CHAPTER ONE

INTRODUCTION

1.1. Background

Nepal is predominately landlocked agricultural country. Agriculture, fisheries, and forestry altogether accounts for some 36 percent of the country's GDP. About 77 percent of the Nepalese population are primarily engaged in agriculture sector and about 86 percent of the population still resides in rural areas being engaged in agriculture related subsistence economic activities. During the last decade, the average growth rate of GDP was around 5 percent. (Shrestha, 2000) The growth in GDP greatly depends upon the growth in agriculture, especially food crop, which depends upon the vagaries of nature. The growth of nonagricultural sector is also constrained by the small size of the domestic market, the landlocked position of the country, poor physical infrastructure and inadequate of human and financial resources.

Nepal still remains as one of the least developed countries of the world by all major indicator of socio-economic development. According to the World Development Report 1999/2000, Nepal's GNP per capita was US$210 in 1998 (Shrestha, 2000), one of the lowest in the world. The GNP per capita measured at Purchasing Power Parity (PPP) terms was found US$ 1090 in 1998 (World Bank, 2000). Out of 174 countries, Nepal was ranked 152nd in the year 1998, based on Human Development Index (UNDP, 1998).

The National Planning Commission based on the result of the Nepal Living Standard Survey had estimated 42 percent of the population below the poverty line in 1992 (HMG/N, 1997). The World Bank Report on Nepal that was published in 1997 had confirmed the findings of NLSS. It clearly pointed out that 53 percent of the population based on PPP (purchasing power parity) terms had an income of less than US$1.00 per day and 76 percent had an income of less than US$1.50 per day in 1997 (World Bank, 1997).

Even the social indicators such as literacy, life expectancy, access to safe drinking water, health and sanitation are still far below the levels in other developing countries. The infant mortality is one of the highest and malnutrition and immunization rates are among the worst. The development indichtors are very low for the rest majority of the people and are extremely low for the poor and destitute (Shrestha, 2000; 11).

In the above mentioned context, the only way of economic growth of the nation is to identify the viable sector and develop it. Such sectors, so far seen here in Nepal is agricultural sector, industrial sector and tourism sector, which can be expected playing vital role in overall development of the country. And it is only possible when there is sufficient financial support available. So, this gives the significance of financial institution.

1.2. Nepalese Economy - The Current Picture

Currently, the country is under the state of emergency. As per Nepal Rastra Bank's currently published communique, regarding the country's economic status during the period of first seven months of the current fiscal year 2001/2002, the General Expenditure during the period has been increased by 11.1% reaching Rs. 2526 crore. Similarly the Development expenditure has been substantially reduced by 11.6% at Rs. 792 crore only. As per NRB, this is caused due to the control in the development expenditure budget in order to meet the increasing expendture towards country's internal law and order maintenance (NRB Communique, March, 2002).

The growth rate of collection of revenue during the period is only 4.1 % as against the growth rate of 18.4% of the same during last year. This has been attributed to the recession in industrial production, tourism, and chiefly due to the reduction in import (Ibid).

The internal loan flow during the review period has seen a lesser increment of 4.2 % *than that* of 9.1 % during last year. This is caused due to decrease in loan flow toward Government enterprises and lower growth rate of loan flow to private sectors. Bank loan flown *to* sector has a lower growth rate of 5 % than that of 10.4 % last year during the corresponding period. This has been caused due to the industrial security problem and reducttand exports activities (Ibid).

In export front, total export during the review period has been decreased by 6.8 % whereas year it has increased by 22.3%. Out of the total export, the export to India is increased by 31.3% only during the review period as against that of 30.2 % during the corresponding period of last year. This has shown slight increament in the growth of export to India during the period. The export to third countries has sharply been decreased by 37.3% whereas it was increased by 16.6 % last year. The major commodities of exports from Nepal to the third countries are gold/silver ornaments, Pashmina, wollen-carpet, readymade garments, pulses etc. Similarly the major items of export to India from Nepal are vanaspati ghee, jute products, pulses, noodles, copper wire etc(Ibid).

Similarly, in import front, during the first seven months of current fiscal year, total import has decreased by 9.3 % whereas last year during the same period, it had increased by 9.3%. Out of which the import from India has been decreased by 0.7 % and that from-the third countries has been decreased by 14.6 %. The major commodities of import from India are fabrics, thread, vehicles, machineries and spare-parts, agricultural equipments, chemical fertilizers etc. Similarly the major items of import from third countries are fuel, gold, silver, cooking oil, raw wool, vehicles, electronic goods etc (Ibid).

(Source: NRB Press Communique Released in March 2002 regarding the economic status of the country during the period of first seven months of the current fiscal year 2001/2002 published in Space Times daily, 30th March, 2002)

1.3. Importance of Financial Institutions

Financial institutions can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resource and a financial institution can play the role of financial intermediary. In the present economic context, the financial institutions have become much more significant than ever. Their activities like lending towards priority sector, deprived sector and thereby helping in income generating activities for the poor can be considered as the major role played by them for the endeavour toward poverty alleviation.

In Nepal, there are several kinds of financial institutions such as Commercial Banks, Development Banks, Rural Development Banks, Finance Companies, Co-operatives involving in saving and credit activities etc. Most of the financial institutions are under regulation of Nepal Rastra Bank (NRB), the central Bank of Nepal.

1.4. Emergence of Commercial Banks in the Economy

Before 1848 BC the 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 security rather than earning interest. The term bank emerged in USA in 1848 BC. The bank means an institute, which deals with money. A bank performs several financial, monetary and economic activities, which are very essential for edonomic development of any country. Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for future and supplies loan to those 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, selling of other shares to general public, agency function of tasks, guarantee against any disable of payment (guarantee services) etc.

The history of modern financial system in Nepal was begun in 1937 with the establishment of Nepal Bank Ltd. as the first commercial bank of Ntpal. The bank was established to render services to the people and for the economic progress of the country. Prior to the establishment of Nepal Rastra Bank, it played the role of central bank also. With the establishment of NRB in 1956, the development of the financial system took a momentum. Realizing the importance of industrial development, HMG/N and NRB established the Nepal Industrial Development Corporation (NIDC) in 1959. The NRB created the Agricultural Credit Fund in 1959/60 and handed it over to HMG/N for the establishment of the Cooperative Bank in 1963. The second commercial Bank, the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of HMG/N and the NRB. The Agriculture Development Bank(ADB/N) was set up in 1968 under the Agricultural Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank. HMG/N had established the Land Reform Saving Corporation in 1966 to make credit available to village communities and Land Reform Saving Corporation was merged with ADB/N in 1973 (Shrestha, 2000; 17).

A large number non-banking financial institutions were set up between 1962 to 1977 such as the Employ Provident Fund (1962), the National Insurance Corporation (1967), the Nepal Insurance Company Ltd. (1968), the Credit Guarantee Corporation (1974) and

Securities Marketing Center (1977). The legislation of the 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. The Nepal Arab Bank Limited, the first joint venture commercial bank of Nepal was established in 1984. The Nepal Indosuez Bank Ltd. and Nepal Grindlays 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 with out a bank is it brick bank or click bank (internet banking), is beyond imagination. (Dahal & Dahal : 2002:7)

1.5. Conceptiual Framework of Profit Planning

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

Profit is the lifeblood of a business organization, which not only keeps it alive but also assures the future and makes it sound. In other words, every such organization needs profit to survive and compete in the open market. The success or the failure of the business firm depends upon the margin of profit because profits are the primary requirement for its success. Moreover, the margin of profit is regarded as an indicator of economic situation of the business firm. Since profit earning plays a vital role for achieving the objective of an organization, it is necessary for all organizations to earn reasonable profit.

The main objectives of any business organization are to maximize its profits and at the same time render reliable service to its customers. Both of, the objectives have a great significance for the proper the management of the organization. Profit is *a* device with the help of which efficiency of an enterprise can be measured. However, profits cannot be achieved without good organizational management.

Before we make an intelligent approach to managerial process of profit planning, it is important that we understand the management concept of planning and budgets. Planning is the process of developing enterprises' objectives and selecting future courses of action to accomplish them. In other words, planning is the first essence of management and all other functions are performed with in the framework of planning. Planning means deciding in advanced what is to be done in future. Planning starts from forecasting and predetermination of future events.

The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operating document committed to performance. In this sense, budget is also called a profit plan.

A budget is a numerical plan of action, which generally covers the areas of revenues and expenditures. The main aim of budgeting is to present the future forecasting numerically ' expressed in appropriate format so as to have proper control over profits and costs.

Profit planning is a comprehensive plan expressed in financial terms by which an operating program can be made effective for a given period of time. It is h tool of direction, coordination and control and as such it is the most important administrative device for these purposes.

Profit planning and control (PPC) is the latest invention in the field of modern management. A comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions. Specifically, PPC model of involves:

i. Development and application of broad and long-range objective of Enterprises.
ii. Specification of Enterprises goals.
iii. Development of a strategic long-range profit plan in broad terms.
iv. Specification of a tactical short range profit plan detailed by assigned responsibilities (Divisions, Departments and projects).
v. Establishment of a system of periodic performs reports detailed by assigned responsibilities.
vi. Development of follow up procedures. (Welsch, etal, 1998; 30)

The basic concepts of profit planning involves the activities which must be generally carried out to attain maximum usefulness from the mechanism, which starts right from design of budget schedules upto implementations and obtaining feedbacks.

As like in the other profit oriented business organizations, a commercial Bank has also to make reasonable profit for its survival. Most of the commercial Banks are formed as a company with joint stock and the shares being traded at stock exchanges. Therefore profit made by them has also remained as one of the vital parameter for meas,urement of the efficiency of these Banks.

1.6. Profile of Nepal Investment Bank Ltd.

1.6.1. Introduction

In the scenario of Global opening-up of the economy and liberalization, Nepal also could not stay behind in joining the world-wide trend. Further, with the restoration of democracy in the country, the liberalization process has gained even more impetus, and as a result, more and more foreign investments found their way as joint ventures in the economy of the country. This trend is more prominent in financial institutions.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd.has also been founded as a joint venture commercial Bank between Nepalese and French partners in 1986 with total Authorised Capital of Rs 120 million, and Issued capital of 60 million. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.

- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

1.6.2. Organizational Management

The success of any business largely depends on management quality. Generally the management body of any business organization has two fold major objectives; first to manage the firm well and second, to maximize profit and enhance shareholder's wealth.

At NIBL, the apex body of management is the Board of Director, which is constituted with the proportionate representation from the major shareholder and two each from Rastriya Banijya Bank and Rastriya Bima Sasthan and one under the BFIA (Banking and Financial Institute Act) and one from public shareholders.

The management under the board nominated CEO, the Managing Director under which Head office and various branches operates. Currently there are 29 numbers of branch offices and 616 numbers of employees working in the Bank (NIBL, Annual Report, 2007/08).

1.6.3. Major Financial Achievements of NIBL

The detailed financial position of the Bank is reflected in financial statements (Balance Sheets & P/L Account). On the basis of the financial statements of latest fiscal year 2007/08 and preceding year, we have presented some of the major financial achievements of NIBL which are listed as below:

1. Total paid up capital has been increased 2.4 billion in the year 2007/08 which is highest in the Nepal.
2. Total assets of the Bank has been increased by 11.28 billion in the year 2007/08 which is a growth of 40.89% as compared to the same of preceding year.
3. Deposit mobilized by the bank has been increased by Rs. 9.96 billion in the year 2007/08 which is a growth of 40.68% more than the preceding year.
4. Total outstanding Loan & Advabces has grown by Rs. 9.76 billion during Fiscal year 2007/08 which a growth of 54.93%% from the same of preceding

year.

5. The income from interest has grown by Rs. 609 million during F/Y 2064/065, which is 38 % increment than the immediate previous year.
6. Other income than interest has grown by Rs. 128 million in F/Y 2064/065, which is a growth by 30% than preceding year.
7. The interest expenses has increased by Rs. 306 million that is by 45 % during F/Y 2064/065 than the preceding year.
8. Expenses other than interest has' increased by Rs. 249 million that is by 31 % in the year 2064/065 than the preceding year.
9. Net profit after tax has been increased during the fiscal year 2064/065 by Rs. 169 million which records 39.12% growth than previous year.

1.7. Statement of Problem

Profit Planning and Control (PPC) model provides a tool for more etfective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its infancy and therefore the concept of profit planning has not even been familiarized in the most of the business concerns. By proper profit planning a business can be managed more effectively and efficiently.

Commercial Banks *play* vital role in economic growth of a country. As being 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 development of those resources, which generates income. The differential interest income over the interest cost, which is popularly called as interest margin or speard, can be considered as the contribution margin in the profit of the bank. The other operational expenses from burden of contribution margin which, banks are attempting to compensate by other income generated out of non-fund based business activities of the bank.

The present study has tried to analyze and examine the PPC side of Commercial Bank taking a case of NIBL. Furthermore, the study has tried to answer the following research questions;

i. Does NIBL Bank has appropriate profit planning system?
ii. Does the Bank mobilize the deposit and other resources at optimum cost?
iii. Does the Bank deploy the resources generating satisfactory yield?
iv. Does the Bank giving proper attention toward non-funded business activities thereby generating satisfactory amount of other income?
v. What are the overall PPC problems of NIBL and what suggestions can be recommended for their proper solution?

1.8. Objective of the Study

The basic objective of this study is to appraise Nepal Investment Bank, appropriately for the application of comprehensive PPC system. Thus the major objectives are;

i. To highlight the current profit- planning premise adopted and its effectiveness in NIBL
ii. To observe NIBL's Profit planning on the basis of overall managerial Budgets developed by the Bank.
iii. To analyze the variance of budgeted and actual achievements
iv. To study the growth of the business of the Bank over the period
v. To provide suggestion and recommendations .for improvements of the overall profitability of the bank.

1.9. Scope and Limitation of the Study

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

i. The study is made for partial fulfillment of the requirement of Masters in Business Administration, in a short duration of time. Therefore only NIBL has been taken for this study.
ii. Only the profit planning aspect of the bank has been analyzed, leaving other areas uncovered.
iii. The study covers the related data of the Bank from F/Y 2060/061 to 2064/065 only..
iv. Primary data is collected only from the informal discussions with the personnel of the Bank.

v. The accuracy of this study is based on the data available from the management of NIBL, the various published documents of the Bank and the response made by the respondent during the informal discussion.

1.10. Significance of the Study

This research study is concerned with the profit planning in commercial Banks with a case study of NIBL, 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 organisation by the help of the best utilization of resources.

Accomplishment of objectives in every organisation depends upon the application of scarce resources most effectively. Also the financial performance of an organisation depends purely on the use of its resources. Budgeting is the key to productive financial planning. So all the organisations running under commercial principle have to give regard to these most important single tools while managing their physical and financial targets. If the planning process of an organisation is effective and result oriented, the pace of development naturally steps forward.

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

This research study may be useful for those who want to know the PPC in the NIBL Bank. It May also be helpful for future researchers as a reference material.

1.11. Design of the Study

i. **Introduction:** This Chapter includes Background, Current Picture of Nepalese Economy, Importance of Financial Institutions, Emergence of Commercial Banks in the Economy, General view of profit planning, Brief Profile of NIBL, Objectives of the Study, Statement of the Problems, Significance of the Study and Scope and Limitation of the Study.

ii. **Review of literature:** This Chapter includes, Concept of Commercial Banks and their various activities, Broad Pictures of PPC and Review of previous research works.

iii. **The research methodology contains:** The Research Design, Data Collection Procedures and the Tools and techniques to be employed for the analysis of data.

iv. **Presentation and Analysis of Data:** This Chapter is one of the main chapters of this study. It includes almost data and graphs are interpreted in such a way so that the objectives of the study can be achieved.

v. **Fifth Chapter includes Summary, Major findings and recommendations.**

CHAPTER TWO
REVIEW OF LITERATURE

2.1. Introduction

In this chapter the researcher has presented the conceptual framework about the Commercial Banks, its activities, Banking practices worldwide and within the country, the legal and regulatory framework, and profit planning concepts and its applicability in a commercial banking activities. In this connection, the researcher has reviewed various literatures in the form of books written by various prominent authors, published newspapers, journals, browsing materials from the concerned web sites, previous dissertations in the relevant subject matters etc.

2.2. Commercial Banks as a concept

By the term "Bank", we simply understand it as a place where we keep our money for safe keeping as well as for earning some interest or the place from where we borrow the money as loan. As regard to the borrowing money from the Bank, we may consider its function as that of a moneylender in our society. But a bank and a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources.

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)" (Hornby, 1992; 28)

The Rendom House Dictionary of the English Language defines the bank as an institution for receiving money and, in some cases, issuing notes, and transating other financial business (Stein & Undang, 1985).

Banks refers to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator or manufacturer of money in the system (vaish, 1996; 13). Maclead, in his book 'theory of credit' has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit (Maclead, 1983; 19).

In the opinion of Sayers, Banks are the institutions whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other people's debt (Sayers, 1967; 13). He has taken the bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the Bank to the extent of his deposit amount.

