control 2) be convinced that this particular approach to managing is to devote the effort required to make it operative 3) support the programmed in all its planning process as performance commitments.

2. Organization adaption

A PPC programmed must rest upon sound organizational structure for the enterprises and a clear-cut designation of lines of authority and responsibilities. The management would be assigned specific authority and responsibility for the operational activities in

department or subunits. These departments are often referred to as decision center or responsibility centers. Responsibility centers are further classified in respect to the extent of responsibility as follows.

- a) Cost center b) Profit center c) Investment center

3. Responsibility accounting.

In order to set up PPC on a sound basis, there must be a responsibility accounting system, that is, one tailored first and foremost to the organizational responsibility.

4. Full communication

Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication is needed for both the forward and feedback processes which are most important for the operation of any organization.

5. Realistic expectation

Profit planning and control must be based on a realistic approach or estimation. Management must use realistic assumptions and must not take either irrational optimism or unnecessary conservatism.

6. Time less

Whether an individual or an entity remains idle or busy, time passes at the same rate. The problem of the manager in one sense is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself.

7. Individual and group recognition

Behavioral aspects of human beings are the field of study of the psychological educator and business man and a finding was that there can be so many unknown misconceptions and speculations which have to be considered for an efficient management.

8. Follow up

The importance of follow-up action on the PPC approach is much more. Follow-up action after a careful study is needed to :

-) Correct the action of substandard performance in a corrective manner.

-) To recognize and transfer the knowledge of outstanding performance to others
-) On the basis of the study and evaluated to provide a sound basis further PPC program.

9. Flexible application

Profit planning and control programmed or any other management techniques should not dominate management. Any of such techniques of management must not be flexible or rigid. These are the techniques or means, which are not only the end of the management itself because the main end or aim of the management is to use the resources in the most effective way and earn high return on investment and for this purpose PPC or other techniques are used as means only.

2.1.7 Developing of Profit Planning and Control

Development of profit plan includes the preparation of various functional budgets, analysis of variance and presentation, of projected income statement and balance sheet. Top management with the participation of lower management involves in the development of profit plan. Developing profit plan begins with preparation of master budget (Welsch, Gordon and Hilton, 2006, P. 71).

The steps included in the preparation of master budget are as follows.

- Step 1: Forecast demand for products or services.
- Step 2: Identify cost patterns for responsibility centers.
- Step 3: Estimate production cost.
- Step 4: Specify operating profit.
- Step 5: Develop sales budget.
- Step 6: Develop production budget.
- Step 7: Develop purchasing budget.
- Step 8: Formulate profit plan.
- Step 9: Compare profit plan with objectives.
- Step 10: Formulate a projected cash budget.
- Step 11: Prepare a projected statement of financial positions.

2.1.7.1 Cash Budget

Cash budget is an effective way to plan and control the cash flows; assets cash needs, and effectively use excess cash. The primary objective of cash flow is to plan the liquidity position of the company as a basis for determining future borrowing and future investments, of cash budget shows the planned cash inflow, outflow and ending position by interim periods for a specific time span. It is directly related to the plans such as the sales plan, account receivable and the expenses budget and capital expenses budget.

The primary purpose of the cash budget is:

-) Identify cash excesses or shortage by time periods.
-) Given the probable cash position at the end of each period as a result of planned operations.
-) Establish a sound basis for continues monitoring of the cash position.
-) Established the need for financial and or the availability of idle cash for investment.
-) Coordinate cash with a) total working capital b) sales revenue c) expenses d) investment e) liabilities

2.1.7.2 Performance Report

Performance reporting is an important part of a comprehensive PPC system. The performance reporting phase of a comprehensive PPC program significantly influences the extent to which the organizations planned goals and objectives are attained. A performance reports should be prepared periodically generally, on a monthly basis and occasionally on weekly or daily basis for each responsibility, standing with those at the lowest level, which intern are compiled into summary report for each higher level. Performance management compares actual results with plans, objectives and standards so that the significant difference is brought to management.

Certain criteria must be developed in designing, performance reports i.e. performance reports should be.

- 1) Tailored to the organizational structure and locus of controllability (that is by responsibility centers)
- 2) Designed to implement the management by exception principle.
- 3) Repetitive and related to short term periods.
- 4) Adapted to the requirement of the primary users.
- 5) Simple, understandable and report only essential information.

- 6) Accurate and deigned to pinpoint significant distinctions.
- 7) Prepared and presented promptly.
- 8) Constructive it tones.

2.1.8 Commercial Bank

2.1.8.1 Concept of Commercial Bank:

Meaning of 'Bank' in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheques. Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of co-operative, agricultural , industrial or any other of such kind of specified purpose (Commercial Bank Act, 2031).

The major functions of commercial banks are as follows:

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

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

2.1.8.2 NRB Regulation

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

-) To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.
-) To provide qualitative services by the means of healthy competition among the banks.

) To provide guides lines about establishment, operation, management, rules, regulations and legal provisions.

2.1.8.2.1 Prescribed Regulations for Commercial Banks

a) Capital Adequacy

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

b) Loan loss Reserves

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

c) Reserve Requirements

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

d) Reporting requirements

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

e) Systems and Policy Documents

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

f) Technology and Technical Service

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

2.1.8.3 Evolution of Commercial Bank

The Latin word 'Bancus', Italian 'Banca', French 'Banque' are the original form of the modern bank. According to some authors the word 'Bank' is derived from all of above words the meaning of all words to a bench. This refers that early bankers transact their money lending

activities on benches in the market exhibiting the coins of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word ' Banc' meaning joint stock fund (Varshney, 1993 P. 145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term "bankruptcy" is derived thereof.

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

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

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

had Heroic accountability of attracting people toward banking sector from pre dominant money lenders net and of increasing banking services.

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

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

The growth of financial sector in Nepal is much better compared to the other sectors in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued growing. Nepalese Financial sector is comprised of organized and unorganized sector. The Nepalese organized financial sector is composed of banking sector and non banking sector. Besides commercial banks, there are sizeable numbers of development banks, finance companies, micro-credit development banks, cooperative, NGOs and postal saving offices that undertake limited banking and financial services. Non-bank financial sector comprises Funds, Trusts and thrifts like, Employee Provident Fund, Citizen Investment Trusts, and Mutual fund. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all

the potentialities of business till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three times of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. The list of commercial bank in Nepal is shown in Appendix No. 10.

2.1.8.4 Role of Commercial Bank in the Development of the Economy

The role of commercial bank is an important for national economy. They provide capital for the development of trade, industry, business and other resources sectors by investing the saving collected as deposits. In this way they contribute to the economic growth of nation. Besides this, commercial banks render numerous services to their customer in view of facilitating their economic and social life all economic activities of each country are greatly influenced by the commercial banking business of that country thus; commercial banks have become heart of financial system. They also finance in small and cottage industries and agriculture sector under priority sector in investment scheme to serve the marginal people. The role of commercial banks in economy is obviously prime requisite in the formulation of bank policy. A key factor in the development in the country in the mobilization of domestic resources and their investment for productive various uses to various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial banks maximizes quality and quantity of investment and there by achieve the own objectives of profit maximization and social welfare.

Commercial bank help the creation of income out of further saving by the community and further commercial banks collect many kinds of deposits and loan disbursement in economic productive areas. Commercial banks also provides the flexibility and mobility to the customer because the payment can be mostly speedy and efficiently carried out. In a planned economy banks make the entire planned productive process possible by providing funds to public sectors, joint sectors or private sectors for any types of organization.

2.1.9 Profit Planning in Commercial Banks

Profit planning in manufacturing sector is common it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending expenditure, income, investment, non fund base business etc. these budget are taken as functional budgets despite this budget now a days bank also prepare for future plan this is called profit plan.

2.1.9.1 Planning for Resources

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

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

2.1.9.2 Non-Fund Consuming Income Plan

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

2.1.9.3 Planning for Expenditure

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

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

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

2.1.9.4 Planning for Revenue

The major expenditure of banks is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund by taking some margin. The sources of income for bank is not only the interest other non funded sources are also can generate income whereas interest is dominant one. The major sources of revenue for a bank are listed below:

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

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

2.1.10 Application of Profit Plan in Banking Sector

Traditionally comprehensive profit planning and control was applicable only to large manufacturing and complex organization. But in the modern concept the profit planning and control is applicable non-manufacturing enterprises too, like service companies, financial institutions, hospitals, retail business, construction companies etc. The fact 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 days banking sector are also curious about preparing profit plan budget. Functional budget only gives their operational plan where as PPC gives idea about profit maximization.

2.1.11 Execution of Profit Planning and Control

The only preparing profit is useless while it doesn't come in execution. The plan should be developed with the confidence that the enterprises are going to meet or exceed all major objectives. The final examination of whether the hard work and cost in developing a profit plan are worthwhile is its helpfulness to top management.

The development of an annual profit plan ends with the planned income statement, the balance sheet and planned statement of changes in financial position. These three statements summarize and integrate the details of plans developed by the management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of budget potential. Timely completion of the planning budget suggests the need for a budget calendar (Welsch, 1999, P. 265)

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and selection considerable coordinate and controlling belongings.

After execution of profit planning the performance should be reported. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

2.2 Review of Related Studies

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

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

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

Thing (2006) conducted a study on Credit Planning Control in Machhapuchhre Bank. The major concern of Mr. Thing is to study the credit planning control in Machhapuchhre Bank. His major objectives and some of major findings are as follows.

Objectives

-) To analyze the credit planning of Machhapuchhre Bank Ltd.
-) To analyze the credit practices adopted by bank.
-) To explore the causes of credit in efficiency of Machhapuchhre Bank Ltd.
-) To examine the relationship of loan and non performing loan on net profit.

Some of Major Findings

-) The main cause of decreasing operating and net profit. Volume is the causes of increasing non performing loan of the first two years of the study period were found very high that resulted low level of operating profit and net profit.
-) The resulted also found that there is high and positive relationship of credit and net profit.
-) Similarly negative relationship between non performing loan and net profit.
-) It means that increment of the non performing loan have high implication in determining net profit because the regression coefficient appeared.
-) The result of primary information showed that relationship of client with top authority, personal integrity of borrower and loan port folio manager are the cause of credit in efficiency. Besides, internal reasons such as weak monitoring miss management and external reasons such as economic and industrial recession, in consistency in government policy are the main of credit in efficiency.

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 of profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.

Some of Major Findings

- The liquidity position of EBL is comparatively better than that of Nabil and Bok. In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance o meet the customers demand.
- EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- From the analysis of assets management ratio it can be found that EBL is in better position as compared then that of Nabil and Bok.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- BOK has higher investment on shares and debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund 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 the earning capacity of the banks loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V. of credit ratio and average C.V of

liquidity risk ratio and capital ratio over the study 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 earning 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.

Adhikari (2010) conducted a study on Profit planning and controlling in Nepalese Commercial Bank: Comparative study on Nepal Investment Bank and Himalayan Bank Ltd. The major concern of Mr. Adhikari is to study the profit planning in Nepalese Commercial bank by taking a comparative case study on Nepal Investment Bank and Himalayan Bank limited. His major objectives and some of major findings are as follows.

Objectives

-) To analyze the major functional and Financial Plans formulated and implemented in both bank.
-) To sketch the main problems of developing and implementing profit planning system in both Banks
-) To examine the outcome of those plans in term of achievement
-) To point out possible suggestion and recommendations of both bank with the earns to profit planning system comparatively.

Some of Major Findings

-) A cost control mechanism is found not to follow.
-) No proper profit planning strategy seems to be developed although HBL is operating at profit but NIB is running with heavy cumulative loss.
-) There is no detailed publicity of their utilization of their money effectiveness extract interested and annual final account report.
-) NIB is unable to control idle expenses and its profit is negative or highly fluctuation.
-) Government seems less conscious in the present situation of NIB.

Tiwari (2011) 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 to study the profit planning in commercial bank by taking a case study of SCBL.

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.

Some of Major Findings

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

Sigdel (2012) conducted a study on Profit Planning in Nepalese Commercial Bank: A case study of Machhapuchhre Bank Ltd. The major concern of Mr. Sigdel is to study the profit planning in commercial bank by taking a case study of Machhapuchhre Bank Limited. His major objectives and some of major findings are as follows.

Objectives

-) To examine the profit with trend & regression methods with expenditure.
-) To examine the loan of advance with trend of regression method with deposits.
-) To highlight the total review and expenditure of the bank.

Some of Major Findings

-) The banking cost is relatively higher.
-) Most of the investment made against the security of the land, gold and silver.
-) The analysis of the position of deposit in Machhapuchhre Bank shows that the deposits which are raised by the bank are not properly utilized.
-) Bank does not make proper annual report of balance sheet profit of loss a/c and other related documents due to pressure of government.
-) Bank has not been managed in true professional approach but managed in bureaucratic approach to sustain with political environment rather than commercial environment.

2.3 Research gap

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism.

Most of the past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in Rastriya Banijya Bank, Himalayan Bank, Standard Chartered Bank, Nepal Bangladesh Bank. All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institution. Through many affiliate researchers have been done in this area but these have been very few exclusive researchers on this subject. This study may be a new study in this field as no study has been made profit planning of NIBL. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extra ordinary items of income generation in financial institution. To bring the forth the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. It had been made to understand the Profit Planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

CHAPTER-III

RESEARCH METHODOLOGY

Research Methodology is a systematic way to solve the research problem. In order to achieve the objective of the study, a proper methodology should be adopted. This chapter is concerned with the procedures in chapters that are adopted in the research work. This chapter provides the overall framework or plan for the collection, presentation and analysis of data required to fulfill the objectives of the study. Research Methodology is the way to solve systematically about the research problem. Thus, research methodology is a sequential procedure and methods to be adopted in a systematic study. It includes the research design, population and sample, selection of study unit, source of data, data collection technique and data analysis tools. In order to achieve the objectives of the study, following proper methodology has been adopted.

3.1 Research Design

Research design is a proper framework of the study for collection and analysis which helps to do research in any field at minimum cost and time in successful manner. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Nepal Investment 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.

3.2 Population and Sample

Population is a set of groups, individuals and elements having the same nature, importance and existence. Sample is only the portion or subset of the population. Thus all the groups, individuals and elements under the study are the population and unbiased representation of the population is sample, in real sense. For the study purpose, those commercial banks are taken as the population, which have completed their five year of operation till the date of 2070 Ashad. There are 31 commercial banks in Nepal. From the population of 31 commercial banks, Nepal Investment Bank Ltd. (NIBL) is selected as sample by using convenience sampling method.

3.3 Selection of Study Unit

NIBL is one of the well established commercial bank in Nepal. NIBL 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. The bank has been awarded the prestigious award "Bank of the year" by the London based Financial Times Groups. It is the first Nepali bank to win the award fourth times. Likewise the bank has awarded by "Best Presented Accounts Award 2006" by the Institute of Chartered Accountants of Nepal (ICAN). From the above reason NIBL bank is selected as a sample from the population of 31 commercial banks.

3.4 Sources and Collection of Data

The study is mainly based on secondary data. Relevant data and information's are collected through the quarterly and annual financial reports, official records, web site, brochures, prospectus and other relevant publications of NIBL, NRB, Central Bureau of Statistic and relevant publications. Literature review are collected from the Western Regional Library Pokhara, Central Library TU, different journals, magazines as well as published and unpublished reports documented by the concern authorities. Some of the ideas and information is collected from sharing open discussion with the officers of selected commercial bank.

3.5 Data Analysis Tools

In this research work, descriptive tools are used to get the meaningful result of collected data and to meet the research objectives. We have analyzed the data by using various Statistical and Financial tools in this study. The collected data is presented in tables and figures as

required and result is organized, tabulated, analyzed and processed using various tools as described in the following section.

3.5.1 Statistical Tools

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

-) Mean
-) Standard Deviation
-) Correlation of coefficient
-) Coefficient of variation
-) Probable Error

3.5.1.1 Arithmetic Mean

Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observation.

$$\text{Average}(\bar{X}) = \frac{\text{Sum of observations}}{\text{Number of observations}}$$
$$\bar{X} = \frac{X}{n}$$

Where,

\bar{X} = Arithmetic Mean

n = Number of observations

X = Sum of observations

3.5.1.2 Correlation of Coefficient

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

for computing Person's "r" is:

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

Where,

r = Correlation Coefficient

x = $X - \bar{X}$

y = $Y - \bar{Y}$

X = Independent variable

Y = Dependent variable

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

-) When $r = +1$, it means there is a perfect positive relationship between the variables.
-) When $r = -1$, it means there is a perfect negative relationship between the variables.
-) When $r = 0$, it means that there is no relationship between the variables i.e. the variables are uncorrelated.

3.5.1.3 Standard Deviation (†)

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

$$\text{Standard Deviation (†)} = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

Where, † = Standard Deviation

3.5.1.4 Coefficient of Variation (CV)

Coefficient of variation is the relative measure of dispersion based on the standard deviation. It is most commonly used to measure the variation of data and more useful for the

comparative study of variability in two or more series or groups or distribution. Thus, it is undertaken to compare the variability in various data of sampled commercial bank. The coefficient of variation is defined as:

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Where,

σ = Standard Deviation

\bar{X} = Average or Mean

3.5.1.5 Probable Error (PE)

The PE of the coefficient of correlation helps to interpret its value with the help of probable error. Significance test is done with the help of calculation of PE. It is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The PE of the correlation of coefficient is obtained as follows:

$$\text{Probable Error (PE)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Where,

n = Number of Observations

r = Coefficient of Correlation

If the value of 'r' is less than the probable error, there is no evidence of correlation and if the value of 'r' is more than six times the probably error, the coefficient of correlation is practically certain or the value of 'r' is significant.

3.5.2 Financial Tools

To make relational interpretations, keeping with the objectives of the study, various analytical financial tools have been used in the studies, which have been mentioned below:

) Ratio Analysis

Ratio analysis is such power full tool of financial analysis that thought the help of it economic and financial position of business unit can fully x-rayed. Following of the ratio analysis tools is used in this studies.

