CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The excess income over expenditure is called profit. The word profit brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:125). The concept of profit is not new but the concept of profit planning and control is a newly developed concept as a crucial way in the business organization. It is a recent phenomenon used extensively in the literature of business enterprise. It has not been familiar only by sample budgeting but a way of managing mostly in the better managed companies.

Managerial planning always includes the analysis of the alternative course of action which heads to process decision and evaluation of alternatives to overcome the financial problem encountered by the enterprise. The tactical (short-range) and strategic (long-range) profit plan sometimes constitute many similar mode which can be the financial aspects of the enterprise in the process of profit planning constructing. A procedure such as decision models income summaries; cash-flow analysis and return on investment analysis provide critical information for assessing the impact of different alternative.

The term comprehensive profit planning is defined as systematic and formalized approach for performing significance phases of the management planning and control function specifically it involved (a) the development and application of broad and long-range objectives for the enterprise (b) the specification of enterprise goals. (c) The long-range profit plan developed in broad term (d) a short-range profit plan detailed by assigned responsibility (e) a systematic or periodic performance reports defiled by assigned responsibility (f) follow-up procedures (Welsch, Hilton and Gordon, 1999: 30).

Profit planning function the management rests upon some fundamental views that is the conviction that management can plan and control the long-range desisting of the manufacturing enterprise by making a continuing stream of well conceived decision.

The trust of the comprehensive profit planning concepts goes to the very heart of management that is the decision making process. The profit planning is used for the development and acceptance of objectives, goals and organization efficiency to achieve these objectives and goals.

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Profit planning means the development and acceptance of objectives goals and making on organization efficiency to achieve the objectives and goals. Profit planning is not a separate technique that can be through of the separated indecently of the total management process. The broad concept of profit planning entails an integration of numerous managerial approaches and techniques that might be exploited of numerous managerial approaches and techniques that might be exploited such as sales forecasting, sales quota system capital budgeting, cash flow analysis, CVP analysis, variable budgets, time and motion study, standard costing accounting, strategic planning, manpower planning and cost control.

On the view of communication, project plan program can be one of the more effective communication networks in an enterprise. A comprehensive profit planning and underlying this is the measurement of actual performance against planed objectives, goal and understand and reporting of that measurement. The reporting extends to all area of operations and to all responsibility centers in an enterprise. It involves reporting (a) actual results (b) budgeted or planned result (c) performance variance.

Profit plans are prepared for two time dimensions, strategic long range (5-10 years) and tactical short-range plan for a year detailed by interim time periods. Having prepared a plan it is equally important to implement efficiently and to watch performance. Difference between actual and budgeted results should find out and corrective measures should be taken so that it assures the realistic of the forward plan.

Nepal Industrial & Commercial Bank Limited (NIC) is the first commercial bank of Nepal. NIC became the first Bank to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide.NIC Bank's, head office is located in Center of city, Kamaladi Sadak. The Bank at present has nine branches in Kathmandu Valley, Kamaladi, New Road, Battisputali, Pulchowk, Bhaktapur, Satdobato, Kritipur, Samakushi and Teku besides sixteen branches outside Kathmandu respectively in Biratnagar, Pokhara, Dharan, Birtamod, Birgunj, Janakpur, Damak, Butwal, Nepalgunj, Surkhet, Lahan, Dhangadhi, Ghaighat, Narayanghat, Malangawa, and Mahendranagar.

Nepal Industrial & Commercial Bank Limited (NIC) has just celebrated its thirteenth anniversary. During last twelve years, the bank has confronted various banking scenarios, which is ever changing. The bank has been a pioneer in several banking innovations. "Complete Financial Solution" has been the slogan and this has truly been implemented when it came to serving the valued customers keeping in view their comfort, time and effort.

1.1.1 Nepalese Economy - Current Macroeconomic Condition

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 147,181 Sq. Km. and only about 27 percentage of the total land area is under cultivation. Ecologically this country is divided into three regions: I) The Terai Region ii) The Himalayan Region iii) The Mountain Region and politically divided into five development regions, fourteen zones and seventy-five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is significant. The commercialization of the agricultural activities has not yet taken place. There is a wide gap in the distribution of agricultural land. Most of the farmers are landless and the major portion of the land is in the hands of few landlords.

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

1.1.2 Meaning and Importance of Financial Institutions

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

Bank is most important financial intermediaries which accepts the deposits from public and mobilize them in the productive sectors. Banks are the principal source of credit to household: individuals and family business all forms and local units of government. Financial intermediation is advanced to other forms of financing because it fulfills expectations of both savers and users it is the most popular form of moving excessive money from savers to users. Among all financial intermediaries commercial bank is the most leading one. "A bank is an organization whose major function is concerned with the collection of the provisionally idle money of general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while 'financial institutions' are authorized to do limited transactions only" (Dahal & Dahal, 2002:7).

1.1.3 Major Financial Policy of Nepal

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

A. Monetary Policy

Nepal Rastra Bank began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash reserve ratio. In the 1970’s liquidity requirement, credit limits, / ceiling and directed credit programmers were introduced. Open market operation evolved only in the 1990s with policy shift from direct to indirect monetary control. Effective exercise of cash reserve ratio requirement and bank rate as an active monetary policy tools evolved even later – since late 1990s. The basic objective of monetary and credit policies have been fostering growth, generating employment, addressing poverty, containing prices, promoting external trade, and attaining healthy balance of payment of the country. The NRB is the apex body assigned the task of designing and operating monetary policy. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output. So, monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it. NRB has published its monetary policy for the fiscal year 2007/08.

B. Banking Policy

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

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

C. Credit Policy

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

D. Interest Rate Policy

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

1.1.4 Development of Banks

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

Nowadays banking sector is involving in the planning and construction of land housing. The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was established to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank; it plays the role of central bank also with the establishment of NRB 1956 under the Nepal Rastra Bank Act 1955. The new Nepal Rastra Bank Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the Bank. Then after Government of Nepal and NRB has established the Nepal Industrial Development Corporation (NIDC) Capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of Government of Nepal and Agriculture Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank (Sharma, 2002:3). Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 set out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Government of Nepal emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management .The Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal Indosuez Banks Ltd (now Nepal investment Bank limited). and Nepal Grindlays Bank Ltd.(Now Standard Chartered Bank ltd) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life without a bank is it brick bank or click bank (internet banking), is beyond imagination (Dahal & Dahal, 2002:7).

1.2 Profile of NIC

Nepal Industrial & Commercial Bank Limited (NIC Bank) established in 1998.The bank, commenced its operation from Biratnagar, promoted by some of the prominent business houses of the country. Despite the cut-throat competition in the Nepalese Banking sector, NIC Bank Ltd. has been able to maintain a lead in the primary banking activities- Loans and Deposits from the beginning which result NIC Bank Ltd. was the first commercial bank in Nepal to have received ISO 9001:2000 certification for its Quality Management System standard in the year 2006.

Legacy of NIC Bank Ltd. lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as NIC Corporate Super Account, NIC Saving plus, Mero Bachat, NIC Life Savings Accounts, NIC USD Super Saving Account, NIC Super Deposite, NIC Shareholder Saving Account, Karmashil Bachat Khata, NIC Business Account, NIC Sikshaya Kosh, NIC Ghar Subidha, NIC Auto Loan, NIC Education Loan and NIC Sajilo Karza besides services such as ATM/Debit Card, SMS Banking, NIC Pure Gold, NIC Pure Silver, Medallion, Remittance and Safe Deposit Locker Facilities.

Other financial institutions in the country have been following its lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. All Branches of NIC Bank Ltd. are integrated into Globes (developed by Tremens), the single Banking software where the Bank has made substantial investments.

1.3 Statement of the Problems

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business a whole. In our country, the industrialization is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including 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 Nepal Industrial & Commercial Bank Limited (NIC). Furthermore the study has tried to answer the following research questions.

- Does Nepal Industrial & Commercial Bank Limited (NIC) have appropriate profit planning system?
- What is the gap between budgeted and actual performance?
- Does the bank mobilize the deposit and other resources optimally?
- What is the trend of overall performance of Nepal Industrial & Commercial Bank Limited (NIC)?

1.4 Objectives of the Study

This study is mainly concerned with budgeting system of Nepal Industrial & Commercial Bank Limited (NIC). The fundamental objective of this study is to assess the budgeting system and to study the application of comprehensive PPC system in Nepal Industrial & Commercial Bank Limited (NIC).

Apart from this following are the other objectives of the study:

- To focus the current profit planning adopted and its effectiveness in Nepal Industrial & Commercial Bank Limited (NIC)
- To study the variance of budgeted and actual achievements.
- To analyzes the growth of the business of the bank over the period.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.

1.5 Rational of the Study

Achievement of objective in every organization depends on the application of available resources most effectively. Mobilization of internal resources is one of the key factors in economic and social development of a county. Financial institutions are the major players in this field. The more healthy banking practice in an economy, the better becomes the economic development. The research study is connected with the profit planning in commercial banks with a case study of Nepal Industrial & Commercial Bank Limited (NIC), with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources.

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

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

1.6 Limitations of the Study

This study is focused on profit planning of Nepal Industrial & Commercial Bank Limited (NIC). 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:

- The study focuses on profit planning and its application in Nepal Industrial & Commercial Bank Limited (NIC).
- 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 2004 to 2009.
- In this study, the sample of Nepal Industrial & Commercial Bank Limited (NIC) is selected among all the commercial banks. But these may not represent the character of financial institutions.
- This study is analysis with the help of financial tools and few statistical tools.
- This study is meant only for the fulfillment of requirements Master of Business Studies (MBS)

1.7 Organization of the Study

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

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 Nepal Industrial & Commercial Bank Limited (NIC), Rational of the study, Limitations of the study, Organization of the Study.

Chapter II – Review of Literature

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

Chapter III – Research Methodology

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

Chapter IV – Data Presentation & Analysis

The fourth chapter, which is the important chapter of the study, includes presentation and analysis of data as well as findings of the study.

Chapter V – Summary, Conclusion & Recommendations

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestions for further improvement and conclusion of the study. A bibliography and appendices are attached at the end of the study.

CHAPTER- II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

A literature review is an account of what has been published on a topic by accredited scholars and researchers. A review may be a self-contained unit an end in itself or a preface to and rationale for engaging in primary research. A review is a required part of grant and research proposal and often a chapter in thesis and dissertations. The purpose of writing the literature review is to convey the reader what knowledge and ideas have been established on a topic and what their strength and weaknesses are.

This chapter presents the conceptual framework about the commercial banks, its activities, banking practices, the legal and regulatory framework, and profit planning concepts and its applicability in commercial banking activities. This chapter is also concerned with the review of literature relevant to the financial statement of commercial banks, specially the contents of the Balance Sheet and the Profit & Loss Account. The chapter also provides insight into the findings of earlier studies through the review of books, publications and previous studies.

This chapter devotes to review various literatures in the form of books written by various authors, published newspapers and journals, browsing materials from the concerned web sites, NRB regulation, commercial act, and NIC Bank Ltd. old annual reports in the related subject matters. The first part of the chapter deals with the conceptual framework of the study and the second part is concern with review of previous article, journals and dissertation.

2.2 Concept of Commercial Bank

Meaning of 'Bank ' in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheques. According to commercial bank Act 2031 " Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of cooperative, 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.

2.2.1 NRB Regulation

Bank and financial institution regulation act 2063 has been introduced to supervision and control to bank and financial institution. This act was published in Nepal 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.

2.2.1.1 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.

2.2.2 Evolution of Commercial Bank

The word 'Bank' is derived from the word 'Banco', 'Bancus", or 'Banque' all meaning to a bench. This refers that early bankers transacted their money lending activities on banches in the marketplace 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, 1993:145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term "bankruptcy" is derived thereof. Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient

Greece, around 2000 A.D. The famous temples of Ephesus, Delphi and Olympia were used as depositors for people's surplus fund and these temples were the centers for money lending transaction .The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D m 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.bankinginnepal.com).

The ancient Hindu scriptures refer to the money lending activities in the Vedic period in India. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period, the business of banking was carried on by members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Vishyas. The bankers in the smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave crises and banker to the state and issuing and managing currency of the country (Vanish, 1996:183). In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal like other countries. Tejarathe Adda established during the Prime Minister Ranoddip Sing B.S 1933, was the first step towards the institutional development banking in Nepal. 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 health of financial institution. Accordingly, NRB has been trying to change them and has introduced as host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in BS 2022 as a fully government owned commercial bank. The first private financial institution, Nepal Bank Limited, was established in 1937 with the only other major commercial financial institution, Nepal Industrial Development Corporation, established in 1957 initially as the Industrial Development Board, but converted in 1959 to its present form. It should be noted that technically the first legal financial institution in Nepal was the establishment of the 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 time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. Following table reflects the present development of commercial banking institutions in Nepal.

2.2.3 Activities of the Commercial Bank

Traditionally, the primary activities of a bank are essentially accepting deposits and making loans and advance. Commercial banks are found to be having been defined by their as per the commercial Banking act 2031, a 'bank' is a commercial bank established under this act and 'banking' transactions are activities of accepting deposit from the others for the purpose of lending or investing repayable on demand or after some stipulated time period by means of generally accepted procedure (Commercial Bank Act, 2031).

In the book how of banking Dr. H.L. Hart says "A banker is one who in the ordinary course of his business honours cheques drawn upon him by person from and whom he reserves money in his current account."

In the book of banking law and practice by Goulash & Gulshan has quoted H.P Sheldoris opinion as the functions of receiving money from his customs and repaying it by honouring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business.

Similarly, the same book has also quoted Sir John pager's saying as "No person or body corporate or otherwise, can be a banker who doesn't;

- Take deposit accounts
- Take current account
- Issue and pay cheques drawn on himself and
- Collect cheques for his customer" (Gulshan and Gulshan, 1994: 107).
- Mobilization of Resources
- Deployment of Resources

From above points, it is clear that a commercial banks primary activities are two fold viz. one that of accepting deposit from public, which is the major source of the resources of the bank and another making loans and investments, which is basically creating income yielding asset of the bank for fulfillment of its commercial objectives.

The primary activity of a commercial bank has been categorized in two folds as below:

2.2.4 Mobilization of Resources

Resources of a commercial bank constitutes, as like in other business institutions.

A) Owner's Fund or Capital Fund

Owners fund of the bank is the capital, which includes paid up capital, reserves, retained earnings, share premium, non-redeemable preference share Apart from those maintained above other reserves and provision items allocated out of profit of the bank are also considered as the supplementary capital fund owners fund is the most dependable source of bank's liquidity.

As per central bank (NRB) guideline, a commercial bank must have paid up capital of Rs. 500 million in order to be established as a national level commercial bank. Further the NRB has also prescribed the capital adequacy norms (the ratio of capital fund to the risk asset as per varying weighted assets) to be of at least 12f by the fiscal year 2060/61.

Similarly, the commercial banking act 2031 has made a mandatory provision for every commercial bank to build the general reserve out of the allocation of at least 20% of net profit amount each year until the amount becomes double the paid up capital.

The Borrowed fund of a bank constitutes the resources apart from the owners’ fund. In a bank it is mostly contributed by customer's deposit and some part by the short term fund borrowed from other banks and /or central bank.

B) Customer Deposits

Customer deposits are the chief source of commercial bank's resources. It is so much important for a bank for its liquidity supply that banks are often engaged in keen competition for deposit mobilization become the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits. Deposits in the banks are accepted from their customers in various types of account opened in the banks by the depositors.