The Commercial Bank Act 2031, under which commercial banks in Nepal are established and operated, has defined Commercial Bank as a bank which exchanges money, accepts deposit, advances loans and performs other commercial transactions and which is not specifically established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose. (Commercial Bank Act, 2031)

The Act has defined the commercial bank on the basis of its objectives and activities. Referring to the act, a commercial bank:

- Should not be established with a specified objective of co-operative, agricultural, industrial or any of such kind of specific purpose.
- Should accept customer deposit
- Should advance loans and make investments
- Perform commercial transactions.

The same Act has provided for the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the Company Act as a limited liability company only with the recommendations of Nepal Rastra Bank, the Central Bank of Nepal (Commercial Bank, Act 2031).

From the various definition made and opinion produced regarding commercial banking, we can conclude that a commercial bank is set up to collect scattered funds and employ them to productive sector of economy.

2.2.1. Evolution of commercial Bank

The origination of the term 'Bank' is under dispute among the economist. According to some authorities, 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 onbenches 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; 15).

In its native form, 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 B.C., the famous temples of Ephesus, Delphi and Olympia were used as depositories for peoples surplus fund and these temples were the centers for money lending transactions. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of Venice, founded in 1157 A.D., was the first public banking institution. Following this, in 14th century, the Bank of Barcelona and the Bank of Genoa were established in 1401 A.D. and 1407 A.D. respectively (Vaish, 1996; 17).

In England, start of Banking can be accounted for as far back as the reign of Edward III. Those days, the Royal Exchanger used to exchange the various coins into British money and also used to supply foreign money to the British men going out of the country. The bankers of Lombardy were famous in medieval Europe as the credit of planting the seed of modern banking in England goes to them when they settled in London in the locality now famous as the Lombard Street.

The goldsmiths there can be considered as the initial Bankers in England as-they used to keep strong rooms with watchmen employed. People entrusted their cash to them. The goldsmiths used to issue duly signed receipt of the deposits with the undertaking to return the money on demand charging some fee for safe- keeping. These undertaking helped in gaining a further confidence of the public therefore the money were kept with them for longer periods. They were thereby encouraged to lend some part of these funds, which became profitable business to them. Therefore they started offering interest on the deposits to attract more funds. In the course of time independent banking concerned were set up. The Bank of England was established in 1694, under a special Royal Charter. Further in 1833 legislative sanction was granted for establishment of joint stock banks in London, which served as a big impetus to the development of joint stock banking (Vaish, 1996; 18). These banks took the initiative of extending current account facilities and also introduced the facilities of withdrawals through cheques.

In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period (after the Vedic period), the business of Banking was carried on by the members of Vaish 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 the currency of the country (Vaish, 1996; 18).

In Nepal, although the monetory history dates back to 1^{St} century (Lichhavi Dynasty), the Banking history is comparatively very short. The development of organized banking has started in Nepal only from around the starting of 20^{th} century of Bikram Sambat. Nepal Bank Limited, established in B.S. 1994 with an authorized capital of Rs. 1 crore and paid up capital of Rs. 8 lakh 42 thousand is the first organized bank established in Nepal (NRB, 2045; 11).

Although during the Prime Ministership of Rana Prime minister Ranodwip Singh, an office called 'Tejarath Adda' was established for granting loans to government officials and also the general public against the security of gold, silver and other valuables considered as Bank in real sense as it did not collect deposit. Later after establishment of Nepal Bank, the functions of 'Tejarath Adda' were limited upto providing loans to government officials only (NRB, 2045; 12).

Banking development in Nepal found another break through after establishment of Nepal Rastra Bank, the Central Bank of Nepal in 2013 B.S. (NRB, 2045; 20). This has helped organizing the monetory system in the country before which the duel currency system (Indian and Nepalese currency) were prevailing in the system. Larger sector of economy was non monetised.

In the course of organized development of banking sector, second commercial bank, Rastriya Banijya Bank was established in 2022 B.S at the state ownership (NRB, 2045; 21). Later on, in F/Y 2039/040, the policy for allowing establishment of foreign joint venture banks was taken with an aim of having fair competition and skill development in banking sector, which had added a new dimension in development of banking in Nepal. Accordingly, Nepal Arab Bank Ltd. (presently renamed as Nabil Bank) has been established as the first joint venture bank in Nepal in 2041 B.S. (NRB, 2045; 21).

Similarly, in the year 2042 B.S. second joint venture bank, Nepal Indosuez Bank and in the year 2043 B.S. third joint venture bank, Nepal Grindlays Bank (currently known as Standard Chartered Bank Nepal) were established (NRB, 2045; 23).

Afterward, more and more commercial banks were opened in foreign joint venture and private sectors in Nepal which had contributed a lot to bring the commercial banking at present day position. Nepal Bangladesh Bank has established in the year 2051 B.S.

2.2.2. Activities of a commercial Bank

Traditionally the primary. activities of a bank are essentially accepting deposits and making loans and advances. Commercial Banks are found to be having been defined by their activities.

As per the Commercial Banking act 203I, a 'Bank' is a commercial bank established under this act and banking transactions' are the activities of accepting deposits from the others for the purpose of lending or investing, repayable on demand or after some stipulated time period by means of generally accepted procedure. (Commercial Bank Act, 2031).

In the book 'Law of Banking', "A banker is one who in the ordinary course of his business honors cheques drawn upon him by person from and for whom he receives money in his current account" (Hart, 1931; 20).

In the book, Banking Law and Practice, written by Gulshan & Gulshan has quoted H.P. Sheldon's openion as, "The functions of receiving money from his customers and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business."

Similarly, the same book has also quoted Sir John Paget's saying as "No person or body corporate or otherwise, can be a banker who does not; (i) take deposit accounts (ii) take current accounts (iii) issue and pay cheques drawn on himself and (iv) collect cheques for his customer. (Gulshan & Gulshan, 1994; 25)

From above points, it is clear that a commercial bank's 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 activities of a commercial bank has been categorized in two folds as below:

i. Mobilization of Resources &
ii. Deployment of Resources

2.2.2.1. Mobilization of Resources

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

A. Owners fund or capital fund

Owner fund of the bank is the Capital fund, which includes paid up capital, reserves, retained earning, share premium, non- redeemable preference share. Apart from those mentioned 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)'s 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 assets as per varying weighted assets) to be of at least 12% by the end of Fiscal year 2060/061.

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 because the capacity of a bank to grant credit to it's borrowers depends upon it's 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 depoare most volatile and can be withdrawn at any time by their depositors subject to the general rules of the banks governing these deposit. Generally no interests are paid into those 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, a current account is the bank account having money, which is subject to repayable whenever demanded. These accounts are suitable for businessmen, joint stock companies, institutions, public authorities etc.

The time deposits consisting fixed deposit and partly of saving deposit afe 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 accounts are opened by the bank in the name 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 chooses as per his convenience.

The Commercial Banking act 2031 defines fixed deposit account as the "bank account, which is having money in it for an 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 borrowings which are normally obtained for very short period and those are meant for meeting temporary liquidity crunch in the bank. The rates of interest on such borrowing depends on the prevailing inter bank interest rate. Other liabilities also include the payables in the account of the bank, which has been arisen during the regular operation of the bank.

2.2.2.2. Deployment of resources

Deployment of resources of the bank means utilization of the bank’s 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 maximize 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 acquired funds to their owners.

Thus for a banker, deployment of the available resources is a challenging job, because the liquidity and profitability are the opposing consideration to each other. Nloney Banking Trade and Public Finance’ 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 is 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; 43)

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 into 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 can not afford 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, guarding 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:

i. Balance to be maintained at NRB Account: At least 7% of current and saving deposits amount and 4.5 % of Fixed deposit amount
ii. Balance to be kept in Bank's vault : At least 3% of total deposit liability. (NRB Circular 2001/2002)

B. Investments

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. Such investments can easily be liquidated if required thus 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-apart 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 Rank. 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; 25).

Commercial Banks generally lend for short-term commercial purpose to finance the trade and commerce. As the fund available for lending with the banks, are mostly mobilized from the depositors, h commercial bank should carefully consider the safe margin before granting the loan. The banker should be extra careful in selecting the borrowers. Generally banks lending is guided by their lending policies. General principles of a sound lending policy of a bank are as follows: (Gulshan & Gulshan, 1994; 38).

- ***Safety:*** Bank's lending should be secured by way of tangible securities and/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 Diversificatiorls:*** The famous saying "don't put all the eggs in one basket" is the fundamental base of the principle of 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 advances in the forms of Loans, Overdrafts, Cash Credits and Bills discounting.

In a loan account, the entire amount is disbursed to the borrower, which is repayable in installments or in lump sum on the expiry of loans. Interest is charged on the entire loan disbursed to the borrower. The types of loans may be pledge loan, demand loan, Hire purchase, import finance (transit loans), Export finance (packing credit), loan against fixed deposits, against government securities, against shares etc.

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

Cash Credits are similar to overdraft in terms of operation but it is provided to the borrower a as working capital finance, normally to traders, industrialists, farmers etc. In cash credit facility, unlike in loans, the borrower shall enjoy the flexibility of drawing the amount upto 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 upon receipt of proceed in order to minimize their interest liability. Generally such facilities are availed against security of pledge or hypothecation 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 upon liquidity is transferred in favor 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 or 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) deducting some amount (usually the interest until 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 expense is called Interest Expense. For a better profitability, a business concern should be careful in minimizing its cost. In case of a Bank also, as the interest expenses form a bulk in total cost of the bank, a successful banker pays 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 and investments) is the income yielding activities of the Banks. Higher the proportion of loan and advances the asset portfolio, higher will be the yield on fund. As the interest income is the major contributor inome 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 Bankers attempt to increase their Spread in order to improve their profitability. A banker can attempt to maintain higher spread by minimizing the average cost of deposit and maximizing the average yield on fund. But as per the current regulatory provision of NRB, the interest spread of a Bank can be maximum of 5% only. (BOD, NRB, 2001)

Loan Loss Provisions

The Central Bank (NRB) has made a mandatory provision for all the bank to classify their outstanding LDO on the basis of aging into four grades viz. pass loan, Substandard, doubtful and Loss (BOD, NRB, 2001). 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 account falls). Such allocated amount is called Loan Loss Provision amount and is treated as the expenses items. Therefore, in order to improve the profitability, the banker should be more attentive toward timely realization of dues so that the amount of loan loss provision may be maintained at the least possible extent.

Other income generating activities of the Bank

Banks do some other kind of business, besides deployment of funds, which are popularly, bank guarantee transactions, issuing Letter of Credit, cheques/drafts collection, remittances, etc. In such activities banks do not have to involve their fund and yet 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 gurantee liabilities are the contigent liabilities of the bank, which, shall become actual liability only when the client fails to perform as per the contract with the employer.

Letter of Credit (L/C) is the instrument widely used in export import transactions. Banks issue L/C assuring the seller for making payment of the good (upto the value and currency of the L/C), provided the terms and conditions mentioned in the L/C 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 Chamber 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 if 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 has to maintain sufficient balance of convertible FCY in order to meet their L/C payment in the currency stipulated. When the exchange rate is in upward trend, banks gain by revaluation on their FCY reserves.

Concept of Burden

During the establishments and operation of a bank, it has to incur various kinds of expenses besides the expenses incurred for interest payments. Such expenses are employees expenses, administrative expenses, depreciation on fixed assets, other operating expenses, expense for loan loss provision, interest suspense expenses, employ bonus expenses, expenses for income tax provisions etc. All such expenses other than interest expenses cumulatively form a burden to profitability. The Spread 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 thereby increasing the profitability of the Bank. Therefore the net burden (other expenses less other income) has been termed as Burden.

2.2.3. Role of Commercial Banks in the development of the economy

Commercial Banks play an important role in directing the affairs of the economy in various ways. The operations of commercial Banks record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country. Commercial Banks have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and trade in the country. By encouraging thrift among the people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposits thus help bringing the scattered resources into the organized banking sector which can be allocated to the different economic activities. In this way they help in country's capital assets formation. Through their advances, banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds to the public sector, joint sector or private sector for any type of organization. All employment, income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance (Vaish, 1996; 12).

The importance of commercial banks in directing the economic activities in the system is immense. Not only in the highly developed economies where the commercial and industrial activities are paralyzed in the absence of banks, even in the developing countries' economy most of the economic activities particularly of organized sectors are bank based. Therefore, in a nutshell it can be said that the growth of the economy is tied up with the growth of the commercial banks in the economy.

2.3. Profit Planning as a concept

The term comprehensive profit planning and control has recently come into extensive in the business literature. It has its synonyms like comprehensive budgeting, managerial budgeting and budgeting." This term is broadly defined *as a* systematic and formalized approach *for* performing significant phases of the management plnning, and control functions Profit planning and control includgs the following matters:

i. The development and application of broad and long range objectives for the enterprises.
ii. The specification of enterprises goals
iii. The development of strategic long-range profit plan in broad terms
iv. The specification of tactical short range profit plan detailed by assigned responsibility (division, products, projects).
v. The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures." (Welsh, et al, 1999; 30)

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

The international management institutions conference on budgetary control held at Geneva in 1980 has defined 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. (Int'l mgmt institutions Geneva Conference Doc., 1980; 27)

Profit plan is an estimation and predetermination of revenues and expenses that estimates 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 operations it presents a plan for spending income in a manner that does not result in a loss. (Ninemeire & Schmidgall, 1984; 29)

Profit plan represents an overall plan of operations, covers a definite period of time and formulates the planning decision of the management. It; can be viewed as one of the major important approaches that have been developed to facilitate effective performance of the management process.

Now a days profit planning system is especially familiar to business organization but the practicability of it depends upon the size of the business. The common objectives of PPC system whether applied to business administration is to formulate policy as well as with the implementation of policy. And and objective establised after the consideration of the probable courses of events in the future. In conclusion PPC is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of attaining the optimum profit in the enterprises.

2.4. Components of Profit Planning and Control

2.4.1. Profit

2.4.1.1. Meaning and Concepts of Profits

Profit is the basic elements of profit plan so that the 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 - 1(a)} financial gain (b) amount of money gained in business especially the difference between the amounts earned and the amount spent. {2} Advantage or benefits gained from something. (Hornby,1992; 54)

According to some theories, profits are the factor payment for taking the risk for agreeing to take what is left over after contractual outlays 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 tied 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.

2.4.1.2. Long Range and Short Range Profit Planning

Long range and short range profit plans mean strategic and tactical profit plans respectively. The two types of profit plans are developed in PPC.

The strategic profit plan, is broad and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses on one-year time horizon up coming year. The development of strategic and tactical profit plans each year is a process that inolves managerial decisions and ideally a high level of management participation. (Welsch, et al, 1999; 34)

2.4.2. Planning

2.4.2.1. Meaning and Concept of Planning

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 or workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme.
- Go according to plan." (Hornby, 1992; 7)

Planning is deciding in advance what is to be done in future. (Bhusan, 1976; 5)

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 before hand. Planning starts from forecasting and determination of future events. It is the first functions of management and all other functions 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 premist's about the environment in which they are to be accomplished (Welsch, et al, 1999; 3).

A plan is then a projected course of action. All planning involves anticipation of the future course of events and therefore bears an element of uncertainty in respect of 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 effectively and efficiently towards the achievement of goals.

Planning is essential to accomplished goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance.

Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny. (Pandey, 1991; 9)

Planning is a mental process requiring the use of intellectual facilities, imagination, foresight sound judgment etc. Whether the manager is of top level, medium level or lower level, he can not 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 this, the goals of the various departments of the organization. Then, he proceeds to prepare a kind of blue print mapping out the ways of attaining these objectives naturally then all other functions of the manager depend up on planning. (Bhusan, 1976; 16)

Planning is the backbone functions. of the management. Hence, we can point out the nature of planning.

- 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.

2.4.2.2. Long Range and Short Range Planning

Long range planning is closely concerned with the concept of the organization as a long living institution. It is most important for broad and long living enterprises. Long range planning varying five to ten years with the enterprise is sometimes extended to ten years. Strategic planning is one of the most difficult time-span involved in planning 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 years time period. Short-term planning is used by the management as a substantial part of the long-range plan.

2.4.2.3. 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 part of profit plan. It was first started in the USA in 1950, and it is however being used in one form or another in many companies there.

According to Andrew Robertson "corporate planning is to determine the long-term goals of a company as a whole and then to generate plan designated to achieve these goals bearing in mind probable change in its environment. He pointed out the premises of the corporate planning are:

- Before drawing up a plan, which is designed to do 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 departrr'tent, treat it as a corporate whole.
- Take full account of the company's environment before doing up any plan." (Robertson A, 1968; 32)

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 Oid attainable objectives.
- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.
- Involvement of personnel in developing the goals of the enterprises.

2.4.3. Forecasting

The forecasting is to take future decision at present form, by the analysis of relevant factors 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 form of the basis 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; 31)

When an estimate of future conditions is made on the systematic basis, the process is referred to as forecasting. It's aim is to reduce the areas of uncertainty that management decisionmaking with respect to cost and capital investment.