- Liquidity Ratio
- Leverage Ratio
- Activity Ratio

- Profitability Ratio

) CVP Analysis

Relationship between cost, volume and profit is called cost volume profit (CVP) Analysis. The CVP analysis is a tool of Profit planning used by management. The three component of CVP analysis is interrelated each other. Profit depends on Sales; Sales price depends on volume of production. CVP analysis helps to management for decision making about the cost control. The CVP analysis is analyzed by using the help of financial tool of break even point analysis in terms of interest margin, deposit collection, outstanding LDO.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Presentation and Analysis of Data

Every business concern has an objective of profit making likewise commercial banks also has same objective of making profit. NIBL as a commercial bank performs various activities to achieve the objective and give sufficient return to stake holders. The general activities of NIBL are listed below.

-) Collection of Deposits
-) Providing loan and advances
-) LC services
-) Remittance services
-) Issuing bank guarantee
-) On line Bill payment services
-) Safe locker services
-) Credit /Debit cards
-) Trade finance
-) Bills Purchase
-) Export Credit
-) Clearing /Collection

4.1.2 Profit Plan of Nepal Investment Bank Limited (NIBL)

The bank prepares the some of functional business budgets which includes the business budget, revenue, expenditure, and profit plan. The business budget is estimation of business activities to be performed and the goals to be achieved by the bank with in the particular fiscal year. The strategic plan of NIBL set some targets and used to be limited only up to the

top management level were not published for the public. The budget consists the total activities to be performed, broadly in terms of resources mobilization and deployments. The profit plan of NIBL is as follows:

-) Resources mobilization planning
-) Deployment of resources planning
-) Non-fund consuming business activities plan
-) Revenue and expenditure plan

(Source: Budget Statements of NIBL)

4.1.2.1 Resource Mobilization Planning

The resources means required fund for the bank operation. It includes capital fund, loan and borrowing, deposit collection and other liabilities. Among these some resources are cost bearing and some are cost free sources. Here the researcher going to present status of available resources of NIBL in tabular and chart form.

Table : 4.1
Status of Available Resources of NIBL

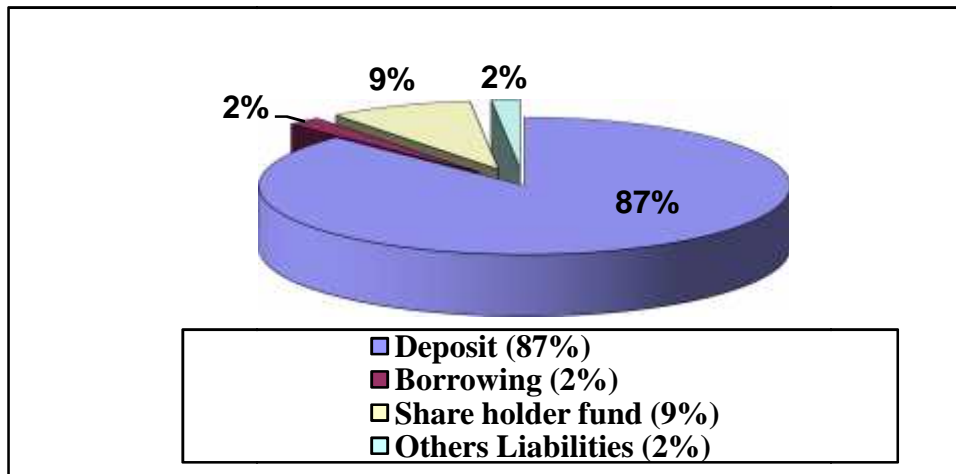
Amount in '000'

F/Y	Deposit		Borrowing		Shareholder fund		Other Liabilities		Total Resources year wise
	Amount	%	Amount	%	Amount	%	Amount	%	
2065/066	46698100	89.10	1088800	2.08	3907840	7.46	714015	1.36	52408755
2066/067	50094725	88.46	1087315	1.92	4585892	8.10	860367	1.52	56628299
2067/068	50138122	86.82	1330764	2.30	5160000	8.92	1117657	1.92	57746543
2068/069	57010604	86.90	1617579	2.47	6049286	9.22	924480	1.41	65601949
2069/070	62428845	86.48	1110566	1.54	7012815	9.71	1647209	2.28	72199435
Total of Resources	266370396		6235024		26715833		5263732		

(Sources: Annual Reports of NIBL)

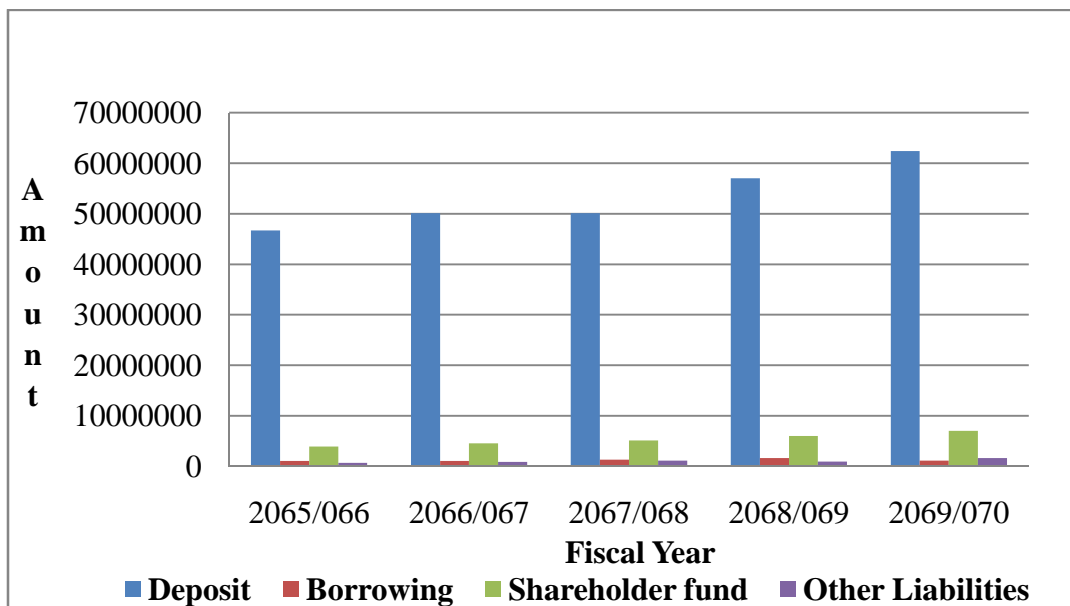
The above table shows the status of total resources of NIBL. The resources are collected from customer deposit, share holder fund, other liabilities and borrowings if required. The major source of resource collection is customer deposit since it has higher figure in the above table. For the more analysis purpose the resources are plotting in the charts below.

Figure : 4.1
Pie Chart Showing Status of Total Available Resources



The above pie chart shows the sources of available resources used by the bank. This figures shows in the bar diagram by year and types of resource wise and draw some conclusion below:

Figure : 4.2
Bar Diagram Showing Fiscal Year Wise Available Resources



The above table, Pie-chart, Bar Diagram shows that deposit collection is a major source of resource collection so we have divided total resource in two parts one is deposit collection and another is other resources (other than deposit).

-) Customer Deposit Collection
-) Other Resources

4.1.2.2 Customer Deposit Collection

As deposit collection is major activities of commercial bank this is the important source of resources mobilization. As per the data F/Y 2065/66 to 2069/070 the customer deposit is as high as 87 %. These deposits are collected from different sectors individual and corporate customer. Deposits are collected as per the banks' rules some deposits are interest bearing and some are interest free the researcher has categorized the deposit in to two types is as follows:

- 1) Interest Bearing Accounts:
 - a) Saving account
 - b) Call Deposit Account
 - c) Fixed Deposit Account
 - d) Certificate of Deposit
- 2) Interest Free Account
 - a) Current Deposit Account
 - b) Margin Deposit Account
 - c) Other Deposit Account

4.1.2.3 Deposit Collection Budget of NIBL

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

Table : 4.2
Status of Budgeted and Actual Deposit Collection

Amount '000'

Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2065/066	40000000	46698100	116.75 %
2066/067	45500000	50094725	110.10 %
2067/068	45000000	50138122	111.42 %

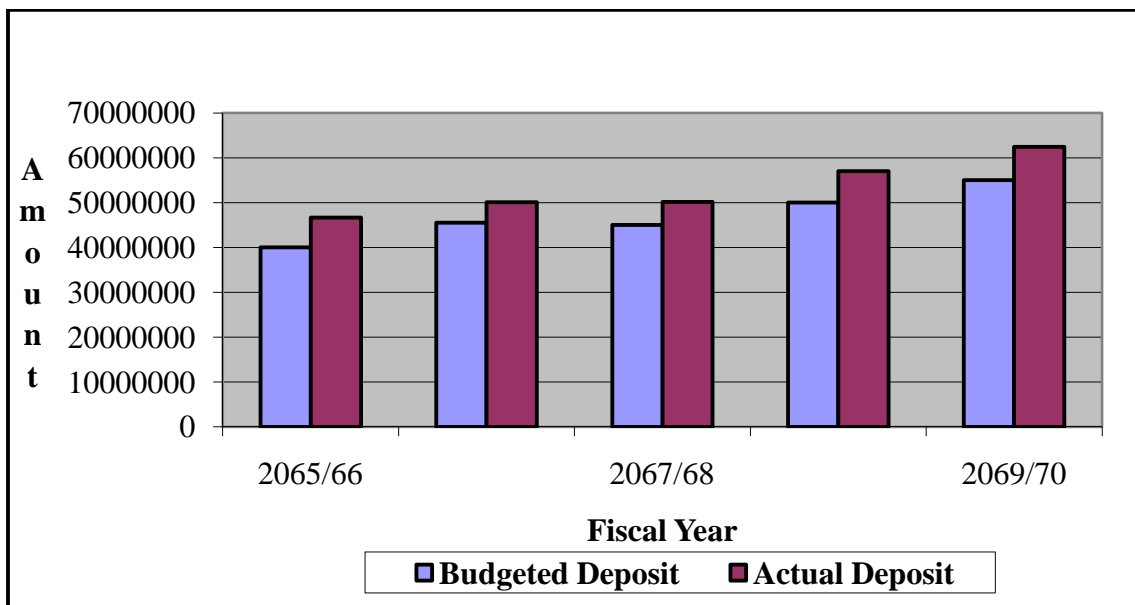
2068/069	50000000	57010604	114.02 %
2069/070	55000000	62428845	113.51 %

(Sources: Annual Reports & Budget Statements of NIBL)

The above table shows the status of budgeted and actual deposit collection of NIBL. 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 of the last year. The achievement range is slightly fluctuation it ranged between 110.10 % to 116.75 % through out the five year of study period. The data of table are presenting in bar diagram for the analysis purpose.

Figure : 4.3

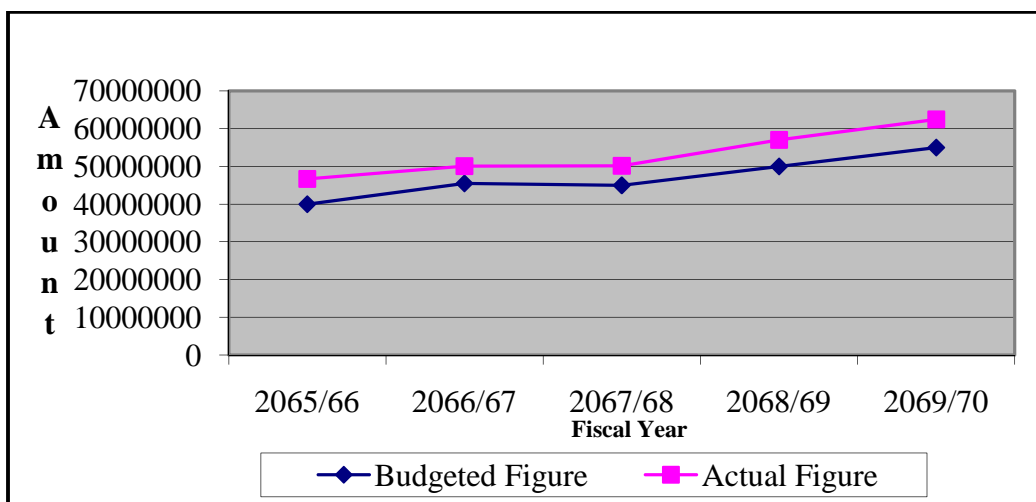
Bar Diagram Showing Budgeted and Actual Deposit Collection



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

Figure : 4.4

Scatter Diagram Showing Budgeted and Actual Deposit Collection



Above table and figure 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 shows the achievement level higher than budgeted likewise scatter diagram shows actual collection is higher that budgeted amount. NIBL is well performing in the deposit collection sector. It is found that 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 should be calculated from below formulas.

For budgeted,

For actual

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

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

$$SD(\dagger x) = \sqrt{\frac{1}{N} \sum (x - \bar{x})^2}$$

$$SD(\dagger y) = \sqrt{\frac{1}{N} \sum (y - \bar{y})^2}$$

$$CV(x) = \frac{SD(\dagger x)}{\bar{X}}$$

$$CV(y) = \frac{SD(\dagger y)}{\bar{Y}}$$

Where,

X = Budgeted

Y = Actual

N = Number of observation or year

Table : 4.3

Summary of Deposit Collection Budget and Actual Deposit

Amount in '000'

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	47100000	53260000
Standard Deviation ()	5064000	5666000
Coefficient of Variation	10.75 %	10.64 %
Correlation of Coefficient (r)	0.9851	
Probable Error (PE)	0.0089 (r>6PE)	

Source: Appendix No 1

The above table shows that budgeted deposit is more variable than actual deposit since the CV of actual deposit is lower than budgeted deposit. Actual deposit is more consistent and homogeneous but budgeted deposit is more variable in nature. A greater CV represents less homogenous. By using another statistical tool correlation of co-efficient is to analyze the relationship between budgeted deposit and actual deposits using Karl person's coefficient of correlation and denoted by (r). By calculating (r), it can examine whether positive correlation between budgeted deposits and actual deposit 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 variables. So that increase in budget is support to increase in actual achievement or vice versa, this means 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. It has found that (r) is 0.9851 and PE is 0.0089. 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 tools regression line 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:

$$y - \bar{y} = r \left(\frac{y - \bar{y}}{s_y} \right) / \left(\frac{x - \bar{x}}{s_x} \right) (s_x - \bar{x})$$

$$y - 53260000 = 0.9851 \left(\frac{y - 53260000}{5666000} \right) / \left(\frac{x - 47100000}{5064000} \right) (x - 47100000)$$

$$y - 53260000 = 1.1022(x - 47100000)$$

$$y = 1.1022x - 1346047$$

From the above equation it is clear that actual deposit is in increasing trend. By the help of this equation we determine the expected deposits achievement with given value of budgeted deposit (X=65000000) ascertain the expected deposits achievement for F/Y 070/71.

When X=65000000

The expected deposit for the year 2070/71

$y = 1.1022 \times 65000000 - 1346047$

$X = 72989047(000)$

The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2070/071 will be RS 72989047000 stated by the above regression line.

4.1.2.4 Movement in Deposit Collection of NIBL

Table : 4.4

Movement of Deposit Collection of NIBL

Amount in '000'

Fiscal Year	Deposit Amount	Growth in Amount	Growth in Percentage
2065/066	46698100.00	-	-
2066/067	50094725.00	3396625.00	7.27 %
2067/068	50138122.00	43397.00	0.09 %
2068/069	57010604.00	6872482.00	13.71 %
2069/070	62428845.00	5418241.00	9.50 %

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the growth trend of deposit collection of NIBL. F/Y 2065/066 is the base year for the growth calculation. In F/Y 2066/067 the deposit collection is increased by the 7.27 % in comparison with F/Y 2065/066. The amount of deposit collection is in increasing trend where as the increasing percentage is fluctuating as a result in F/Y 2067/068 the percentage has decrease in 0.09 % from 7.27 % of F/Y 2066/067 and in F/Y 2068/069 the trend of growth is 13.71 % with comparison of F/Y 2067/068. But in F/Y 2069/070 the trend of growth is 9.50% with comparison of F/Y 2068/069 in decreasing order.

4.1.2.5 Other Resources of NIBL

Other resources of NIBL contribute 12 % in total resources. It is formed of share holder fund and other liabilities except deposit collection. The budgeted and actual other resources of NIBL presented in the following table.

Table : 4.5
Other Resources of NIBL:

Amount in Rs '000'

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2065/066	1000000	1730917	173.09 %
2066/067	1500000	1808969	120.60 %
2067/068	1800000	2402832	133.49 %
2068/069	2500000	3101990	124 %
2069/070	3000000	4421580	147.39 %

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows more than 100 % achievement in resources. The achievement trend of other resources is in increasing in the amount where as the increment ratio is in fluctuating trend. The bank has highest achievement in F/Y 2065/066 likewise budgets are prepared but the actual figure doesn't match accordingly. The achievement percentage is ranged between 120.60 % to 173.09 %. Below 100% indicate the lower achievement and more than 100 % indicate the higher achievement of budgeted figure. The status of resources other than deposit presented in Bar and scatter diagram.