The total deposit of a bank is composed of demand and time deposits. The demand deposits are most volatile and can be withdrawn at any time by their depositors subject to the general rules of banks governing these deposits. Generally, no interests are paid in to these accounts.

Demand deposits are usually accepted in current accounts. A current account is running and active account which may be operated upon any number of times during a working day. As per commercial banking act of Nepal current account is the bank account having money, which s subject to repayable where ever demanded. Those accounts are suitable for businessmen, joint stock companies institutions, public authorities etc.

The time deposits consisting fixed deposit and partly of saving deposit are called so because these can be withdrawn only after the expiry of the stipulated period for which these have been made. Banks offer interest on these accounts varying the duration of deposit maturities. Time deposits are kept generally by individuals, educational institutions, charitable trusts and others having surplus fund for future saving and earning some regular return on it.

The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031, as the bank account having money which is deposited for the purpose of saving (Commercial Bank Act, 2031). Banks generally impose certain restrictions on withdrawal from such accounts.

Fixed deposit account is opened by the bank, in the one of the depositors keeping fixed deposits. Amount in such accounts are called time liabilities of the bank because the money is payable on the expiry of a fixed period of time which the depositors choose as per his convenience.

The commercial banking act 2031 defines fixed deposit account as the "bank account which is having money in it for specific period of time."

C) Other Liabilities

Resources other than the capital fund and customer deposits are the other liabilities of the bank. It includes short-term borrowed fund from other banks locally or foreign and central Bank, such borrowings are called inter bank borrowing which are normally obtained for a very short period and those are meant for meeting temporary liquidity crunch in the bank. The rate of interest on such borrowing depends on the prevailing interbank interest rate. Other liabilities also include to payables in the account of the bank, which has been arisen during the regular operation of the bank.

2.2.5 Deployment of Resources

Deployment of resources of the bank means utilization of the banks fund in such a way that it ensures liquidity as well as gives some earnings for meeting its operating expenses and optimum return on the shareholder's investment. Thus it is setting up of the best possible assets portfolio which meets above requirement in the best way. In fact the efficiency of a banker is reflected by this activity.

Every bank strives to maximum its earning by employing its surplus cash by lending it to the prudent borrowers in a manner which in no way impairs its capacity to pay on demand the acquitted fund to their owners.

Thus for banker, deployment of the available resources is a challenging job, because the liquidity and profitability are the opposing consideration to each other. M.C Vaish in his book money banking trade and public finance's has rightly said " the secret of successful banking consists in allocating the resources between various forms of competing assets in such a way that a proper balance is stuck between the opposing consideration of liquidity and profitability. The sound balance will be achieved when the bank has sufficient(and no more than sufficient) cash in hand to meet every claim that is or likely to be made by its depositors on it and at the same time it earns enough income to pave its way and earns profit for its shareholders (Vaish, 1996: 119).

Therefore, the deployment of resources or assets portfolio building of a bank should be guided by major two considerations viz. the liquidity and the profitability.

A) Assets Portfolio for Liquidity

Liquidity in a bank means its capacity to convert its deposit liabilities in to cash. A major portion of a bank's resources constitute customer deposit which are subject to repayable on demand or after some time as the case may be, a banker cannot offered to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank keeps adequate amount of liquid asset in the form of cash in their vault and balance at their account in central bank (NRB). As said earlier, maintenance of excess liquid assets that required is detrimental to the profitability objective of the bank as the idle cash gives no return rather it involves the cost of carrying (insurance cost, guarantee cost etc.).

The central bank fixes the mandatory cash reserve ratio (CRR) from time to time current CRR fixed by NRB for commercial banks is as below:

- Balance to be maintained at NRB Account. At least 7% of current and saving deposits amount and 4.5% of fixed deposit amount.
- Balance to be kept in Bank's vault. A least 3% of total deposit liability (NRB circular 2001/2002) (Nepal Rastra Bank, 2001).

B) Investments

Banking includes the fund invested for buying government and other stock exchange security treasury bills fund placement at cell account with other bank etc. such investment can easily be liquidated if required this has a feature of liquid assets as well as giving some yield out of it also. Therefore, it is in second line in terms of liquidity from cash and balance at NRB.

C) Loans, Overdrafts and Discounts (LDO)

Banking business essentially involves lending in fact the deposits are accepted for lending or investment. This is the most profitable activity of a commercial bank. Banks being a business proposition it must declare handsome dividends to its shareholders unless the profit outlook of a bank is bright, new funds will be difficult to obtain (Vaish, 1996: 201).

Commercial banks generally tend for short-term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks is mostly the fund mobilized from the depositors, a commercial, bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selection the borrowers. Generally banks lending is guided by their lending policies. General, principal of a sound lending policy of a bank are as follows (Gulsham & Gulshan, 1994: 179).

- **Safety:** Bank's lending should be secured by way of tangible securities or personal security (guarantee) of the borrower.
- **Liquidity:** As the bulk of fund in the bank are short term fund received as deposits it is prudent to confine into short term advances which can be repaid quickly.
- **Profitability:** The major income of a bank comes from the difference in interest earned from the borrower and interest paid to the depositors, which is termed as 'spread' the interest rate of lending depends upon the purpose of advance and the risk involved Greater the risk involved higher will be the rate of interest charged.
- **Risk Diversification:** The famous saying "don't put all eggs in one basket" is the fundamental base of the principle or risk diversification. As there is risk in every advance, bank should spread the risk by lending to larger number of borrowers.

Generally, banks make their advanced in the forms of loans, overdrafts, cash credits and bills discounting.

In a loan discount the entire amount is disbursed to the borrower, which is repayable in instalment or in lump sum and expiry of loans. Interest is charged on the entire loan disbursed to the borrower. The types of loan may be pledge loan, demand loan. Hire purchase, import finance (transit loans), export Finance (packing credit), loan against shares etc.

Overdrafts are granted in current account of a customer. It is the permission given to overdraw from an account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only. Normally such facility is given against the security of collectors, fixed deposit, government securities, shares, life insurance policies etc.

Cash credits are similar to overdraft in terms but it is provided to the borrower as working capital finance, normally to traders, industrialist, farmers etc. In cash credit facility unlike in loans, the borrower shall enjoy the flexibility of drawing the amount up to the sanctioned limit anytime they require fund during the validity of limit. As the interest is charged only to the actually utilized amount on daily basis, the borrower can repay instantly up on receipt of proceed in order to minimize their interest liability. Generally such facilities are availed against security of pledge or hypo the caption of stocks of trade commodities along with collaterals.

Discounting of bills by a bank actually is buying the bills of borrower, which are self-liquidating nature by means of endorsement on the documents. The title on the payment up on liquidity is transferred in favour of the bank that discounts it. Bills may be clean or documentary. If it is a clean negotiable cheques, drafts, bills of exchange payable at sight for after certain tenor, then it is called clean bill and if the instrument is accompanied with other trade documents (commercial invoices, transport documents etc.). It becomes the documentary bill. Bills discounting is short-term credit availed by the bank in which bank gives the value of the bill (called negotiation) deduction some amount (usually the interest unit the period of its possible realization) from the face value.

Concept of Spread

Deposit mobilization activity of banks is a costly affair. The bank has to incur expenses toward payment of interest on the interest bearing deposits accepted by the bank. Such expenses are called Interest Expenses. For a better Profitability a business concern should be careful in minimizing its cost. In case of a Bank also, as the interest expenses from a bulking total cost of the bank a successful banker says adequate attention toward lowering its interest cost by marketing low cost deposits and building optimum portion of interest free deposits in his deposit mix.

Deployment of resources in income generating assets (loans & investments) is the income yielding activities of the banks. Higher the proportion of loan and advances in the asset portfolio, higher will be the yield on fund. As the interest income is the major contributor income of a bank, the banker should be careful in realization of interest and enhance the profitability. The difference of interest earned from lending and interest expenses incurred in deposit is called the spread. In other words, spread is the net income of the bank from which banks have to meet their other operational costs and give out the dividends to the shareholders. Therefore, Banker attempt to maintain higher spread by minimizing the average cost of deposit and maximizing the average yield on funds. But as per the current regulatory provision of NRB, the interest spread of a Bank can be maximised by 5% only (BOD, NRB, 2002).

Loan Loss Provision

The central bank (NRB) has made a mandatory provision for the entire bank to classify their outstanding LABP the basis of aging into four grades viz. Pass loan, substandard, doubtful, and loss (BOD NRB 2002). The loans falling under the respective grades are identified on the basis of the overdue position from the date of maturity of the loan and the amount shall have to be allocated from net income in order to provided for against the loan loss at various rates (From 1% to 100% of loan amount depending on the grade in which a particular loan Accent falls). Such allocated amount is called loan loss provision amount and is treated as the expense items Therefore, in order to improve the profitability the bankers should be move attentive toward timely realization of dues so that the amount of loan provision may be maintained at the least possible extent.

Other Income Generating Activities of the Bank

Banks do some other kind of business, besides deployment of funds, which are popularly, bank guarantees transactions. Issuing letter of credit, cheques drafts collection, remittances, etc. In such activities banks do not have to involve their fund and may they are charging some fee as commission for such services provided. These transactions are called non-funded transaction. While issuing a Bank guarantee the banker is issuing a guarantee letter on behalf of his client guaranteeing the performance of the client and assuring the employer of paying him the amount of guarantee in case the client fail to perform. Bank guarantee liabilities are the contingent liabilities of bank, which shall become actual liability only when the client fails to perform as per the contract with the employer.

Letter of credit (LIC) is the instrument widely used in export import transactions. Banks issue L/C assuring the seller for making payment of the good (up to the value and currency of the L/C), provided the terms and conditions maintained in the LIC are fully complied with. By means of this facility provided by the bank the international trade has been made possible in the country. UCPDC (Uniform custom and practices of Documentary Credit) published by ICC (International Chambers of Commerce) is the literature, which provides the uniformity in the L/C transactions worldwide. Besides this, the L/C transactions of commercial banks are largely guided by the directives issued by Nepal Rastra Bank, Foreign Exchange Department. Letter of Credit issuance is also a contingent liability for a bank. Banks earns income in the form of Commission while issuing L/C. Further, in case of foreign currency L/C, if the client does not have his own source of foreign currency for making payment under L/C, he has to buy the same from commercial banks, on which banks may earn profit on sale of FCY. Generally the banks have to maintain sufficient balance convertible FCY in order to meet their L/C payment in the currency stipulated. When the exchange rate is on upward trend, banks gain by revaluation on their FCY reserves.

Concept of Burden

During the establishment and operation of a bank, it has to incur various kinds of expenses. Besides the expenses are employees expense, administrative expenses, depreciation on fixed assets, other operating expenses, expenses for loan loss provision, interest suspense expenses, employees bonus expands, expenses for income tax provision etc. all such expenses other than interest expenses cumulatively form a burden to profitability. The speed earned by the bank must be at least enough to meet the burden in order to break even. However the other income (income other than interest income) earned by the bank from their other activities besides fund lending contributes to lowering the burden there by increasing the profitability of the bank. Therefore the net burden (other expense less other income) has been termed as burden.

2.3 Profit Planning as a Concept

Profit planning and control is also called comprehensive budgeting, managerial budgeting and budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools. "A profit planning & control program can be one of the more effective communication networks in an enterprise.

Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise understanding of responsibilities and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, focus on assigned responsibilities likewise enhance the degree of communication essential to sound management" (Welsch, Hilton & Gordon, 2001: 215). "Profit planning is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245). "Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus is can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance “(Gupta, 1992:3). "Profit planning is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future" (Fremgen, 1973:12). "Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management (Welsch, Hilton & Gordon, 2001:45). Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures (International Management Institution Geneva Conference 1980). The role of profit planning and control is very important in profit oriented enterprises. Roles of PPC are as follows:

- To provide definite goals and objectives that serve as benchmarks for evaluation performance of business.
- To provide information to management timely.
- To point out efficiency and inefficiency.
- To reduce cost and make profit more.
- It provides a valuable means of controlling income and expenditure of a business, as it is a 'plan for spending'.
- It reflects weakness in the organization very promptly.

- To fix responsibility center for manager.
- It provides a tool through which managerial polices and goals are periodically evaluated tested and established as guidelines for the entire organization.

"Profit plan is estimation and predetermination of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss" (Ninemeir and Schmidgall, 1984:125). Profit plan stand for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a day's profit planning system is mainly common to business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events in the future. In conclusion profit planning is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of achieving the most favourable profit in the enterprises.

2.4 Mechanism of Profit Planning

2.4.1 Profit as a Concept

Profit is the basic elements of profit plan so that concept of profit planning may not be complete and meaningful in absence of the clear-cut well-defined idea of profit. According to Oxford dictionary profit means:

- Financial gains
- Amount of money gained in business especially the difference between the amount earned and the amount spent
- Advantage or benefits gained from something (Hornby, 1992)

According to some theories, profit are the factor payment for taking the risk for agreeing to take what is left over after contractual out lays have been made.

In the second type of profit theory are viewed as a wage for the service of innovation. Profits in this theory are field to dynamic development.

Profits around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long term survivability of the enterprises.

2.4.2 Long Term and Short Term Profit Planning

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

2.4.3 Concept of Planning and Control

Planning is the basic foundation of PPC. We should be clear in the concept of planning. According to Oxford Dictionary Planning means-

- (To do something) arrangement for doing or using something considered working in advance.
- Way of arrangement something especially when on a drawing scheme
- Go according to plan (Horn, 1992).

"Planning is deciding in advance what is to be done in future" (Bhusan, 1976). Planning is a method of a course of action to achieve a desired result. And it is a method of thinking out acts and purpose beforehand. Planning starts from forecasting and determination of future events. It is first functions of margent and all other function are performed with the framework of planning.

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished" (Welsch, 1999).

A plan is then a projected course of action. All planning involves anticipation of the future course of events and therefore bears element of uncertainty in respect to its success.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed efficiently towards the achievement of goals. Planning is essential to accomplished goals. It reduces uncertainty and provides direction to the employees by deterring the course of action in advance.

"Planning is the feed forward process to reduce uncertainty about the future. The planning process is based and conviction that management's can plan its activities and condition the state of the enterprises that determine its destiny" (Pandey, 1991).

Planning is a mental process requiring the use of intellectual facilities, imagination foresight sound, judgement etc. whether the manager is of top level, medium level or lower level, he cannot be separated from the planning task i.e. their commonality is planning but planning differs as the level.

"In planning the manager fixes the objectives of the organization as a whole and in the light of thus, the goals of the various department of the organization. Then he proceeds to prepare a kind of blue print mapping out ways of attaining these objectives naturally then all other functions of the manager depend up on planning" (Bhusan, 1976).

- Planning is an intellectual process.
- Planning is a goal oriented task.
- Planning is a primary function of management.
- Planning pervades all managerial activities.
- Planning is directed towards efficiency.

2.4.3.1 Long Range and Short Range Planning

Long Range Planning is closely concerns with the concept of the organization as a long live institution. It is most important for aboard and long living enterprises. Long range planning varying five to ten years with the enterprises is sometimes extended to ten years. Strategic planning is one of the most difficult time span involved in planning as many problems in short range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provides. The short term planning is limited time dimensions usually it covers one year's time period. Short-term planning is used by management as a substantial part of the long-range plan.

2.4.3.2 Corporate Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives.

Corporate planning is one of the parts of profit plan. It was first started in the USA in 1950 and it is however being used in one form in another in many companies there.