2.4.4. Forecasting Vs Planning

Planning and forecasting often are confusing of being the same. But they are not same, although related.

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

2.4.5. 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 some body or something
- Regulate something
- Management, guidance, restriction
- Standard of comparison for checking the results of the experiment. (Hornby, 1992; 32)

Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprises and initiating 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 to 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 P.F, I954; 36)

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other it is assumed that objectives, plans, polices and standard have been develo communicated to those manag4 who have the related performance respectively.

Therefore, control must necessarily rest upon the concept of feedback, which requires performances measurements and triggers corrective action designed to ensure attainment of the objectives. 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 organizations structure.

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

i. Compare actual performance for the period with the planned goals and standards.
ii. Prepare a performance report that shows actual results, planned results and any differences between the two (i.e. Variation above or below planned

results).

iii. Analyze the variations and the related operations to determine the underlying causes of the variations.

iv. Develop alternative courses of action to correct any deficiencies and learn from the successes

v. Make a choice (corrective action) from the set of alternatives and implements it.

vi. Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-planning. (Welsch, et al, 1998; 16)

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 improved control in the future. The significant concept here is that objectives policies and standards fulfill two basic requirements in the overall control process, namely (I) feed forward-to provide a basis for control at the point of action, (2) Feedback-to provide a basis for measurement of the effectiveness of control after action has taken place. Moreover, feedback is instrumental in replanning.

2.5. Budgetary Control

2.5.1. Meaning of Budgeting and Budget

Budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. A budget is a comprehensive and coordinated plan expressed in financial term for the operation and source of an enterprise for some specific period in the future. (Pandey, 1991; 43).

As regards the term 'Budget' it can be visualized as the end result of the budgeting. If budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objectives and goals established by the top level management in respect of some future period." (Gupta, 1992; 49)

A budget is a forecast, in detail, of the results of an officially recognized programmed of perations based on the highest reasonable expected operating efficiency.

Budget is defined as a comprehensive and co-ordinated plan, expressed in financial terms for the operations and resources of an enterprises for some specified period in the future. (Fremgen, 1976; 42)

According to his definition the essential elements of a budget are;

- Plans
- Operations and Resources
- Financial Terms
- Specified Future Period
- Comprehensiveness
- Co-operation

Therefore, we can say that budget is a tool, which may be used by the management in planning the future course of action and in controlling the actual performance.

2.5.2. Budgeting: As a Device of Profit plan

Budgeting is a forward planning. It serves basically as a device (tool) for management, control; it is rather pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accounting functions. (Welsch, 1998; 42) John G. Glover and Coleman L. Maze have expressed a similar view. In their opinion the prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental polices and objectives, it is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them.

Budgeting is a device of a planning and control that serves as a guide to conduct operation and a basis for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budgeted data and also in the light of changes in conditions. Company controls operations through its budgeting and responsibility reporting system. Top executive are able to control every area of the organization through a systems of budgetary planning and control reporting by responsibility area.

Budgets are an important tool of profit planning. The main objectives of budgeting are,

- Explicit statement of expectations
- Communication
- Co-ordination
- Expectation as a framework for judging performance

2.5.3. Essentials of an Effective Budgeting

An effective budgeting system should have some essential feature to ensure best results. The following are the chief characteristics of an effective budgeting.

A. Sound Forecasting

Forecasts are the foundation of budgets, these forecasts are discussed by the executives and when most profitable combinations of forecasts are selected they becomes budgets. The sounder are the forecasts better result would come out of the budgeting system.

B. An Adequate and Planned Accounting System

There should be proper flow of accurate and timely information in the enterprise, which is, must for the preparation of budgets. This can be ensured only by having an adequate and planned accounting system in the firm.

C. Efficient Organization with Definite Lines of Responsibility

An efficient adequate and best organization is imperative for budget preparation and its operation. Thus a budgeting system should always be supported by a sound organization structure demarcating clearly the lines of Authority and responsibility. Not only this, there should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and also to participate in the function of budget preparation. Thus, an efficient organization helps not only in budget co-ordination but it also pla important role in budget co-ordination and operation.

D. Formation of Budget Committee

As mentioned earlier, Budget committee receives the forecasts and targets of each department as well as periodic reports and finalizes. And also approves the departmental budgets. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

E. Clearly Defined Business Policies

Every budget reflects the business policies formulated by the top maragement. In other words budgets should always prepared taking in to account the policies set for particular department or fimctions. But for this purpose, policies should be precise and clearly defined, as well as free from any ambiguity.

F. Availability of Statistical Information

Since budgets are always prepared and expressed in quantitative terms. It is necessary that sufficient and accurate relevant that should be made available to each department. Such data may not be available from accounting system alone and therefore they may be processed through statistical techniques. These data should be as far as possible, reliable accurate and adequate.

G. Support of Top Management

If a budget program is to be made successful, the sympathy of each member of the management team towards it should starts preferably from top i.e. chairman. The enthusiasm for budget operation as well as direction for it should initiate and come from top.

H. Good Reporting Systems

An effective budgeting system also requires the presence of a proper feedback system. As work proceeds in the budget period, actual performance should not only be recorded but it should also be compared with budgeted performance variations should be reported promptly and clearly to the appropriate management.

I. Motivational Approach

All the employees or staff other than executives should be strongly a properly motivated towards budgeting system. In an organization it is needed to make each staff member feel too much involved in the budgeting system. To meet this end, motivational approach towards budgeting should be followed.

2.6. Fundamental concepts of profit planning

The fundamental concepts of PPC includes the under using activities or tasks that must generally be carried out to attain maximum usefulness from PPC. These fundamentals are:

a. Managerial involvement and commitment
b. Organizational adaptation
c. Responsibility accounting
d. Full communication
e. Realistic expectations
f. Timeliness
g. Flexible application
h. Zero base budgeting
i. Activity costing
j. Behavioral view point
k. Management control using PPC
l. Follow up
m. Management by exception

Each of these fundamentals is discussed briefly in the following paragraphs. And it is tried to proof to what extent they are playing the role to make PPC a meaning full and comprehensive approach.

2.6.1. Managerial involvement and commitment

Managerial support, confidence, participations and performance orientations include managerial involvement. All levels of management specially top level management should - consider following points in order to make PPC program successful.

a. Understand the nature and characteristics of profit planning and control.

b. Be convinced that this particular approach to manage is preferable for their situation.

c. Be willing to devote the effort required to make it operative.

d. Support the program in all its ramifications.

e. View the results of the planning process as performance commitments.

For the comprehensive profit planning and control (PPC) program to be successful it must have the full support of each a members of management, starting with the president the impetus and direction most come from the very top.

2.6.2. Organizational adaptation

In the word of Welsch, a success of the PPC program must rest on sound organizational structure, for the enterprises and a clear-cut designation of lines of authorities and responsibilities of all the department of an enterprise. The responsibility of or the obligation of each departmental manager should be well clarified. Whatever may be the nature and sense of organizational structure, one should always bear in mind the fact that no organizational structure can be taken as ends itself but it should always be treated as means or tools to attain the goal. In conclusion the organizational involvement includes:

a. Delegation of authority and responsibility to each functional sub units.

b. Sub-divide the whole organization into different functional subunits.

c. Each subunits should prepare its own annual or periodic plan.

d. Based upon plan prepared by subunits a master plan is to be prepared *by highe* management.

2.6.3. Responsibility Accounting

The accounting system of any organization should build the responsibility structure of the firms. This is called responsibility accounting. Organizations' planning is based on historical data, which are largely generated by the accounting system, and control includes the measurement of actual results against objectives goals and plans by an account. Therefore PPC requires responsibility accounting system.

2.6.4. Full Communication

Communication can be defined as "An interchange of thought or information to bring about a mutual understanding between two or more parties".

Communication can be either of dialogue messages or understanding from working together. Although most of the management gives least importance on communication but it is the most important thing for any organization observation and control. Most of the organization faces lot of problem due to bad communication systems. (Welsch, et al,1998; 57)

The goals and objectives set by management should be well communicated in all levels management: PPC program can only be successful when the communication is done in fully manner.

2.6.5. Realistic Expectation.

In PPC the management must be realistic and avoid either undue conservation or irrational optimism. The care with which budget goals and objectives are set for such items as sales, production, cash flow and so on determines the success of PCC program. 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 iscalled realistic expectation.

2.6.6. Timeliness

Time and tide wait for none' whether an individual or an entity is idle or busy time passes at the same rate. If the planning function is to be effectively carried out, one relation is to the concept of planning horizons and the other is to the timing of planning activities.

Planning horizons refers to the period of time into the future for which management should plan. Decisions made to the organizations obviously can affect only the future. No present decisions can effects or change the past, since all managerial decisions are futuristic each management is faced with the basic question of time dimension. The effective implementation of PPC concepts requires that the management of ES establish a definite time dimension for certain types of decision. And timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases if the planning process. (Welsh, et al; 1998; 36)

2.6.7. Flexible Application

This stress that a PPC program must not dominate the business and that flexibility in applying the plan must be forthright management policy. So that Strait Jackets are not imposed and all favorable opportunities are seized even through "They are not covered by the budget. Rigidity in practicability will be the harmful boundary in an association in an occasion for the enterprises. 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 that organization. (Welsch, et al, 1998; 51)

2.6.8. Zero Base Budgeting

Under zero base budgeting, every budget is constructed on the premise that every activity in the budget must be justified. It starts with the basic premise that the budget for next year is zero and that every expenditure, old and new, must be justified on the basic of its costs and benefits. The discipline of zero base budgeting takes a different approach, in fact, a reverse approach to this problem of Justifying everything. What it says is this, Begin with where you are and establish a business as usual budget for next year the same way and the same things you would do if you weren't concerned about constraint and total justification. (Welsch, et al, 1998; 43)

2.6.9. Activity Costing

Responsibility accounting system generally accumulates costs by department and product-costing systems associate costs with units of product or service organization also frequently finds it useful to associate costs with activities. By decomposing an organizations production process into discrete set of activities, and then associating costs with each of those activities. Moreover, by systematically identifying the activities through out the organizations mangers can identify redundant activities. (Welsch, et al, 1998; 40)

2.6.10. Management Control Using PPC

The primary purpose of control is to ensure attainment of the objective, goals and standards of the enterprises. Control has many facets such as direct observation, oral express, policies and procedures, reports of actual results and performance reports. PPC focuses on performance reporting and evaluation of performance to determine the causes of both high and low performance. The essential characteristics of a PPC performance reports are as follows. (Welsch, etal, 1998; 40)

i. Performance is classified by assigned responsibilities
ii. Controllable and non controllable items are designated
iii. Timely reports are issued.

Emphasis is given to a comparison of actual results and planned results the performance results should be designated the responsible manager and show actual results.

2.6.11. Behavioral View Point

An ounce of behavior is better that a quintal of the theorem" what so ever be theory and theorem, the organization only when it improves its behavior, is best or in another way Welsch has suggested that the motivation of human resources through dynamic leadership is central to effective management. It is found by many psychologist and educators and businessmen that, there are many known and unknown, misconception and speculations concerning the responses of the individual and the group in the varying situation so the PPC programs bring many of these behavior problems in the sharp focus and trying to resolve.

2.6.12. Management by Exception

A comprehensive profit planning and control program facilitates in many ways, underlying these is the measurement of actual performance against planned objectives goals, and standards and the reporting if that measurement in performance reports. This measurement and reporting extends to all areas of operations and to all responsibility centers in the enterprises. It involves reporting (1) actual result (2) budgeted or planned results and (3) the differences between the two. This type of reporting represents an effective application of the well-recognized management exception principle. The exception principle holds that the manager should concentrate primarily on the exceptional or unusual items that appears in daily, weekly and monthly reports, thereby living sufficient managerial time for overall policy and planning considerations. It is the ‘out of line’ that need immediate managerial attention to determine causes and to take corrective action. The items that are not out of line need not utilize extensive management time, how ever, they should trigger "rewards" in appropriate ways. To implement the exception principle, techniques, procedures must be adopted to call the manager attention to the ‘out of control’ items. Performance reports because they include a comparison of actual results with: plans by areas of responsibility, emphasize in a relevant ways performance variations. The out of line items stand out. It is with respect to these items that the busy executive should investigate, determine the causes and take corrective action. (Welsch, et al, 1998; 45)

2.6.13. Follow Up

This fundamentals holds that both good and substandard performance should be carefully investigated the purpose being three fold.

1. In the case of substandard performance, to lead in a constructive manner to immediate corrective action.
2. In the case of outstanding performance, to recognize it and perhaps provide for a transfer of knowledge to similar operation and
3. To provide a basis for better planning and ntrol in the future. (Welsch, et al, 1998; 48)

2.7. Profit Planning and Control Process

A PPC program includes more than the traditional idea of a periodic or master budget. Rather, it encompasses the application of a number of related management concept through a variety of approches techniques and sequental steps. (Welsch, et al, 1998; 72). These steps are lined in this study in the following manner.

2.7.1. Identification and Evaluation of External Variables

The variable identification phase of the PPC process focuses on (1) identifying and (2) evaluating the effects of the external variables. Management planning must focus on how to manipulate the controllable variables and how to work with the existing situation of non-controllable variables. Variables, which have a direct and significant impact on the enterprises, are called relevant variables. Variables may have their different relevancy according to the market nature. For the enterprises purpose the external relevant variables are, population, G.N.P. competitive activities product line and industry sales. And so far internal variables are concerned employees, capital, research productivity, pricing, operating costs, advertisements etc. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises. The comprehensive PPC approach is based *on* the expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in an orderly manner. (Welsch, et al, 1998; 74)

2.7.2. Development of the Broad Objectives of the Enterprises

Development of the broad objectives of the enterprises is a responsibility of executive management. Based on a realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management, can specify or restate this phase of the PPC process.

The statement of broad objectives should express the mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identify continuity of purpose is to provide and definition. One research study listed the purpose of the statement essentially as follows.

1. To define of the purpose of the Co.
2. To clarify the philosophy character of the Co.
3. To create particular climate with in the business.
4. To set down a guide for managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned.

2.7.3. Development of Specific Goals for the Enterprises

This component of a comprehensive PPC process is to bring the statement of broad objectives into sharper focus and to move from the realm of general information to more specific planning information. It provides both narrative and quantitative goals that are definite and measurable. These are specific goals that relate to the enterprises as a whole and to the major responsibility centers.

These goals should be developed by executive management as the second component of the substantive plan for the up coming budget year. Executive management should exercise leadership in this planning phase so that there will be a realistic and clearly articulated framework with in which operations will be conducted toward common goals.

2.7.4. Development and Evaluation of Company Strategy

Company strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. Some examples of basic strategies:

- Increase long-term market penetration by using technology to develop new products and innovation the product.
- Emphasize product quality and price for the top market.
- Expand market the company will not enter foreign markets in the foreseeable future.
- Market with low price to expand value
- Use both institutional and local advertisement program to build market share.
- Improve employee morale and productivity by initiating a behavior management program.

Among probable alternatives, the best should be chosen which would tackle to the objectives and goals of the organization. Strategies focus and 'how' so that they outline a plan of action for the enterprises.

2.7.5. Executive Management Planning Instruction

Executive managfement explicitly establishes a planning foundation that is a condition precedent to the movement in the planning process. On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions and is disseminated in order to initiate a sophisticated and potent move from broad corporate planning to the development of profit plans by each major responsibility center in the enterprises. It is simply a communication steps from executive management to the lower levels of management and it should adopt the fundamentals of full communication.

2.7.6. Preparation and Evaluation of Project Plans

Periodic plans and project plans are different in feature and functions. It will be recalled that project plans encompasses different time horizons because each project has a unique time dimension, they encompasses such items as plans for improvements of presents, products, view and expanded physical facilities, entrance in to new industries unit from products and industries and new technology and other major activities that can be separately identified for planning purpose. The nature of projects is such that they must be planned as separate units.

Consistent with this approach during the formal planning cycle, management must evaluated decide up on the plan status of each project in process and select any new projects to be initiated during time dimension covered by the up coming strategies and tactical profit plans.

2.7.7. Development of Strategies and Tactical profit plan

When the managers of the various responsibility centers in the enterprises receive the executive management planning instruction and the projects plans, they can begin intensive activities to develop their respective strategic or tactical profit plans. The strategic and tactical profit plans are usually developed concurrently. Certain format and procedural instructions should be provided by a centralized source, normally the financial functions, to establish the general format, amount of detail and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of this activity must be coordinated among the centers in conformity wit the organization structure.

When the two profit plans for the overall enterprises are completed, executive management should subject the entire planning package to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be developed under the circumstances. When this point reach the two profit plans should be formally approved by the top executive., and distributed to the appropriate managers.

2.7.8. implementation of profit plans

That profit plans strategies should be implemented by every level management is an accepted norm. Implementation of management plans that have been developed and approved in the planning process, involves the management functions of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies, and policy to be communicated and understood by subordinates. There are many facets involved in management leadership. However the comprehensive PPC program may aid substantially in performing this function, plans, strategies and policies foundation for effective communication. The plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various effectives and supervisor will have a clear understanding of their responsibilities and the expected level of performance.