Figure : 4.5

Bar Diagram Showing Other Resources of NIBL

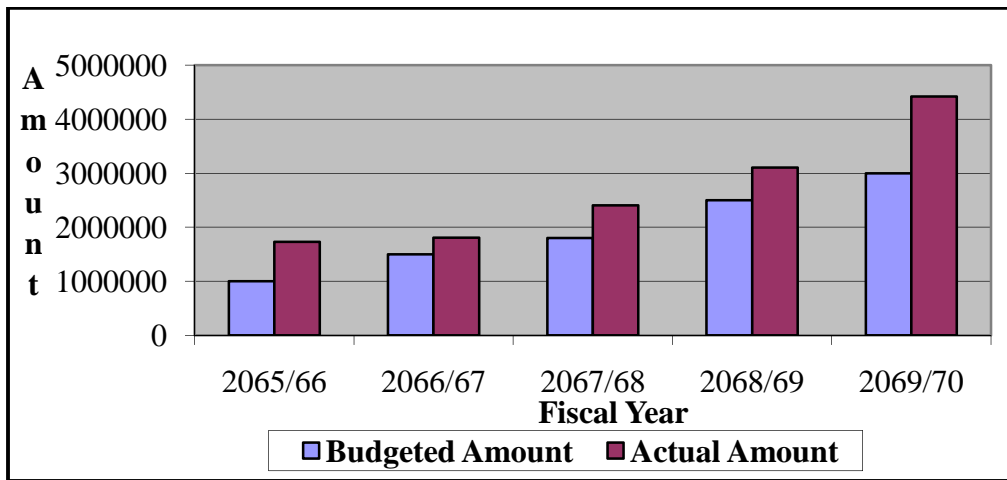
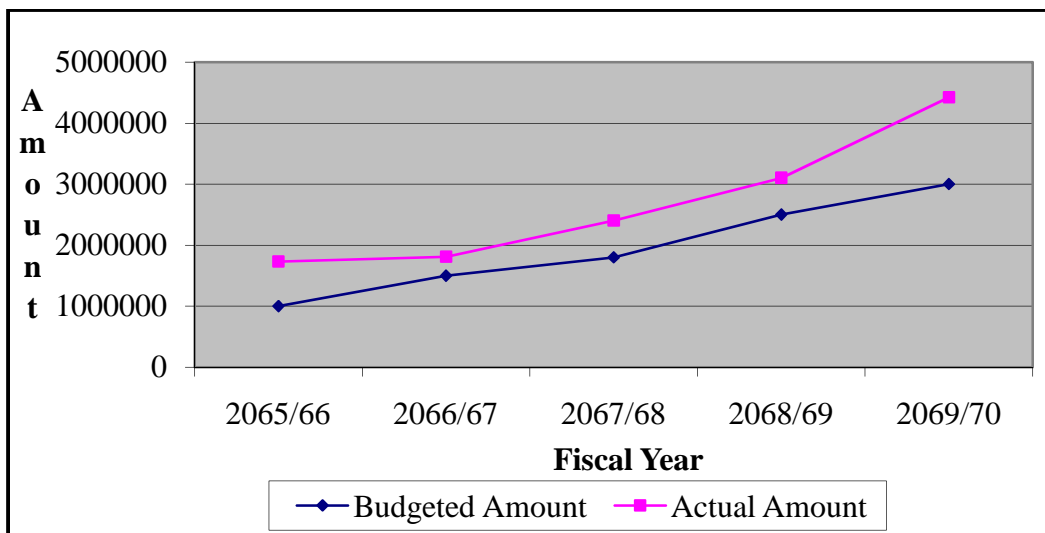


Figure : 4.6

Scatter Diagram Showing Other Resources of NIBL



From the above table and diagrams we can find the status of budgeted and actual resources of NIBL. The actual resources is higher than budgeted in the bar diagram. Likewise, in scatter diagram the actual amount is in high position than budgeted amount.

We can find the relationship between budgeted and actual other resources of NIBL by using statistical analytical tools that is arithmetic mean, standard deviation, coefficient of variation & probable error (P.E). The detail calculation is shown in appendix no 2 and the summary of this appendix is presented below.

Table : 4.6

Summary of Budgeted and Actual Other Resources of NIBL

Amount in Rs'000'

Statistical Tools	Budgeted Figure (X)	Actual Figure (Y)
Mean	1960000	2680000
Standard Deviation (†)	7120000	995000
C.V	36.33 %	37.13 %
r	0.9626	
P.E	0.0221 (r > 6PE)	

Source Appendix No:2

The average amount of other resources of actual figure is higher than the budgeted figure so the bank has achieved higher than its target. Budgeted figure is more variable than actual since it has high coefficient of variation it means actual figure is more consistent and homogeneous than budgeted figure of other resources. Here the budgeted resource other than deposit of NIBL is the more variable than actual resources in nature. Using another statistical tools i.e. correlation of coefficient (r), the result of 'r' is 0.9626. So it has perfectly correlated between the budgeted resources and actual resources. The actual resources will change in the same direction, as the budgeted resources. The significance of 'r' is tested by P.E since the value of 6P.E is less than 'r' gives the absolute result.

4.1.3 Resources Deployment Plan of NIBL

Allocation of available resources in to different sector is called resources deployment. Resources can be use for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated in to 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 them in 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 & Discount & other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

Table : 4.7
Total Income Generating Deployment of NIBL

Amount “000”

Fiscal Year	Other Investment		Loan and Advance		Total
	Amount	Percentage	Amount	Percentage	
2065/066	7399811	16.73 %	36827157	83.27 %	44226968
2066/067	8635530	17.42 %	40948440	82.58%	49583970
2067/068	7423106	15.05 %	41887693	84.95 %	49310799
2068/069	10438487	19.57 %	42906691	80.43%	53345178
2069/070	11436268	19.34 %	47700628	80.66 %	59136896

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the status of income generating deployment of NIBL. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 83.27 % to 84.95 % where as the range of other investment is 15.05 % to 19.57 %.

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.

4.1.3.1 Total Deployment of NIBL

Table : 4.8

Total Resources Deployment of NIBL

Amount in '000'

Fiscal Year	Cash & Bank Balance		Investment & Money Received at call		Loan and Advance		Fixed Assets		Other Assets		Total (Year wise)
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2065/066	7918003	14.94	7399811	13.96	36827157	69.47	1060752	2	390653	0.74	53010803
2066/067	6815890	11.89	8635530	15.07	40948440	71.46	1136247	1.98	399438	0.70	57305413
2067/068	8140371	13.95	7423106	12.72	41887693	71.78	1108448	1.90	439388	0.75	58356828
2068/069	11803751	17.95	10438487	15.87	42906691	65.25	1056439	1.60	615193	0.94	65756232
2069/070	13252088	18.12	11436268	15.63	47700628	65.21	1068837	1.46	728508	1.00	73152155
Total Sector wise	47930103		45333202		210270609		5430723		2573180		

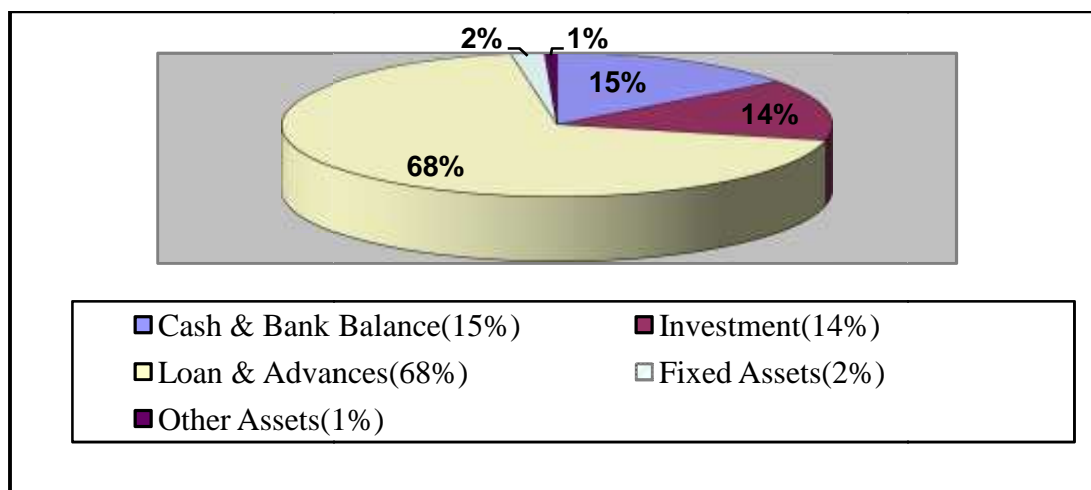
(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

Above table shows the total deployment of funds in various sectors of NIBL. The range of cash and bank balance of NIBL through out the study period is 11.89 % to 18.12 % it means the bank use their fund to maintained liquidity position 11.89 % to 18.12 % out of total deployment. The trend of cash and bank balance slightly fluctuating trend. Likewise the bank uses their fund in investment 12.72 % to 15.87 % over the period. The trend of investment is in fluctuating trend in the F/Y 2068/69 the percentage of investment is 15.87 where as it is decreased in year 2069/070 by 15.63 % and other three years are in average. The highest use of resources in the loan and advances the range of loan and advance is 65.21 % to 71.78 % out of total deployment over the five years period. In the F/Y 2065/66 the percentage is 69.47 and it increased in F/Y 2066/067 to 71.46 % and in F/Y 2067/068 to 71.78% but in F/Y 2068/069 it decreased to 65.25% again in the F/Y069/70 it slightly decreased than F/Y 2068/69 to 65.21% but could not recover the percentage of F/Y 2067/068. Even though the range of loan and advance is fluctuating trend in terms of percentage the amount is in increasing trend over the study period. NIBL use the resources in fixed assets and other assets in nominal percentage out of total deployment. The range of fixed assets is 1.46 to 2% and other assets are 0.70 to 1% out of total deployment over the study period.

For the analysis purpose the total deployment of NIBL is presented in pie chart and bar diagram below:

Figure : 4.7

Pie Chart Showing Status of Deployment



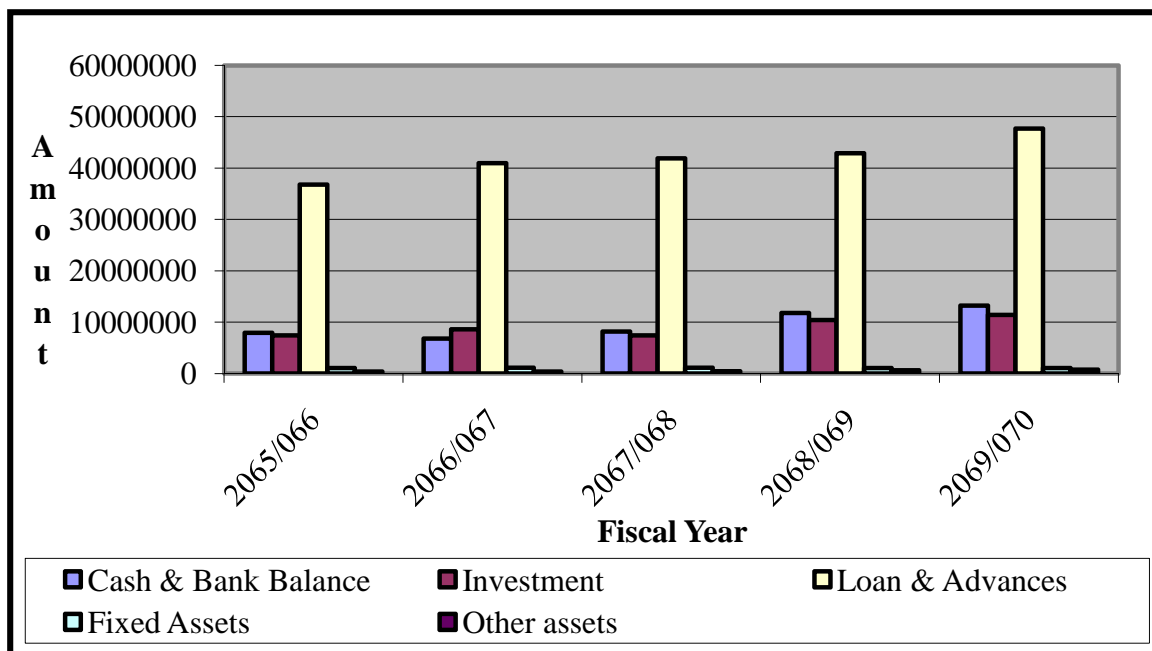
The above pie chart shows the total deployment of NIBL in various sectors. The Loan and advance holds the highest area of the chart since it has 68% of deployment out of total deployment. This means the bank more use their resources in the deployment of loan and advance than other. Like wise investment is 14% out of total deployment. The third highest

sector of deployment is Cash and bank balance this shows the bank keeps the liquidity of 15% out of total deployment in average over the five year of study period. Similarly the bank uses their resources in fixed assets and other assets 2% and 1% respectively over the five years period.

The deployment of resources in various sector of NIBL can be presented in the bar diagram for the analysis purpose. The diagram is presented below and analyzed accordingly.

Figure : 4.8

Bar Diagram Showing the Status of Deployment



The above diagram shows the deployment of Banks available resources at various portfolios among which LDO is in highest position through out the study period the trend is in increasing over the period. Like wise the cash & bank balance is in second position out of total deployment amount the trend of cash & bank balance is increasing except the year 2066/067. The third positing of deployment holds by Investment in is also in increasing trend over the five years of study. The fixed assets and other assets hold the fourth and fifth position but it is in fluctuating trend over the five years of time period.

By the above table and charts it has been found that the highest portion of deployment is hold by loan and advance out of total deployment. Therefore researcher has categorized the deployment in two parts. These are as follows:

-) Deployment in LDO
-) Deployment in other sector (NLDO)

4.1.3.2 Budgeted and Actual LDO of NIBL

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

Table : 4.9
Comparative Table showing Budgeted and Actual LDO of NIBL

Amount in Rs '000'

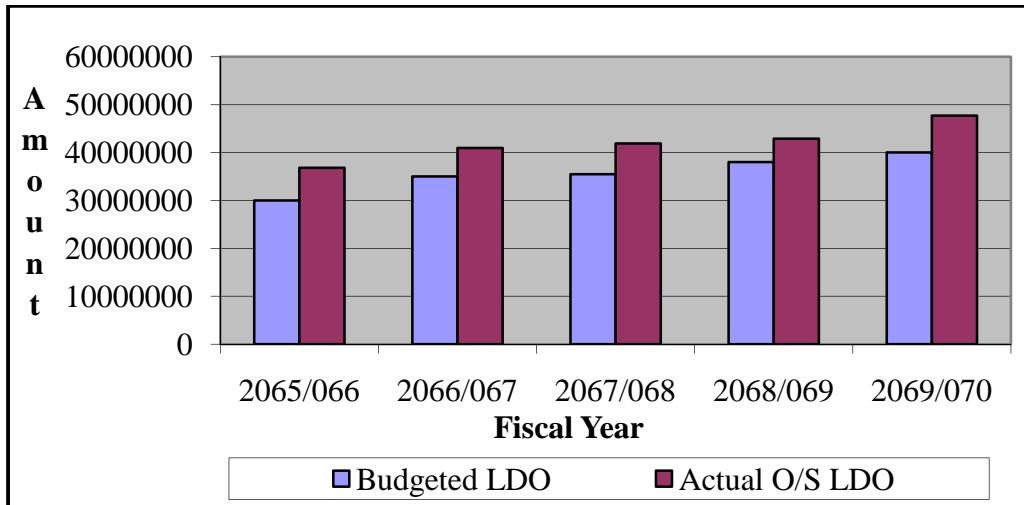
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2065/066	30000000	36827157	122.76 %
2066/067	35000000	40948440	116.99 %
2067/068	35500000	41887693	1117.99 %
2068/069	38000000	42906691	112.91 %
2069/070	40000000	47700628	119.25 %

(Sources: Annual Reports & Budget Statements of NIBL)

Above table shows that status of budgeted and actual LDO of NIBL. 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 112.91 % to 122.76 % it shows that NIBL 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 : 4.9

Bar Diagram Showing Budgeted and Actual LDO of NIBL

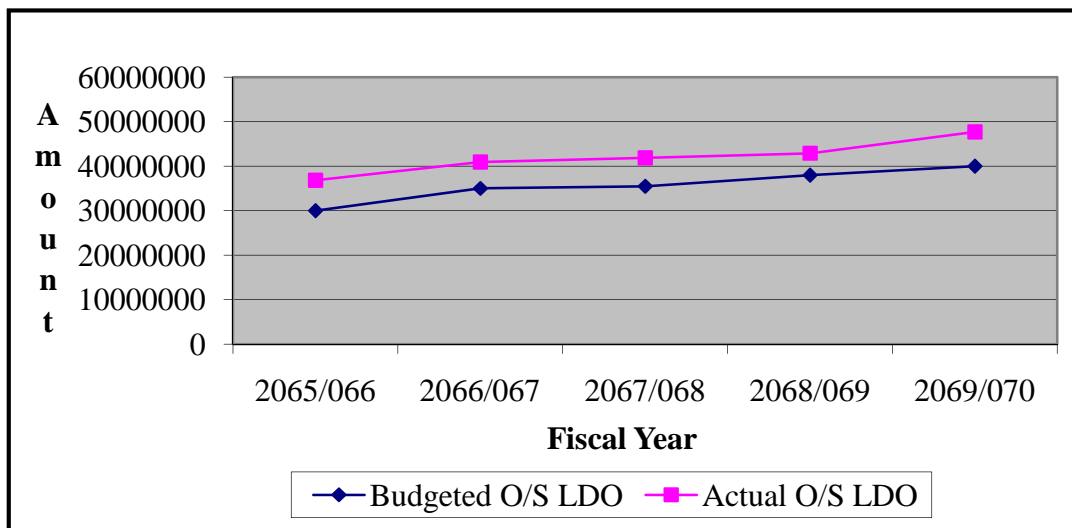


The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LDO. The trend of actual deployment is in increasing trend and budgeted too. The actual achievement of LDO has met the budgeted LDO in every year. For the more analysis purpose the figure of budgeted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

The scatter diagram showing the status of budgeted and actual deployment in LDO of NIBL.

Figure : 4.10

Scatter Diagram Showing Status of Budgeted and Actual LDO of NIBL



The actual deployment in LDO is in higher position than budgeted LDO through out the study period it means the scatter diagram shows that the relation between actual achievements is higher than budgeted LDO. It 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.