- Before drawing up a plan which is designed to does something decide what you want it to do.
- In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.
- Instead of treating a company as a collection of department, treat it as a corporate whole.
- Take full account of the company's environment before doing up any plan (Robertson, 1968).

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

- Achieving objectives
- Embodiment of goals and objectives in the enterprises.
- Formulating realistic and attainable objectives.

- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.

2.4.4 Forecasting

The forecasting is to take future decision at present form, by the analysis of relevant faucets of past and present. Forecasting is not only imagination or guess matter it is related with certain assumption. Its main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible.

"It should be realized that budgeting is not merely forecasting although, forecasting is the form of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides a time schedule for future action to produce measure result" (Pandey, 1991).

When an estimate of future conditions is made on the systematic basis the process is referred to as forecasting. Its aim is to reduce the areas of uncertainty that management decision making with respect to cost and capital investment.

2.4.5 Forecasting V/S Planning

Planning and Forecasting often are confusing of being the same but they are not same although related.

The nature that planning and forecasting have different functions deserves special mentions here. Forecasting is generally used to predict what will happen to given set of circumstances assumptions. Planning to other hand, involves the use of forecast, to help to make good decisions about most attractive alter natives for the organization. Thus a forecast seeks to describe what will happen where as a plan is based on the nation that by taking certain person how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction. Generally speaking forecasting and forecasts are inputs to the planning process.

2.4.6 Control

After being clear about the concept of profit and planning we move towards the third component of profit planning and control i.e. control the dictionary meaning of control is-

- Have a power or authority over same body or same thing
- Regulate something
- Management, guidance, restriction
- Standard of comparison for checking the results of the experiment (Hornby, 1992: 151-158).

Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprises and initializing corrective action when necessary to ensure efficient accomplishment of enterprises objectives goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprise. Control is exercised by using personal evaluation periodic performance reports and special reports.

Control is an ambiguous word; it means the ability direct oneself and one's work. It can also mean domination of one person by another (management). Objectives are the basis of control in the first sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute management by self control for management by domination" (Drucker, 1954: 244).

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time or commitment. Effective control requires feed forward. In other words it is assumed that objectives plans polices and standard have been develop and communicated to those manager who have the related performance responsibilities.

Therefore, control must necessarily rest upon the concept of feedback, which requires performances measurement and triggers corrective action designed to ensure attainment of the objective. When plans become operational control must be exercised to measure progress. In some cases control also results in the revisions of prior plans and goals or in the formulation new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organizational structure.

A control process designed to help monitor the periodic activities of business and of each responsibility center has the following phases.

- Compare actual performance for the period with the planned goals and objectives.
- Prepare a performance report that shows actual results, planned results
- and any differences between the two(i.e. variations above or below planned results)
- Analyze the variations and the related operations to determine the underlying causes of the variations.
- Develop alternative courses of action to correct any deficiencies and learn from the successes.
- Make a choice (corrective action) from the set of alter-natives and implement it.
- Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-planning (Welsh, 1999).

The Comparison of actual result with planned goals and standard Constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback the facts shown in a performance report cannot be changed, however the historical measurement may lead to improve control in the future. The significant concept here is that objective policies and standards fulfill two basic requirements in the overall control process namely.

- Feed forward to provide a basis for control at the point of action.
- Feedback-to provide a basis for measurement of the effectiveness of control after the action was taken place more over feedback is instrumental in re-planning.

2.5 Development of Budgeting

2.5.1 Budgeting

Profit plans are developed with the help of functional budgets. A budget is comprehensive and coordinate plan expressed in financial terms for the operations and resources of an organization for some specific period in the future. So, the budget is the plan of the firm's expectation in the future. A broader definition recommended by the institute of cost and works accounts is as a financial or quantitative statement prepared prior to a definite period of time of the policy to be persuaded during that time for the purpose of attaining a given objectives.

A budget is a quantitative expression of a plan of action and an aid to co-ordination and implementation. Budget may be formulated for the organization as a whole or may submit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget programs are designed to carry out a variety of function, planning evaluating, performance, coordinating activities, implementations plans, communicating, motivate and authority actions (Hongren, 1976:720).

Budget as a tool of planning and control in clearly related to the broader system of planning and control in an organization. Planning involves the specification of basis objectives that will guide it, in operation terms. It involves the step of setting objectives, specifying goals, formulating strategies and expressing budgets. A budget is a comprehensive and coordinated plan expressed in financial terms, for the operations and resources of an enterprise for some specified period in future (Khan and Jain, 1993: 296).

The concept of comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forthcoming period. Budgeting summarize the estimated results of the future transaction for the entire company in much the same manner as the accounting process records and summarize the results of completed transactions.

The process of preparing budget is known as budgeting. This is the process of planning future business actions and expressing those plans in a formal manner is called budgeting. It serves to coordinate the organization's many activities.

Budgeting, if followed properly, can increase the chances of making profits within the given environment. A systematic budget should encompass the procedures of evaluation the business environment, setting objectives, setting specific goals, identify potential strategies, communicating the planning guidelines, developing the long term and short term plans, implementation of budgets, and periodic performance reporting and follow-up. The main objective of a business firm is to make excess of revenue over expenses so as to maximize profits.

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

2.5.2 Objective of Budgeting

The main objective of budgeting is to ensure the planned profit of the enterprise. So, it is considered as a tax of planning and controlling the profit. One of the primary objectives of an annual budgets is to measure the profit expectation for the next financial year with due regard to all the circumstance favourable and unfavourable that can influence the trading prospect (Regineld, and Gerge, 1982:17).

The main objective of budgeting may summarized as follows:

- It is a plan, which reflects the policy of a business in financial terms.
- It is a plan of action serves as a declaration of policies.
- It is a control document by which management can monitor actual performance.
- It is the plan to forecast for future to avoid loss and to maximize profit, i.e. to help in planning.
- It is a plan to state the firm’s expectation (goals) in clear, formal terms to avoid confusion and to faculties their attainability.
- It defined the objectives for all the executives’ communications.
- It is a plan to bring about coordination between different functions of an enterprise, i.e. to help in coordination.

- It is a plan to communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
- It facts as a motivator of employees.
- It provides a means of coordination and communication.
- It is a measure against which to evaluate the quality of management.
- Budget facilities centralize control with delegated authority and responsibility.

2.5.3 Characteristics of Good Budgeting

The characteristics of good budgeting are as follows:

- Budgets may be formulated for the organization as a whole or for any sub-unit.
- A good system of accounting is also essential to make the budgeting useful.
- A budget is a quantitative expression of the plan of action and aid to coordination and implementation.
- A good budgeting system should involve persons at different levels while preparing the budget. The subordinate should not feel only imposition on term.
- Budgets are designed to carry out a variety of functions, planning, evaluating activities, implementation plans, communicating, motivating and authorizing actions.

2.5.4 Classification of Budgets

Budgets may be classified from various viewpoints depending upon various bases adopted for such classification. The following bases of classification are generally in use.

1. On the basis of time
2. On the basis of function
3. On the basis of flexibility
4. On the basis of nature of business activity

1. On the basis of time

On the basis of time, there are three types of budgets:

- **Long Term Budget:** These budgets normally cover a prospective of five to ten years.
- **Short Term Budget:** These budgets are usually for a period of one year to two. These are prepared for production and purchase of materials.

- **Current Budget:** Those budgets are usually for one to twelve months and are the short terms budgets adjusted to current conditions or prevailing circumstance.

2. On the basis of Function

According to the functions, budget may be classified for each function in a business concern. The various forecasts for individual functions are coordinated then consolidated to show the total effect of all the functions. Budgets correspond and are co-terminus, with the particular functions and integrated with the master budget of the business. These budgets whose number depends on the size and nature of the business are called functional budget.

Normally, following types of functional budgets are prepared:

- **Sales Budget:** It is primary budget of PPC. This is a forecast of total sales classified according to group of products, salesman and geographical locations.
- **Production Budget:** Production budget is transformation process of sales budget. It is forecast based on sales productive capacity requirements of investors, etc.
- **Production Cost Budget:** Production cost budget is related to cost of production including direct material cost, direct labour cost and expenses fixed, variable and semi variable.
- **Purchase Budget:** After having prepared the budget, the material usage and the purchase can be easily constructed. Purchase would include both direct and indirect materials and goods. Non-manufacturing company have to prepare purchase budget according to sales unit.
- **Personnel Budget:** It can be prepared from data given in the production/sales budget. This has reference to the utilization of men or labour employed in productive activity. It would be split up between direct and indirect labour.
- **Selling and Distribution Cost Budget:** It is concerned with an estimate of the cost of selling and distributions of goods.
- **Research Budget:** Research budget is related to improvement in the quality of the products or research for new products, of the purpose of satisfying the customers.
- **Plant Utilization Budget:** Plant utilization budget covers the plant and machinery requirements to meet the budgeted production during the budget period. Schedule

will be produced showing the available load in each department expressed in standard hours or unit.

- **Cash Budget:** Cash budget is the planning of cash flows and cash requirement for the budgeted period.
- **Office and Administration Budget:** This budget represent cost of all administrative expenses such as managing director's salary, staff salary and expenses of office management like lighting and heating.
- **Capital Budget:** Capital budget is forecast of outlay on fixed assets as also sources of capital budget may differ from that of other budgets, as such expenditure in frequently planned a number of year in advance.
- **Master Budget:** Master budget is the systematically express of financial plan of the firm. It is the budget of all budget or summary budget of all budgets. It includes estimated profit and loss account for the future period and estimated balance sheet as the end of budget period.

3. On the basis of Flexibility

Flexibility refers to change the budget allocating amount according to the volume of activity. So, there are two types of budget from this point of views:

- **Static Budget:** It shows only one activity level at one. They don't be changed according to the volume of activity. Such budgets are usually prepared from one to three months in advance of the fiscal year to which they are applicable.
- **Flexible Budget:** It shows the series of activity level. The main objectives of flexible budget are to select least lost combination for the firm. In case of such budgets, revenue and cost targets are set in respect of different level of activity even from zero to hundred percent of production volume.

4. On the basis of nature of Business Activity

Budget may also be classified on the basis of nature of business activity. These are as follows:

- **Capital Expenditure Budget:** Capital expenditure budget is needed to compute or plan the cost of capital and appraise the project. Such budgets assume more significance in the case of large and progressive manufacturing concerns.

- **Operating and Revenue Budget:** Operating and revenue budget deals with the plans for routine activities. These budgets are based on forecast like sales, reproduction costs, revenue etc.

2.5.5 Budgetary Control

Budgetary control is a system of controlling cost, which includes the preparation of budgets coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and outline upon results to achieve maximum profitability (Sharma, Gupta & Sahi, 1982:782).

- Preparing budgets sets the budget.
- The actual figures are recorded.
- The budgeted and actual figures are compared for studying the performance of different cost centers.
- If actual performance is less than the budgeted norms a remedial action is taken immediately.
- The business is divided into various responsibility centers for preparing various budgets.

2.5.6 Problems and Limitations of Budgeting

Budgeting is not fast proof; it can suffer from certain problems and limitation.

The major problems of budgeting system are as follows:

- Developing meaning forecast and plant especially the sales plan.
- Seeking the support and involvement of all levels of management.
- Establishing realistic objectives, policies, procedures and standards of desired performance.
- Maintaining effective follow up procedures and adapting the budgeting system wherever the circumstances changes.
- Applying the budgeting system in a flexible manner.
- Educating all individuals to be involved in the budgeting process and joining their full participation.

The following are the limitation of budgeting system:

- Budgeting is not exact science. It success lings upon the precision of estimates.
- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be a continuous exercise. It is a dynamic process.
- The success of the budgetary programmed is to understand by all and that manager and subordinates put concerned effort for accomplishing the budget goals.
- Budgeting will be ineffective and expensive, if it is unnecessary detailed and complicated. It should be flexible and rigid in application.
- The presence of budgeting system should not make management complacence. To get the best results of management, management should use budgeting with intelligence and foresight. It cannot replace management.
- The purpose of budgeting will be defeated if carelessly budget goals conflict with enterprise objectives.
- Budgeting will hide inefficiencies through a proper evaluation system.
- Budgeting will lower moral and productivity if unrealistic targets are set and it is used as a pressure tactic.

2.6 Basic Concept of Profit Planning

The concept of budgeting was originally established with function of an accountant .But in the modern day budgeting is given much more importance and is regarded as a way of management and in more important sense is regarded as basic technique of decision making and is given the name ' profit planning and control program'. The basic concepts of PPC include the various activities that should be followed to attain maximum usefulness form profit planning and control. These activities are mentioned below.

a. Managerial Involvement and Commitment

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

b. Responsibility Accounting

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

c. Organizational Adaptation

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

d. Full Communication

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

e. Flexible Application

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

f. Realistic Expectation

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

g. Timeless

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

h. Individual and Group Recognition

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

i. Zero-Based Budgeting

The budgeting which is always starting from Zero is called zero base budgeting. "Begin with where you are an establish a business as usual budget for next year the same way and the same things your would do if you weren't concerned about constraint a total justification" (Welsch, Hilton and Gordon 2006:43).

j. Follow Up

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

2.7 Merits and Demerits of Profit Planning and Control

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

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

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

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

2.8 Profit Planning and Control Process

Profit planning and control has its own process from preparing plans to implementation and feedback. " A PPC Program includes more than the traditional idea of a periodic or master budget Rather it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps " (Welsch, Gordon, Hilton, 2006:71). The process of PPC are listed below:

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

f. Development of Long term and Short term Profit Plan: In the profit planning and control process developing long term and short term profit plan is a major task of management executive. Certain information are collected from related sources, to develop profit plan general format is available to management Two profit plans completed , management should subject the entire planning payable to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be develop under the circumstances. When this point reaches the two profit plans should be formally approved by the top executive and distributed to the related managers.

g. Implementation of Profit Plan: Formulation is one of the major tasks of manager whereas implementation is more and more important factor of profit planning & control. The profit plan should be implemented by every concern designation. Implementation of plans and strategy is a function of management. Effective management at all levels requires that enterprise objectives goals, strategies, and policy to be communicated and understood by subordinates.

2.9 Limitation of Profit Plan

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

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

"The profit plan should regard not as a master but as servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons" (Welsch, 1998:265).

2.10 Profit Planning in Commercial Banks

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

2.10.1 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.

2.10.2 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.

2.10.3 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.

2.10.4 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.

2.11 Application of Profit Plan in Banking Sector

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

2.11.1 Execution of Profit Planning and Control

The only preparing profit is useless while it doesn't come in execution. The plan should be developed with the confidence that the enterprises are going to meet or exceed all major objectives. The final examination of whether the hard work and cost in developing a profit plan are worthwhile is its helpfulness to top management. "The development of an annual profit plan ends with the planned income statement, the balance sheet and planned statement of changes in financial position. These three statements summarize and integrate the details of plans developed by the management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of budget potential. Timely completion of the planning budget suggests the need for a budget calendar" (Welsch, 1999:265). The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and selection considerable coordinate and controlling belongings. After execution of profit planning the performance should be reported. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

2.12 Components of Profit Planning and Control

Components of profit planning and control are bones of a business which help it operate properly, efficiently and effectively.