2.7.9. Use of periodic performance reports

Only implementing the strategy will be on no meaning when the implementation is not checked and trial whether used appropriately. So that the significance has been raised that monthly and three monthly performance reports are to be prepared.

2.7.10. Follow up

It is an important part of control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow up actions.

Finally, there should be a sp ial follow up of the prior follow up actions. This step should be designed to -

- Determine the effectiveness of prior corrective actions and
- Provide a basis for improving future 'Planning and control procedure

2.8. Advantages and Disadvantage of PPP

The usefulness of comprehensive PPC may offer more benefits, which may be summarized as below.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure; that is there must be a definite assignment of responsibility for each function of the enterprise.
3. It compels all members of management, from the top town, to participate

in the establishment of goals and plans.

4. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
5. It requires that management put down in figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of labor material and capital.
8. It instills at all levels management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduces cost by increasing the span of control because fewer supervisors are needed.
10. It frees executives from many day-to-day internal problems through predetermined polices and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking.
11. It tends to remove the cloud of uncertainty that exists in many organizations, especially among, lower levels of management, relative to basic policies and enterprise objectives.
12. It pinpoints efficiency and inefficiency
13. It promotes understanding among members of management of theirs co-workers problems.
14. It forces management to give adequate attention to the effect of general business condition.
15. It forces a periodic self analysis of the company
16. It aids in obtaining bank credit, banks commonly require a projection of future operation and cash flows to support large loans.
17. It checks progress or lack of progress toward the obtctives of the enterprise.
18. It forces reorganization and corrective action (including rewards)
19. It rewards high performance and seek to correct unfavorable performance.
20. It forces management to consider expected future trends and conditions.

PPC model should not be assumed that the concept is full proof or that it is free of problem. The following main arguments are usually given against PPC.

1. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
2. Our management has no interest in all the estimates and schedules. Our

strictly informal system is better and works well.

3. It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
4. Budgeting places to great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
5. It takes away management flexibility.
6. It creates all kinds of behavioral problems.
7. It places the management in a straitjacket.
8. It adds a level of complexity that is not needed.
9. It is too costly asides from management time.
10. The managers, supervisors and other employees hate budgets.

What ever exists in the world has both advantages and disadvantages; and it is clear that we use or apply it only in that case if it has many advantages. A PPC model also has more advantages than disadvantages. Thus, now a days PPC system (model) is especially familiar to business organizations and widely used in this world of management.

2.9. Basic Assumptions and Limitations of Profit Plait

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

In developing and using a profit planning and control (PPC) program, the following limitations should be kept in mind

1. The profit plan is based on estimates.
2. A PPC program must be continually adapted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically the profit plan is not a substitute for management. (Welsch, et al, 1998; 78)

The profit plan 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 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, et al, 1998; 78)

2.10. Development of Profit Plan

Development of profit plan in commercial Bank begins with the preparation of various functional budgets. Those functional budgets are in fact the picture of various activities p the Bank to be performed during a particular period of time. Therefore the functional budgets of a Bank are actively based such as budget for deposit collection, budget for lending and investments, budget for non-fund based business, budgets for expenditures and revenues.The development of profit plans process that involves managerial decisions and ideally a high level of management participation. The following are the budgets, which are developed in a bank while making a profit plan.

2.10.1. Resources Mobilization Plan or Budget

The planning for resources mobilization is the foundation for planning in a bank. The all other planning is based on it. The major and the sustainable resource of a Bank is the customer deposit. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization. The lending and investment activities are depended on the deposit mobilized by the Bank. So the deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the Bank, customer's deposits are of two kinds, viz. (i) Interest free deposits i.e. current deposits, margin deposits etc. and (ii) Interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposits etc. The interest free deposits are cost free. but are generally volatile in nature. Those can be withdrawn without restriction from the bank, thus can not be invested into higher income yielding assets.

Further, interest- bearing deposits involve cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure.

Therefore a proper mix of cost free and costly deposits corresponding to short term and longer term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit at the same time having comfortable mix of income yielding assets. The cost of deposit of banks is also affected by t prevailing deposit interest rate of other banks in the market.

Budgeted targets for deposit mobilization during a particular year is set in advance with view of optimizing the cost of deposit and the same are allocated to the different branches of the banks. Such allocations may be regarded as the tactical plan for deposit mobilization of the banks.

Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally banks borrows from other banks to meet temporary requirement of liquidity which may occur sometimes during the course of banking operation caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other. Such activities are managed from the Head Office with the least possible cost.

Among the capital fund, the equity capital is formed generally one time during opening of the bank. The Central bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank.

General Reserve, the other item of capital fund, has to be raised every year by at least 20% of the net profit earned by the bank until the amount gets double the paid up capital. This is the mandatory provision made by Commercial Banking Act 2031.

Further, the bankers may choose by themselves whether or not to increase the owner's capital by raising the other item included in capital funds besides paid up capital and general reserves. It is always better to have a higher capital fund base of a bank because, creation of bank's assets, and the size of lending to any particular borrower are tied up with the capital adequacy requirement by the central

Bank. As per NRB directives, banks shall have to build their capital base at least of 12% by the end of F/Y 2060/061. And a bank can take the size of exposure per borrower equivalent to maximum of 25% of its core capital in fund based, and 50 % of that in non-fund based exposure. (NRB Directives, 2001, 15)

2.10.2. Resources Deployment Plan or Budget

The planning for deployment of resources starts from assessment of nature of resources to be mobilized. That is the assets are allocated on the basis of the nature of resources.This approach of deployment of resources is called asset allocation approach. As M.C. Vanish writes in his book ‘Money Bank Trade ans Public Finance, "The fundamental criterion which must be followed in allocating funds for acquiring different types of assets is that the velocity-turnover rate of different sources of supply of fund determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund, like saving deposits, fixed deposits and paid up capital could be used to buy long dated high yielding securities, demand deposit which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank. (Vaish, 1996; 73)

Therefore the budgeted deposit mix is the major determining factor of the planning of assets portfolio.

A Bank should make the planning for deployment of its resources in such a way that it ensures required liquidity as well optimize the yield on the fund of bank. Therefore banks resources deployment process involves following:

1. Deployment in liquid assets
2. Deployment in lower income yielding assets
3. Deployment in higher income yielding assets. .

Funds kept as cash in vault and as balance with NRB and other banks in current account are the most liquid assets of the bank. Normally banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the Central Bank from time to time. There is no yield in the fund deployed as liquid assets.

Deployment for lower income yielding assets are generally placing the funds in short term F securities, treasury bills etc. which provides reasonable liquidity to he bank as well as yield some return although they are at very low rate.

Major portion the income of the Bank comes as interest income from the resources deployed to loans advances and Bills discounting (LDO). As the most part of the resources are for LDO, Banks make its lending budgets in advance as per their lending policies. Lending targets are fixed at various sector of economy for various kinds of trades and common activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separate profit centers.

2.10.3. Planning for non funded Business activities

The other activities of commercial banks where it does not have to involve its fund yet it can generate other income are called non- funded business activities of the Bank. They are usually letter of credit and Bank guarantee issuance business of the bank where the bank undertakes payment liabilities, which are contingent in nature and the banks charges certain percentage of commission on such transaction to their client who are availing these facilities from the bank.

The bank fixes annual target for such business and those are allocated to the branches of the bank.

2.10.4. Expenditure Planning

The expenses planning and controlling are very necessary for supporting the objectives and planned programs of the firm. An expense is related with profit. It is real fact, that the minimization of cost is maximization profit. So the expenses must be planned carefully for developing a profit plan. In a Bank there are generally following types of expenses:

a. Interest Expenses
b. Personnel Expenses
c. Office operating Expenses
d. Expenses meeting the loss in Exchange fluctuation
e. Non-operative expenses
f. Expenses for provision for loan loss

g. Expenses for provision for staff bonus
h. Expenses for provision of income tax

The interest expenses are incurred while paying for the deposit mobilized by the bank and include the expenses incurred for interest payment in all kinds of interest bearing deposit as per the agreed rate between the bank and the borrower. In the total expenses of a bank, the portion of interest expense is quite higher. Therefore, the expenses are categorized interest expenses and other expenses while the later includes other expeses as mention above except the interest expense.

Interest expenses in a bank depend on the average cost of deposit (COD) mobilized by the bank. Lower the COD lower the interest expenses and thus higher the profitability. Therefore from profitability point of view banks plan their COD at lowest possible level. The nature of interest expense is that of a variable expense. The net earning from interest income of a bank deducting the intdrest expense for the deposit mobilized is called 'Spread' which is similar to the 'Contribution Margin' in sales of commodities by a manufacturing units.

Other expenses are the administrative expenses those are generally incurred by the bank during the course of its operation. Higher the volume of business transaction of a bank, higher will be the amount of its other expenses. Therefore, the expenses should be related with the business activities, which ultimately should yield in income for the bank. Such other expenses form burden to the profitability as it consume the spread earned. Therefore budgets are prepared with an aim of reducing the burden as far as possible. The expenses budgets are formulated in co relation with the activities of the bank and the targets are allocated to different branches.

2.10.5. Revenue Plan

Revenue of a bank is generated from the income yielding activities of the bank. Therefore while preparing the resources deployment plan and non-funded business activities plan, the banks make the estimation of the revenue in advance during the period for which the plan is developed.

Revenues of a bank are generated in the following forms:

a. Interest Income

b. Commissions & Discounts
c. Dividend
d. Other income
e. Foreign Exchange income
f. Non - operating income

Generally the interest income of a commercial bank holds a major portion in total revenue of the Bank and it provides the major source of earning of a bank. Therefore total income of a bank is categorized in two type viz. interest income and other income, while the later including other income items as listed above excepting the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdrafts, Investments in government securities, debentures etc. For this study, the income from Bills discounting has also been treated as interest income, as we consider Loans overdraft and Bills Discounting together as a single asset portfolio as LDO.

As the average rate of interest on LDO are comparatively higher than any other kind of income yielding assets, from the profitability point of view, higher asset allocation into LDO, higher will be the income

The other income are generated from other activities of the bank such as issuance of L/C, Bank Guarantees, from remittance charges, cheque collection fee, locker charges, service charges, commitment charges, trading gain on foreign exchange, revaluation gain on foreign exchange reserves etc. The amount of other income of a bank greatly contributes in lowering the burden on the profitability. Higher the other income earned by the bank, lower will be the net burden amount and thus better will be the profitability of the bank.

Income of a bank is essentially activity based i.e the volume of business. Higher the income generating activities of a bank, higher will be the amount of its revenue. Therefore the bank develops its plans for various activities in such a way that it optimizes its revenue.

2.11. Implementation of the Profit Plan

2.11.1. Completion of the Annual Profit Plan.

The development of an annual profit plan ends with the planned income statemen balance sheet and the planned tatement of changes in financial position. These statements summaries and integrate the details of plans developed by 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. Issuanceiof a profit plan after the beginning of the budget period is one sure way of destroying mu6h of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar. (Welsch, et al, 1998; 84)

2.11.2. Implementing the Profit Plan

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives.Participation enhances communication. If this principle is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities, while taking in to account the problem of security. After distribution of the profit plan a series of profit plan conferences should be held. The top executives discuss comprehensively the plans expectations and steps in'implementation. At this top level meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use. Conferences should be held so as to convey the profit plan to each level of management.

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and excerpts considerable coordinating and controlling effects.

Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment, or failure is immediately known. On this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential.

A budget programs viewed and administrated in a sophisticated way does not hamper or restrict management, instead, it provide definite goals around which day today and mouth to mouth decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increases the probabilities of achieving or bettering the objectives. (Welsch, et al, 1998; 84)

2.11.3. Performance Reports

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization’s planned goals & 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 & standards are being attend." Performance reports are one of the vital tools of management to exercise its controls function effectively.

Special external reports, reports to owner & internal reports are specially presented in the organization. Performance reports includes in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management. Fundamentally actual results of reports are compared with goals & budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient & inefficient performance.

a. Features of performance reports

In comprehensive PPC, performance report is very important. The main objective *of* performance reports is the communication of performance measurement, actual result the related variances. Performance reports offer management essential insights into all the facts of operational efficiencies. Performance reports should be:

1. Tailored to the organizational structure and focus of controllability (that is by responsibility centers).
2. Designed to implement the management by exception principle.
3. Repetitive and related to short term period.
4. Adapted to the requirements of the primary users.
5. Simple understandable & reports only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. Prepared and presently promptly.
8. Constructive in tone.

b. Aspects of performance reports

To extent to which the various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serves the management and decisions making needs of the users.

Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs summary data as well as detailed data on day-to-day operation. Similarly lower level management needs reports that must be detailed, simple understandable & limited to items having a direct bearing on the supervisor's operational responsibilities.

In the design and peeparation of performance reports careful attention must be given that titles and headings should be descriptive; column heading & side caption should clearly identify the data, & the technical jargon should be avoided. Reports should not be too long & complex; tabulations should be avoided. Performance reports should be standardized to a reasonable degree and if should be relevant.

Performance reports should be available on a timely basis. To attain a realistic balance, between immediate reporting & the costs of detailed reporting, monthly performance repo are widely used in the organization.

2.12. Review of previous Research Work

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

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.

Binod Kumar 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 0bjectives and some of major findings are as follows:

Objectives:

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

Major Findings:

- NB bank has adopting a policy of keep minimum number of employees as possible.
- The decision making process 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 of by loss during the first year of it's 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:

Objectives:

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

Some findings are:

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

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

- To identify whether the profitability of Joint Venture Banks are optimal or not.
- To identify the pattern of profitability of Joint venture Banks especially of Nepal Investment Bank Limited.

- To suggest on the basis of findings and analysis.

The major findings, he had presented were as follows:

- 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.

Udaya Kishor 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:

Objectives:

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

Major Findings:

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

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

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

Objectives:

- 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.

Some of Major Findings:

- NB bank has not been able to perform well the bank is in serious position.
- ROE, EPS, Net profit, Loan loss provision and interest payout ratio is worse in comparison with other 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.
- Roshan 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:

Objectives:

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

Findings:

- Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
- The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted year.
- Nepal SBI has not made any in depth analysis of its strength and weakness.

- Its mission and objectives have not clearly defined and delegated to the lower levels.
- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
- The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
- The bank is facing competition from increasing number of financial institutions in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
- Budgets are prepared just to fulfill the formalities but these are not used effectively from the profit planning process.
- This researcher has reviewed some of manufacturing related profit planning too.

Vibek 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:

Objectives:

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

Major Findings:

- 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 it's decreasing trend.

Kashab Dahal (2006) is conducted a research entitled" *Planning process and it's* *impact on profitability " A case study of Gorkha Patra Corporation*" his objectives and some of major findings are listed below.

Objectives:

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

Major Findings:

- 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.

Tirtha Bahadur 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:

Objectives:

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

Some of Major Findings:

- NTL does not take in account 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.

Sushank 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 Kathamdnu Limited" his objectives and major findings are as follows:

Objectives:

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

Some of major Findings:

- The liquidity position of EBL is comparatively better than that of Nabil and Bok.
- In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance 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 hs higher investment on shares and debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.

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

Research Gap (difference between previous research and this research)

Most of the past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find only one study so far that has been related to profit planning system of a commercial bank i.e. in RBB. All the dissertations have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institutions.

This study is shall be a new one in this field as no study has been made so far in the profit planning system of particularly Nepal Bangladesh Bank. This study has tried to indicate the role of budgets for effective formulation and implementation of profit planning system as well as to see how far the bank is practicing. This study has analyzed the financial position of NB Bank by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various finding of research and recommendations to NB Bank.

Above chapter two gives the detailed study about the conceptual framework of profit and profit planning, various activities of commercial Bank and the applicability of profit planning, various activities of commercial Bank and the applicability of profit in the

Bank with a specific reference to Nepal Bankgladesh Bank Ltd.

The forthcoming chapter includes the Research Methodology adoppted for the study.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Introduction

The term 'Research' is believed to be derived from the French word 'Researcher' meaning to search again. The research work is undertaken following a systematic way, which is called the Research methodology. As per Kothari, it is the way to solve systematically about the research problem.

This study has intense relation with the application of planning and control in a commercial Bank with a specific reference to Nepal Bangladesh 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 used.

3.2. Research Design:

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of the data. As per Kerlinger (1986), Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research' questions and to control variance. This study is an examination and evaluation of budget process in profit planning program of NIBL. Various functional budgets and other related accounting information's and statement of the Bank are the materials to analyze and evaluate the profit planning system of the Bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study Research.

3.3. Population & sample

As this report aims at studying the profit planning aspect of a commercial Bank taking the case study of a single Bank i.e. NB ,Bank, and data have been analyzed for whole seven years of its operation, the population and sample term is not relevant for this study.