Table : 4.10
Summary of Budgeted LDO and Achievement

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	35700000	42040000
Standard Deviation (σ)	3345000	3509000
C.V	9.37 %	8.35 %
r	0.9618	
P.E	0.0335 ($r > 6PE$)	

Source Appendix No 3

The above table shows that budgeted LDO is more variable than actual LDO. Since the coefficient of variations of budgeted LDO is greater than that of actual LDO, actual LDO are less variable nature. On the other hand actual LDO more consistent and homogeneous than budgeted. A greater coefficient of variation is said to be more heterogeneous. Here NIBL bank actual LDO is the variable nature than budgeted LDO. Using 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. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. Karl Person's coefficient of correlation between budgeted LDO and actual LDO or not. 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 is 0.9618 it means the relation between budgeted and actual LDO are perfectly co-related. Significance of r is tested with PE we have $r > 6 PE$ this means the value of r is more significant. So it is no doubtful that actual LDO will go on same direction that of budgeted LDO.

From the calculation in appendix no 3, we have obtained the value of r being 0.9618. 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. $r^2 = (0.9618)^2 = 0.9251$. Another statistical tools 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.

$$y = \bar{y} + r \frac{y - \bar{y}}{x - \bar{x}} (x - \bar{x})$$

$$y = 42040000 + 0.9618 \left(\frac{35090000}{33450000} \right) (x - 35700000)$$

$$y = 42040000 + 1.009 (x - 35700000)$$

$$y = 1.009x - 6020288$$

From the above equation, it is clear that actual LDO are in increasing trend. By the help of this regression equation, we ascertain the expected LDO achievement with the given value of target LDO say X for fiscal year 070/071 = 50000000

When X = 50000000

Then expected LDO achievement

$$y = 1.009 (50000000 - 35700000) + 42040000$$

$$= 56470288 \text{ (000)}$$

4.1.3.3 Movement in LDO of NIBL

Table : 4.11

Table Showing Movement in LDO of NIBL

Amount in '000'

Fiscal Year	LDO Amount	Growth in Amount	Growth in %
2065/066	36827157	-	-
2066/067	40948440	4121283	11.19
2067/068	41887693	939253	2.29
2068/069	42906691	1018998	2.43
2069/070	47700628	4793937	11.17

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the movement of LDO of NIBL. The base year to calculate the growth rate of NIBL is F/Y 2065/066. The increment rate is 11.19 % in F/Y 2066/067 in comparison with F/Y 2065/066. The rate of growth is declined in the F/Y 2067/068 it is only 2.29 % since the amount of LDO could not increased as last year. In the F/Y 2068/069 it has improved than the year 2067/068 but could not meet the F/Y 2066/067. The growth rate better

improved in 2069/070 has reached to 11.17 % with comparison of F/Y 2068/069 since the amount of LDO increased.

4.1.3.4 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 (i.e. Total year wise – Loan & Advance). The budgeted and actual deployment in other sector listed in following table over the study period.

Table : 4.12

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

Amount in Rs '000'

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2065/066	9000000	16183646	179.82 %
2066/067	10000000	16356973	163.57%
2067/068	11500000	16469135	143.21%
2068/069	15000000	22849511	152.33 %
2069/070	17500000	25451527	145.44%

(Sources: Annual Reports & Budget Statements of NIBL)

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 the 100 % each year. The rate of such achievement in fluctuating trend over the study period. The achievement is 179.82 % in F/Y 2065/066 and it decreased in F/Y 2066/067 to 163.57 %. Again in F/Y 2067/068 decrease to 143.21 % but in F/Y 2068/69 increase to 152.33 % and slightly fluctuating down to F/Y 2069/070. The average rate of achievement over the five year is 156.87 % this indicate that the bank has achieved its target by 31.37 % (*Average is divided by year 5*). For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Figure : 4.11

Bar Diagram Showing Status of Budgeted and Actual NLDO of NIBL

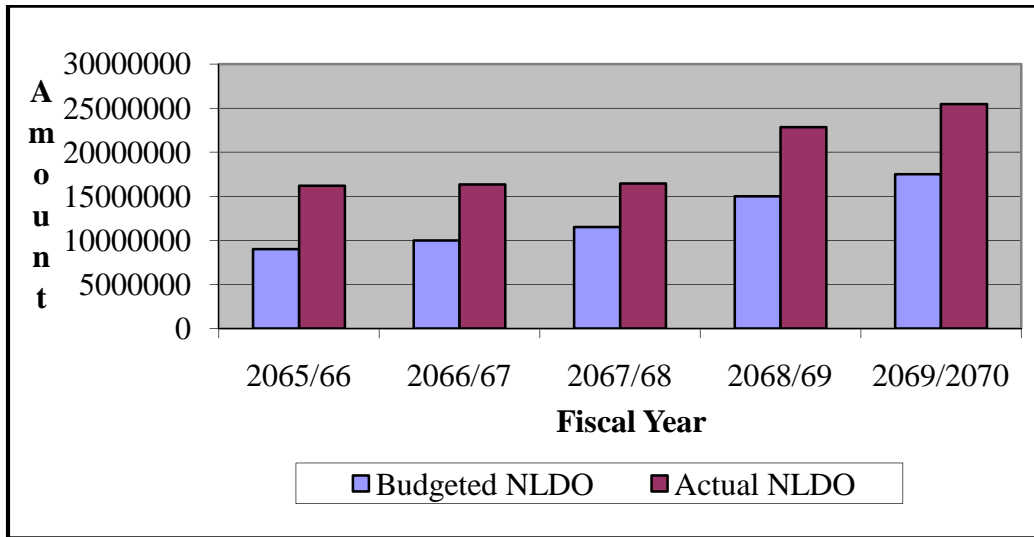
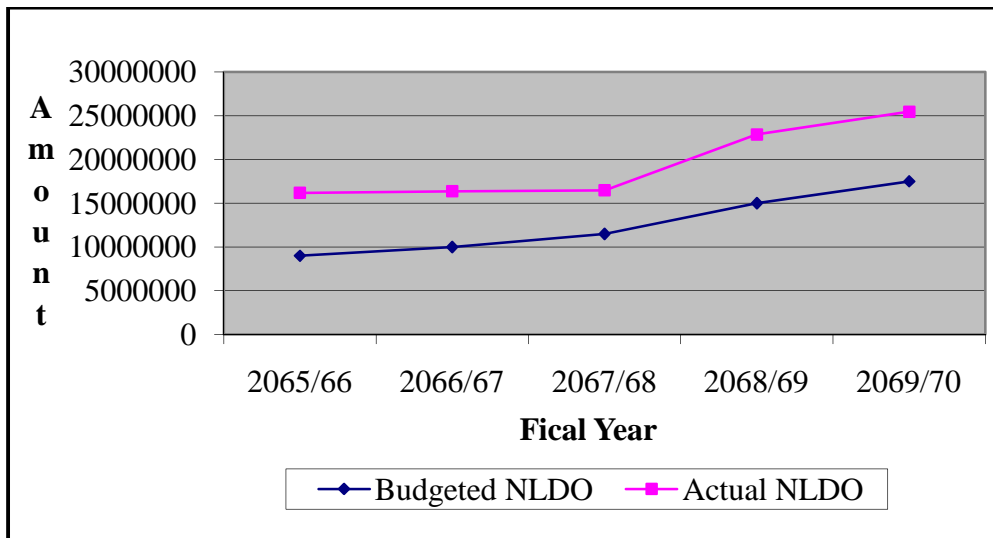


Figure : 4.12

Scatter Diagram Showing Budgeted and Actual NLDO of NIBL



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

Table : 4.13
Summary of NLDO of NIBL

Statistical Tools	Budgeted NLDO (X)	Actual NLDO (Y)
Mean	1260000	1948000
Standard Deviation (†)	3184000	3909000
C.V.	25.27 %	20.07 %
r	0.9732	
P.E	0.0237 (r>6PE)	

Source: Appendix No:4

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 budgeted NLDO is more variable in nature since it has higher C.V. it means that the actual 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 0.9732, 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.

4.1.3.5 Actual Deposit and Outstanding LDO of NIBL

Customer deposit and deployment in LDO is major activities of NIBL. As it is understood the major source of resources mobilization of NIBL 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 : 4.14
Status of LDO VS Actual Deposit of NIBL

Amount “ 000”

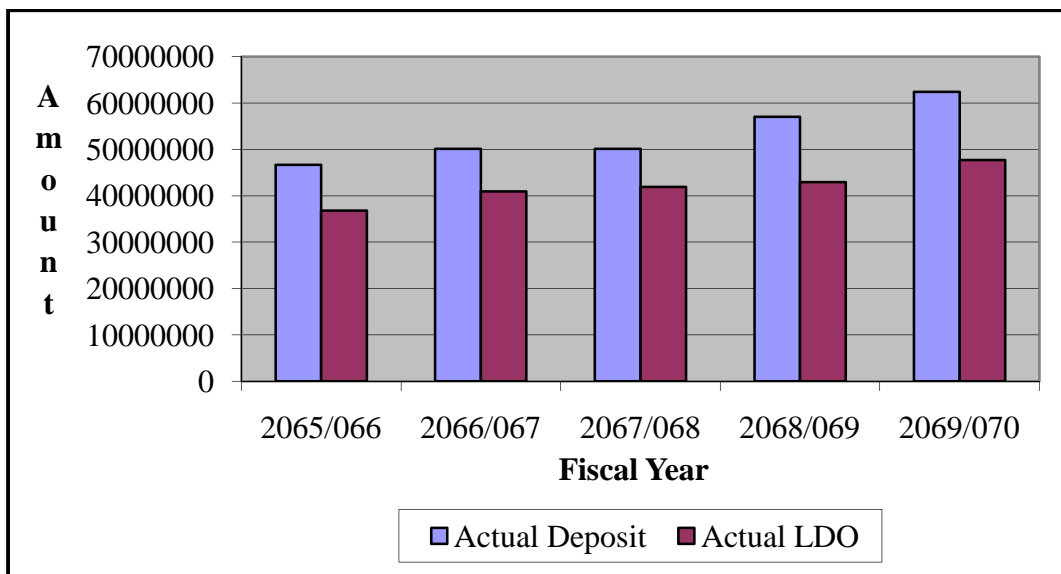
Fiscal Year	Actual Deposit (Balance)	Actual O/S LDO	LDO to Deposit Ratio
2065/066	46698100	36827157	78.86 %
2066/067	50094725	40948440	81.74 %
2067/068	50138122	41887693	83.54 %
2068/069	57010604	42906691	75.26 %
2069/070	62428845	47700628	76.41 %

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

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 through out 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 75.26 % to 83.54 %.This indicate that the bank invest in LDO out of total deposit in the range of 75.26 % to 83.54 % over the five years time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presenting in the charts.

Figure : 4.13

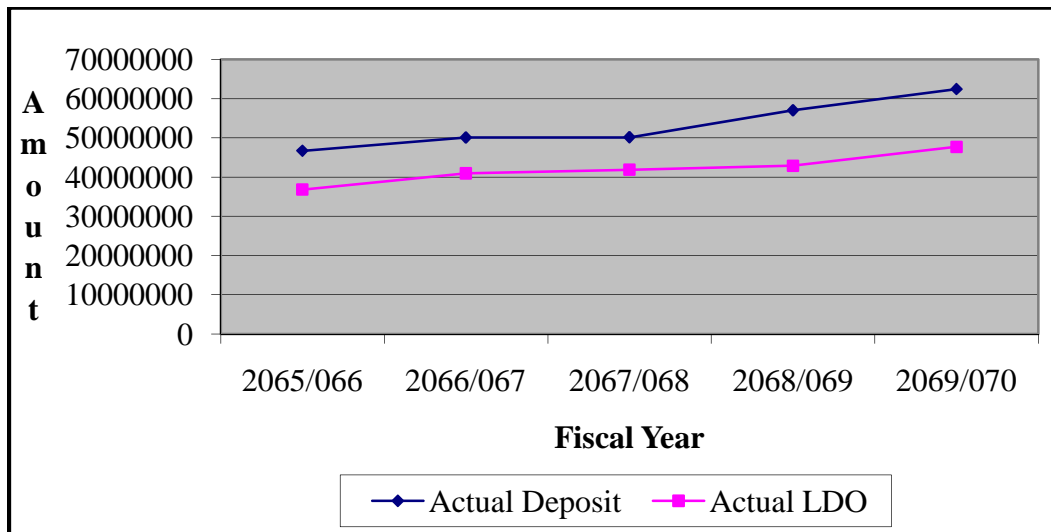
Bar Diagram Showing Actual Deposit and Actual LDO of NIBL



The above diagram 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 : 4.14

Scatter Diagram Showing Actual Deposit and Actual LDO of NIBL



From the above table and charts 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 79.16 %. It means that the bank invest in NLDO 20.84 % in average. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LDO. We have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error.

Table : 4.15

Summary of Actual Deposit and Actual O/S LDO

Statistical Tools	Actual Deposit in Rs '000'	Actual O/s LDO in Rs '000'
Mean	53260000	42040000
S.D (†)	5666000	3509000
C.V	10.64 %	8.35 %
r	0.9392	
P.E	0.0527 (r>6PE)	

Sources: Appendix no 5

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. We 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 0.9392 this means it is perfectly correlated between

actual deposit and actual outstanding LDO. Significance of correlation r is tested with probable error (PE) here the $6PE < r$ so the calculation of r is highly significance.

4.1.4 Planning for Expenditure of NIBL

Expenditure planning is most essential to support the objectives and planned programs of the bank. Expenditure planning considered expenses and the benefits derived from this expenditure. The major concern of business is income; income is not possible without expenditure so expenditure is most crucial part of the business. Expenditure plan helps to organization to achieve the goal and objectives. The following table shows the status of expenditure incurred by the NIBL over the study period.

Table : 4.16
Status of Expenditure of NIBL

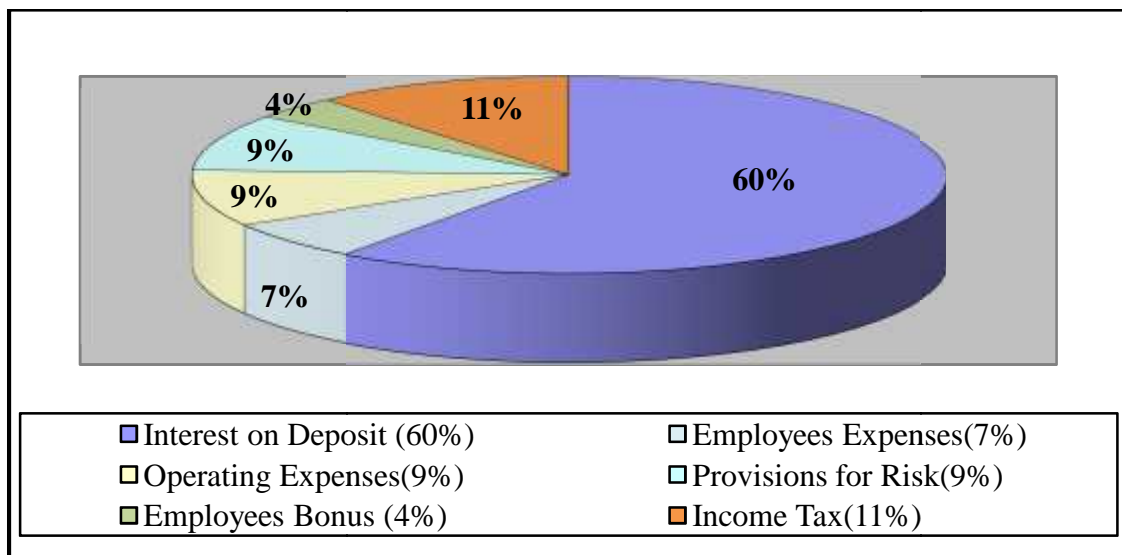
Amount in Rs ' 000'

Expenditure	2065/066		2066/067		2067/068		2068/069		2069/070		Types wise Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Interest on Deposit	1686973	57	2553847	62.69	3620337	67.82	3814411	63.96	2774788	48.46	14450356
Employees Expenses	225721	7.63	279851	6.87	326543	6.12	340160	5.70	379942	6.64	1552217
Operating Expenses	360533	12.18	433596	10.64	456057	8.54	468863	7.86	515837	9	2234886
Provisions for Risk	166201	5.62	93057	2.28	267331	5	743724	12.47	958336	16.74	2228649
Employees Bonus	129860	4.39	180821	4.44	167803	3.14	148838	2.50	273758	4.78	901080
Income Tax	389580	13.17	532899	13.08	500360	9.37	448070	7.51	823186	14.38	2694095
Year wise Total	2958868		4074071		5338431		5964066		5725847		24061283

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the total expenses of NIBL. The trend of all expenses is in increasing as per the overall volume of business increased. The major expense of bank is interest expenses it ranged 48.46% to 67.82% out of total expenses of NIBL though out the five years of time period. The another expenses of bank is employees expenses ranged between 5.70% to 7.63% the amount of employees expenses increasing every year likewise the operating expenses, provision for risk, employees bonus and tax ranged between 7.86% to 12.18% , 2.28% to 16.74%, 2.50% to 4.78% and 7.51% to 14.38% respectively out of total expenses. The expenditure of NIBL has analyzed by the help of pie chart below.

Figure : 4.15
Pie Chart Showing Status of Total Expenses of NIBL



By the above and pie chart it has found that the major expenses of NIBL is Interest on Deposit it holds the 60 % out of total expenditure. Like wise employees expenses, operating expenses, provision for risk, employees bonus and income tax has 7%, 9%, 9%, 7% and 11% respectively. For the analysis purpose we have divided the total expenses in two categories these are as follows:

-) Interest expenses
-) Other expenses (Expenses other than Interest)

4.1.4.1 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 holds highest portion of total available resources. The bank may have different interest rate in different types of account. Here, the researcher going to analyze the average cost of deposit through out the study period.