The components of PPC are as follows:

1. **The Substantive Plan**
   - Broad objectives, missions and short term goals of the enterprise.
   - Specified enterprise goals, structure, responsibility, authority
   - Enterprise policies and strategies
   - Instructions and communication of executive management planning

2. **The Financial Plan**

a) **Strategic Long-Range Profit Plan**
   - Sales, cost and profit projections
   - Major projects and capital additions
   - Cash flow and financing

b) **Tactical Short-Range Profit Plan**
   - **Operating Plan:** It includes planned income statement, sales plan, production for merchandise purchase plan, administrative expenses budget and appropriation type budget
   - **Financial Position Plan:** It includes planned balance sheet (i.e. Assets, liabilities, owner's equity).
   - **Cash flow plan:** It includes flows from operating activities, flows from investing activities and flow from financing activities.

3. **Variable Expenses Budgets (i.e. Output-Expenses Formula)**
4. **Supplementary Data (i.e. CVP analysis, Ratio analysis)**
5. **Performance Reports**
6. **Follow up, Corrective Action and Preplanning Reports**.

2.13 Major Tools used in Profit Planning and Control

Profit planning and control represent on overhaul plan of operations which covers a definite period and formulates of planning decision of management. It consists of three main budgets, which are:

1. **Operating Budget**

The operating budget covers revenue and expenses. In other words, operating budget relates to the physical activities or operations of a firm such as sales, production, purchased, labour and other different expenses budgets. In specific term an operating budget has the following term:

i. **Sales Budget:** The sales budget is a detailed schedule of expected sales for the coming period which is usually expressed in both amounts and units. Once the sales budget has been set, a decision can be made on the level of production that will be needed to support sales and the production budget can be set well. The sales budget is constructed by multiplying the expected sales in units by the sales price.

ii. **Production Budget:** After the sales budget has been prepared, the production requirements for the forth coming budget period can be determined and organized in the form of a production budget sufficient goods will have to be available to meet sales need and provides for the desired ending inventory. A portion of these goods will already exist in the form of beginning inventory. The remainder will have to be produced. Thus, production needs can be determined by adding budgeted sales units to be desired ending inventory and deducting the beginning inventory from the total.

iii. **Purchased Budget:** In case of merchandising firm, instead of preparing purchase budget showing the amount of goods to be purchased from its suppliers during the period. The merchandise purchase budget is in the same basic format as the production budget, except that, it shows goods to be purchased rather than goods to be produced.

iv. **Direct Material Budget:** After the production needs have been computed, a direct material budget should be prepared to show the materials that will be required in the production process. Sufficient raw materials will have to be available to meet productions needs and to provide for the desired ending raw material inventory for the budget period part of this raw materials requirement will already exist in the form of a beginning raw material inventory. The remainder will have to be purchased from supplier.

v. **Direct Labour Budget:** The direct labour budget is also developed on the basis of production budget. Direct labour requirements must be computed so that the company will know whether sufficient labour time is available to meet production needs. Just knowing in advance, the company can develop plan to adjust the labour forces as the situation may require. Direct labour requirement can be computed multiplying product to be produced by each period by the number of direct labour-hours required to produce a single unit. Many different types of labour may be involved. If so, then computation should be by type of labour needed. The hours of direct labour time resulting from these computations can then by multiplied by the direct labour cost per hour to obtain budgeted total direct labour cost.

vi. **Manufacturing Overhead Budget:** The manufacturing overhead budget provide a schedule of all costs of production other than direct material and direct labour. These costs should be broken down by cost behaviour for budgeting purposes and a predetermined overhead rate developed. This rate will be used to apply manufacturing overhead to units of product throughout the budget period.

vii. **Selling and Administration Overhead Budget:** The selling and administrative expenses overhead budget contains a listing of anticipated expenses for the budget period that will be incurred in areas other than manufacturing the budget will be made up of many. Smaller, individual budgets submitted by various persons having responsibility for cost control in selling and administrative matters. If the number of expenses item is very large, separate budgets may be needed for the selling and administrative function.

2. Financial Budgets

Financial budgets are concerned with expected cash receipts/disbursement financial position and result of operations. The components of financial budget are:

i. **Budgeted Income Statement:** The budgeted income statement is one of the key schedules in the budget process. It is the document that tells how profitable operations are anticipated to be in the forth-coming period. After it has been prepared, it stands as a benchmark against which subsequent company performance can be measured.

ii. **Cash Budget:** Cash budget is the detail of a statement showing cash receipt, cash disbursement and the balance cash. The cash budget is composed of four major sections. The receipts sections, the disbursement section, the cash excess or deficiency section, and the financial section. The receipts section consists of the opening balance of cash added to whatever is expected in the way of cash receipts during the budget period. The disbursement section consists of cash payment that is planned for the budget period. The cash excess or deficiency section consists of the difference between the cash receipts section. The financing section provides a detailed account of he borrowing and repayments projected to take place during the budget period. It is also includes a detail interest payment that will due as money borrowed.

iii. **Budgeted Balance Sheet:** Budgeted balance sheet is a statement of assets and liabilities prepared after the preparation of operating budgets and financial budget. It is based on functional or operating budgets, cash budget, projected income statement and the previous year's assets and liabilities. In other words, budgeted balance sheets develop by beginning with the current balance sheet and adjusting it for the data contained in the other budgets.

3. Appropriation Budget

The appropriation budget covers all types of expenditure on advertising and research sectors. A part from above budgets, PPC also has relationship with following additional budgets, CVP analysis, and completion of profit plan and performance reports.

- **Flexible Budgets:** Flexible expenses budgets relate only to expenses or costs. They are also called dynamic, activity or output adjusted expenses budgets. The concept of flexible expenses budget is that all expenses are incurred because of passage of time, output, activity or combination of time and output or activity. Therefore, it is complementary to tactical profit plan which helps to provide an expenses plan. They should be adjusted to actual output for comparison with actual expenses in periodic performance report. Expenses or costs must be identified into fixed and variable expenses or costs in flexible budget.

- **Capital Expenditure Budget:** Capital expenditure budgeting is a process of planning and controlling of the long-term and short-term expenditure for expansion, replacement and contraction of fixed assets. Capital budgeting is useful to earn future profit and reduce future costs. The major elements of a capital expenditure budget are cash outflow a cash inflows. Cash outflow includes the cost of the project as cash out lays at different times during the life of a project.

The cash outflows are affected by the provision of residual value of old equipment, tax position, addition working capital needed etc. cash inflows are expected cash revenue during the life of a project. The non-cash expenses like depreciation and tax position can affect the cash inflows.

- **Zero Base Budgeting:** Zero base budgeting is the method of budgeting in which managers are required to start at zero budget levels every year and to justify all cost as if the programmes involved were being initiated for the first time. No costs are viewed as being on going in nature; the manager must start at the ground level each year and present justification for all costs in the proposed budget regardless of the type of cost involved. Zero base budgeting differs from traditional budgeting in which budgets are generally initiated on an incremental basis, the managers start with last year's budget and simply adds to it according to anticipated needs. The manager's doesn't have to start at the ground each year and justify ongoing costs for existing programmes.

- **Activity Based Budgeting:** Activity based costing can lead to improve decision making. Activity based budgeting focuses on the cost of activities to produce and sell products and services. It separates indirect costs into separate homogeneous activity cost pools. Management uses the cause and effect criterion to identify to cost drives for each of these indirect cost pools.

- **Cost Volume Profit Analysis:** The analysis of relationship between cost, volume and profit is known as cost volume profit analysis. It is an analytical tool for studying the relationship between volume, cost, price and profit. CVP analysis is great helpful in managerial decision making. Specially, cost control and profit planning is possible with the help of cost volume profit analysis.

- **Completion of Profit Plan:** The principal output of a budgeting is a comprehensive profit plan that ties together all phases of an organization's operations. The completion of profit plan is comprised of man separate budgets, or schedules, that are interdependent. In other words, completion of profit plan means the process of profit planning ends with the planned income statement and planned balance sheet.

- **Performance Report:** Performance report is an important portion of a comprehensive PPC system. The performance reporting phase of a comprehensive PPC programmed significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC or management control function of management defined as "the action necessary to assure the objectives plan, policies and standards are being attend" or in other word, the objectives of control is to guarantee the achievement of the planned objectives of the management by introducing periodic systematic correction measure. Performance report is one of the vital tools of management to exercise its control function effectively.

2.14 Review of Previous Studies

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

Ojha (1995) has conducted a research on *"Budgeting System in Public Enterprises in Nepal, A Comparative Study of Royal Drugs Limited & Herbs Production and Processing Industry"*. His objectives and some of major findings are listed below:

Objectives:

- To highlight the current practice of budgeting system
- To focus the effectiveness of budgeting system in public enterprises.
- To analyze various functional budgets adopts in Nepalese public enterprises.
- To draw a picture of budgeting system process adopted in those enterprises.

Some of Major findings:

- RDL and HPPC have not adequately considered controllable and non-controllable variables affecting the company furthermore strengths and weakness.
- The objectives of Nepalese enterprise are not clear RDL & HPPC both also have no any objective to create a maintain an optimum enterprises environment that maximizes the interest and motivation of all employees.
- RDL & HPPC both have to marketing specialists so these enterprises are unable to develop the alternatives marketing policy for sales expansion and for new supply sources of raw materials.,
- These enterprises are not operated on commercial basis.

Sharma (2002), is conducted a study on *"Profit Planning in Commercial Banks: A Case Study of Nepal Bangladesh Bank "* The major concern of Mr. Sharma is to study the profit planning in commercial bank by taking a case study of Nepal Bangladesh Bank. His major objectives and some of major findings are as follows:

The major objectives of the study:

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

The major findings of the study were as:

- NB bank has adopting a policy of keep minimum number of employees as possible.
- The decision making process is highly centralized.
- NB bank lacks active and organized planning department to undertake innovative products R & D works.

- Lack of staff training.
- NB bank has policy of taking highly qualified employees.
- The rate of expansion of branches of NB was increased.
- Controlling functions of the branches are so far being carried out directly by Head Office, which may be difficult in the days to come because of its wide geographical extend.
- Objectives of the Bank are expressed in literary form and not specified clearly.
- The major resources of NB bank are cost bearing deposit.
- The budgeted and actual deposit mobilization by the bank has been well meet every year.
- Major portion of resources has been deployed in loan and advances.
- The budgeted and actual deployment has been met every year.
- The interest expenses of the bank are fund increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.
- The amount of interest income is increasing every year corresponding to increase in LDO.
- There is a perfect and positive correlation between interest income and loan and advances.
- The other income of bank is also in increasing trend.
- The bank has suffered off by loss during the first year of its operation. It is in constantly increasing trend afterward. As the rate of growth of spreads is higher than burden the profitability of the bank is increasing.

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

The major objectives of the study:

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

The major findings of the study were as:

- Total revenue and total cost of RBB is higher than HBL but its profits are lower.
- Government seems less conscious in the present situation of RBB.
- In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuation in cost.
- As the accounting system, of RBB is careless that it has not been audited form the FY 1993-94 and it difficult to take decision about data analysis.
- No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- Interest coverage ratio of both banks is more than 1 except in the FY 1995-96 of RBB It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
- Interest spread is higher in RBB than in HBL.
- Return on paid of capital is always negative in RBB. Net profits also negative in RBB.

Dhungana (2003), entitled *"A study of Joint Venture Banks Profitability"*, this study was conducted with main objectives of assessing the profitability of Joint Venture Bank in Nepal (during the period of five years from 1997/88 to 2001/02).

The major objectives of the study:

- To identify whether the profitability of Joint Venture Banks are optimal or not.
- To identify the pattern of profitability of Joint venture Banks especially of Nepal Investment Bank Limited.
- To suggest on the basis of findings and analysis.

The major findings of the study were as:

- Interest income of NIBL was highest.
- SCB's commission and discount earnings and foreign exchange income were higher than both of NIBL and Nabil were,
- Nabil's other operating income was appeared higher than other banks.

- NIBL had paid highest tax per share than other banks and SCB paid the same least.
- In average, Nabil, NIBL and SCB had highest personnel expenses, interest expenses on deposit and other operating expenses respectively.

Tiwari (2003), is conducted a research entitled *"Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited "* For this purpose of the study he used the data The major concern of Mr. Tiwari is to study the profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major findings are as follows:

The major objectives of the study:

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

The major findings of the study were as:

- Bank is awarded by ' Bank of the year 2002 Nepal'
- Bank management policy is very strong.
- It keeps minimum number of employees and highly qualified for maintain the job.
- The bank always adopt new technology
- The Bank is provides ATM and 365 days of services for customers.
- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- Customer deposit collection is the main resources mobilization of the bank.
- Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment
- There is no significant relationship between budgeted and actual LABP.

- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend.

Rayamajhi (2004), is conducted a research on *"Profitability of NB Bank Limited with comparison to other J/V Banks."*

The major objectives of the study:

- To find out the profitability position of JV banks and to disseminate quality information.
- To analyze the profit trend of NB Bank.
- To ascertain the comparative position of profitability of NB bank with respect to other JV banks.

The major findings of the study were as:

- NB bank has not been able to perform well the bank is in serious position.
- ROE, EPS, Net profit, Loan loss provision and interest payout ratio is worse in comparison with other JV bank's average.
- Staff expenses per employees, Credit deposit ratio is better with comparison of other JV Banks.
- The assets quality of bank is very poor.

Thapa (2004), has conducted a research work on the topic of *“A study on Profit Planning and Control of Nepal SBI Bank Limited"* his objectives and major finding are as follows:

The major objectives of the study:

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

The major findings of the study were as:

- Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
- The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted year.
- Nepal SBI has not made any in depth analysis of its strength and weakness.
- Its mission and objectives have not clearly defined and delegated to the lower levels.
- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
- The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
- The bank is facing competition from increasing number of financial institutions in these years.
- These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
- Budgets are prepared just to fulfill the formalities but these are not used effectively from the profit planning process.

Paudel (2006), has conducted a study on *"Sales Budget of Profit Planning and Control in Manufacturing Public Enterprises: A Case Study of Dairy Development Corporation"* .His objectives and some of major findings are as follows:

The major objectives of the study:

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

The major findings of the study were as:

- DDC has fulfilled the national demand but sales achievement is below than targeted sales.
- DDC is following traditional budgeting approach.
- DDC has burden of staff, loan and other expenses which directly influenced the profitability.
- Different statistical tools show the positive relationship with actual and budgeted sales.
- DDC is adopted traditional pricing method to determine the selling price.
- Profit and Loss trend of DDC showed that it has huge loss but from F/Y 2059/60 losses in its decreasing trend.

Dahal (2006), is conducted a research entitled *"Planning process and its impact on profitability: A Case Study of Gorkha Patra Corporation"* his objectives and some of major findings are listed below.

The major objectives of the study:

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

The major findings of the study were as:

- GC does not prepare the long term strategic profit plan but it prepares tactical short term profit plan.
- GC has not adequately considered controllable and non-controllable variables affecting the corporation. They has no in depth analysis of the corporation's strength and weakness.
- The objectives of the corporation are not clear, with regard to profit making and market penetration.

- The plans are prepared from top level only. There is no letter communication between the top level and lower level management regarding the corporation's goals and objectives.
- GC has not a system of periodical performance reports. Corporation is not seriously conscious to it poor performance.
- Actual production is made in accordance with the actual sales. Therefore production activities are not done according to the budgeted production but this done according to the recent data of actual sales.

Thapa (2006), has study on *"Profit Planning in Merchandising company: A case study of National Trading Limited"* his objectives and major findings are as follows:

The major objectives of the study:

- To examine the practical and effectiveness of profit planning in National Trading limited.
- To analyze the various functional budgets adopted by National Trading Limited.
- To evaluate the performance of budgeted and actual in NTL.
- To provide summary finding and recommendation.