3.4. Data Collection Procedures and Sources of Data

This study is mostly based on secondary data. However, primary data and information have been obtained through in6rmal discussions with the executives and other staff of the Bank. Secondary data have been collected from the annual published accounting and financial statement of NIBL. Similarly other necessary data have collected from publication of the Nepal Rastra Bank, the Central Bank of Nepal, Central Bureau of Statistic and related publications.

3.5. Research Variables

Loans/Advances Overdrafts and Bills Discounted (LDO), Customer deposits, total resources, total deployment, outstanding balance of Letters of Credit and Bank Guarantees, Interest Expenses, other Expenses, Interest Income, Other Income etc of NIBL are the research variables of this study.

3.6. Tools and Techniques Employed

This study is confined to examine the profit planning of NIBL, Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyzed the presented data, which includes ratio analysis, percentage, regression analysis, Test of goodness of fit of the regression estimates (r2), correlation, mean, standard deviation, coefficient of variance etc.

3.6.1. Financial Tools

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

a. *Ratio analysis :* By ratio analysis we study the arithmetical relationship of two data. In this study, we have applied Liquidity Ratio, Capital Structural Ratio, Activity Ratio and Profitability Ratio of the Bank.
b. *Cost Volume Aofit analysis :* we study the relationship among cost, volume price and profit of the Bank.

3.6.2. Statistical and Mathematical Tools

We have analyzed the data presented in this study by applying following statistical and mathematical tools:

a. Percentile Increment

b. Mean
c. Standard Deviation
d. Coefficient of Variance
e. Regression analysis
f. Test of Goodness of fit of the Regression Estimate
g. Correlation of coefficient 8. Probable Error
h. Coefficient of Determination

The research methodology adopted for this study is shown above. The forthcoming chapter includes the data presentation and analysis.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1. Introduction

In this chapter, we analyze the corporate planning system and budgeting procedure in a Commercial Bank with the specific context of Nepal Investment Bank. To accomplish these objectives, the various functional budget analyze and related data are presented in a systematic way in tabular forms and graphs charts. And data are analyzed by using statistical tools such as mean, standard deviation, coefficient of variance, correlation of coefficient and regression methods and budgetary tools such as ratio analysis, Cost volume profit analysis.

4.1.1. General Introduction of NIBL

With the economic liberalization the idea of opening a commercial bank in Nepal in joint venture between Nepalese promoters and Credit Agricole Indosuez, French Partners, has been conceived and accordingly the Memorandum of understanding (MOU) has been signed by both of the promoters. It gained the approval from NRB and was registered with Office of Company Registrar in 1986 in the name Nepal Indosuez Bank .

In April 2002, Nepalese businessmen , industrialists, professionals and bankers acquired the 50% share hold by Credit Agricole Indosuez and changed the name to Nepal Investment Bank upon the aprroval of Bank's General Meeting, Nepal Rastra Bank and compant Registar's office.

4.1.2. General Activities of NIBL

As like in other business concerns, commercial Banks are also very much concerned about making profit because profit is the major element of each land every business endeavor their survival, further development and fulfilling social expectations. In modern business effectiveness and efficiency of the business organizations and/or their managers are ' measured from the profit earned by them.

Banks deal with money and perform several financial, monitory and economic activities that are essential for economic development of a country. It is a service industry therefore its profit plans are of a different format than those in a manufacturing units. Unlike the manufacturing unit, a bank has resources mobilization and deployment plan and it aims at maximizing the profit out of their activities.

NIBL, being a commercial Banks and also a business concern, performs various kinds of profitable banking business activities those may be listed as below:

General Activities:

1. Acceptance of Deposit
2. Providing Loans and Advances
3. Providing Overdrafts
4. Obtaining Mortgage of properties as collateral security
5. Opening various types of customer accounts.
6. Remittances (Transfer of fund)
7. Opening Letter of Credit on behalf of their customer.
8. Issuing Guarantees against the bidding, performance of activities.
9. Bills Discounting or Purchasing or collection on behalf of the customer.
10. Safe custody of valuables
11. Acting as executors and trustee.
12. Trading in Securities.. etc.

The activities of a Bank are largely regulated by the Nepal Rastra Bank (NRB), the central bank of Nepal.

4.1.3. The Management . ,

The apex body of management the Board of Directors constituting 7 member among which, 3 members from major shareholders, 1 members from Rastriya Baniya Bank, 1 members from Rastriya Bima Sasthan, 1 from pubilc Shareholders and 1 under the BFIA (Banking and Financial Institute Act) each nominated by NRB and Ministry of Finance, HMG. Among the directors, one is elected as Chairman.

The Board of Directors nominates the Managing Director who works as the CEO of the Bank. A management group consisting the officials up to manager level from top is looking after the management of the Bank. Under the delegated authority of MD, various committees are formed.

These days, Mr. Prithivi Bahadur Pandey, one of the promoter is the chairman of the board Bank.

4.1.4. Personnel & Branch Offices of NB Bank

4.1.4.1. Personnel

There are altogether 616 employees working in NIBL as of F/Y 2064/065 at its Head *Office* and 29 Branch *offices.* The Bank hires employees at five ranks within which the positions are fulfilled at various levels. Current status of manpower at NB Bank (Level wise) are as shown below:

a. Senior Executive level
b. Junior Executive (Manage) Level
c. Officer Level
d. Clerical Level
e. Subordinate staffs

4.1.4.2. Branch Offices of NB Bank

NIBL is operating from their 29 branches located at various locations in the country. Its' activities are stretched from Biratnagar, Eastern Region to Dhangadi, Far Western Region of the country. Name of the Branch offices and their locations are as given below:

1. Kathmandu Head Office, Durbarmarg, Kathmandu
2. Seepadole Branch, Suryabinayak, Bhaktapur
3. Birgunj Branch, Adarshanagar, Birgunj
4. Pulchowk Branch, Sanchayakosh Bhawan, Pulchowk
5. Banepa Branch, Banepa, Kavre
6. Jeetpur Branch, Jeetpur, Bara
7. Biratnagar Branch, Golchachowk, Biratnagar
8. Butwal Branch, Traffic chowk, Butwal
9. Bhairahawa Branch, Maitri Raod, Bhairahawa
10. Pokhara Branch, Chiple Dhunga, Pokhara
11. Putalisadak Branch, Putalisadak, Kathmandu
12. Narayangarh Branch, Pulchowk, Narayangarh
13. Janakpur Branch, Millsarea, Janakpur
14. Nepalgunj Branch, Dhamboji, Nepalgunj
15. Thamel Branch, Chaksibari, Thamel
16. Kalimati Branch, Kalimatichowk, Kathmandu

17. Birtamod Branch, Traffic chowk, Birtamod
18. Battisputali Branch, Battisputali, Kathmandu
19. Dhangadi Branch, Chaurahachowk, Dhangadi
20. Gongabu Branch, Gongabu chowk, Kathmandu
21. Surkhet Branch, Netachowk, Surkhet
22. Jumla Branch, Khalang Bazaar, Jumla
23. Boudha Branch, Boudha, Kathmandu
24. Hetauda Branch, Bank Road, Hetauda
25. Palpa Branch, Tansen Palpa
26. Lukla Branch, Chaurikharka, Lulka
27. Naya Baneswor Branch, Naya Baneswor, Kathmandu
28. Bhotahatti Branch, Botahatti, Kathmandu
29. Dhumbarahi Branch, Pipalbotchowk, Kathmandu

(Source: NB Bank, Annual Report, 2008)

4.2. Board objectives and goals of NB Bank

NIBL has defined its objectives and goals in its mission and vision statement, which states as follows:

4.2.1. Vision

The vision of the Bank has been Stated as "Our Vision is to be the most preferred provider of Financial Services in Nepal".

4.2.2. Mission

The mission of the Bank states as "To be the leading Nepali Bank, delivering world class service through the blending of stat-of-the art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. We are committed to do this mission while ensuring the highest levels of etthical standards, professional integrity, corporate governance and regulatory compliance."

4.2.3. Objectives of Bank

The objectives of the Bank has been further reflected in the Corporate Philosophy of the Bank, that states as follows:

- To develop a customer oriented service culture with special emphasis on customer care and convenience

- To increase our market share by following a disciplined growth strategy
- To leverage our technology platform and pen scalable systems to achieve cost-effective operations, efficient MIS, improved delivery capability and high service standards
- To develop innovative products and services that attracts our targeted customers and market segments
- To continue to develop products and services that reduce our cost of funds
- To maintain a high quality assets portfolio to achieve strong and sustainable returns and to continuously build shareholders' value
- To explore new avenues for growth and profitability

4.3. Time Period in Profit Plan

As per NRB Directives, all the Commercial Banks have identically to follow the accounting year of 12 months beginning from 1st of Shrawan to the end of Ashad, which covers the last nine months of a year (B. S) to the first three months of succeeding year (B. S). NIBL prepares the profit plans for 12 months of upcoming year, which includes the business budget, revenue, expenditure, and profit plan for the year.

This study covers seven years period-from fiscal year 2060/061 to 2064/065 for its analysis. For the case of specific year's study, the data of fiscal year 2064/065 are taken to analyze.

4.4. Strategic Profit Plan of NIBL

The Strategic Profit Plan of NIBL is reflected in its Business budget. The business budget is a reasonable estimation of business activities to be performed and the goals to be achieved by the bank within the particular fiscal year for which the budget is prepare 7 practice of formulating formal business budget has been started only from 065 NB Bank. *For* the initial few years, & board used to set some broad targets and used to be limited only up to the top management level and were not made public. But since F/Y 55/056, the management group of the bank has been entrusted for this responsibility. Therefore, the detailed records of business and revenue/expenditure projection budget could be found from the F/Y 2055/056 and onwards only. The business budget consists the total activities to be performed, broadly in terms of resources mobilization and deployments. The branch offices are considered as a separate profit centres and the business targets are allocated to them. The resources mobilization activities are generally the cost bearing activities and the revenues are generated mostly from deployment of the resources. The surplus revenue generated over the expenditure involved is the net income. Therefore, the strategic profit plan of NB Bank consists the following plans

1. Plan for Resources Mobilization
2. Plan for deployment of the resources
3. Plan for non-funded business activities
4. Revenue Plan
5. Expenditure Plan

4.4.1. Resources Mobilization Plan of NIBL

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:

a. Deposit collection
b. Loans & Borrowing from other Banks
c. Capital Fund

Among the above three sources, the Deposit collection is the major source of resource 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 Commercial Banks' Capital Furld has been divided into two cAtegories viz. Core Capital and Supplementary Capital.

Table 1: Status of Resources Mobilization

Amount in Rs. 000

Fiscal Year	Deposit	Borrowing	Capital Fund	Other Liability	Total
2060/061	11524680	361500	295293	640269	12821742
2061/062	14254574	350000	587739	278796	15471109
2062/063	18927305	550000	590586	437392	20505283
2063/064	24488856	800000	801352	423866	26514074
2064/065	34451726	1050000	1203915	684794	37390435

From the above table, it is clear that the Customer deposit collection contributes the major share in Resources mobilization. Therefore, for this study, we have segregated total sources of resources mobilization as two categories as follows:

a. From Customer Deposit Collection (Deposits)
b. From Other sources than Customer Deposit (RMOD)

4.4.1.1. Deposit Collection:

Customer Deposit is the most important source of Resource mobilization of the Bank. As per the data of F/Y 2056/057, the contribution of customer deposit to total resources is as high as 88 %. Deposit is collected from various sectors such as the general public, business entities, NGOs, Schools, Trust and other individuals and institutions, which qualify to open an account in the Bank.

Deposits are collected on customers' account, which are opened as per the Bank's policy. The customers' deposit accounts are of two types:

Interest Free Deposit accounts
Current Deposit A/C
Margin Deposit A/G
Other Deposit A/C
Interest Bearing Deposit accounts
Saving Deposit A/C
Call Deposit A/C
Fixed Deposit A/C

Deposit Collection budget of NB Bank
Following table shows the budgeted amount of deposit collection and the same achieved actually. Since budgeted figure for Deposit collection from F/Y 2060/061 to F/Y 063/064 could not be available, this study has assumed the actual figure as the budgeted amount also.

Table 2: Status of BudReted and Actual Deposit Collection:

Amount in Rs. 000

Fiscal Year	Budget Amount	Actual Amount	Achievement
2060/061	11524680	11524680	100%
2061/062	14254574	14254574	100%
2062/063	18927305	18927305	100%
2063/064	23659131	24488856	104%
2064/065	30993462	34451726	111%
2065/066	38741827		

The yearly comparative status of budgeted deposit and actual achievements are shown in the Scattered and Bar Diagram as below:

Figure 1 Bar Diagram of Budgeted and Actual Deposit Collection

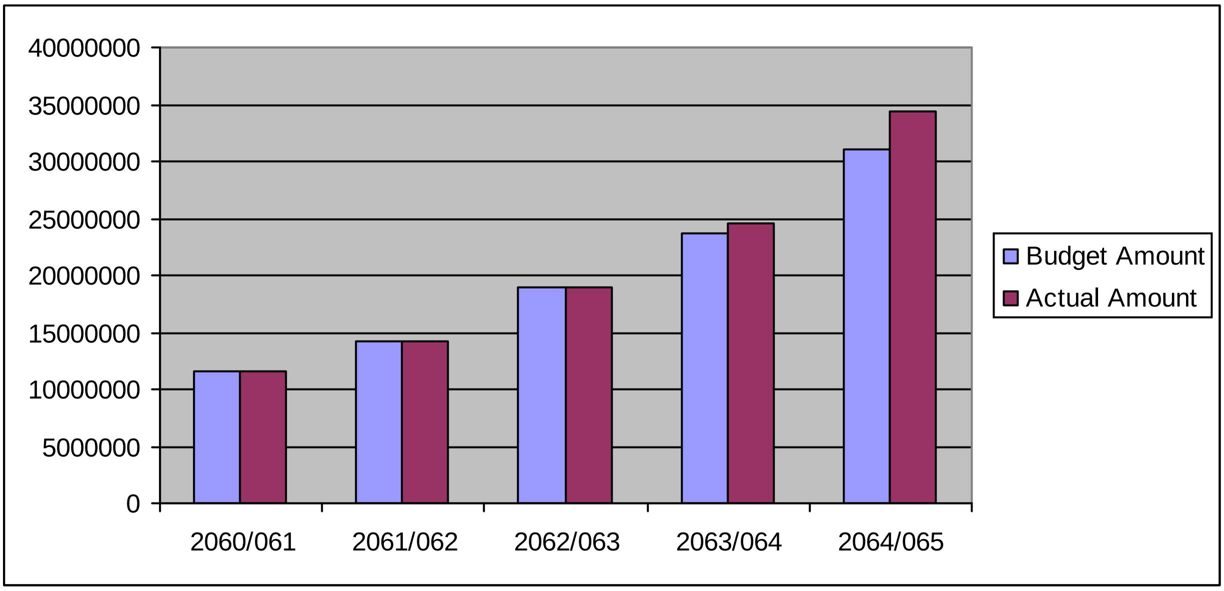
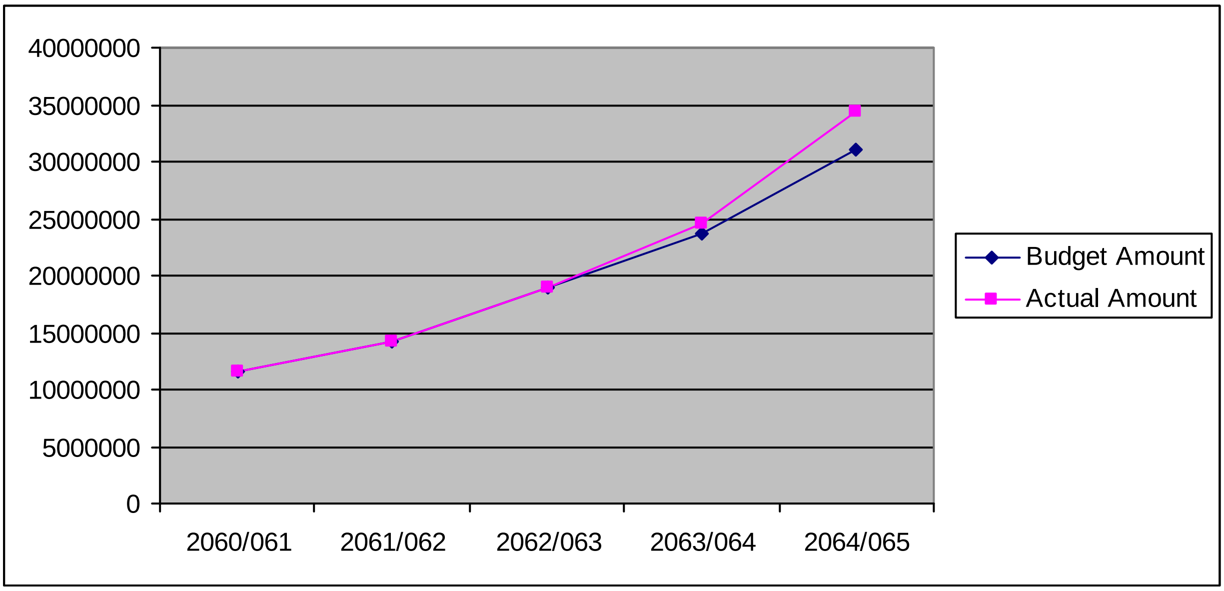