Table : 4.17
Status of Average Cost of Deposit

Amount in Rs '000'

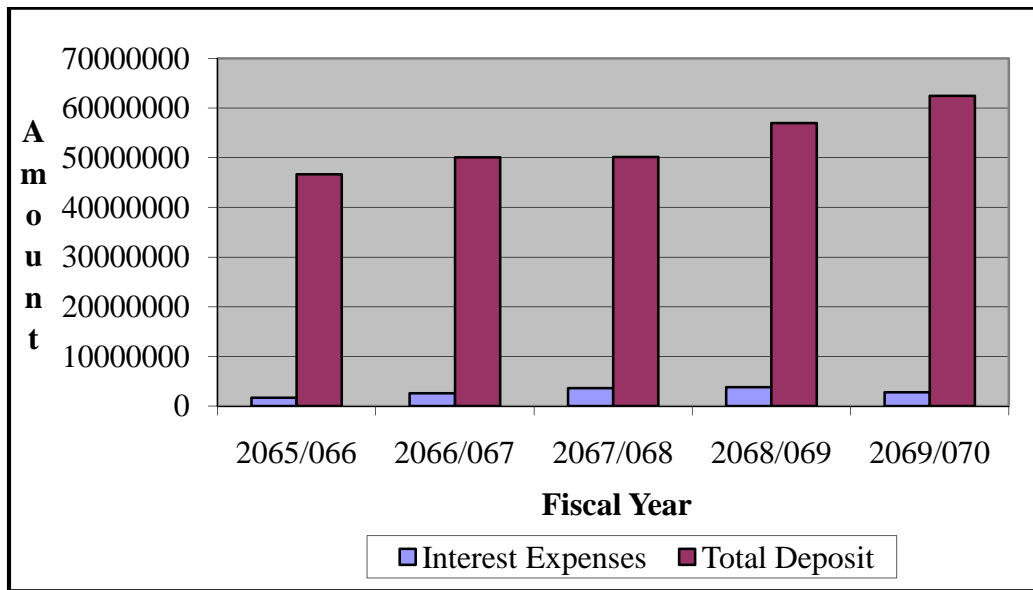
Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit (%)
2065/066	1686973	46698100	3.61
2066/067	2553847	50094725	5.10
2067/068	3620337	50138122	7.22
2068/069	3814411	57010604	6.69
2069/070	2774788	62428845	4.44

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the total deposit and interest expenses of respective year. The deposit amount is increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The NIBL cost of deposit (interest) range between 3.61 % to 7.22 % it means the bank pays the interest 5.41% in average over the study period. The COD of the bank is slightly fluctuating trend the highest cost of deposit is 7.22 in the year 2067 /068. The relation between COD and total deposit can be shows on the bar diagram below.

Figure : 4.16

Bar Diagram Showing 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 like wise interest is changing trend accordingly. The amount of interest expenses is increasing every year.

4.1.4.2 Non- Interest Expenses

Interest is major expenses for a bank it also treat as direct expenses other than interest bank needs some of administrative and operational expenses such expenses are:

-) Employees Expenses
-) Operational Expenses
-) Provision for Risky loan
-) Non-Operating expenses

The following table shows the non interest expenses (Expenses other than interest) out of these expenses staff bonus and income tax also included in other expenses.

Table : 4.18
Status of Non-Interest Expenses of NIBL

Amount in Rs '000'

Expenses	2065/066		2066/067		2067/068		2068/069		2069/070	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Employees Expenses	225721	18.18	279851	18.40	326543	19	340160	15.82	379942	12.87
Operational Expenses	360533	29.03	433596	28.51	456057	26.54	468863	21.81	515837	17.48
Non-Operational Expenses	-		-		-		-		-	
Provision for Risky Loan	166201	13.38	93507	6.15	267331	15.56	743724	34.60	958336	32.47
Employees Bonus	129860	10.46	180821	11.89	167803	9.77	148838	6.92	273758	9.28
Income Tax	359580	28.95	532899	35.04	500360	29.12	448070	20.84	823186	27.89
Total	1241895		1520674		1718094		2149655		2951059	

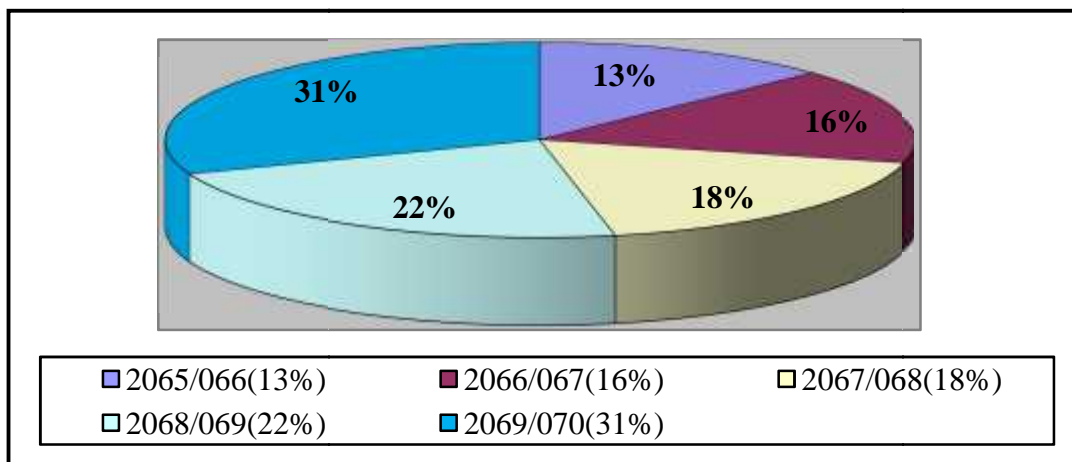
(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the non interest expenses of NIBL over the five year period. Employees expenses is in fluctuating trend every year the range of employees expenses is 12.87 % to 19 % in the F/Y 2065/066 and 2069/070 respectively. The operational expense is in decreasing trend the range of operational expenses in 17.48 % to 29.03 % in 2065/066 and 2069/070 respectively. The trend of provision for risky loan is fluctuating trend. The range of provision for risky loan is 6.15% to 34.60% in the F/Y 2065/066 to 2069/070. This indicates that the bank has high risk loan.

The trend of bonus to employees is also fluctuating but increasing in F/Y 2069/070. The range of paying bonus to employee is 6.92% to 11.89% in the F/Y 2065/066 to 2069/070. The trend of tax is also fluctuating trend since it indicated the bank’s overall profitability is increasing trend because income tax pays from the profit. It is going to present in pie chart to analysis the non interest expenses below.

Figure : 4. 17

Pie Chart Showing Year Wise Non Interest Expenses of NIBL



The above pie chart shows the status of yearly Non-interest expenses of NIBL over the study period. The rate of Non-interest expenses is in increasing trend. The range between F/Y 2065/066 to 2069/070 is 13 % to 31 % respectively in between it is 16 %, 18 %, 22% in F/Y 2066/067, 2067/068, 2068/069 respectively.

4.1.5 Revenue Planning of NIBL

The major objective of every business concerns is revenue. NIBL generates its revenue from its income earning activities. Such activities are mostly fund-based, that is generated out of the deployment of fund and some portion from non-fund based business activities. The major contribution in revenue of bank is interest income. So NIBL income categorized in to two types interest income and other income.

4.1.5.1 Interest Income

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

Table : 4.19
Status of Average Return of LDO

Amount''000''

Fiscal Year	Interest Income	Total O\S LDO	Average Rate of Return
2065/066	3267941	36827157	8.87 %
2066/067	4653521	40948440	11.36 %
2067/068	5803440	41887693	13.85 %
2068/069	5982641	42906691	13.94 %
2069/070	5878272	47700628	12.32 %

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

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 increasing trend except F/Y 2069/070. The LDO is in increasing where as the rate of return on LDO is also increasing trend except F/Y 2069/070. The range of rate of return lies between 8.87% to 13.94 % the average rate of return over the five year period is 12.07%. 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 we have 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.

Table : 4.20

Summary of Actual LDO and Interest income

Amount in '000'

Statistical Tools	Actual LDO (X)	Interest Income (Y)
Mean	42040000	5116000
Standard Deviation ()	35090000	1041000
Coefficient of Variation	8.35 %	20.35 %
Correlation of Coefficient (r)	0.8306	
Probable Error (PE)	0.0935 (r>6PE)	

Source: Appendix No 6

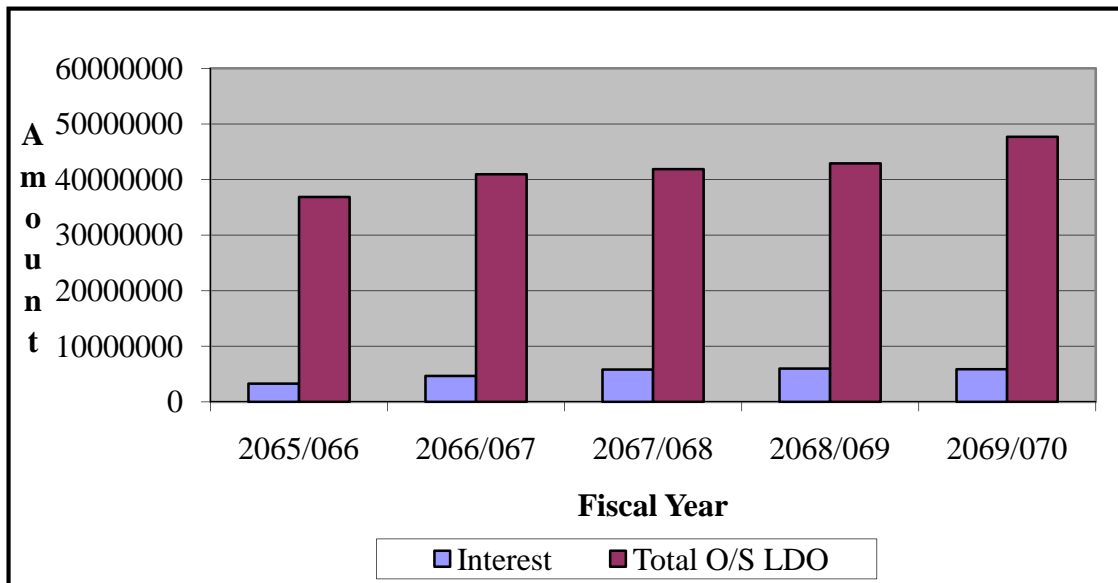
The above results show that interest income is more variable than actual o/s LDO since CV of interest is higher than of LDO. There should be positive correlation between o/s LDO and interest income. In other words the interest income increases as the o/s LDO increase or vice versa. To find the correlation between interest income and actual o/s LDO we can take the help of Karl person's coefficient of correlation and it is denoted by 'r' we 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 versa. After this significance of 'r' is tested with the probable error of 'r'. The value of r is 0.8306 & P.E is 0.0935 since $r > 6PE$ the value of r is significant. From the calculation shown in appendix no 6 the value of r is 0.8306. 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 .

$$r^2 = 0.8306 \times 0.8306 = 0.6899$$

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

Figure : 4.18

Bar Diagram Showing Interest Income and Total O/s LDO



From the chart researcher can find that the yearly interest income is in increasing trend in amount as per the O/S LDO is also increasing. In the term of average rate of return is fluctuating trend.

4.1.5.2 Income Other than Interest

The major income of bank is interest where as bank earns some of other income other than interest. Then income earned by NIBL other than interest is presented below:

Table : 4.21
Showing Income Other than Interest

Incomes	2065/66		2066/067		2067/068		2068/069		2069/070	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Exchange Income	185327	30.89	224057	32.20	228076	29.79	264167	25.81	360245	19.62
Commission Income	183042	30.51	242886	34.90	269429	35.19	319667	31.23	336269	18.31
Other operational Income	228627	38.11	218313	31.37	259619	33.91	425465	41.57	1129421	61.50
Non-Operational Income	2953	0.49	10606	1.52	8396	1.10	14161	1.38	10431	0.57
Total	599949		695862		765520		1023460		1836366	

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the other income and its trend in terms of percentage of NIBL. The range of exchange is 19.62 % to 32.20%. The trend is fluctuating over the five year the exchange income is highest source of income over the period. Commission income ranged 18.31 % to 35.19 % over the five years. This income is in fluctuating trend like wise other operational income ranged between 31.37% to 61.50 % the trend of this income is fluctuating. Non operational income has nominal contribution in total income the range of non operational income is 0.49 to 1.52 % the trend of non operational income is fluctuating tend over the five year period.

4.1.5.3 Interest Margin

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

Table : 4.22
Movements in Interest Margin of NIBL

Amount '000'

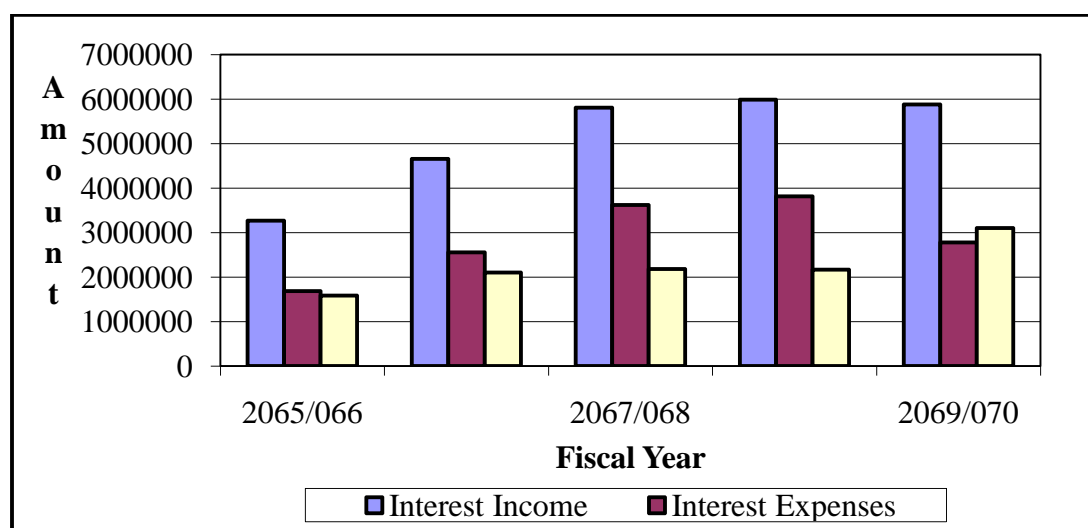
Fiscal Year	Interest Income(X)	Interest Expenses(Y)	Interest Margin(X-Y)	Growth in Interest Margin
2065/066	3267941	1686973	1580968	-
2066/067	4653521	2553847	2099674	32.81
2067/068	5803440	3620337	2183103	3.97
2068/069	5982641	3814411	2168230	-ve (0.68)
2069/070	5878272	2774788	3103484	43.13

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the position of interest margin and its growth through out the study period. The figure of interest margin is fluctuating trend. The base year to calculate the interest margin is F/Y 2065/066. The rate of growth is 32.81% in F/Y 2066/67. But it decreased to 3.97 % in the year 2067/068 like wise it is going to decrease in negative figure in F/Y 2068/069 increase to 0.68 %. Again it is increased to highest range in F/Y 2069/070 to 43.13%. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

Figure : 4.19

Bar Diagram Showing Interest Margin of NIBL



The above bar diagram is showing the status of interest margin with comparison with interest income and interest expenses of NIBL. The fundamental purpose of this diagram is to show the relationship of interest margin so the trend of interest margin through out the five years period is increasing trend except F/Y 2068/069.

4.6 Burden of NIBL:

The burden is the difference amount between other expenses and other income or the overall expenses of the bank excepting interest expenses for deposit is called burden. The table below presenting the burden of NIBL.

Table : 4.23

Status of Burden of NIBL

Amount '000'

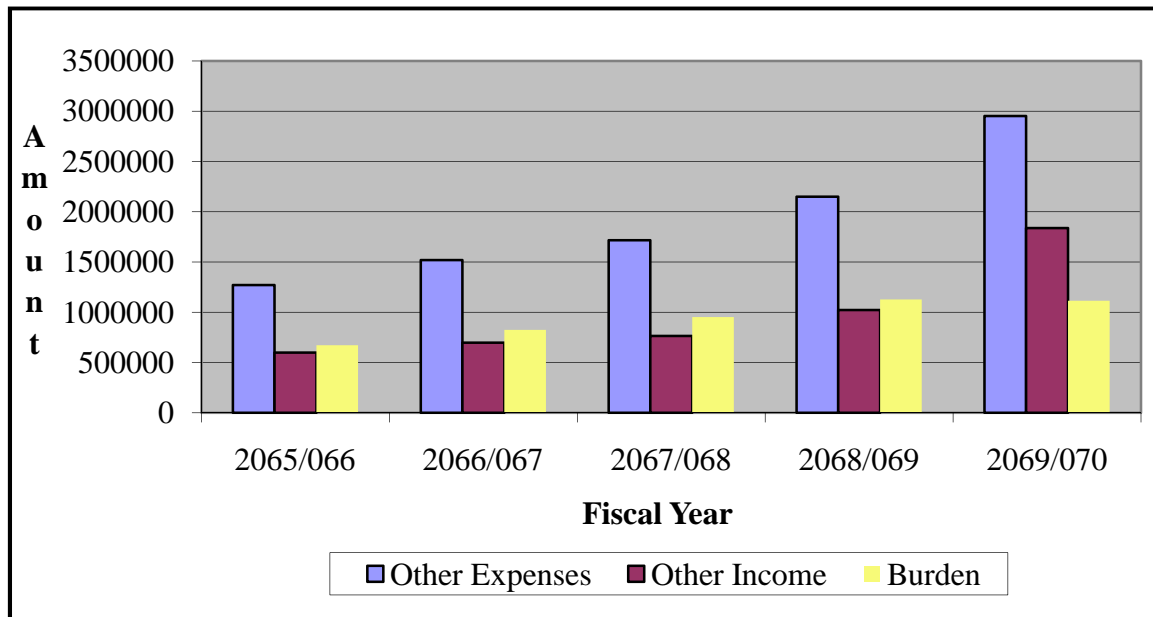
Fiscal Year	Other Expenses	Other Income	Burden
2065/066	1271895	599949	671946
2066/067	1520224	695862	824362
2067/068	1718094	765520	952574
2068/069	2149655	1023460	1126195
2069/070	2951059	1836366	1114693

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the status of other expenses & other income and the difference between them is called burden of NIBL. The figure of burden is increasing every year except

F/Y 2069/070 since the other expenses and other income also increasing trend. This table showing that the total other expenses can't cover by the other income since all of burden amount is in positive figure through out the five years. To know the relationship between other expenses, other income and the burden researcher going to plot the data in bar diagram below.