The major findings of the study were as:

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

Kharel (2008) has conducted a research on *" Profit Planning of Commercial Banks in Nepal: A comparative study of Everest Bank limited, Nabil Bank limited, and Bank of Kathmandu Limited"* his objectives and major findings are as follows:

The major objectives of the study:

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

The major findings of the study were as:

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

- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.
- EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.
- The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BOK.

2.15 Research Gap

Today's world is marketed by rapid changes and new developments, as such researcher's base, interpret and analyze events in the face of dynamism. Most of the past research studies conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge 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 Rastria Banijya Bank, Nepal Investment Bank, Standard Chartered Bank, Nepal Bangladesh Bank. This study may be a new study in this field as no study has been made profit planning of HBL. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extra ordinary items of income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In my research effort had been made to understand the Profit Planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view. It is also the way to solve systematically about the research problem. This study has intense relation with the application of planning and control in manufacturing concern, regarding the objectives of the present research is to highlight the current practice of PPC in NIC Bank Ltd. It therefore requires and appropriate research methodology.

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

3.2 Research Design

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

3.3 Population and Sample

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

3.4 Sources and Collection of Data

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

3.5 Study Variables

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

3.6 Analytical Tools

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

3.6.1Statistical and Mathematical Tools

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

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

3.6.1.1 Percentile Increment

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

3.6.1.2 Arithmetic Mean Average

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

3.6.1.3 Correlation of Coefficient

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

The Pearson's coefficient of correlation is widely used in practice. The Person's Coefficient of correlation is denoted by the symbol "r".

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

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

Where,

r= the correlation coefficient

x= X- $\overline{X}$

y= Y- $\overline{Y}$

X= Independent variable

Y= Dependent variable

Following general rules are applied to interpret the coefficient of correlation: When r= +1, it means there is a perfect positive relationship between the variables. When r= -1, it means there is a perfect negative relationship between the variables. When r= 0, it means that there is no relationship between the variables i.e. the variable are uncorrelated.

3.6.1.4 Regression Analysis

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

3.6.1.5 Standard Deviation (σ́)

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.

3.6.2 Financial Tools

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data and information of planning system and budgeting procedure in a commercial bank with the specific context of NIC Bank Ltd. To accomplish these objectives, the various functional budgets analyze and related data are presented in a systematic way in tabular forms and graph charts. To obtain best result, the data and information have been analyzed according to the research methodology as mentioned in Chapter 3.

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis (Wolff & Pant, 2004).

4.2 Mission Statement of NIC

To become a leading bank in Nepal by providing complete financial solutions to our customers, superior value to our shareholder and promising growth opportunities to our employees.NIC Bank Ltd. is committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance (www.nicbank.org.np).

4.3 Resources Mobilization Planning

Here, the term resources have been used for the fund required by the bank for its activities. Banks mobilizes its resources from the following sources.

i. Deposit Accounts

ii. Loans and Borrowing

iii. Share Capital

Among the above three sources the Deposit accounts/collection is the major source of resources mobilization, which is in fact, one of the most important activities of a commercial bank. Loans and Borrowing are obtained from local banks, foreign banks, central bank and other financial institutions, generally for a short period of time. The capital fund is raised from shareholder's equity. This is the net-worth of the bank commercial banks. Commercial bank's capital fund has been divided into two categories viz. core capital and supplementary capital. Here the researcher going to present status of available resources of HBL in tabular and figure form.

Table 4.1

Status of Resources Mobilization

(Amounts in '000)

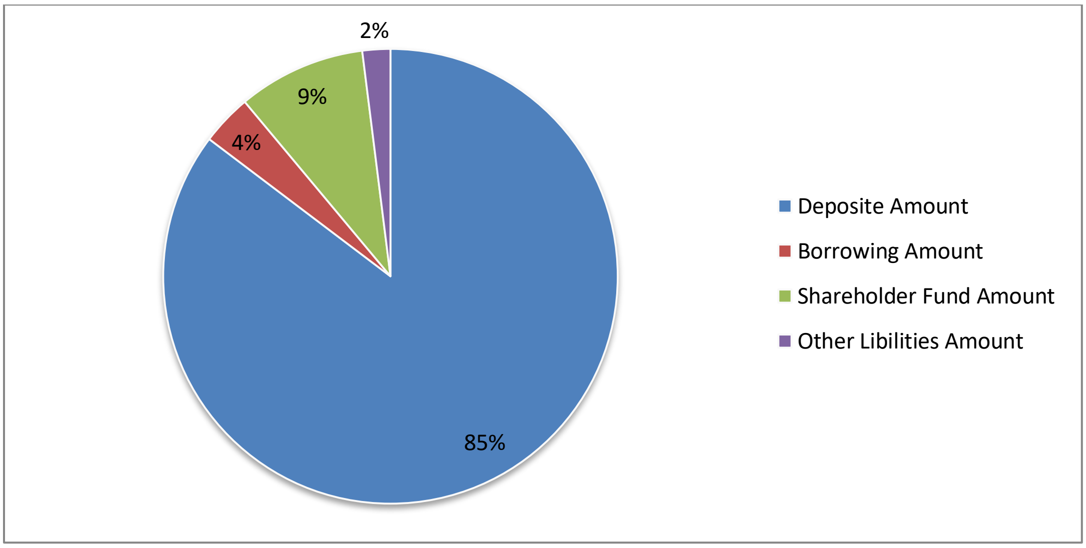
F/Y	Deposits		Borrowing		Shareholder Fund		Other Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2004/05	6241378	84.05	450371	6.06	684194	9.21	50072	0.67	7426015
2005/06	8765950	86.99	457705	4.54	766462	7.61	86390	0.86	10076507
2006/07	10068230	88.04	352128	3.08	918495	8.03	97007	0.85	11435860
2007/08	13084689	87.35	335000	2.24	1303426	8.70	256654	1.71	14979769
2008/09	15579931	85.31	660405	3.62	1660253	9.09	363044	1.99	18263633
Total of Resources	53740178		2255609		5332830		853167		

Source: Annual Reports of NIC Bank Ltd.

The above table shows the status of total resources of NIC Bank Ltd. The resources are collected from customer deposit, shareholder fund, other liabilities and borrowing. 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 plotting in the figure below.

Figure 4.1

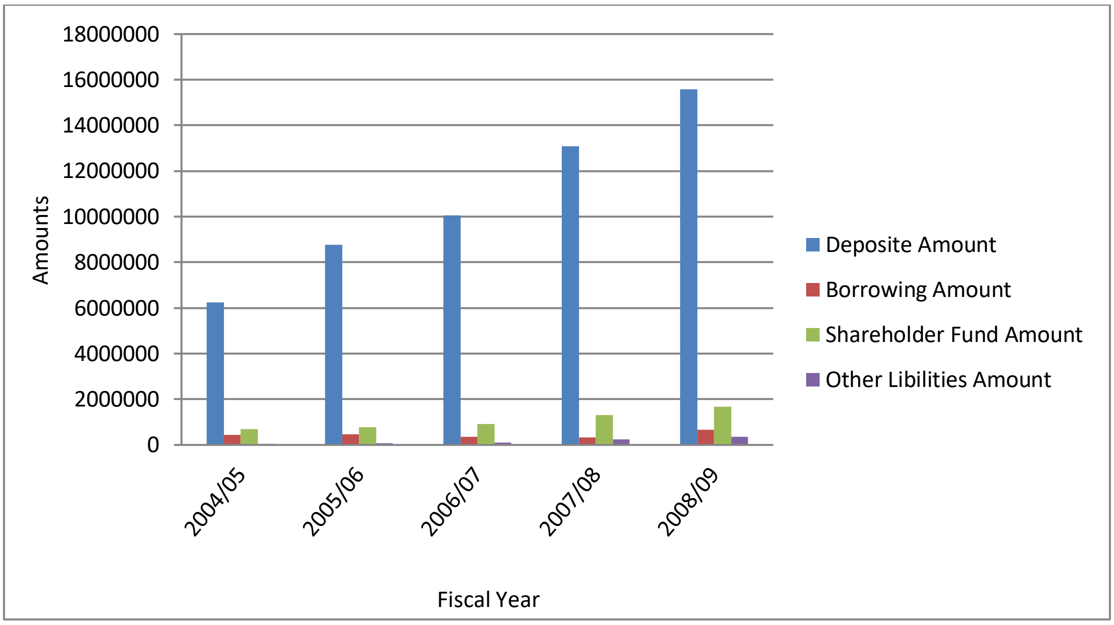
Pie Chart Showing Status of Available Resources of NIC Bank Ltd.



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

Figure 4.2

Bar diagram Showing Status of Available Resources of NIC Bank Ltd.



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

- Customer Deposit Collection
- Other Resources

4.4 Customer Deposit Collection

As deposit collection is major activities of commercial bank, it is important source of resource mobilization. As per the data F/Y 2004/005 to 2008/009 the customer deposit is high as 85%. These deposits are collected from different sectors that are individual and corporate customer. Deposits are collected as per the bank's rules. Some deposits are interest bearing and some are interest free. The Bank has categorized the deposit into two types which is as follows:

1). Interest Bearing Account

a. Saving Account

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

Deposit Collection Budget of NIC Bank Ltd.

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

Table 4.2

Status of Budgeted and Actual Deposit Collection

(Amount'000')

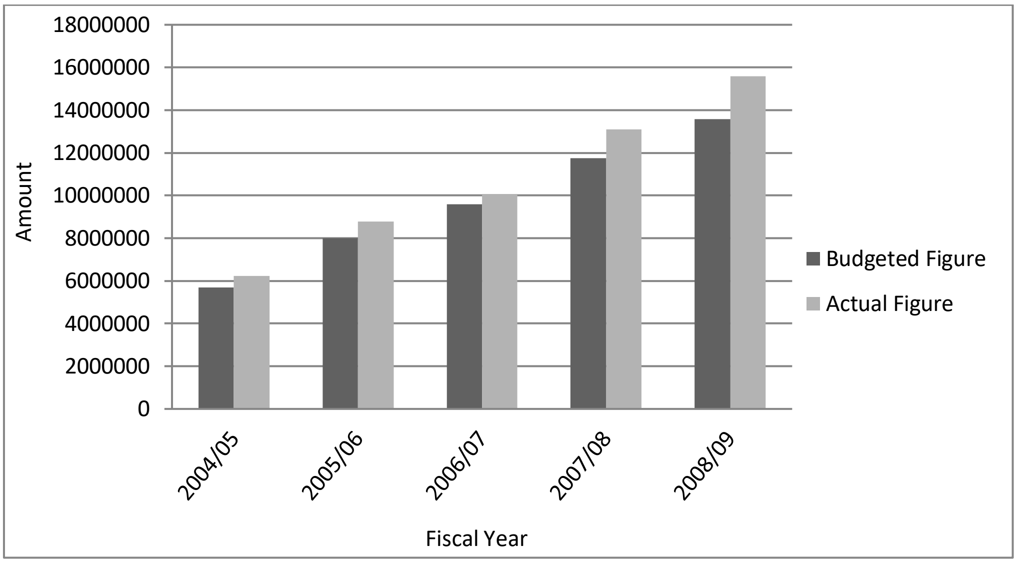
Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2004/05	5689497	6241378	109.70%
2005/06	8005434	8765950	109.50%
2006/07	9575112	10068230	105.15%
2007/08	11756234	13084689	111.30%
2008/09	13571368	15579931	114.80%

Sources: Annual Reports and Budgeted Statement of NIC Bank ltd.

The above table shows the status of budgeted and actual deposit collection of NIC Bank Ltd. The bank has achieved its objectives of deposit collection every year more than 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuating. It ranged between 105.15 % to 114.8 % through the five year of study period. The data of table are presenting in bar diagram for the analysis purpose.

Figure 4.3

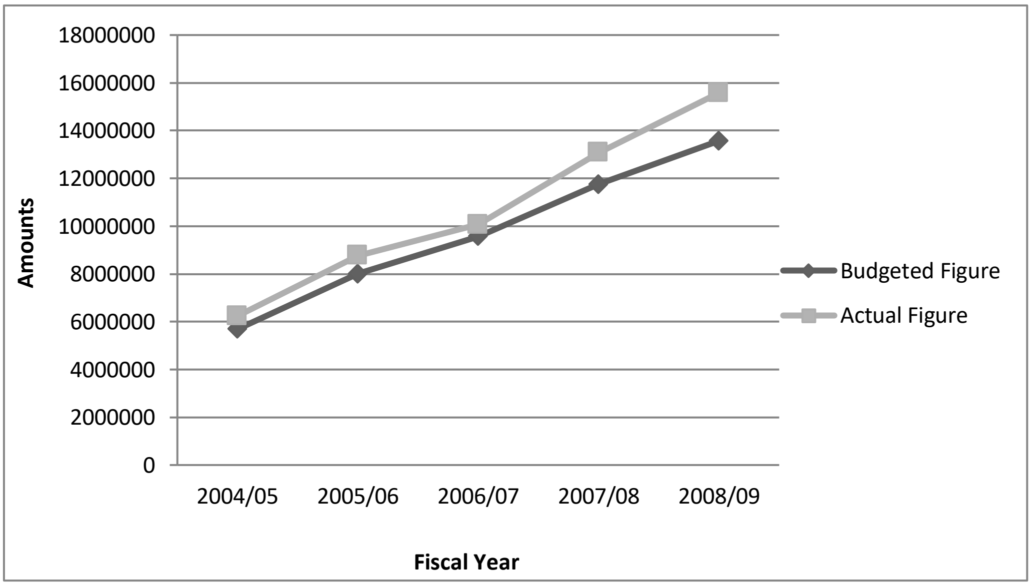
Bar Diagram Showing Budgeted and Actual Deposit Collection



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

Figure 4.4

Trend Line showing Budgeted and Actual Figure



Above table and figures shows the deposit collection target has more than the budgeted amount. This gives the high level of achievement made by bank toward deposit collection sector. In the above bar diagram, it shows the achievement level higher than budgeted likewise scatter diagram shows actual collection is higher than budgeted amount. NIC Bank Ltd. is well performing in the deposit collection sector. We find 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.

Table 4.3

Summary of Deposit Collection Budget and Actual Deposit

(Amounts in '000')

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	9714000	10742000
Standard Deviation	2765700	3269100
Coefficient of Variation	28.47%	30.43%
Correlation of Coefficient (r)	0.996	
Probable Error (PE)	0.0024 (r>6PE)	

Sources: Appendix – 1

The above table shows that actual deposit is more variable then budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent and homogeneous actual deposit is more variable in nature. A greater CV represents less homogenous. By using another statistical tool correlation co-efficient to analyze the relationship between budgeted deposit and actual deposits. It is used Karl person's coefficient of correlation which is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposits and actual deposit is or not. Budgeted deposit is denoted by X and assumed to be independent variable and actual deposit is denoted by Y is assumed to be dependent variables. So that increased in budget is support to increase in actual achievement or vice versa, this meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix 1.The researcher have found (r) is 0.996 and PE is 0.0024. 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 can also be fitted to show the degree of relationship between budgeted deposits and actual deposit and to forecast the achievement with given target so that the regression line of 'Y' on 'X' is as follows:

$$y - \overline{y} = r \times {}^{\sigma y}/_{\sigma x}\ (X - \overline{X})$$

$$y - 10742000 = 0.996 \times \frac{3269100}{2765700}(x - 9714000)$$

$$y - 10742000 = 1.177\ (x - 9714000)$$

$$y = 1.177x - 694169$$

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=15000000) ascertain the expected deposits achievement for F/Y 2008/009.