Figure 2 Scatter Diagram of Budgeted and Actual Deposit Collection



Above table shows that the Deposit collection target has been met for 100% budgeted amount for the the Bank toward deposit collection sector. The Bar diagram shows the achievement level higher than the budgeted level. Similarly, in the scatter diagram, the actual line is running higher than the budgeted line. All the above pictures give the high level of performance of the Bank in Deposit collection sector. We can find the relationship between the budgeted Deposit collection with that of actual for different years by the help of statistical tools that is arithmetic mean standard deviation and coefficient of variation. The detail calculation of these statistical tools is shown in appendix 1. Now we are going to present summering the results from appendix 1 we have:

Table 3: Summary of the deposit collection budget and achievement:

Amount in Rs.'000'

Statistical Tool's Name	Budgeted Deposit collection in Rs. (X)	Actual Deposits in Rs. (Y)
Mean	19871830	20729428
Standard Deviation (σ)	6930438	8152711
C.V.	0.3488	0.3933

The above table shows that actual deposits are little more variable than budgeted deposits. Since the coefficient of variations of actual deposit is greater than that of budgeted deposits. Actual deposits are of more variable nature. On the other hand budgeted deposits are more consistent and homogeneous than actual deposits. A greater coefficient of variation is said to be more heterogeneous. Here NIBL's actual deposit is the nature of more variability than budgeted deposits.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted deposits and actual deposits. There should be positive co-relation between budgeted deposits and actual deposits. We can take the help of Karl person's coefficient of correlation to find correlation between actual deposits and budgeted deposits. Karl person's, coefficient of correlation is denoted by (r). By calculating (r) we can examine whether is positive correlation between budgeted deposits and actual deposits or not. The actual deposits will change in the same direction, as the budgeted deposits. For this purpose budgeted deposits is denoted by X and assemed to be independent variable and actual deposits is denoted by Y is assumed to be dependent variable upon budgeted deposits. So that inccrease in budget is support to increase in acutal achievement or vice versa which meant that there should be possitive correlation between budgeted figure and achievement figures. Significance of correlation of (r) is tested with probable error PE. We have probable error PE = 0.003

The detail calculation of 'r' and probable error PE is presented in appendix 1. From that appendix we have calculated the value of r is 0.997. This figure of 'r' shows that there is positively perfect correlation between budgeted deposits and actual deposits. We have r=0.997 and Probable Error (PE)= 0.003

From the calculations shown in Appendix 1, we have obtained the Karl Person's coefficient of correlation (r) between the Budgeted deposit (X) and Actual deposit (Y) i.e. r(X,Y) being 0.993.

Now the coefficient of Determination which explains the change in Y variable i.e. Actual deposit by X variable i.e. Budgeted deposit can be calculated as r2. Therefore, the co-efficient of determination = (0.997)2 = 0.9841

Since r is greater than six times of probable error (0.997>6 x 0.003), the value of 'r' is more significant. So it is no doubtful that actual deposits will go on same direction that of budgeted deposits.

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

$y - y = r^{\sigma Y} / \sigma Y^{x(x - x)}$

.We have the following values as calculated above:

	X Budgeted	Y Actual
Mean x	19871830	20729428
S. D. σ	6930438	8152711

rXY = 0.997

then

$$y - .y = r \times \frac{óy}{óx}(x - x)$$

y - 20729428 = 0.997 x 8152711/6930438 (x - 19871830)

or y - 20729428 = 1.1728 x (X - 19871830)

Y = 1.1728X - 2576254

From the above equation, it is clear that the actual deposits are in increasing trend. By the help of this regression equation, we ascertain the expected deposits achievement with given value of target deposits say(x) ascertain the expected deposits achievement for fiscal year 064/65 = 38741827

When X = 38741827

Then expected deposits achievement

Y= 1.1728 x 38741824 - 2576254 = Rs. 42860157 (Thousand)

If the relationship between budget deposits and actual deposits remains same as previous year then the actual sales for the FY 065/066 will be Rs. 42860157000 as stated by the above regression line equation.

Following table shows the data of actual deposit mobilized by the bank as of the end of each fiscal year. The table shows the amount of deposit is increasing every year considerably.

Table 4: Growth of Deposit of NIBL

Amount in Rs. 000

Fiscal Year	Deposit Amount	Growth in Rs.	Growth (%)
2060/061	11524680		
2061/062	14254574	2729894	23.69%
2062/063	18927305	4672731	32.78%
2063/064	24488856	5561551	29.38%
2064/065	34451726	9962870	40.68%

The above table shows the growth trend of deposit collection of NIBL. F/Y 2060/061 is the base year for the growth calculation. In F/Y 2061/062 the deposit collection is increased by the 23.69 % in comparison with F/Y 2060/061. The amount of deposit collection is in increasing trend where as the increasing percentage is fluctuating as a result in F/Y 2063/064 the percentage has decrease in 29.38 % from 32.78 % of F/Y 2062/063 and in F/Y 2064/065 the trend of growth is 40.68 % with comparison of F/Y 2063/064.

4.4.1.2. Resources Other than Customer Deposits:

Resources other than customer deposit contribute to average 20% on total resources of the Bank. This is formed with the Capital Fund (The Net worth) and the liabilities other than customer deposits.

Following table shows the budgeted and actual figures of the resources under this category over the period of study. Since the budgeted figure for resources mobilization other than Deposit (RMOD) from F/Y 2060/061 to 064/065 could not be available, this study has assumed the actual figure for the corresponding years as the budgeted figures too.

Following table gives the year wise comparative figures of RMOD as that budgeted and actually achieved in the respective years:

Table 5: Status of budgeted and actual resources other than deposit:

Amount in Rs. ' 000 '

Fiscal Year	Budget Amount	Actual Amount	Achievement
2060/061	1297062	1297062	100%
2061/062	1216535	1216535	100%
2062/063	1577978	1577978	100%
2063/064	1877794	2025218	108%
2064/065	2234575	2938709	132%
2065/066	2591356		

Above table shows the 100% or more achievement of targets in mobilizing the resources from other than Customer Deposits for the study period.

The comparative status of the resources mobilized from the sources other than customer deposit is shown by the scattered and Bar Diagram as below:

Figure 3: Bar Diagram of the status of RMOD

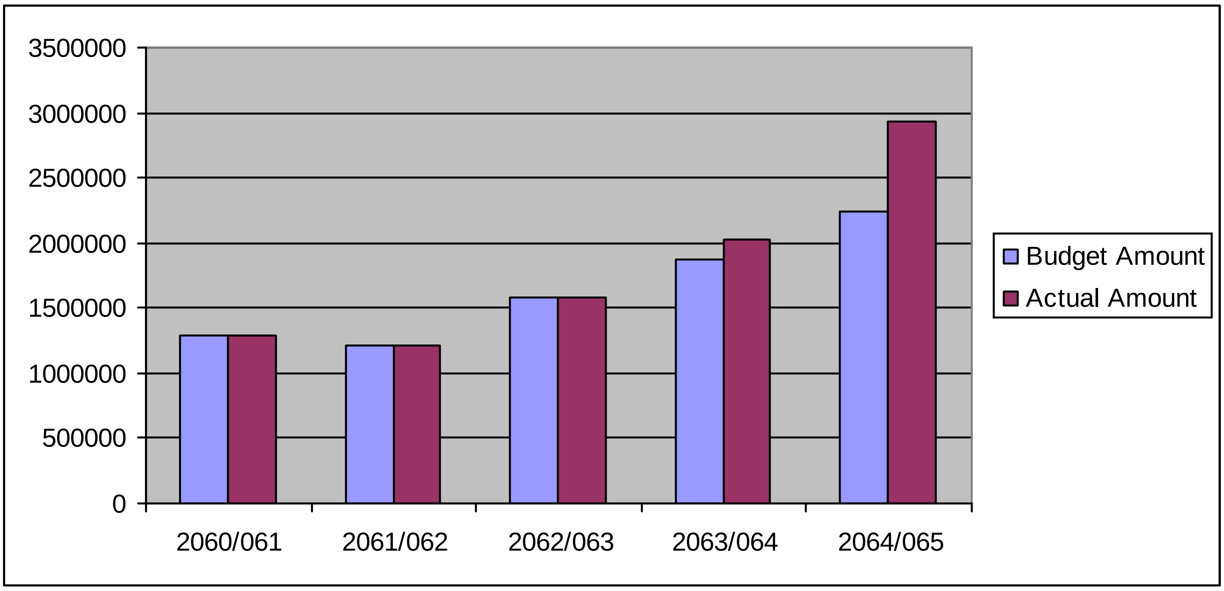
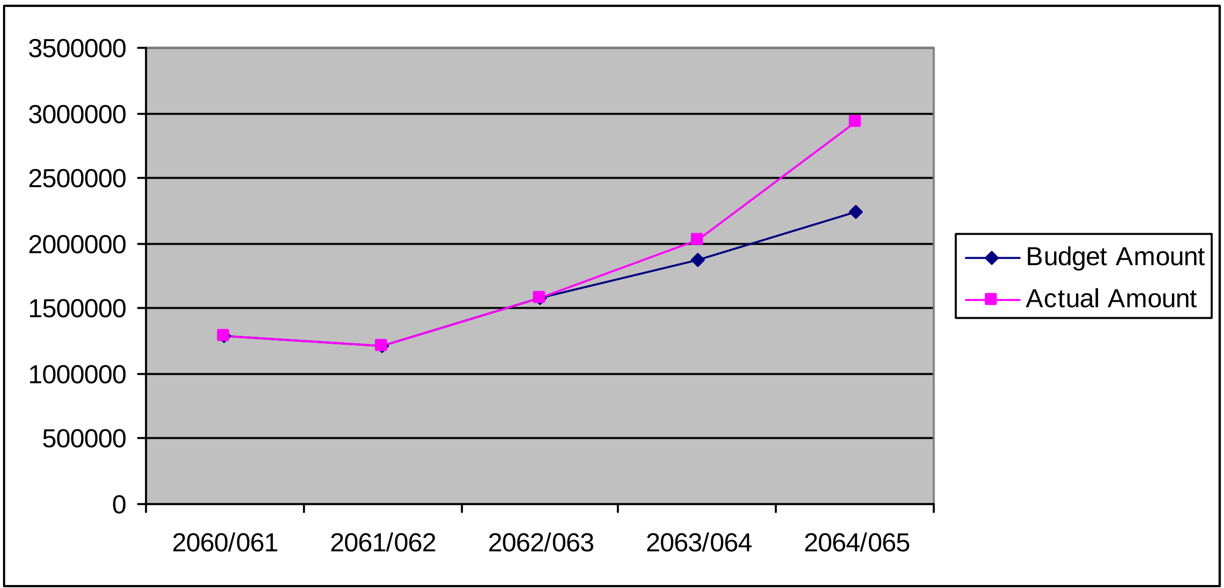


Figure 4: Scatter Diagram of the status of RMOD



4.4.2. Resources Deployment Plan

Deployment of the resources refers to the reasonable allocation of the resources for making comfortable liquidity as well as investing in income generating activities. Besides these, some investments have to be made in fixed assets and other operating assets for the Bank

The deployment of available resources can be objectively categorized as below::

a. Deployment for liquidity
b. Deployment for income generating activities
c. Deployment for other asset

1. Deployment for Liquidity:

This is made for meeting expected withdrawal and other kind of payments obligations of the Bank. The resources for this purpose is kept in liquid form such as cash in Vault, Cash at Bank etc. Generally, there is no yield on this type of deployment excepting in the case money placed in interest bearing account. The central Bank of Nepal, NRB has instructed commercial Bank to mandatory maintain approximately 10% of their total customer deposit liability as liquid form (Cash in Vault and at NRB). For this study, Cash & Bank Balance is grouped in one deployment portfolio.

2. Deployment for income generating activities:

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

a. Loan, Discounts and Overras (LDO)
b. Other Investments.

LDO includes all loans, advances, Overdraft, Bills purchased/discounted and other types of loans availed to the borrowers of the Bank in return of which the bank earns interest income. Other investments includes investment in shares, Treasury Bill (TB), Placement of fund on call market etc.

3. Deployment for other assets

This includes the deployment of the resources toward the non yielding assets such as - Fixed assets, other capital expenditure subject to write off in future course of time,' income receivables, advance payments, sundry debtors etc. Following table shows the ~: status of resources deployed by the bank over the period of study:

Table 6: Status of Resources Deployment by NB Bank

Amount in Rs '000'

Fiscal Year	Cash & Bank Balance	LDO	Investments	Other Assets	Net Fixed Assets	Total
2060/061	1226923	7130126	3862483	476177	249788	5815371
2061/062	1340481	10126056	3934189	202226	320592	5797488
2062/063	2335521	12776208	5602868	201090	343450	8482929
2063/064	2441514	17286427	6505680	234797	759456	9941447
2064/065	3754942	26996652	6874023	276846	970096	11875907

Above table shows the deployment of the Banks available resources at various portfolios among which the LDO hold the biggest outlet of resources deployment. Therefore, in this study, we have segregated the deployment into following two categories:

a. Deployment in LDO (LDO)
b. Deployment in other sector than LDO (NLDO)

4.4.2.1. LDO budget of NB Bank

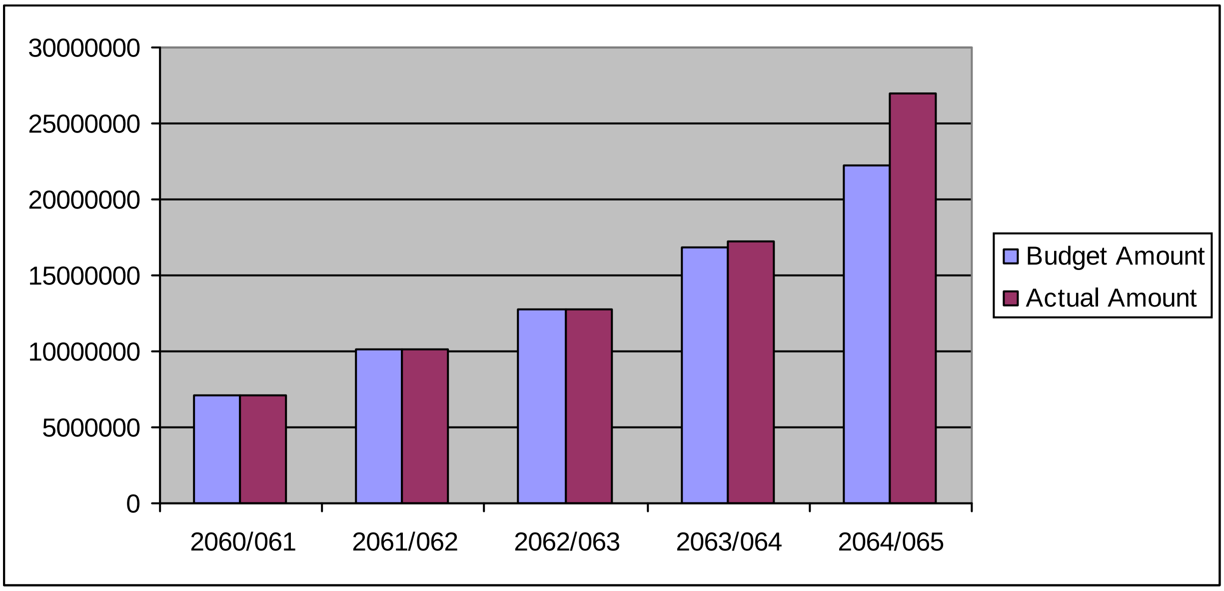
Following table shows the budgeted amount of LDO and the same achieved actually. Since budgeted figure for LDO from F/Y 2060/061 to F/Y 2062/063 could not be available, this study has assumed the actual figure as the budgeted amount also.