Figure : 4.20
Bar Diagram Showing the Burden of NIBL



The above bar diagram shows the position of other expenses, other income and burden of the NIBL. The purpose of the diagram is to show the relationship of burden amount with other expenses and the other income. The other expenses are in the higher position in bar diagram through out the five years of time period. The other income is in second position this result of diagram shows that other expenses is higher than other income every year. The burden is the visions of other expenses and other income. Since other income can't lead to other expenses the burden is in positive form every year. The trend of burden is in increasing every year.

4.1.7 Net Profit & Loss of NIBL

Profit is excess income over expenditure like wise loss incurred by excess expenditure over the income. The researcher has calculated above the interest margin and burden so the difference between interest margin and burden is called net profit & Loss. Following table shows the status of interest margin, Burden and Net Profit of NIBL throughout the study period.

Table : 4.24
Showing the Status of Profit and Loss of NIBL

Amount '000'

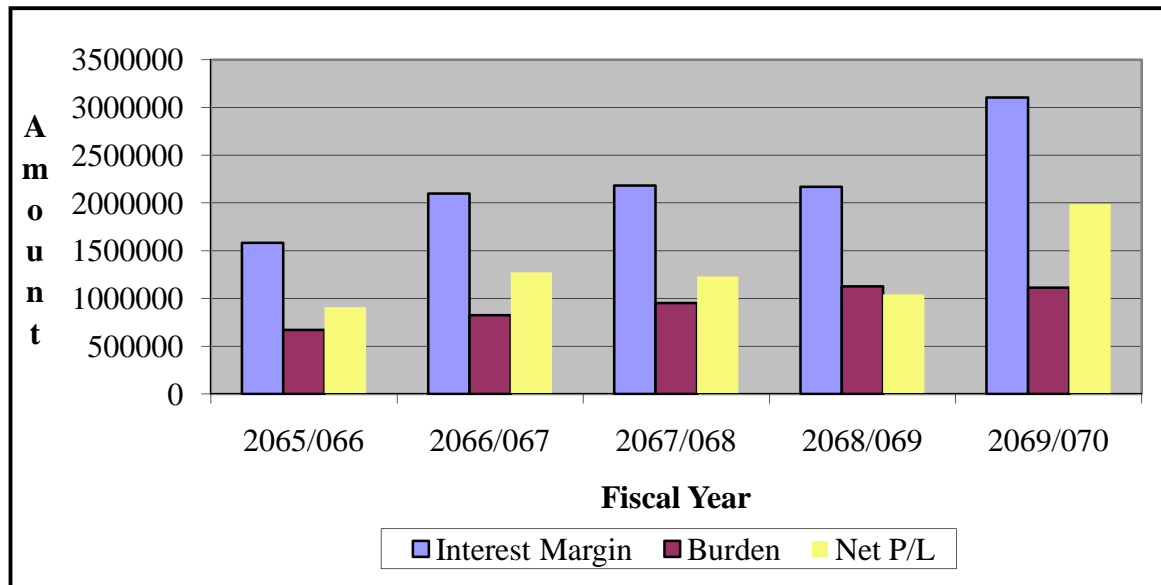
Fiscal Year	Interest Margin	Burden	Net Profit & Loss	Growth Rate
2065/066	1580968	671946	909022	-
2066/067	2099674	824362	1275312	40.29
2067/068	2183103	952574	1230529	-ve (3.51)
2068/069	2168230	1126195	1042035	-ve (15.32)
2069/070	3103484	1114693	1988791	90.86

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the status of net profit and loss of NIBL since the figure in P/L column are positive form the NIBL is in profit zone every year. The trend of net profit is fluctuating every year where as the growth rate of profit is also fluctuating trend. The rate of growth in F/Y 2066/067 is 40.29 % in comparison with the F/Y 2065/066. Similarly, the growth rate is decreased in negative figure by 3.51 % in F/Y 2067/68. The negative figure is increased in F/Y 2068/069 by 15.32% but in F/Y 2069/070 the growth rate margin is improved highest positive figure by 90.86%. For the more analysis purpose the status of net profit presenting in the bar diagram below.

Figure : 4.21

Bar Diagram Showing the Net Profit & Loss of NIBL



By the above bar diagram researcher can find that the relationship of net profit with interest margin, Burden, of NIBL the main purpose of the bar diagram is to represent the status of net profit of NIBL. Since the bar diagram shows the position of net profit is above the base line it is in profit zone every year. The position of Net profit is in fluctuating trend every year. The interest margin has higher rank over the five year and burden has lower rank so there is profit in every year. The net profit is higher than burden amount but in the F/Y 2068/069 net profit is slightly lower than burden.

4.1.8 Performance Evaluation of NIBL

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 organizational goal. Here researcher 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

4.1.8.1 Ratio Analysis

Ratio 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 ratios 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

4.1.8.1.1 Liquidity Ratio

Liquidity Ratio is ability of a firm to pay short term liabilities. Liquidity ratio reflects the short term 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 NIBL. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities shown on appendix No 7.

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

Table : 4.25

Current Ratio of NIBL

Amount '000'

Fiscal Year	Current Assets (X)	Current Liabilities (Y)	Current Ratio (X/Y)
2065/066	8308656	1802815	4.61:1
2066/067	7215328	1947682	3.70:1
2067/068	8579759	2448421	3.50:1
2068/069	12418944	2542059	4.89:1
2069/070	13980596	2757775	5.07:1

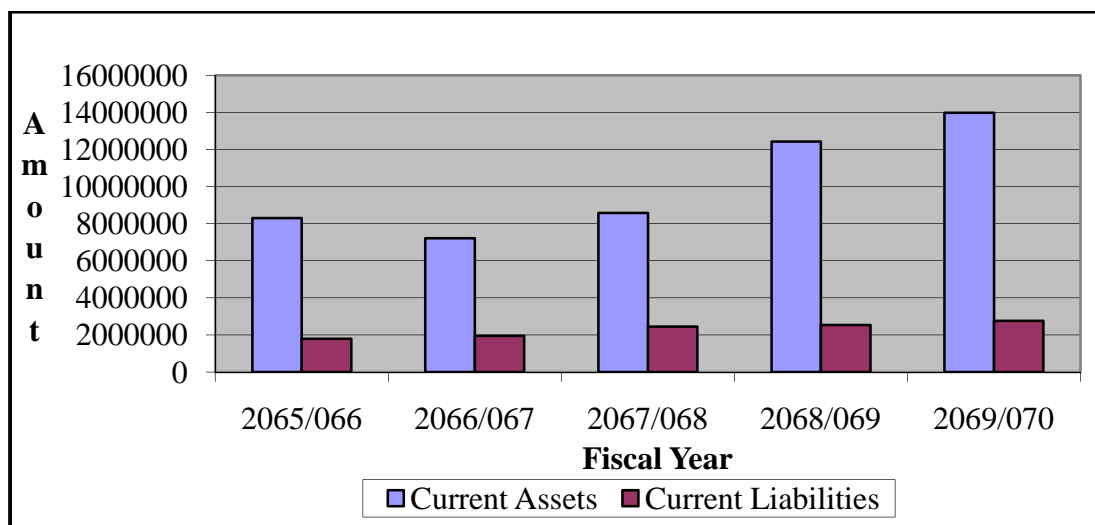
(Sources: Annual Reports of NIBL 2065/066 to 2069/070 & Appendix no.7)

The above table shows the liquidity position of NIBL. Higher the current ratio better the liquidity position, for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current

obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. The current ratio of NIBL has met the standard of 2:1 every year. The trend of current ratio is slightly fluctuating the range of current ratio through out the five years period is 3.5: 1 to 5.07: 1. NIBL has higher current assets than current liabilities over the study period. So NIBL 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 : 4.22

Bar Diagram Showing Current Assets and Current Liabilities of NIBL



Above bar diagram shows the status of current assets and current liabilities of NIBL 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.

4.1.8.1.2 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

4.1.8.1.2.1 Debt-Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt-Equity ratio measures the long 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 equity the details of borrowings and share holders equity shown on appendix No.8.

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

Table : 4.26

Debt-Equity Ratio of NIBL

Amount '000'

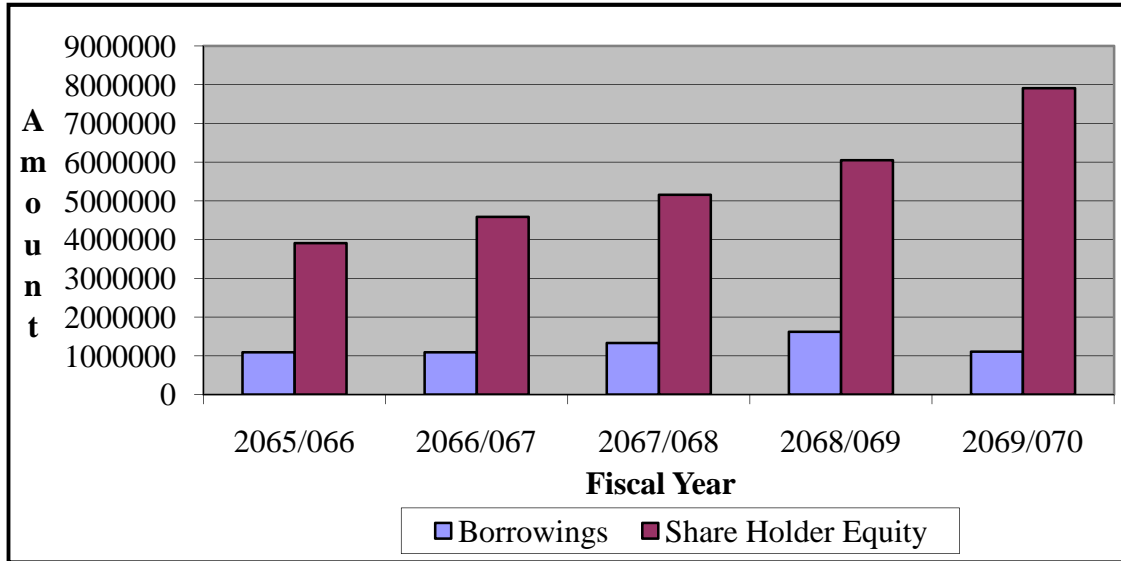
Fiscal Year	Borrowings (X)	Share Holder Equity (Y)	Debt - Equity Ratio (X/Y)
2065/066	1088800	3907840	0.2786:1
2066/067	1087315	4585892	0.2371:1
2067/068	1330764	5160000	0.2579:1
2068/069	1617579	6049286	0.2674:1
2069/070	1110566	7012815	0.1584:1

(Sources: Annual Reports of NIBL 2065/066 to 2069/070 & Appendix no.8)

The above table shows the debt equity ratio of NIBL. The column X shows the figure of borrowings and column Y shows the figure of share holder's equity. By dividing to Column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of NIBL is 0.1584:1 to 0.2786: 1. The trend of debt equity ratio is fluctuating every year. NIBL has high portion of equity than long term debenture where as for a banking sector fixed deposit also consider as long term obligation but in above analysis researcher have calculated only borrowings as long term debt. The above table and chart shows that NIBL's financial strength is very 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 : 4.23

Bar Diagram Showing Borrowings and Share Holder's Equity of NIBL



From the diagram shows the status of long term debt and share holder's equity. The long terms debt is slightly increasing trend like wise the share holder equity increasing rapidly over the five year's period. The position of share holder equity is higher than the long term debt this indicate that the bank use more internal fund than external fund

4.1.8.1.2.2 Interest Coverage Ratio (ICR)

ICR measures the capacity to pay interest expenses. This ratio is calculated by dividing Net Profit before Interest & Tax (EBIT) by Interest cost amount.

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

Table : 4.27

Calculation of Interest Coverage Ratio

Fiscal Year	EBIT (X)	Interest Expenses (Y)	Times
2065/066	3143373	189214	16.61
2066/067	4445753	326202	13.63
2067/068	5564669	354549	15.70
2068/069	6045481	490947	12.31
2069/070	6471338	685530	9.44

Amount '000'

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the position of interest coverage ratio (ICR) of NIBL. The ICR is 16.61 times in F/Y 2065/066 this means EBIT is 16.61 times more than interest expenses. Likewise the ICR reached to 13.63 times in F/Y 266/067 this results represents the NIBL decreased it's EBIT. The rate increased to 15.70 in F/Y 2067/068 similarly in F/Y 2068/069 the rate decreased to 12.31 and in F/Y 2069/070 again the rate is decreased to 9.44 times. The interest coverage ratio of NIBL ranges between 9.44 to 16.61 Times. It means that the bank sufficiently capable to pay the interest expenses.

4.1.8.1.3 Activity Ratio

The relationship between activity of bank & human resources is called activity ratio. These ratios reflect how efficiently the organization is utilizing their employees. The major activity of a bank is collection deposit and LDO so researcher going to show the relationship with these items & number of employees of NIBL.

$$\text{Deposit per Employees} = \frac{\text{Deposit collected}}{\text{No of employees}}$$

$$\text{LDO per Employees} = \frac{\text{LDO Deployed}}{\text{NO of Employees}}$$

Table : 4.28

Showing the activity ratio of NIBL

Amount '000'

F/Y	Deposit Collected (A)	LDO Deployed (B)	No. of Employees (C)	Deposit per Employee (D)=A/C	LDO Per employee (E) =B/C
2065/066	46698100	36827157	766	60964	48077
2066/067	50094725	40948440	877	57121	46691
2067/068	50138122	41887693	877	57170	47762
2068/069	57010604	42906691	883	64565	48592
2069/070	62428845	47700628	910	68603	52418

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the relationship of major activities of bank with its human resources. The number of employees increasing every year except F/Y 2067/068 like wise the major activities of NIBL is increasing trend. In the above table column A,B,C shows deposit

collection , LDO deployed, and NO. of employees. The relationship with such activities is calculated dividing to column A, B by Column C.

4.1.8.1.4 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 this researcher going to measure of NIBL profitability by total assets & total capital fund to Net profit. It is computed by dividing to Net profit by Total Assets & Net Profit to total capital fund.

Table : 4.29
Profitability Ratio of NIBL:

Amount '000'

Fiscal Year	Net Profit after Tax (A)	Total Assets (B)	Return on Assets (C)= A/B	Total Capital Fund (D)	Return on Capital (E=A/D)
2065/066	900619	53010803	1.70 %	3907840	23.05%
2066/067	1265950	57305413	2.21%	4585892	27.60%
2067/068	1176641	58356828	2.02%	5160000	22.80%
2068/069	1039276	65756232	1.58%	6049286	17.18%
2069/070	1915028	73152155	2.62%	7012815	27.31%

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the status of return on assets and return on capital employed of NIBL. 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 it is ranged between 1.58 % to 2.62 % through out the five years period. Like wise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 17.18 % to 27.60 % it is fluctuating trend through five years of study period.

4.1.8.2 Cost Volume Profit Analysis

Relationship between cost, volume and profit is called cost volume profit (CVP) Analysis. The CVP analysis is a tool of Profit planning used by management. The three component of CVP analysis is interrelated each other. Profit depends on Sales; Sales price depends on

volume of production. CVP analysis helps to management for decision making about the cost control. CVP analysis of NIBL based on the assumption of fixed cost is taken for burden amount which is calculated from difference between other expenses and other income. The CVP analysis is analyzed by using the help of financial tool of break even point analysis in terms of interest margin, deposit collection, outstanding LDO.

4.1.8.2.1 BEP in Terms of Interest Margin

Following table shows the BEP in Rs and percentage in terms of interest margin of NIBL.

$$\text{BEP (\%)} = \frac{\text{Net Burden}}{\text{Interest Margin}}$$

$$\text{BEP Amount} = \text{BEP (\%)} \mid \text{Interest Income}$$

Table : 4.30
BEP in Terms of Interest Margin

Amount '000'

Fiscal Year	Net Burden (A)	Interest Margin(B)	Interest Income (C)	BEP In % D =(A/B)	BEP In Rs (C D)
2065/066	671946	1580968	3267941	42.50%	1388946
2066/067	824362	2099674	4653521	39.26%	1827039
2067/068	952574	2183103	5803440	43.63%	2532270
2068/069	1126195	2168230	5982641	51.94%	3107429
2069/070	1114693	3103484	5878272	35.92%	2111327

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

From the above table it is found that BEP percentage and BEP amount of NIBL in terms of interest margin. The percentage of BEP is in fluctuating trend it means the burden and interest margin is not in increasing as same ratio where as the BEP in Rs is in increasing trend except F/Y 2069/070. So NIBL is in over the BEP level in terms of interest margin. The BEP range over the study period is 35.92 % to 51.94 %.