When X=700000000

The expected deposit for the year 2008/009

$y = 1.177 \times 700000 - 694169$

$= 7544831(000)$

The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2008/009 will be Rs. 7544831000 stated by above regression line.

4.5 Resources Deployment Plan of NIC Bank Ltd.

Allocation of available resources into different sector is called deployment of resources plan. Resources can be used for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated 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 4.4

Total Income Generating Deployment of NIC Bank Ltd

(Amounts '000'**)**

F/Y	**Other Investment**		**Loan & Advance**		**Total**
	Amount	**%**	**Amount**	**%**	
2004/05	1572902	25.02	4711712	74.98	6284714
2005/06	2479913	27.14	6655964	72.86	9135877
2006/07	1599481	15.17	8941398	84.83	10540979
2007/08	2311468	17.02	11264678	82.98	13576246
2008/09	3026022	18.11	13679394	81.89	16705516

Source: Annual Report 20004/2005 to 2008/2009 of NIC Bank ltd.

The above table shows the status of income generating deployment of NIC Bank Ltd. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 72.86 % to 84.83 % where as the range of other investment is 15.17 % to 27.14 %.

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.

4.5.1 Budgeted and Actual LDO of NIC

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

Table 4.5

Comparative Table showing Budgeted and Actual Loan, Discounted, Overdraft of NIC Bank Ltd.

(Amount in '000')

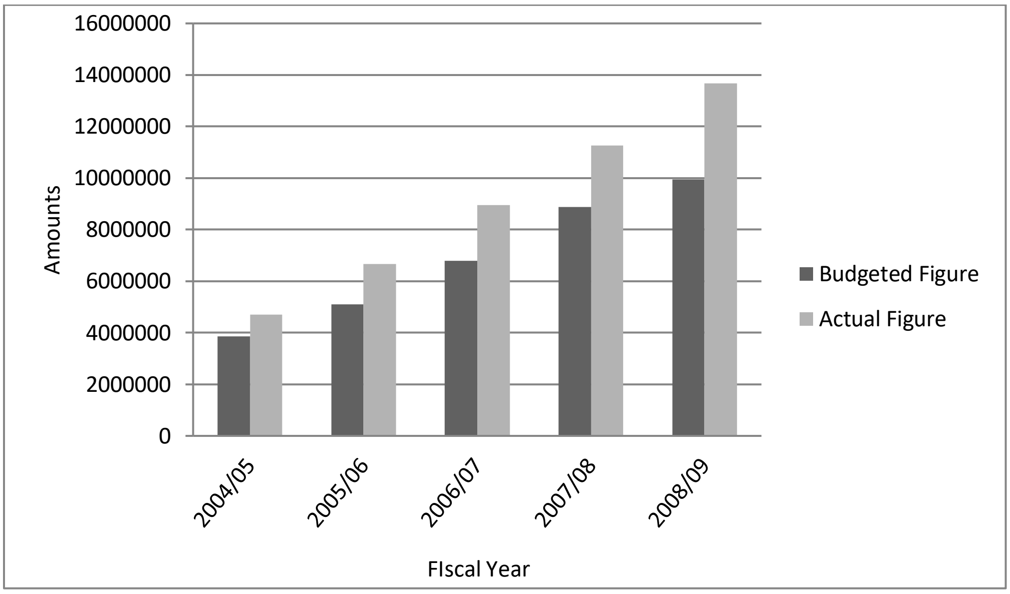
Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2004/05	3852270	4711712	122.31%
2005/06	5094110	6655964	130.66%
2006/07	6785097	8941398	131.78%
2007/08	8875416	11264678	126.92%
2008/09	9937809	13679394	137.65%

Source: Annual Reports and Budget Statement of NIC Bank Ltd.

Above table shows that status of budgeted and actual LDO of NIC Bank Ltd. 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 122.31% to 137.65 % it shows that NIC Bank Ltd. 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 4.5

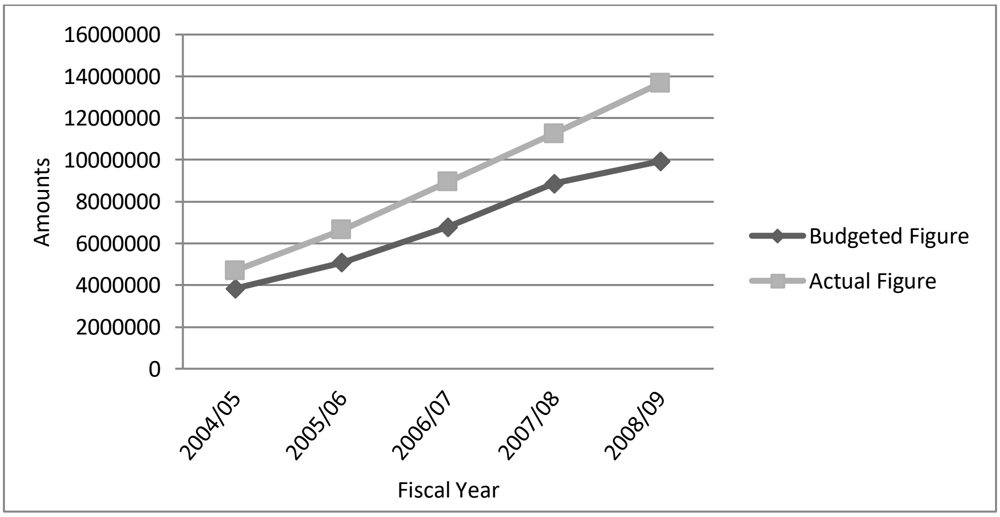
Bar Diagram Showing Budgeted and Actual LDO of NIC Bank Ltd



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

Figure 4.6

Trend Line showing the Status of Budgeted and Actual Deployment in LDO of NIC Bank Ltd.



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

Table 4.6

Summary of Budgeted LDO and Achievement

(Amount in '000')

Statistical Tools	**Budgeted LDO(X)**	**Actual LDO(Y)**
Mean	6906000	9046000
Standard Deviation	2267800	3106600
C.V	32.84%	34.34%
r	0.8031	
PE	0.9526 (r>6PE)	

Source: Appendix – 2

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

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted LDO and Actual LDO. There should be positive correlation between budgeted and actual LDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. For this purpose budgeted LDO is denoted by X and actual LDO is denoted by Y. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual LDO is 0.9766 it means the relation between budgeted and actual LDO are perfectly correlated. 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 2, we have obtained the value of r being 0.9766. 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. r2 = (0.9766)2 =0.9537. Another statistical tool, regression line can also be fitted to show the degree of relationship between budgeted LDO and actual LDO and the forecast the achievement with given target. For this purpose, achievement figure have been supposed to be depended up on independent target. So that the regression line of achievement 'Y' on targeted 'X' or Y on X is as follows.

$$y-\bar{y}= r\,{}^{\sigma y}/_{\sigma x} \times (x-\bar{x})$$

$$y-9046000=0.8031\times \frac{3106600}{2267800} (x-6906000)$$

$$y-9046000=1.1001(x-6906000)$$

$$y=1.1001x+1448393$$

From the above equation, it s 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 008/009 = 20000000

When X =2000000000

Then expected LDO achievement

$$y=1.1001\times 2000000 + 1448393$$

$$y=3648593\ (000)$$

4.5.2 Resources Deployment in Other Sector (LDO)

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

Table 4.7

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

(Amount in '000')

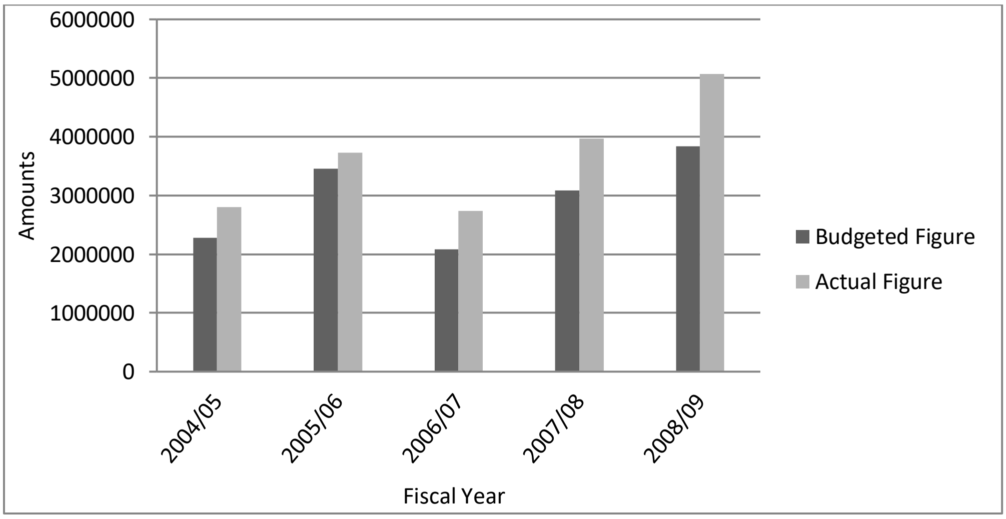
Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2004/05	2284502	2798684	122.50%
2005/06	3452976	3727637	107.95%
2006/07	2080379	2737436	131.58%
2007/08	3085310	3974058	128.81%
2008/09	3842930	5071239	131.96%

Source: Annual Reports and Budget Statement of NIC Bank Ltd.

The above table shows the status of budgeted and actual deployment in other sector than LDO. The actual achievement of investment in other sector has more than 100 % on each year. The rate of such achievement is fluctuating trend over the study period. The achievement is 122.5 % in F/Y 2004/005 and it decreased in F/Y 2005/006 to 107.95 %. Again in F/Y 2006/007 it increases to 131.58 % and slightly fluctuating up to F/Y 2007/008. The average rate of achievement over the five year is 124.56 % this indicate that the bank achieved its target by 125 % approximately. For the analysis purpose the status of budgeted and actual LDO is presenting in diagram below.

Figure 4.7

Bar Diagram Showing Status of Budgeted and Actual LDO of NIC Bank Ltd.



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

Table 4.8

Summary of LDO of NIC Bank Limited

(Amount in '000')

Statistical Tools	Budgeted LDO(X)	Actual LDO (Y)
Mean	2880000	3600000
Standard deviation	688000	858000
C.V.	23.89%	23.83%
r	0.9417	
P.E.	0.30375(r>6P.E.)	

Source: Appendix – 3

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

4.5.3 Actual Deposit and Outstanding LDO of NIC Bank Ltd.

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

Table 4.9

Status of LDO VS Actual Deposit of NIC Bank Ltd

(Amount in '000')

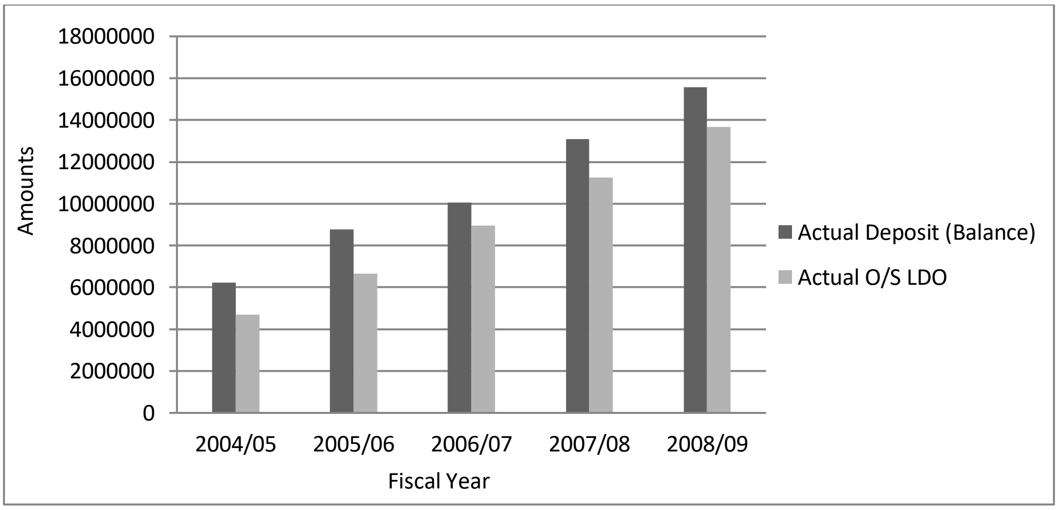
Fiscal Year	Actual Deposit (Balance)	Actual O/S LDO	LDO to Deposit Ratio
2004/05	6241378	4711712	75.49%
2005/06	8765950	6655964	75.93%
2006/07	10068230	8941398	88.80%
2007/08	13084689	11264678	86.09%
2008/09	15579931	13679394	87.80%

Source: Annul Reports of NIC Bank Ltd 2004/2005 to 2008/2009

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 up to 2006/2007, but declining in the year 2007/008. The utilization of deposit collection in terms of LDO is fluctuating trend in percentage. The range of LDO to deposit ratio is 75.49% to 87.80%.this indicate that the bank invest in LDO out of total deposit in the range of 75.49% to 87.80%.over the five year time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presenting in the figures.

Figure 4.8

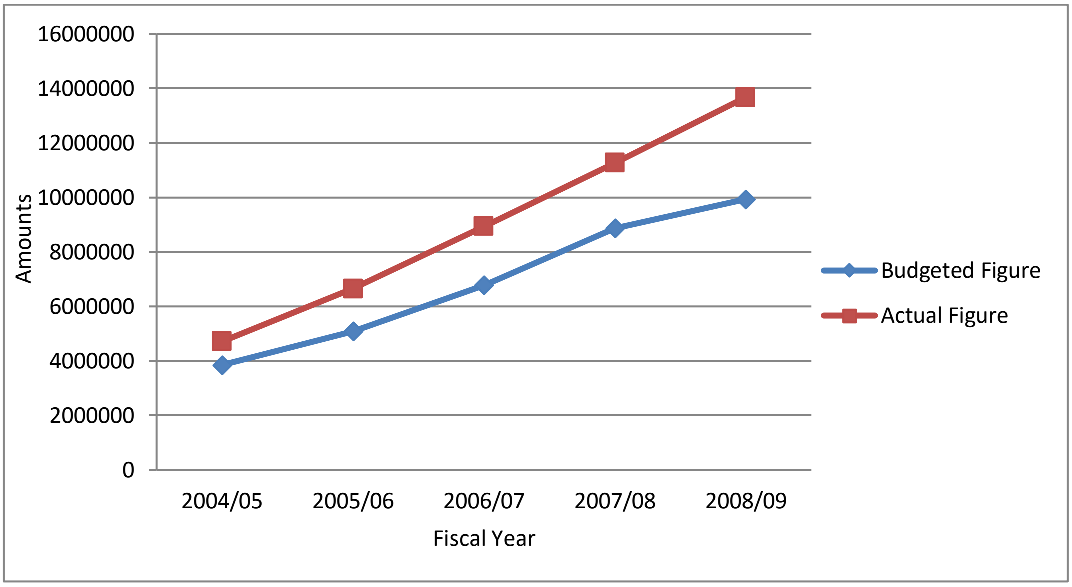
Bar Diagram Showing Actual Deposit and Actual LDO of NIC Bank Ltd



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

Figure 4.9

Trend Line Showing Actual Deposit and Actual LDO of NIC Bank Ltd



From the above table and figures it can be found that both the deposit and LDO is in increasing trend over the period. The average ratio of LDO to deposit is 82.82 %. It means that the bank invest in LDO 82.82 % in average. Now we are 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 4.10

Summary of Actual Deposit and Actual O/S LDO

(Amount in Rs '000')

Statistical Tools	Actual Deposit	Actual O/S LDO
Mean	10742000	19046000
Standard Deviation	3269200	3188700
C.V	30.43%	35.25%
r	0.9761	
P.E	0.0289(r>6PE)	

Source: Appendix – 4

The above table shows that actual O/S LDO is more variable than actual deposit since it has higher C.V. On the other hand actual deposit more consistent than outstanding LDO it means the outstanding LDO is variable in nature. The relationship between actual deposit and actual outstanding LDO can be measured by co-relation between them. 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 0.9761 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.