Table 7: Status of Budgeted and Actual Deployment for LDO

Amount in Rs. ' 000 '

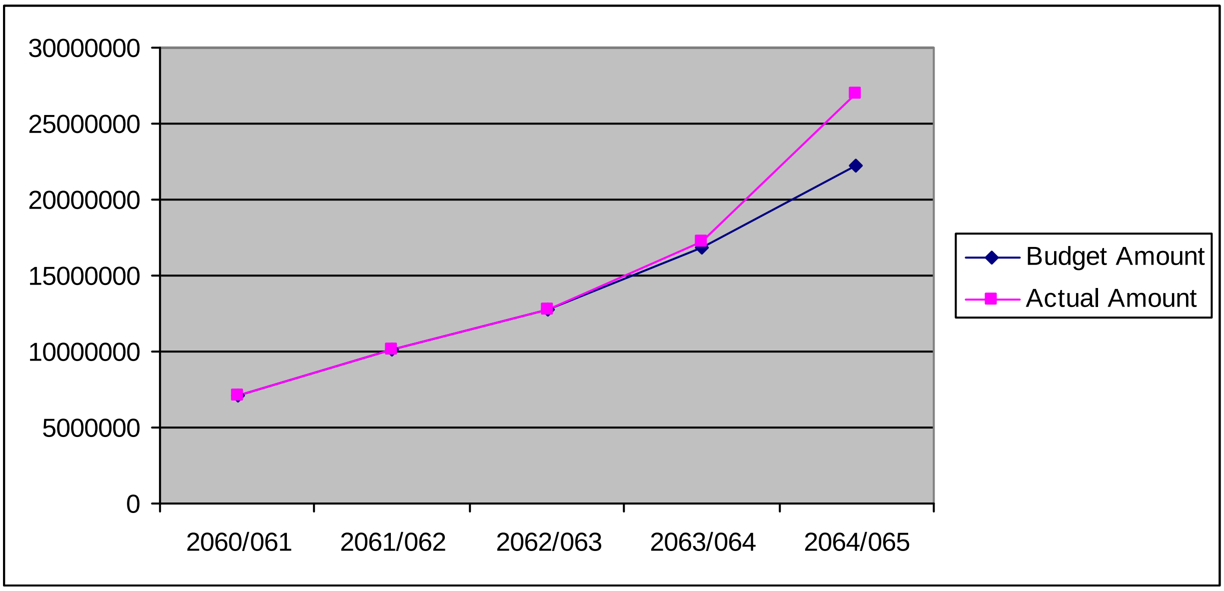
Fiscal Year	Budget Amount	Actual Amount	Achievement
2060/061	7130126	7130126	100%
2061/062	10126056	10126056	100%
2062/063	12776208	12776208	100%
2063/064	16864595	17286427	103%
2064/065	22261265	26996652	121%
2065/066	29384870		

Figure 5: Bar Diagram of LDO Status



The status of budgeted and actual deployment in LDO on the various years ofstudy are presented in the Bar diagram and Scatter diagram as below :

Figure 6: Scatter Diagram of LDO Status



We can find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tools that is arithmetic mean standard deviation and coefficient of variation. The detail calculation of this statistical tools are shown in appendix 2. Now we are going to present summering the results from appendix 2 we have:

Table 8: Summary of the LDO budget and achievement:

Amount in Rs. 000

Statistical Tool's Name	Budgeted LDO in Rs. (X)	Actual LDO in Rs. (Y)
Mean	13831650	14863094
Standard Deviation ( )	5291747	6923715
C.V.	0.3826	0.4658

The above table shows that actual LDO are more variable than targeted LDO. Since the coefficient of variations of actual LDO is greater than that of targeted LDO, actual LDO are of more variable nature. On the other hand budgeted LDO are more consistent and homogeneous than actual LDO. A greater coefficient of variation is said to be more heterogeneous. Here NB Bank's actual LDO is the nature of more variability 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 co-relation between budgeted LDO and actual LDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. Karl person's coefficient of correlation is denoted by (r). By calculating (r) we can examine whether is positive correlation between budgeted LDO and actual LDO or not. The actual LDO will change in the same direction, as the budgeted LDO. For this purpose budgeted LDO is denoted by X and assumed to be independent variable and actual LDO is denoted by 'Y' is assumed to be dependent variable upon budgeted LDO.

So that increase in budget supports to increase in actual achievement or vice versa, which meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) is tested with probable error (PE.) we have probable error (PE) = 0.012

The detail calculation of 'r' and probable error 'PE' is presented in appendix 2. From that appendix we have calculated the value of r is 0.989. This figure of 'r' shows that there is positively perfect correlation between budgeted LDO and actual LDO.
We have r=0.989, PE= 0.012

Since r is greater than six times of the probable error (0.989> 6x 0.012), 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 calculatioin in appendix 2, we have obtained the value of r being 0.989. Now the coefficient of determination which explains the change in Y variable i.e. Actual variable i.e. Budgeted LDO can be calculated as the square of (r)

Therefore, Coefficient of Determination = $r^2 = (0.989)^2 = 0.9781$

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

$y - y = r\ ^{\sigma Y} / \sigma Y\ ^{x(x - x)}$

We have the following values as calculated above:

	X	Y
	Budgeted	Actual
Mean x	13831650	14863094
S. D. σ	5291747	6923715

rXY = 0.989

then

$$y - .y = r \times \frac{\acute{o}y}{\acute{o}x}(x - x)$$

y - 14863094 = 0.989 x 6923715/5291747(x-13831650)

y - 14863094 = 1.29401(x-13831650)

y = 1.29401x - 3035149

From the above equation, it is clear that the actual LDOs are in increasing trend. By the help of this regression equation, we ascertain the expected LDOs achievement with given value of , target LDO say(X) for fiscal year 065/66= 29384870

When X= 29384870

Then expected LDO achievement

Y=1.29401x 29384870 - 3035149

=Rs. 34989167 in thousands

Growth Of LDO of the Bank

Following table shows the data of actual LDO deployment as of end of each fiscal year. The table shows the LDO of the bank is growing each year substantially.

Table 9: Growth of LDO of NB Bank

Amount in Rs. '000'

Fiscal Year	LDO	Growth in Rs.	Growth (%)

2060/061	7130126		
2061/062	10126056	2995930	42.02%
2062/063	12776208	2650152	26.17%
2063/064	17286427	4510219	35.30%
2064/065	26996652	9710225	56.17%

The above table shows the movement of LDO of NIBL. The base year to calculate the growth rate of NIBL is F/Y 2060/061. The increment rate is 42.02 % in F/Y 2061/062 in comparison with F/Y 2060/061. The rate of growth is declined in the F/Y 2062/063 it is only 26.17 % since the amount of LDO could not increased as last year. In the F/Y 2063/064 it has improved than the year 2062/063 but could not meet the F/Y 2061/062. The growth rate in 2064/065 has reached to 56.17 % with comparison of F/Y 2063/064 since the amount of LDO increased.

4.4.2.2. Resources Deployment in Other portfolio than LDO (NLDO):

Deployment in other portfolio than LDO includes cash & Bank, Investment, fixed assets and other assets.

Following table shows the budgeted and actual figures of the resources deployed under this group over the period of study. For the initial few years of which the budgeted figures could not be available, the actual position has assumed to be the budgeted figure also for the
purpose of this study.

Table 10: Status of Budgeted and Actual deployment in NLDO

Amount in Rs. in '000'

Fiscal Year	Budget Amount	Actual Amount	Achievement
2060/061	7130126	7130126	100%
2061/062	10126056	10126056	100%
2062/063	12776208	12776208	100%
2063/064	16864595	17286427	103%
2064/065	22261265	26996652	121%
2065/066	29384870		

The comparative status of the resources deployment to other portfolio than LDO is shown by the scattered and Bar Diagram as below:

Figure 7: Bar Diagram of the status of NLDO

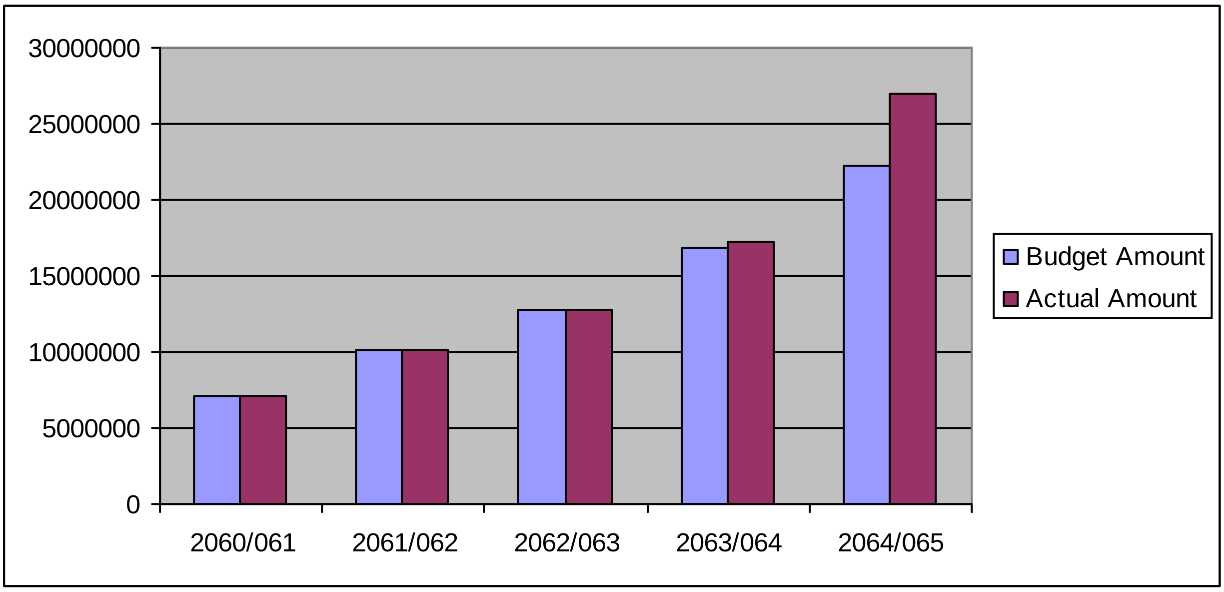
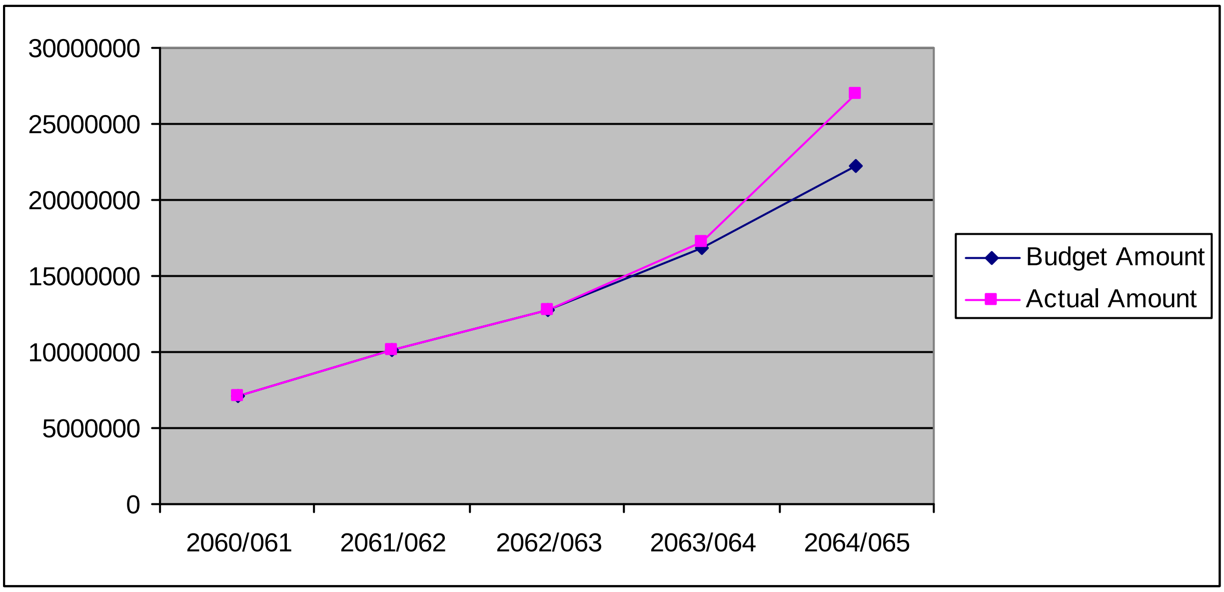


Figure 8 Scatter Diagram of the Status of NLDO



Above table shows the 100% or more achievement of targets in deployment of the resources to other than LDO for the study period.

The Bar and scatter diagram also shows the picture of satisfactory achievement in the deployment in RMOD portfolio.

4.4.3. Actual Deposit Collected VS Actual LDO Status of NB Bank

As it is understood that the major source of resources mobilization of NB Bank is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advances and bills discounts (LDO), it is desirable to analyze the comparative status of the same for the study period.

Following table shows the actual balance of customer deposit mobilized by the bank and actual position of deployment towards LDO and the ratio of LDO to Deposit (CD Ratio) as of the year end of corresponding fiscal year:

Table 11: Status of LDO verses Actual Deposit of NB Bank.

Amount in Rs. 000

Fiscal Year	Actual Deposit Balance	Actual Outstanding LDO	LDO to Deposit Ratio (CD Ratio)
2060/061	11524680	7130126	61.87%
2061/062	14254574	10126056	71.04%
2062/063	18927305	12776208	67.50%
2063/064	24488856	17286427	70.59%
2064/065	34451726	26996652	78.36%

From above table it can be found that both the Deposit and LDO is increasing. The average CD ratio over the period of last seven years is 69.87%.

It is significant to analyze the relationship between deposits and outstanding LDO. In order to find out the variability, of actual deposits and actual outstanding LDO of different years . we have to calculate arithematic mean, syandard deviation, and coefficient of variable technique and correlation of coefficient.

The details calculation of these statistical tools are presented in appendix no. 3 summarizing the results from appendix 3 we have

Table 12: Summary of actual deposits & actual Outstanding LDO

Amount in Rs. ‘000’

Statistical Tool’s Name	Actual Deposit Rs. in X in ’000’	Actual outstanding Rs. in Y in ’000’
Mean	20729428	14863094
Standard Deviation (σ)	8152711	6923715

C.V.	0.3933	0.4658

The above results shows that actual outstanding LDO are more variable than actual deposits. Hence the coefficient of variation of actual outstanding LDO is higher than that of actual outstanding deposits.

Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding deposits and actual outstanding LDO. There should be positive correlation between actual outstanding deposits and actual outstanding LDO. In other words the actual deposits increase as the actual LDO increase or vice versa.

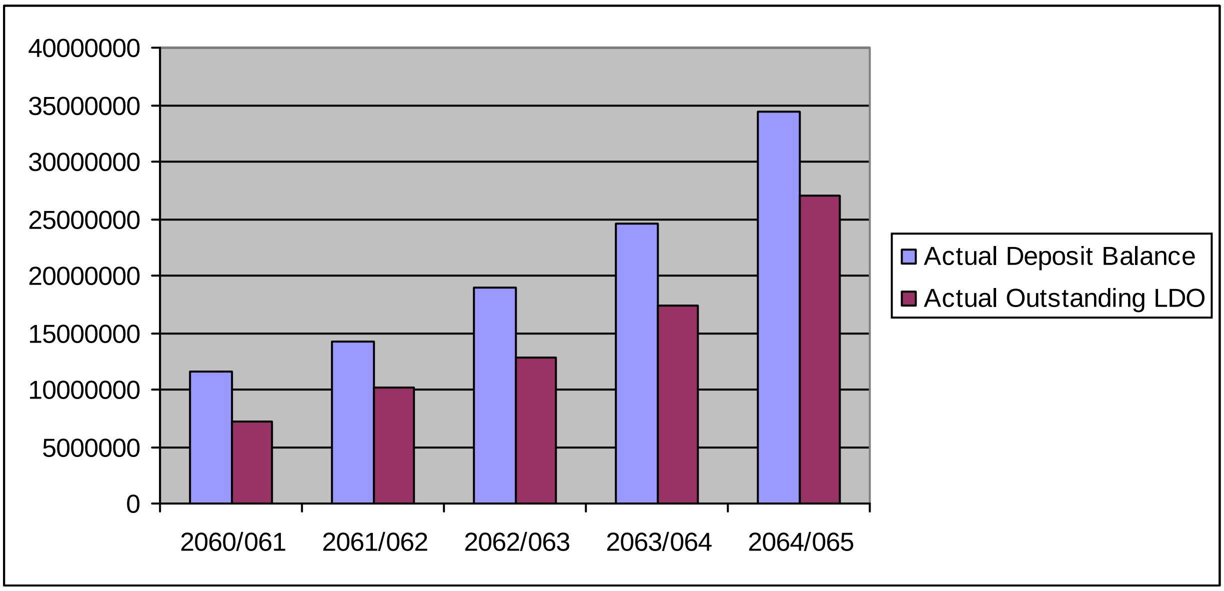
To find out correlation between actual deposits and actual outstanding LDO, we can take the help of Karl Person's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between actual deposits outstanding and actual LDO outstanding or not.

For this purpose, actual deposits (X) is assumed to be independent variable and actual LDO (Y) is assumed to be dependent variable. So that increase in actual deposits will support to increase in LDO and vice versa.
After this significance of 'r' is tested with probable error of r, the detail calculation of 'r' and probable of 'r' is presented in appendix 3. From this appendix we have to calculate value of r and P.E respectively 1 and 0

Since r> 6 RE (1>6x0) the value of 'r' is significant. There is perfect between actual deposit and actual LDO.