4.1.8.2.2 Margin of Safety of NIBL

The margin of Safety is also called profit zone. It is derived from the deducting BEP interest from total interest income. The following table showing the margin of safety of NIBL.

$$\text{Margin of Safety (MOS)} = \text{Total Interest Income} - \text{BEP Interest}$$

Table : 4.31

Showing the Status of Margin of Safety of NIBL:

Amount '000'

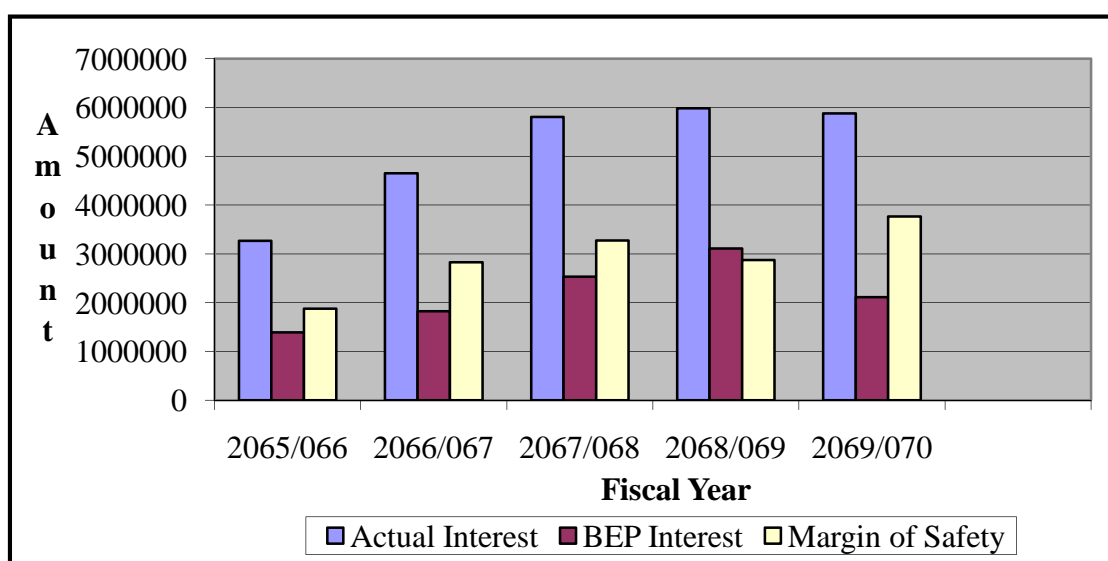
Fiscal Year	Total Interest Income (A)	BEP Interest (B)	Margin of Safety (A-B)	Growth
2065/066	3267941	1388946	1878995	-
2066/067	4653521	1827039	2826482	50.43%
2067/068	5803440	2532270	3271170	15.73%
2068/069	5982641	3107429	2875212	-12.10%
2069/070	5878272	2111327	3766945	31.01%

(Sources: Annual Reports of NIBL 2065/066 to 2069/070)

The above table shows the status of margin of safety and the growth rate over the five years of time period. The trend of MOS is increasing except the F/Y 2068/069. The base year to calculate the growth of MOS is F/Y 2066/067 the rate of growth is 50.43% comparison with the F/Y 2065/066. In F/Y 2067/068 it decreased to 15.73 % then after in F/Y 268/069 the growth rate is in negative but in F/Y 2069/070 it is increased to 31.01%. To know the trend of MOS figure is presenting in bar diagram below.

Figure : 4.24

Bar Diagram Showing Margin of Safety of NIBL



Above bar diagram shows the status of actual interest, BEP interest and MOS. The main purpose of the diagram is to show the position of MOS in comparison with actual and BEP interest. The trend of MOS is higher than the BEP interest except in the F/Y 2068/69 and F/Y 2069/070. The actual interest is higher position than BEP so the figure of MOS is positive every year.

4.1.8.2.3 BEP in terms of Volume of O/S LDO

BEP in terms of volume of o/s LDO is calculated on the basis of BEP interest and return on LDO. Here the following table represents BEP in terms of LDO of NIBL.

$$\text{BEP in terms of LDO} = \frac{\text{BEP interest income}}{\text{Return on LDO}}$$

Table : 4.32

BEP in terms of Volume of O/S LDO

Amount ' 000'

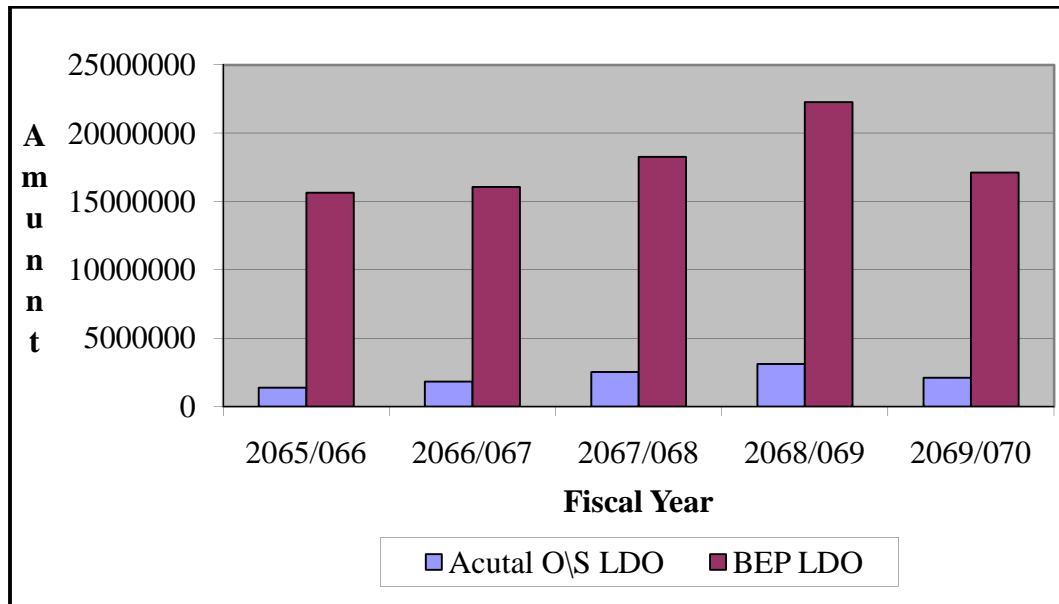
Fiscal Year	BEP Interest Income (X)	Return on LDO (Y)	BEP (LDO) (X/Y)
2065/066	1388946	8.87 %	15658918
2066/067	1827039	11.36 %	16083090
2067/068	2532270	13.85 %	18283538
2068/069	3107429	13.94 %	22291456
2069/070	2111327	12.32 %	17137394

(Source: Table no 4.25 & 4.37)

The above table shows the status of BEP in terms of outstanding loan. The actual figure of LDO is greater than the BEP figure so the NIBL is in the profit zone. The figure of BEP LDO is fluctuating trend through out the five years of study period. The figure of actual LDO and BEP LDO is presenting in the bar diagram below.

Figure : 4.25

Bar Diagram Showing Actual and BEP LDO of NIBL



From the above bar diagram researcher can find the actual LDO is over than the BEP LDO and it is also in increasing trend over the study period.

4.1.8.2.4 BEP in terms of Volume of Deposit

The following table showing the BEP in terms of Deposit which is derived from BEP LDO divided by the LDO to Deposit Ratio.

$$\text{BEP Deposit} = \frac{\text{BEP LDO}}{\text{LDO to Deposit Ratio}}$$

Table : 4.33

Showing in BEP in terms of Volume of Deposit:

Amount '000'

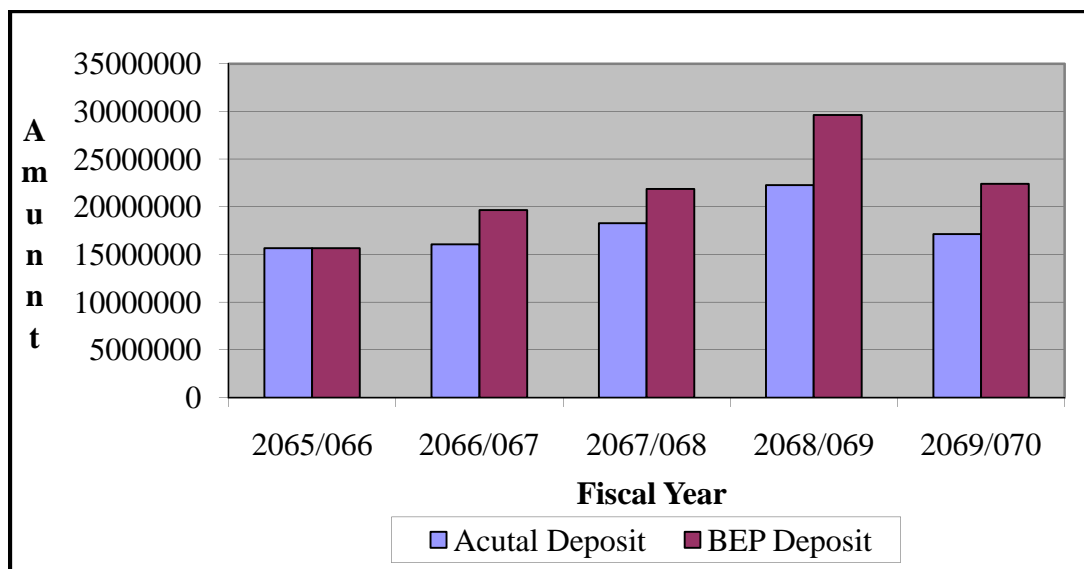
Fiscal Year	BEP (LDO) (X)	LDO to Deposit Ratio (Y)	BEP (Deposit) X/Y
2065/066	15658918	78.86 %	19856604
2066/067	16083090	81.74 %	19675911
2067/068	18283538	83.54 %	21885968
2068/069	22291456	75.26 %	29619261
2069/070	17137394	76.41 %	22428208

(Sources: Table no 4.38 & 4.16)

The above table shows the status of BEP in terms of deposit collection. The deposit collection of NIBL is higher than the BEP Deposit every year. The value of actual deposit and BEP deposit is presenting in the bar diagram below.

Figure : 4.26

Bar Diagram Showing Actual and BEP Deposit of NIBL



The above diagram shows the relationship between actual and BEP deposit of NIBL. The BEP deposit is higher than the Actual Deposit over the study period and the deposit is in increasing trend of NIBL except F/Y 2069/070.

4.2 Major Findings of the Study

On the basis of analysis of secondary data and their interpretation, the major findings of the study are summarized below:

-) NIBL applied profit planning and control but there is lack of effective profit planning in study period for innovative products research.
-) The bank has 87% average contribution of customer deposit in the resources mobilization as per the data F/Y 2065/066 to 2069/070 and uses the other resources of 13 % in average.
-) NIBL is well performing in the deposit collection sector. Actual figure is higher than the budgeted deposit. The researcher have find (r) is 0.9851 and PE is 0.0089. 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 2070/071 will be RS 72989047 thousand stated by the regression line.
-) The deployment of Banks available resources at various portfolios among which LDO hold the highest percentage i.e. 68 % in average out of total deployment amount through out the five years of study period.
-) NIBL is successes to mobilization loans and advance for investment. The average achievements of bank is more than 100% of budgeted amount.
-) The statistical tool CV represents that NIBL's actual LDO is the variable nature than budgeted LDO. The correlation between budgeted and actual LDO is 0.9618 it 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 no doubtful that actual LDO will go on same direction that of budgeted LDO. The regression line shows the expected LDO for the F/Y 2070/071 will be 56470288 thousand.
-) It is found that 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 79.16 %.
-) The relationship between actual deposit and actual O/S LDO is in increasing trend over the period.

-) NIBL perform better financial operation by utilizes their resources for profit generation.
-) The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NIBL is in the range of 3.61 % to 7.22 % it means the bank pays the interest 5.41 % in average over the period.
-) The yearly interest income is in increasing trend in amount as per the O/S LDO is also increasing. In the term of average rate of return is fluctuating trend it is ranges of 8.87 % to 13.94 % the average rate of return over the study period is 12.07 %.
-) The amount of interest margin of NIBL is in increasing trend except F/Y 2068/069 where as the increment percentage is fluctuating trend over the study period.
-) The interest margin has higher rank over the five year and burden has lower rank so there is profit in every year. The net profit is higher than burden amount but in the F/Y 2068/069 net profit is slightly lower than burden.
-) The current ratio of NIBL is better every year over the study period.
-) Debt-Equity ratio shows that the NIBL's financial strength is very strong because it has more internal fund to repay the borrowing capital.
-) The interest coverage ratio of NIBL ranges between 9.44 to 16.61 times.
-) The range of return on total assets is 1.58 to 2.62 % and range of return of total capital fund is 17.18% to 27.60 % over the period.
-) The percentage of BEP is in fluctuating trend it means the burden and interest margin is not in increasing as same ratio where as the BEP in Rs is in increasing trend over the period so NIBL is in over the BEP level in terms of interest margin. The BEP range over the study period is 35.92 % to 51.94 %.
-) The cash flow analysis of the NIBL 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-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

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.

Economic growth is the necessary for the every developing country in modern era. Money is the important thing for development of national economy. Proper and well planned money determined and increase the productive financial sector is very important for commercial bank to growth of national economy. The history of the commercial bank in Nepal is begin with Nepal bank limited in 1994 B.S. commercial banks collects the deposits form savers and provides loan and advance to trade, industry and business. Commercial bank mobilizes the scatters idle resource from savers. Commercial bank helps to pools the funds in the optimum volume to in order to feed to the fund requirement of productive sector. Therefore commercial bank raise employment and opportunity to earning labor and materials and service provides to trade industry and business. Commercial bank provides reasonable interest to depositors. It helps to create the habits of saving money to interest earned from savers.

Profit earning is the major objectives of any profit oriented commercial organizations. Profit is the difference between cost and revenues. Planning is the future courses of action, which is the estimated, what to be done in future. Profit plan, which is planned for achieving profit in certain future period, is called profit planning. Therefore profit for commercial bank has been lifeblood for them. A commercial bank also service oriented commercial enterprises. It has to plan for the reasonable profit earning. Commercial bank planning of activities in such a way that it helps in increasing the revenue at a minimum cost.

The economic growth of a country can't imagine without financial institutions. Commercial

banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization.

The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of NIBL. The study is mostly based on secondary data and required data have been collected by using various sources. There are 31 commercial banks operating in Nepal which are taken as population of the study among them NIBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

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

This study has tried to cover the profit planning of NIBL from 2065/66 to 2069/70. Five chapter are includes in this study.

First chapter is introduction of this research. Its includes introduction of profit planning, profile of studied bank, historical background of the banking sector in Nepal, statement of the problem, objectives of study, limitation of study and chapter summary.

The second chapter is literature reviewed. During the research work an extensive review literatures book, past thesis journal have been made and interest materials from relevant web also consulted.

The third chapter is research methodology it is related on method, steps and tool which used in this research.

Fourth chapter is deals on data presentation and analysis. It is related on objectives of the study. In this chapter we used financial mathematical and statistical tools for systematic manner all their work are the fourth chapter titled as data presentation and analysis of the study.

Finally the summary, conclusion and recommendation are includes in chapter five which is being presented in this current chapter, chapter five titled as summary conclusion and recommendation.

5.2 Conclusion

On the basis of major findings of study some conclusion has drawn about the NIBL.

-) NIBL is applied profit planning techniques but they are not conscious about profit planning techniques effective manner.
-) NIBL hasn't been able to utilize all capacity. Average 87% capacity is only utilize.
-) Budgeted collection is made in accordance with the budgeted investment.
-) Actual deposit collection and actual loans and advance of NIBL is greater than budgeted figure. Actual figure is more than 100% of budgeted figure. The statistical tools show that NIBL has better operating performance on deposit collection and loan & advance.
-) NIBL is able to meet its targeted deposit collection, deployment of LDO. The relationship between budgeted and actual figures is positively correlated.
-) Interest income amount of the bank is highest among other income items in the total revenue.
-) The average cost of deposit (COD) of bank is normal it means the bank is able to collect cost free deposit.
-) Interest expenses amount is the highest among total expenses items of the bank every year.
-) The relationship between loan loss provision and O/S LDO shows that the doubtful debt is decreasing trend.
-) The major income source is interest margin and the trend of interest margin is increasing trend every year.
-) The liquidity position of NIBL is better position. Bank has maintained the cash and bank balance to meet the current obligations.

-) The financial strength of NIBL is strong since Debt equity ratio shows that the NIBL use more internal fund to repay its borrowings.
-) The return on assets and return on capital is satisfactory of NIBL. It shows the good earning capacity of the bank.
-) Budgets are prepared just to fulfill the formalities but these are not used effectively for profit planning process.

The result of the study shows the overall performance of NIBL is satisfactory and progressive.

5.3 Recommendation

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

1. Actual performance of deposit collection and loan and advance are appeared more than 100% on budgeted data. And statically results are come satisfactory. So, it is recommended NIBL to coming year for more than past achievement, bank allocates its recourse properly and to strong the marketing system.
2. About all the profitability ratios examined for the study is unsatisfactory position. So NIBL has challenges to allocate its recourses in income generation sector. Especially NIBL to open branches in other cities and rural area in order to fond profitability opportunities.
3. Interest coverage ratio of the NIBL is decreasing trend. NIBL has maintained the lesser provision for possible losses against loans and advanced. So it is better to search for the profitable sector for investment and utilization of the resources.
4. Nonperforming assets of NIBL has more. So, NIBL has suggested that decrease their Nonperforming assets for profit generation.
5. The bank is suggested to review their investment portfolio to see if there is any better mix than the present one. NIBL should investment more of its fund in government securities for secured investment.
6. The bank is suggested to promote their international banking network to increase their remittance and other banking services such as. ATM cards, debit cards and credit cards. And explanation their branch in rural areas as well as where ever is necessary.