4.6 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 throughout the study period.

Table 4.11

Status of Average Cost of Deposit

(Amount in Rs '000')

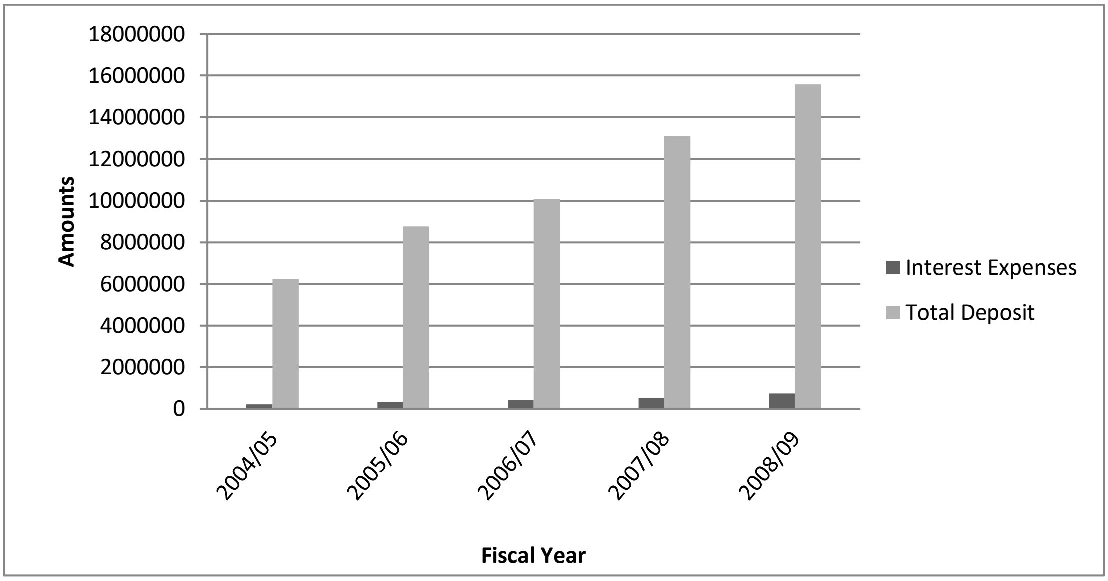
Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit
2004/05	225992	6241378	3.62%
2005/06	340222	8765950	3.88%
2006/07	421375	10068230	4.18%
2007/08	505996	13084689	3.86%
2008/09	722447	15579931	4.63%

Source: Annual Reports of NIC Bank Ltd. 2004/205 to 2008/2009

The above table shows the total deposit and interest expenses of respective year. The deposit amount is in increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The NIC Bank's cost of deposit (interest) range between 3.62 % to 4.63 % over the study period. The cost of deposit of the bank is increasing trend. The relation between COD and total deposit can shows on the bar diagram below.

Figure 4.10

Bar Diagram Showing Average Cost of Deposit



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

4.7 Interest Income

Interest income also called return of LDO contributes major portion of total revenue mix.

Now, we are going to analyze the comparative status of total return on LDO with the help of table & diagrams.

Table 4.12

Status of Average Return of LDO

(Amount in Rs '000')

Fiscal Year	Interest Income	Total O/S LDO	Average Rate of Return
2004/05	457610	4711712	9.71%
2005/06	579979	6655964	8.71%
2006/07	725819	8941398	8.11%
2007/08	931401	11264678	8.12%
2008/09	1257870	13679394	9.19%

Source: Annual Reports of NIC Bank Ltd 2004/2005 to 2008/2009

The above table shows the comparative status of interest income with the o/s LDO and the return on same LDO. The interest income is in fluctuating trend as the LDO has increased whereas the rate of return on LDO is fluctuating trend. The range of rate of return lies between 8.11% to 9.71 %, in the five year period. It is effective to analyze the relationship between o/s LDO and interest income by using the statistical tools to find out the variability of actual LDO and actual income of different years 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 4.13

Summary of Actual LDO and Interest Income

(Amount in Rs '000')

Statistical Tools	**Actual LDO(X)**	**Interest Income(Y)**
Mean	9050600	790500
Standard Deviation	3190600	2819700
CV	35.25%	35.67%
r	0.9849	
PE	0.0804(r<6PE)	

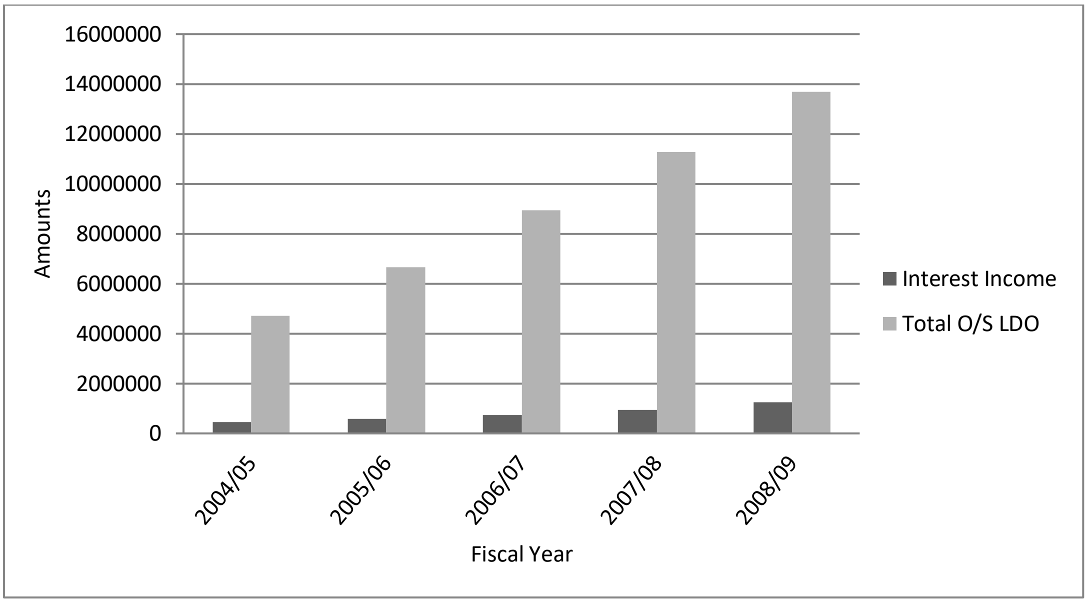
Source: Appendix – 5

The above results show that actual o/s LDO is more variable than interest income since CV of LDO is higher than of interest. There should be positive correlation between o/s LDO and interest income. In other words the interest income increases as the o/s LDO increase or vice versa. To find the correlation between interest income and actual o/s LDO 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 verse. After this significance of 'r 'is tested with the probable error of 'r'. The value of r is 0.9849 & P.E is 0.0804 since r <6PE the value of r is insignificant. From the calculation shown in appendix no 6 the value of r is 0.9849. 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. $r^2=(0.9849)^2$ =0.9700.

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

Figure 4.11

Bar Diagram Showing Average Cost of Deposit



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

4.7.1 Interest Margin

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

Table 4.14

Movements in Interest Margin of NIC Bank Ltd

(Amount in Rs '000')

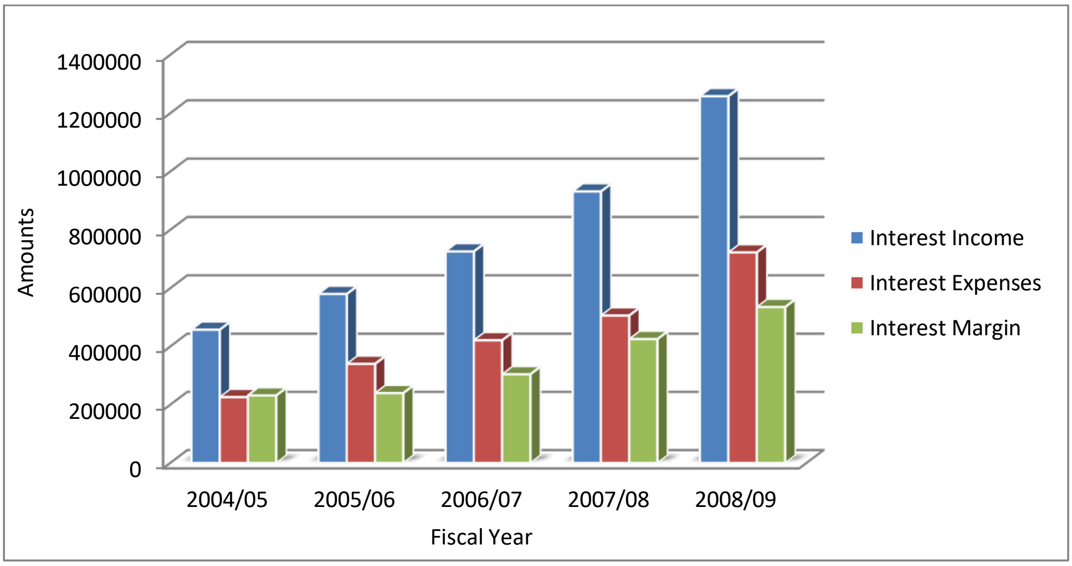
F/Y	Interest Income(X)	Interest Expenses(Y)	Interest Margin(X-Y)	Growth in Interest Margin
2004/05	457610	225992	231618	-
2005/06	579979	340222	239757	4%
2006/07	725819	421375	304444	27%
2007/08	931401	505996	425405	4%
2008/09	1257870	722447	535423	26%

Source: Annual Reports of NIC Bank Ltd 2004/05 to 2008/09

The above table shows the position of interest margin and its growth throughout the study period. The figure of interest margin is fluctuating trend every year. The base year to calculate the interest margin is F/Y 2004/005. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

Figure 4.12

Bar Diagram Showing Interest Margin of NIC Bank Ltd



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

4.8 Performance Evaluation of NIC Bank Ltd

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 we are going to analyze by using various technique and criteria to evaluate performance of NIC Bank Ltd. some financial tools is as follows:

- Ratio Analysis
- Cost Volume Profit Analysis

4.9 Ratio Analysis

"Ratio refers to the numerical relation of component parts of financial statement to each other. Ratio relationships are computed to obtain information about various characteristics and conditions of firm" (Bagavati & Pillai, 2000: 1339). 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 rations from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to four categories.

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

4.9.1 Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short-term financial strength of the firm. Now, we use current ratio to measure relationship of current assets and current liabilities of NIC Bank Ltd.

The current ratio, one of the most commonly cited financial ratio, measure the firm's ability to meet its short-term obligations. Current ratio is the ratio of current assets to current liabilities. Current assets are cash and other "nearness to cash" which can be converted into cash within one accounting period; whereas the current liabilities are those short term obligations which can be paid within a year.

Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and repaid expenses.

Current liabilities refer to the short-term maturity objective, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions, accrued expenses. The current ratio is expressed as follows:

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

4.9.2 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

4.9.3 Debt-Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt-Equity ratio measures the 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.6.

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

Table 4.15

Debt-Equity Ratio of NIC Bank Ltd

(Amount in Rs '000')

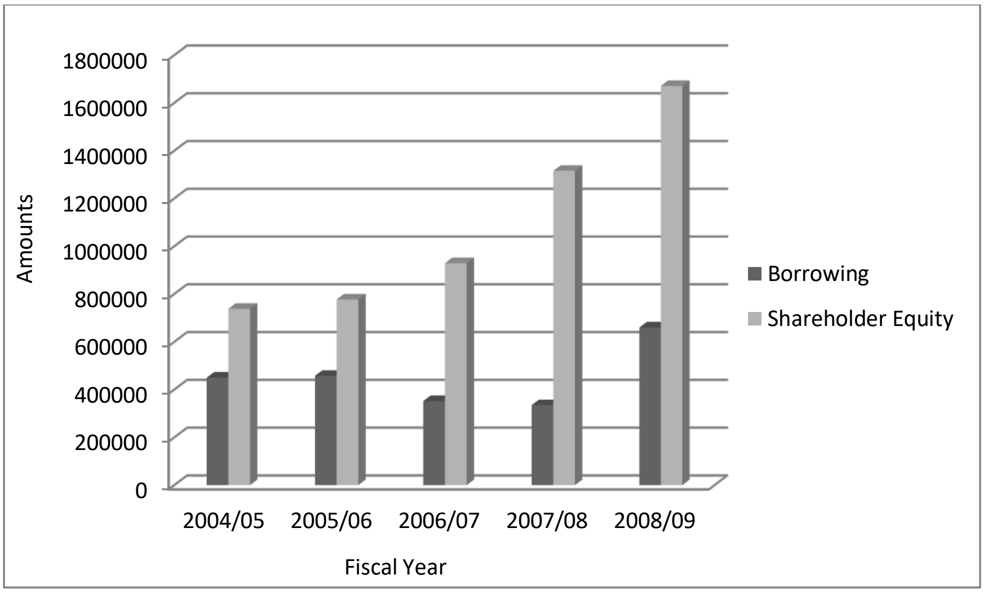
Fiscal Year	Borrowing (X)	Share Holder Equity(Y)	Debt-Equity Ratio(X/Y)
2004/05	450371	738205	0.61:1
2005/06	457705	777416	0.59:1
2006/07	352128	929370	0.38:1
2007/08	335000	1315900	0.25:1
2008/09	660405	1671252	0.39:1

Source: Appendix -6

The above table shows the debt equity ratio of NIC Bank Ltd. The column X shows the figure of borrowings and column Y shows the figure of share holder's equity. By dividing the column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of NIC Bank Ltd is 0.25:1 to 0.61:1. The trend of debt equity ratio is fluctuating every year. NIC Bank Ltd has high portion of equity than long term debenture where as for a banking sector fixed deposit is also considered as long term obligation but in above analysis researcher has calculated only borrowing as long term debt. The above table shows that NIC's financial strength is strong because it has more internal fund to repay the borrowing capital. The figure of long term debt and share holder's equity is presenting in the bar diagram below.

Figure 4.13

Bar Diagram Showing Borrowing and Shareholder's Equity of NIC Bank Ltd



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

4.9.4 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 4.16

Calculation of Interest Coverage Ratio

(Amount in Rs '000')

Fiscal Year	EBIT(X)	Interest Expenses(Y)	Times
2004/05	390719	225992	1.73
2005/06	477613	340222	1.40
2006/07	652530	421375	1.55
2007/08	852188	505996	1.68
2008/09	1222541	767197	1.59

Source: Annual Reports of NIC Bank Ltd 2004/2005 to 2008/2009

The above table shows the position of interest coverage ratio (ICR) of NIC Bank Ltd. The ICR is 1.73 times in F/Y 2004/005 this means EBIT is 1.73 times more than interest expenses. The ICR reached to 1.40 times in F/Y 2005/006. This result represents the NIC Bank Ltd has decreased its EBIT. Again the rate increased up to F/Y 2007/008 but it decreased in 2008/009 to 1.59.The interest coverage ratio of NIC Bank Ltd ranges between 1.40 to 1.68 times. It means that the bank sufficiently capable to pay the interest expenses.