7. NIBL 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.
8. NIBL'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.
9. NIBL invest in LDO 68 % out of total available resources. To overcome from the situation it is recommended to follow liberal lending policy and invest more in secured loan and advances and maintain stability on the investment policy.
10. Only an easy way of making positive profit is to utilize its capacity fully. So NIBL suggest to gather all inputs to make utilization of capacity.
11. 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.
12. People in rural area of Nepal still out of banking services so NIBL is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.
13. Profit should not be the one and only goal of the commercial bank although it needs to be earned for survival (smooth running) and growth of any organization. The country has expected supports and services from the financial sectors for the balanced development. Economics level of the country can be enhance only when the economics status of people below the poverty line incense. So the bank is suggested to diversify their loans in priority and deprived sectors as more as possible by opening more rural branches.
14. 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 from 2010 A.D there will be more challenge for Nepalese financial institutions. The central bank of Nepal (NRB) should make some policies toward 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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Appendix 1 : Deposit Collection Budget of NIBL

Amount '00000000'

Year	X	Y	$x - \bar{X}$ (47)	$y - \bar{Y}$ (5326)	xy	x^2	y^2
2065/066	400	467	-71	-65.6	4657.6	5041	4303.36
2066/067	455	501	-16	-31.6	505.6	256	998.56
2067/068	450	501	-21	-31.6	663.6	441	998.56
2068/069	500	570	29	37.4	1084.6	841	1398.76
2069/070	550	624	79	91.4	7220.6	6241	8353.96
	$\sum x = 2355$	$\sum y = 2663$	$\sum (x - \bar{X}) = 0$	$\sum (y - \bar{Y}) = 0$	$\sum xy = 14132$	$\sum x^2 = 12820$	$\sum y^2 = 16053.2$

$$\bar{X} = \frac{\sum X}{n} = \frac{2355}{5} = 471$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{2663}{5} = 532.6$$

$$s_x = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2}} = \sqrt{\frac{12820}{5} - \frac{0^2}{5^2}} = 50.64$$

$$s_y = \sqrt{\frac{\sum y^2}{n} - \frac{(\sum y)^2}{n^2}} = \sqrt{\frac{16053.2}{5} - \frac{0^2}{5^2}} = 56.66$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{14132}{\sqrt{12820} \sqrt{16053.2}} = \frac{14132}{113.23 \times 126.70} = 0.9851$$

$$CV_x = \frac{s_x}{\bar{x}} \times 100 = \frac{50.64}{471} \times 100 = 10.75\%$$

$$CV_y = \frac{s_y}{\bar{y}} \times 100 = \frac{56.66}{532.6} \times 100 = 10.64\%$$

$$PE = 0.6745 \frac{1}{\sqrt{n}} \sum Zr^2 = 0.6745 \frac{1}{\sqrt{5}} \sum Z(0.9851)^2 = 0.0089 \times 6 = 0.0534, \text{ for } \Psi(PE)$$

Appendix 2 : Resource Other than Deposit

Amount '00000000'

Year	X	Y	$x - \bar{X} = -9.6$	$y - \bar{Y} = -9.8$	xy	x^2	y^2
2065/066	10	17	-9.6	-9.8	94.08	92.16	96.04
2066/067	15	18	-4.6	-8.8	40.48	21.16	77.44
2067/068	18	24	-1.6	-2.8	4.48	2.56	7.84
2068/069	25	31	5.4	4.2	22.68	29.16	17.64
2069/070	30	44	10.4	17.2	178.88	108.16	295.84
	$\sum X = 98$	$\sum Y = 134$	$\sum x = 0$	$\sum y = 0$	$\sum xy = 340.6$	$\sum x^2 = 253.2$	$\sum y^2 = 494.8$

$$\bar{X} = \frac{\sum X}{n} = \frac{98}{5} = 19.6$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{134}{5} = 26.8$$

$$s_x = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2}} = \sqrt{\frac{253.2}{5} - \frac{98^2}{5^2}} = 7.12$$

$$s_y = \sqrt{\frac{\sum y^2}{n} - \frac{(\sum y)^2}{n^2}} = \sqrt{\frac{494.8}{5} - \frac{134^2}{5^2}} = 9.95$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{340.6}{\sqrt{253.2} \sqrt{494.8}} = \frac{340.6}{15.91 \cdot 22.244} = 0.9626$$

$$CV_x = \frac{s_x}{\bar{x}} \cdot 100 = \frac{7.12}{19.6} \cdot 100 = 36.33\%$$

$$CV_y = \frac{s_y}{\bar{y}} \cdot 100 = \frac{9.95}{26.8} \cdot 100 = 37.13\%$$

$$PE = 0.6745 \frac{1}{\sqrt{n}} = 0.6745 \frac{1}{\sqrt{5}} = 0.2216$$

PE = 6 | 0.0221 X 0.1328', fr Ψ6PEA

Appendix 3 : Budgeted & Actual LDO

Amount '00000000'

Year	X	Y	$x - \bar{X}$	$y - \bar{Y}$	xy	x^2	y^2
2065/066	300	368	-57	-52.4	2986.8	3249	2745.76
2066/067	350	409	-7	-11.4	79.8	49	129.96
2067/068	355	419	-2	-1.4	2.8	4	1.96
2068/069	380	429	23	8.6	197.8	529	73.96
2069/070	400	477	42	56.6	2377.2	1764	3203.56
	$\sum X = 1785$	$\sum Y = 2102$	$\sum (x - \bar{X}) = 0$	$\sum (y - \bar{Y}) = 0$	$\sum xy = 5644.4$	$\sum x^2 = 5595$	$\sum y^2 = 6155.2$

$$\bar{X} = \frac{\sum X}{n} = \frac{1785}{5} = 357$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{2102}{5} = 420.4$$

$$s_x = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2}} = \sqrt{\frac{5595}{5} - \frac{0^2}{5^2}} = 33.45$$

$$s_y = \sqrt{\frac{\sum y^2}{n} - \frac{(\sum y)^2}{n^2}} = \sqrt{\frac{6155.2}{5} - \frac{0^2}{5^2}} = 35.09$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{5644.4}{\sqrt{5595} \sqrt{6155.2}} = \frac{5644.4}{74.8 \cdot 78.46} = 0.9618$$

$$CV_x = \frac{s_x}{\bar{x}} \cdot 100 = \frac{33.45}{357} \cdot 100 = 9.37\%$$

$$CV_y = \frac{s_y}{\bar{y}} \cdot 100 = \frac{35.09}{420.4} \cdot 100 = 8.35\%$$

$$PE = 0.6745 \frac{1}{\sqrt{n}} = 0.6745 \frac{1}{\sqrt{5}} = 0.0335 \quad \bullet PE = 0.0335 \cdot 0.2011', \quad fr = \Psi_{6PE}$$

Appendix 4 : Budgeted and Actual NLDO of NIBL

Amount '00000000'

Year	X	Y	$x - \bar{X}$	$y - \bar{Y}$	xy	x^2	y^2
2065/066	90	162	-36	-32.8	1180.8	1296	1075.84
2066/067	100	164	-26	-30.8	800.8	676	948.64
2067/068	115	165	-11	-29.8	327.8	121	888.04
2068/069	150	228	24	33.2	796.8	576	1102.24
2069/070	175	255	49	60.2	2949.8	2401	3624.04
	$\sum X = 630$	$\sum Y = 974$	$\sum (x - \bar{X}) = 0$	$\sum (y - \bar{Y}) = 0$	$\sum xy = 6056$	$\sum x^2 = 5070$	$\sum y^2 = 7638.8$

$$\bar{X} = \frac{X}{n} = \frac{630}{5} = 126$$

$$\bar{Y} = \frac{Y}{n} = \frac{974}{5} = 194.8$$

$$s_x = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2}} = \sqrt{\frac{5070}{5} - \frac{630^2}{5^2}} = 31.84$$

$$s_y = \sqrt{\frac{\sum y^2}{n} - \frac{(\sum y)^2}{n^2}} = \sqrt{\frac{7638.8}{5} - \frac{974^2}{5^2}} = 39.09$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{6056}{\sqrt{5070} \sqrt{7638.8}} = \frac{6056}{71.20 \cdot 87.40} = 0.9732$$

$$CV_x = \frac{s_x}{\bar{x}} \cdot 100 = \frac{31.84}{126} \cdot 100 = 25.27\%$$

$$CV_y = \frac{s_y}{\bar{y}} \cdot 100 = \frac{39.09}{194.8} \cdot 100 = 20.07\%$$

$$PE = 0.6745 \frac{1 - r^2}{\sqrt{n}} = 0.6745 \frac{1 - 0.9732^2}{\sqrt{5}} = 0.0237 \quad \bullet PE = 6 \cdot 0.0237 = 0.1419', \quad fr = \Psi_{6PE}$$

Appendix 5 : Actual Deposit & O/S LDO of NIBL

Amount '00000000'

Year	X	Y	$x - \bar{X}$	$y - \bar{Y}$	xy	x^2	y^2
2065/066	467	368	-65.6	-52.4	3437.44	4303.36	2745.76
2066/067	501	409	-31.6	-11.4	360.24	998.56	129.96
2067/068	501	419	-31.6	-1.4	44.24	998.56	1.96
2068/069	570	429	37.4	8.6	321.64	1398.76	73.96
2069/070	624	477	91.4	56.6	5173.24	8353.96	3203.56
	$\sum X = 2663$	$\sum Y = 2102$	$\sum (x - \bar{X}) = 0$	$\sum (y - \bar{Y}) = 0$	$\sum xy = 9336.8$	$\sum x^2 = 16053.2$	$\sum y^2 = 6155.2$

$$\bar{X} = \frac{\sum X}{n} = \frac{2663}{5} = 532.6$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{2102}{5} = 420.4$$

$$s_y = \sqrt{\frac{\sum y^2}{n} - \frac{(\sum y)^2}{n^2}} = \sqrt{\frac{6155.2}{5} - \frac{0^2}{5}} = 35.09$$

$$s_x = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2}} = \sqrt{\frac{16053.2}{5} - \frac{0^2}{5}} = 56.66$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{9336.8}{\sqrt{16053.2} \sqrt{6155.2}} = \frac{9336.8}{126.7 \cdot 78.46} = 0.9392$$

$$CV_y = \frac{s_y}{\bar{y}} \cdot 100 = \frac{35.09}{420.4} \cdot 100 = 8.35\%$$

$$CV_x = \frac{s_x}{\bar{x}} \cdot 100 = \frac{56.66}{532.6} \cdot 100 = 10.64\%$$

$$PE = 0.6745 \frac{1 - r^2}{\sqrt{n}} = 0.6745 \frac{1 - 0.9392^2}{\sqrt{5}} = 0.0527 \quad \bullet PE = 6 \cdot 0.0527 = 0.3164', \quad fr = \Psi_{6PE}$$

Appendix 6 : Actual O/S LDO and Interest Income of NIBL

Amount '00000000'

Year	X	Y	$x - \bar{X}$	$y - \bar{Y}$	xy	x^2	y^2
2065/066	368	32.7	-52.4	-18.46	967.304	2745.76	340.77
2066/067	409	46.5	-11.4	-4.66	53.124	129.96	21.72
2067/068	419	58	-1.4	6.84	-9.576	1.96	46.79
2068/069	429	59.8	8.6	8.64	74.304	73.96	74.65
2069/070	477	58.8	56.6	7.64	432.424	3203.56	58.37
	$\sum X = 2102$	$\sum Y = 255.8$	$\sum (x - \bar{X}) = 0$	$\sum (y - \bar{Y}) = 0$	$\sum xy = 1517.58$	$\sum x^2 = 6155.2$	$\sum y^2 = 542.3$

$$\bar{X} = \frac{\sum X}{n} = \frac{2102}{5} = 420.4$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{255.8}{5} = 51.16$$

$$s_x = \sqrt{\frac{\sum x^2}{n} - \frac{(\sum x)^2}{n^2}} = \sqrt{\frac{6155.2}{5} - \frac{2102^2}{5^2}} = 35.09$$

$$s_y = \sqrt{\frac{\sum y^2}{n} - \frac{(\sum y)^2}{n^2}} = \sqrt{\frac{542.3}{5} - \frac{255.8^2}{5^2}} = 10.41$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{1517.58}{\sqrt{6155.2} \sqrt{542.3}} = \frac{1517.58}{78.46 \cdot 23.29} = 0.8306$$

$$CV_x = \frac{s_x}{\bar{x}} \cdot 100 = \frac{35.09}{420.4} \cdot 100 = 8.35\%$$

$$CV_y = \frac{s_y}{\bar{y}} \cdot 100 = \frac{10.41}{51.16} \cdot 100 = 20.35\%$$

$$PE = 0.6745 \frac{1}{\sqrt{n}} = 0.6745 \frac{1}{\sqrt{5}} = 0.2909$$

$$\bullet PE = 0.0935 \cdot 0.561', \quad f_r = \Psi_{PE}$$

Appendix 7 : Calculation of Current Assets and Current Liabilities

Amount '000'

Fiscal Year	Cash and Bank Balance	Other Current Assets	Total Current Assets	Borrowings	Other Current Liabilities	Total Of Current Liabilities
2065/066	7918003	390653	8308656	1088800	714015	1802815
2066/067	6815890	399438	7215328	1087315	860367	1947682
2067/068	8140371	439388	8579759	1330764	1117657	2448421
2068/069	11803751	615193	12418944	1617579	924480	2542059
2069/070	13252088	728508	13980596	1110566	1647209	2757775

Appendix 8 : Calculation of Borrowing and Shareholder's Equity of NIBL

Amount '000'

Fiscal Year	Borrowings	Paid-up capital (X)	Reserve & Fund (Y)	Shareholder's Fund (X+Y)
2065/066	1088800	2407069	1500771	3907840
2066/067	1087315	2409597	2176295	4585892
2067/068	1330764	3011612	2148388	5160000
2068/069	1617579	3765500	2283786	6049286
2069/070	1110566	4136979	2875836	7012815

Appendix 9 : Branch Office of NIBL

S.N.	Branch Name	Address
1	Kathmandu Head Office	Durbar marg, Kathmandu
2	Seepadole Branch	Suryabinayak, Bhaktapur
3	Birgunj Branch	Adarshanagar, Birgunj
4	Pulchowk Branch	Pulchowk, Lalitpur
5	Banepa Branch	Banepa, Kavre
6	Jeetpur Branch	Jeetpur, Bara
7	Newroad Branch	Basantapur, Kathmandu
8	Biratnagar Branch	Golcha Chowk, Biratnagar
9	Butwal Branch	Treaffic Chowk, Butwal
10	Bhairahawa Branch	Maitri Path, Bhairahawa
11	Pokhana Branch	Chiple Dunga, Pokhara
12	Putalisakak Branch	Putalisadak, Kathmandu
13	Narayanghat Branch	Pulchowk, Narayangarh
14	Janakpur Branch	Mills Area, Janakpur
15	Nepalgunj Branch	Dhamboji, Nepalgunj
16	Thamel Branch	Chaksibari, Thamel
17	Kalimati Branch	Kalimati Chowk, Kathmandu
18	Birtamod Branch	Mukti Chowk, Birtamod
19	Battisputali Branch	Battisputali, Kathmandu
20	Dhangadi Branch	Main Road, Dhangadi

21	Gongabu Branch	Gongabu Chowk, Kathmandu
22	Surkhet Branch	Neta Chowk, Surkhet
23	Jumla Branch	Khalang Bazar, Jumla
24	Boudha Branch	Boudha, Kathmandu
25	Hetauda Branch	Bank Road, Hetauda
26	Palpa Branch	Tansen, Palpa
27	Lukla Branch	Chaurikharka, Lukla
28	Naya Baneshwor Branch	Naya Baneshwor, Kathmandu
29	Dhumbarahi Branch	Pipalbot Chowk, Kathmandu
30	Bhotahity Branch	Bhotahity, Kathmandu
31	Tulsipur Branch	Tulsipur, Dang
32	Tripureshwor Branch	Tripureshwor, Kathmandu
33	Damauli Branch	Safasadak, Damouli
34	Krishnanagar Branch	Krishnanagar, Kapilvastu
35	Gaighat Branch	Gaighat, Uadyapur
36	Lazimpat Branch	Lazimpat, Kathmandu
37	Parsa Branch	Parsa, Chitwan
38	Maharajgunj Branch	Maharajgunj, Kathmandu
39	Lalbandi Branch	Lalbandi, Sarlahi
40	Lagankhel Branch	Lagankhel, Lalitpur
41	Waling Branch	Waling, Syangja
42	Pokhara Branch	Lake Side, Pokhara

43	Manthali Branch	Manthali, Ramechap
44	Barahathawa Branch	Barahathawa, Sarlahi

Source: http://www.nibl.com.np/branch_network.html

Appendix 10 : Licensed Commercial Banks in Nepal

S.N.	Name of Bank
	Nepal Bank Limited
2	Rastriya Banijya Bank
3	NABIL Bank Ltd.
4	Nepal Investment Bank Ltd.
5	Standard Chartered Bank Nepal Ltd.
6	Himalayan Bank Ltd.
7	Nepal SBI Bank Ltd.
8	Nepal Bangladesh Bank Ltd.
9	Everest Bank Ltd.
10	Bank of Kathmandu Ltd.
11	Nepal Credit and Commerce Bank Ltd.
12	Lumbini Bank Ltd.
13	NIC Asia Bank Ltd.
14	Machhapuchhre Bank Ltd.
15	Kumari Bank Ltd.
16	Laxmi Bank Ltd.
17	Siddhartha Bank Ltd.
18	Agriculture Development Bank Ltd.
19	Global IME Bank Ltd.
20	Citizens Bank International Ltd.

21	Prime Commercial Bank Ltd.
22	Sunrise Bank Ltd.
23	Grand Bank Nepal Ltd.
24	NMB Bank Ltd.
25	Kist Bank Ltd.
26	Janta Bank Nepal Ltd.
27	Mega Bank Nepal Ltd.
28	Commerz & Trust Bank Nepal Ltd.
29	Civil Bank Ltd.
30	Century Commercial Bank Ltd.
31	Sanima Bank Ltd.

End of 2070 Aswin