4.9.5 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here we are going to measure of NIC Bank Ltd 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 4.17

Profitability Ratio of NIC Bank Ltd

(Amount in Rs '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)
2004/05	113756	7510396	1.51%	680143	16.73%
2005/06	96587	10383601	0.93%	761129	12.69%
2006/07	158475	11678834	1.36%	911807	17.38%
2007/08	243058	15238736	1.60%	1293751	18.79%
2008/09	317434	18750633	1.69%	1649007	19.25%

Sources: Annual Reports of NIC Bank Ltd 2004/2005 to 2008/2009

The above table shows the status of return on assets and return on capital employed of NIC Bank Ltd. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of on assets is fluctuating trend and it is ranged between 0.93 % to 1.69 % throughout the five years period. Likewise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 12.69 % to 19.25 % it is increasing trend through five years of study period.

4.10 Major Findings of the Study

- The bank has 85% average contribution of customer deposit in the resources mobilization as per the data F/Y 2004/005 to 2008/009 and uses the other resources of 15 % in average.
- NIC Bank Ltd. is well performing in the deposit collection sector. Actual deposit is higher than the budgeted figure. It is found (r) is 0.996 and PE is 0.0024. 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 2008/009 will be RS 7544831 thousand stated by the regression line.
- The statistical tool CV represents that NIC's actual LDO is the variable nature than budgeted LDO. The correlation between budgeted and actual LDO is 0.8031 it means the relation between budgeted and actual LDO are perfectly co-

related. Significance of r is tested with PE there is r > 6 PE this means the value of r is more significant. So it is not doubtful that actual LDO will go on same direction that of budgeted LDO. The regression line shows the expected LDO for the F/Y 2008/009 will be 3648593 thousand.

- The researcher find that the 100 % of achievement of targets in deployment of resources other than LDO.
- LDO is in increasing trend over the period. The average ratio of LDO to deposit is 124.56 %.
- The relationship between actual deposit and actual O/S LDO is in increasing trend over the period.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NIC Bank Ltd. is in the range of 3.62 % to 4.63 % it means the bank pays the interest 4.03 % in average over the period.
- The yearly interest income is in fluctuating trend in amount where the O/S LDO is increasing. In the term of average rate of return is fluctuating trend it is ranges of 8.11% to 9.71 %.The average rate of return over the study period is 9.12%.
- The amount of interest margin of NIC Bank Ltd. is in fluctuating trend where the increment percentage is also in fluctuating trend over the study period.
- Debt-Equity ratio shows that the NIC's financial strength is very strong because it has more internal fund to repay the borrowing capital.
- The interest coverage ratio of NIC Bank Ltd. ranges between 1.40 to 1.68 times.
- The range of return on total assets is 0.93 % to 1.69 % and range of return of total capital fund is 12.69 % to 19.25 % over the period.

The cash flow analysis of the NIC Bank Ltd. shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

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

The economic growth of a country can't imagine without financial institutions. Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank 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 NIC Bank Ltd. The study is mostly based on secondary data and required data have been collected by using various sources. There are 28 commercial banks operating in Nepal which are taken as population of the study among them NIC Bank Ltd. has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

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

5.2 Conclusion

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

5.3 Recommendations

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

- Nepal’s accession to the WTO would permit international banks to operate in Nepal, so NIC Bank Ltd need to make their business plan and strategy accordingly which can convert challenges in to opportunities.
- Financial institutions increasing day by day in Nepal it grows the competition with the banks so NIC Bank Ltd should make some policy to keep its position as before among the Nepalese financial institutions.
- NIC Bank Ltd should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainty etc.
- NIC Bank Ltd 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.
- Every business concerns have one another obligation i.e. corporate social responsibility so NIC Bank Ltd needs more involvement in social activities in the coming days.
- NIC’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.
- The bank needs to put more focus on the non fund consuming business activities like LC, Bank guarantee, foreign exchange and other. It supports in the overall profitability of the bank.
- 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.
- People in rural area of Nepal still out of banking services so NIC Bank Ltd is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.
- The ‘Global Economic Crisis 2008’ started from banking sector of USA this crisis may affects to Nepalese financial sectors too so the NIC Bank Ltd suggested to make some policy to be safe from this crisis.

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.

APPENDICES

Appendix - 1

Deposit Collection Budget of NIC Bank Ltd

Amount in Rs (0000000)

Year	X	Y	x= $\mathbf{X-\bar{X}}$	$\mathbf{y=Y-\bar{Y}}$	xy	x^2	y^2
2004/05	568	624	-403.4	-450.2	181610.7	162731.6	202680
2005/06	800	876	-171.4	-198.2	33971.48	29377.96	39283.24
2006/07	957	1006	-14.4	-68.2	982.08	207.36	4651.24
2007/08	1175	1308	203.6	233.8	47601.68	41452.96	54662.44
2008/09	1357	1557	385.6	482.8	186167.7	148687.4	233095.8
	∑X=4857	∑Y=5371	∑x=0	∑y=0	∑xy=450333.6	∑x2=382457.2	$\sum y^2$=534372.8

$\bar{X}=\frac{\sum X}{N}=\frac{4857}{5}$=971.4

$\bar{Y}=\frac{\sum Y}{N}=\frac{5371}{5}$=1074.2

$\sigma_x=\sqrt{\sum\frac{x^2}{n}-(\frac{\sum x}{n})^2}=\sqrt{\frac{382457.2}{5}-0}$ =276.57

$\sigma_y=\sqrt{\sum\frac{y^2}{n}-(\frac{\sum y}{n})^2}=\sqrt{\frac{534372.8}{5}-0}$ = 326.91

$r_{xy}=\frac{\sum Xy}{\sqrt{\sum x^2}\times\sqrt{\sum y^2}}=\frac{450333.6}{\sqrt{382457.2}\times\sqrt{534372.8}}$ = .996

$CV_x=\frac{\sigma_x}{\bar{x}}\times 100=\frac{276.57}{971.4}\times 100$ =28.47%

$CV_y=\frac{\sigma_y}{\bar{y}}\times 100=\frac{326.91}{1074.2}\times 100$ = 30.43%

PE = $0.6745\times\frac{1-r^2}{\sqrt{n}}=0.6745\times\frac{1-0.996^2}{\sqrt{5}}$ =0.0024

6PE=6$\times$ 0.0024 =0.0144(r>6PE)

Appendix - 2

Summary of Budgeted LDO and Achievement

Amount in Rs (0000000)

Fiscal Year	X	Y	x=X-X	y=Y-Y	xy	x^2	y^2
2004/05	385	471	-305.6	-433.6	55496.96	93391.36	188009
2005/06	509	665	-181.6	-239.6	43511.36	32978.56	57408.16
2006/07	678	894	-12.6	-10.6	133.56	158.76	112.36
2007/08	887	1126	196.4	221.4	43482.96	38572.96	49017.96
2008/09	994	1367	303.4	462.4	140292.2	92051.56	188009
	$\sum X=3453$	$\sum Y=4523$	$\sum x=0$	$\sum y=0$	$\sum xy=282917$	$\sum x^2=257153.2$	$\sum y^2=482556.4$

$\overline{X}=\frac{\sum X}{N}=\frac{3453}{5}=690.6$

$\overline{Y}=\frac{\sum Y}{N}=\frac{4523}{5}=904.6$

$\sigma_x=\sqrt{\sum\frac{x^2}{n}-(\frac{\sum x}{n})^2}=\sqrt{\frac{257153.2}{5}-0}=226.78$

$\sigma_y=\sqrt{\sum\frac{y^2}{n}-(\frac{\sum y}{n})^2}=\sqrt{\frac{482556.4}{5}-0}=310.66$

$r_{xy}=\frac{\sum Xy}{\sqrt{\sum x^2}\times\sqrt{\sum y^2}}=\frac{282917}{\sqrt{257153.2}\times\sqrt{482556.4}}=0.8031$

$CV_x=\frac{\sigma_x}{\bar{x}}\times 100=\frac{226.78}{690.6}\times 100=32.84\%$

$CV_y=\frac{\sigma_y}{\bar{y}}\times 100=\frac{310.66}{904.6}\times 100=34.34\%$

$PE=0.6745\times\frac{1-r^2}{\sqrt{n}}=0.6745\times\frac{1-0.8031^2}{\sqrt{5}}=0.15877$

$6PE=6\times o.15877=0.9526(r>6PE)$

Appendix - 3

Budgeted and Actual NLDO of NIC Bank Ltd.

Amounts in Rs (0000000)

Fiscal Year	X	Y	x=X-X	y=Y-Y	xy	x^2	y^2
2004/05	22	27	-6.8	-9	61.2	46.24	81
2005/06	34	37	5.2	1	5.2	27.04	1
2006/07	20	27	-8.8	-9	79.2	77.44	81
2007/08	30	39	1.2	3	3.6	1.44	9
2008/09	38	50	9.2	14	128.8	84.64	196
	$\sum X=144$	$\sum Y=180$	$\sum x=0$	$\sum y=0$	$\sum xy=278$	$\sum x^2=236.8$	$\sum y^2=368$

$\bar{X}=\frac{\sum X}{N}=\frac{144}{5}=28.8$

$\bar{Y}=\frac{\sum Y}{N}=\frac{180}{5}=36$

$\sigma_x=\sqrt{\sum\frac{x^2}{n}-(\frac{\sum x}{n})^2}=\sqrt{\frac{236.8}{5}-0}=6.88$

$\sigma_y=\sqrt{\sum\frac{y^2}{n}-(\frac{\sum y}{n})^2}=\sqrt{\frac{368}{5}-0}=8.58$

$r_{xy}=\frac{\sum Xy}{\sqrt{\sum x^2}\times\sqrt{\sum y^2}}=\frac{278}{\sqrt{236.8}\times\sqrt{368}}=.9417$

$CV_x=\frac{\sigma_x}{\bar{x}}\times 100=\frac{6.88}{28.8}\times 100=23.89\%$

$CV_y=\frac{\sigma_y}{\bar{y}}\times 100=\frac{8.58}{36}\times 100=23.83\%$

PE = $0.6745\times\frac{1-r^2}{\sqrt{n}}=0.6745\times\frac{1-0.9417^2}{\sqrt{5}}=0.0506$

6PE=6×0.0506 =0.30375 (r>6PE)

Appendix – 4

Summary of Actual Deposit and Actual O/S LDO

Amounts in Rs (0000000)

Fiscal Year	X	Y	x=X-X	y=Y-Y	xy	x^2	y^2
2004/05	624	471	-450.2	-433.6	195206.7	202680	188009
2005/06	876	665	-198.2	-239.6	47488.72	39283.24	57408.16
2006/07	1006	894	-68.2	-10.6	722.92	4651.24	112.36
2007/08	1308	1126	233.8	221.4	51763.32	54662.44	49017.96
2008/09	1557	1367	482.8	462.4	223246.7	233095.8	213813.8
	∑X =5371	∑Y =4523	∑x =0	∑y=0	∑xy =518428.4	$\sum x^2$=534372.8	$\sum y^2$=508361.2

$\bar{X}=\frac{\sum X}{N}=\frac{5371}{5}$=1074.2

$\bar{Y}=\frac{\sum Y}{N}=\frac{4523}{5}$ =904.6

$\sigma_x= \sqrt{\sum\frac{x^2}{n}-(\frac{\sum x}{n})^2}=\sqrt{\frac{534372.8}{5}-0}$ =326.92

$\sigma_y=\sqrt{\sum\frac{y^2}{n}-(\frac{\sum y}{n})^2} =\sqrt{\frac{508361.2}{5}-0}$ = 318.87

$r_{xy}=\frac{\sum Xy}{\sqrt{\sum x^2}\times\sqrt{\sum y^2}}=\frac{518428.4}{\sqrt{6534372.8}\times\sqrt{508361.2}}$ = 0.9946

$CV_x=\frac{\sigma_x}{\bar{x}}\times 100=\frac{326.92}{1074.2}\times 100$ =30.43%

$CV_y=\frac{\sigma_y}{\bar{y}}\times 100=\frac{318.87}{904.6}\times 100$ = 35.25%

PE = $0.6745\times\frac{1-r^2}{\sqrt{n}} = 0.6745\times\frac{1-0.9946^2}{\sqrt{5}}$ =0.00048

6PE=6$\times$ 0.00048 =0.0289(r>6PE)

Appendix - 5

Summary of Actual LDO and Interest Income

Amounts in Rs (0000000)

Fiscal Year	X	Y	x=X-X	y=Y-Y	xy	x^2	y^2
2004/05	471.17	45.76	-433.89	-33.29	14444.2	188260.5	1108.224
2005/06	665.59	57.99	-239.47	-21.06	5043.238	57345.88	443.5236
2006/07	894.13	72.58	-10.93	-6.47	70.7171	119.4649	41.8609
2007/08	1126.46	93.14	221.4	14.09	3119.526	49017.96	198.5281
2008/09	1367.93	125.78	462.87	46.73	21629.92	214248.6	2183.693
	$\sum X$ =4525.28	$\sum Y$ =395.25	$\sum x$ =0	$\sum$ =0	$\sum xy$ =44307.59	$\sum x^2$ =508992.5	$\sum y^2$ =3975.83

$\bar{X}=\frac{\sum X}{N}=\frac{4525.28}{5}$ =905.06

$\bar{Y}\ =\frac{\sum y}{N}\quad\frac{395.25}{5}$ =79.05

$\sigma_x=\ \sqrt{\sum\frac{x^2}{n}-(\frac{\sum x}{n})^2}=\sqrt{\frac{508992.5}{5}-0}$ =319.06

$\sigma_y=\sqrt{\sum\frac{y^2}{n}-(\frac{\sum y}{n})^2}=\sqrt{\frac{3975.83}{5}-0}$ = 28.197

$r_{xy}=\frac{\sum Xy}{\sqrt{\sum x^2}\ \times\sqrt{\sum y^2}}=\frac{44307.59}{\sqrt{508992.5}\times\sqrt{3975.83}}$ = 0.9849

$CV_x=\frac{\sigma_x}{\bar{x}}\times 100=\frac{319.06}{905.06}\times 100$ =35.25%

$CV_y=\frac{\sigma_y}{\bar{y}}\times 100=\frac{28.197}{79.05}\ \times 100$ = 35.67%

PE = $0.6745\times\frac{1-r^2}{\sqrt{n}}=0.6745\times\frac{1-0.9849^2}{\sqrt{5}}$ =0.0134

6PE=6$\times$ 0.0134 =0.0804 (r<6PE)

Appendix -6

Calculation of Borrowing and Shareholder Equity of NIC Bank Ltd.

Amount in Rs. (000)

F/Y	Borrowing	Paid Up Capital	Retained Earning	P/L	Shareholder Equity
2004/05	450371	500000	184194	54011	738205
2005/06	457705	600000	166462	10954	777416
2006/07	352128	660000	257990	11380	929370
2007/08	335000	943877	359549	12474	1315900
2008/09	660405	1140480	519773	10999	1671252

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