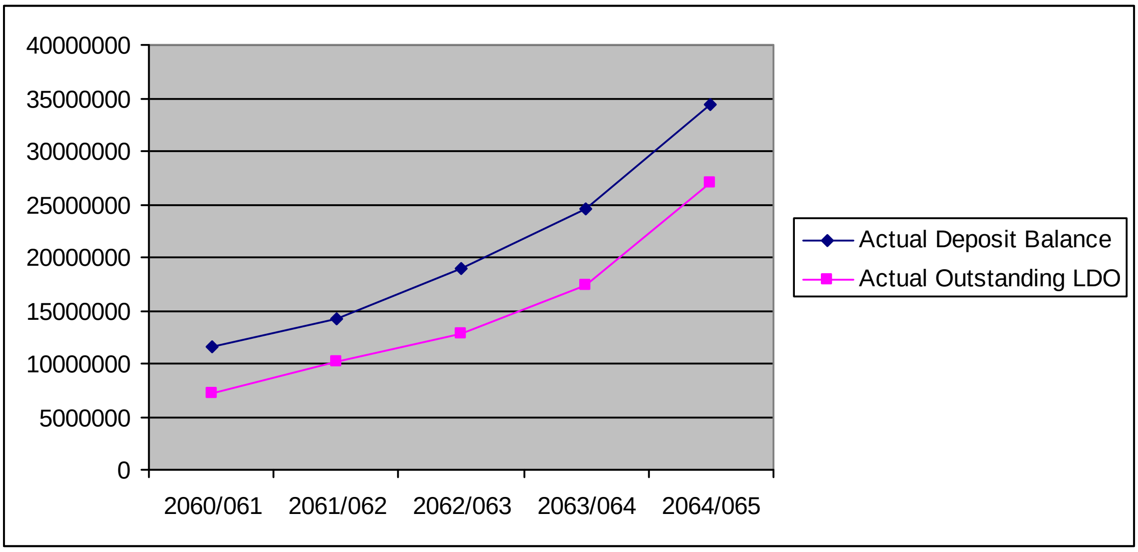
The data of actual deposit and actual LDO outstanding are prestened in bar diagram form as below. Below graph shows that, both the actual deposits &. actual outstanding I-Do are in increasing trend.

Figure 9: Bar Diagram of LDO VS Deposit



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

Figure 10 Scatter diagram of LDO Vs Deposit



From the above charts it can be found that both the deposit and LDO is in increasing trend over the period.

4.4.4. Plan for Non-Funded Business Activities of NB Bank

Apart from the activities like advancing loans, overdraft, Bills discounting and investments where funds are involved for income generation, there are other business activities too performed by the bank which do not involve fund yet they are income generative. Such transactions are called non-funded business of the Bank. In such transactions, the bank has to take contingent liabilities on behalf of their customer for a fee and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expense burden of the Bank.

Generally, income generating non- funded business of the bank is of following two types:

a. Letter of Credit Business
b. Bank Guarantee Business

Since these are the contingent liabilities, it appears down the line of Balance sheet of the Bank.

4.4.4.1. Letter of Credit:

Letter of credit is a kind of facility provided by the bank to their customer, by way of which the customer can import the goods from foreign buyer for which the Bank undertake the guarantee for payment provided the terms and conditions of the L/C is complied with.

Following table shows the Letter of Credit business status of the Bank as of the closing of the respective Fiscal year and its growth over the period of this study:

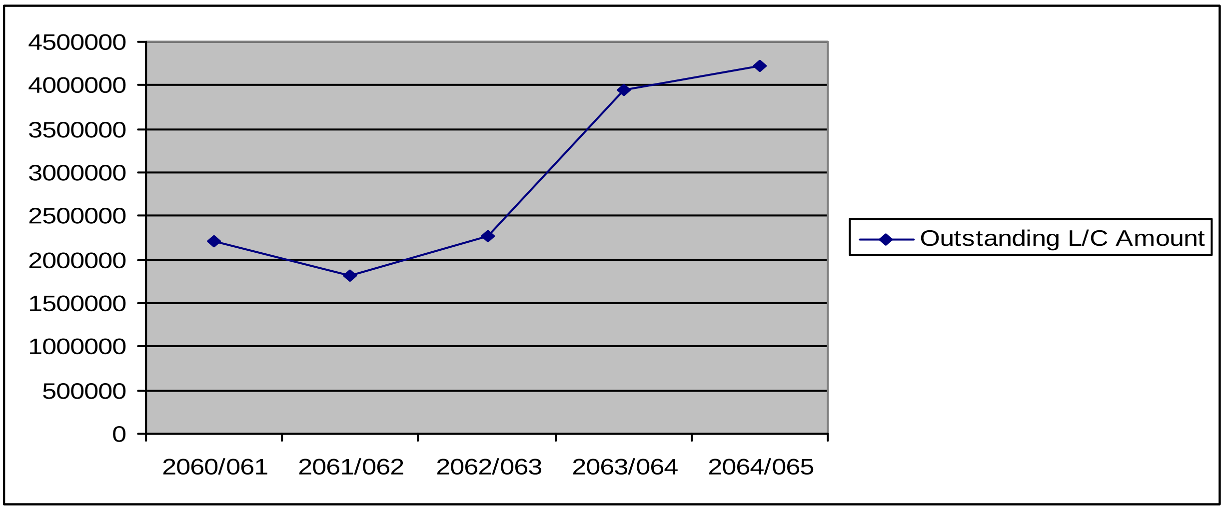
Table 13: Growth of L/C Business of NB Bank

Amount in Rs. 000

Fiscal Year	Outstanding L/C Amount	Increased Amount	Growth (%)
2060/061	2213253		
2061/062	1816957	-396296	-17.91%
2062/063	2272758	455801	25.09%
2063/064	3955491	1682733	74.04%
2064/065	4223147	267656	6.77%

Above table shows, that the Letter of Credit outstanding was decreased in 2061/062 but is increasing each year after that. It had the highest growth 74.04%° in the year 2063/064.The growth in L/C business of the Bank has been presented in the Bar diagram as below:

Figure 11: Yearly Letter of credit business of NB Bank



The above chart shows that the letter of credit drecrease in the fiscal year 2061/062 but increased then after. It is in increasing trends from the year 2062/063. The chart shows that the letter of credit highly increased in the year 2063/064.

4.4.4.2. Bank Guarantees

Bank issues the Bank Guarantee on behalf of their customer for bidding and /or performing any activities by the latter in favor of the employer of the activities. It is a guarantee letter issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity.

Following table shows the outstanding bank guarantee liability as of the end of fiscal year of our study and the change in subsequent year:

Table 14: Yearly growth in Bank Guarantee liability

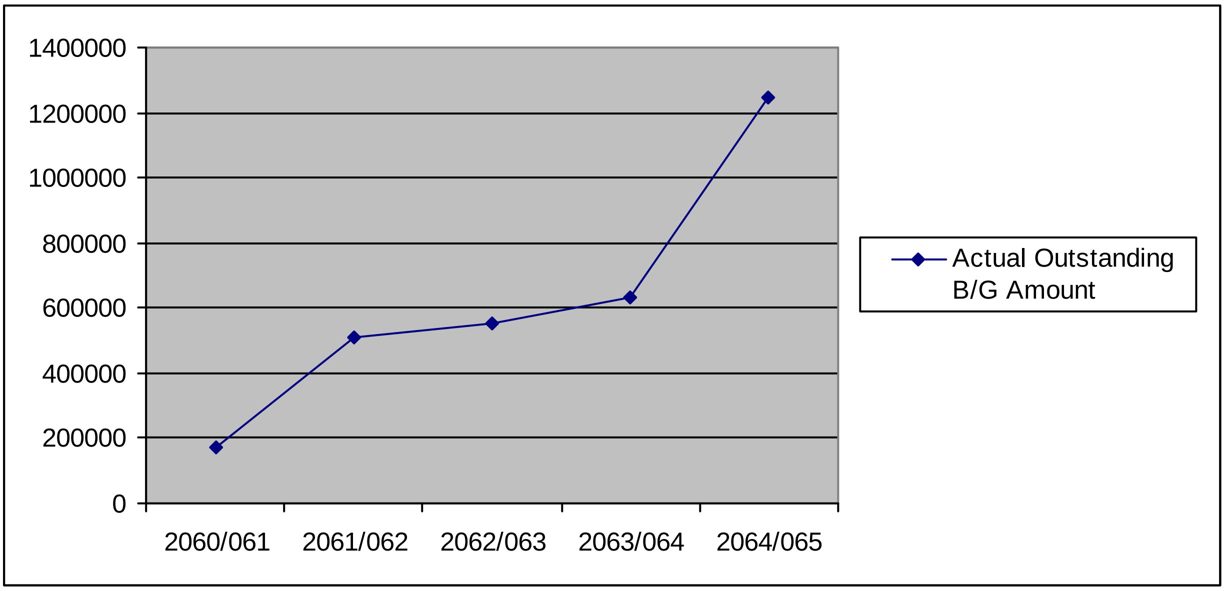
Amount in Rs. 000

Fiscal Year	Actual Outstanding B/G Amount	Increased/ Decreased Amount	Growth (%)
2060/061	173643		
2061/062	508594	334951	192.90%
2062/063	555032	46438	9.13%
2063/064	632212	77180	13.91%
2064/065	1246356	614144	97.14%

Above table shows, that the Bank guarantee outstanding liability is increasing each year. It had the highest growth of 192.90% in the year 2061/062. In the years 2062/063 and 2063/064 the bank guarantee grew at low rate.

The growth in B/G business of the Bank has been presented in the Bar diagram as below:

Figure 12: Yearly Bank Guarantee business of NB Bank



The above chart shows that the bank guarantee is in increasing trend. Its growth is high in the year 2061/062 and 2064/065. It sightly grew in the years 2062/063 and 2063/064.

4.4.5. Expenditure Planning of NB Bank

Planning for expenses is most essential to maintain reasonable levels to support the objectives & planned programs of the Bank. Expenses planning focus on the relationship between expenditure & the benefits derived from these expenditures. The following table shows the status of Expenditure incurred by the Bank for the study period:

Table 15: Yearly Cost Structure of NB Bank

Amount in Rs. 000

Expenses	2060/061	2061/062	2062/063	2063/064	2064/066
Interest Expense	326202	354549	490947	685530	992158
Employee Expenses	89749	97004	120664	145371	187150
Operational Expenses	149479	182915	190605	243431	313154
Non-operational Expenses					

Provision for staff Bonus	25719	37075	50491	72338	187149
Loan Loss Provision	91092	140409	103808	129719	135989
Provision for income tax	78802	101529	154378	221977	323228
Total Expenses	761043	913481	1110893	1498366	2138828

The above table shows that the each type of expenses each year is in increasing trend.

As the expenses for Interest payment is the highest portion of total cost for each year, we have segregated total expenses into Interest expenses and expenses other than interest (other expenses) for our study.

4.4.5.1. Interest Expenses

Interest expenses are the expenditure incurred for making payment of interest to the deposit mobilized by the Bank. As the customer deposit holds a major share on total resources of the Bank, interest expenses is also highest among others in total expenses of the Bank. Now we analyze the interest expenses to total deposit mobilized by the Bank in following table:

Table 16: Yearly Status of Interest Expenses to total Deposit (Cost of Deposit)

Amount in Rs. ‘000’

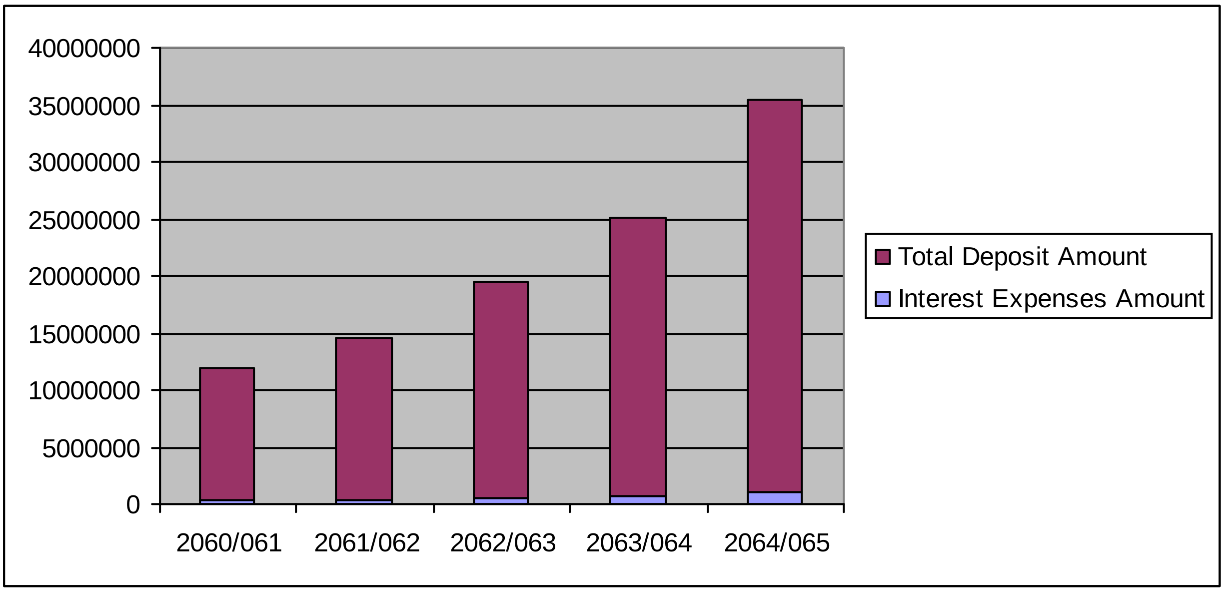
Fiscal Year	Interest Expenses Amount	Total Deposit Amount	Cost of Deposit Percentage
2060/061	326202	11524680	2.83%
2061/062	354549	14254574	2.49%
2062/063	490947	18927305	2.59%
2063/064	685530	24488856	2.80%
2064/065	992158	34451726	2.88%

As said earlier, the customer deposit is one of the major sources for resources mobilization by the bank. For the deposit taken by the bank, it has to pay interest. There are various kinds of deposit accounts from interest free deposit to varying interest deposit accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (COD) of the Bank. For a bank lower COD refers to better position in terms of profitability.

From above table, we can see that the yearly COD of NIBL ranges from 2.49% to 2.88% in various years. The average COD for the period of this study is 2.72%. The status of total deposit and the COD is, shown in the Bar Diagram as below:

Figure 13: Bar Diagram showing Yearly Deposit & COD of NIBL

Amount in Rs. 000



It is significant to analyze the relationship between deposits and Interest expenses. The figures of actual deposits amount and Interest expense amount can be presented in tabular form. In order to find out the variability, of actual deposits and actual Interest expenses of different years we have to calculate arithmetic mean, standard deviation, and coefficient of variation technique and correlation of coefficient. The detail calculations of these statistical tools are presented in appendix no. 4. Now summarizing the results from appendix 4 we have,

Table 17: Summary of actual deposits & interest expenses amount

Amount in Rs. '000'

Statistical Tool's	Actual Deposit Rs. in X in '000'	Interest Expenses Amount in Rs. Y in '000'
Mean	20729428	569877
Standard Deviation ( )	8152711	246442
C.V.	0.3933	0.4324

The above results shows that actual outstanding deposit is more variable than actual interest expenses incurred. Hence the coefficient of variation of actual outstanding deposit is higher than of actual interest expenses. Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding deposits and actual interest expenses. There should be positive correlation between actual outstanding deposits and interest expenses. In other words the actual deposits increase as the actual interest expenses increase or vice versa. To find out correlation between actual deposits and actual interest expenses, 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 actual deposits outstanding and actual interest expenses or not. For this purpose, actual deposits (X) is assumed to be independent variable and actual interest expenses (Y) is assumed to be dependent variable. So that increase in actual deposits will support to increase in interest expenses and vice versa. After this significance of 'r' is tested with probable error of r, the detail calculation of 'r' and probable of 'r' is presented in appendix 4. From this appendix we have calculated value of r and P.E and respectively .996 and 0.004. Since r> 6 P.E (.996>6x0.004) the value of 'r' is significant. There is perfect correlation between actual deposits and actual interest expenses incurred.

From the calculation shown in appendix 4, we have obtained the value of r being 0.996. Now the coefficient of determination, which explains the change in Y variable i.e, interest expenses by X variable i.e. deposit can be calculated as the square of r. Therefore, the coefficient of determination = $(r)^2 = (0.996)^2 = 0.992$

4.4.5.2. Expenses Other than Interest Expenses

The operating expenses incurred by the bank for other than interest payments are included in other expenses for this study. Such expenses includes:

i. Expenses for employees
ii. Operational expenses
iii. Non-operating expenses
iv. Loan loss provision

Besides above, profit appropriation toward staff bonus provision and income tax provision has also been included in 'Other expenses'. The amount of other expenses incurred.Bank in various years are as shown in above table no.15.

4.4.5.3. LDO Verses Loan Loss Provision

As per the directives of Nepal Rastra Bank, the commercial Banks are required to set aside some amount from their operating profit at a fixed ratio against the outstanding LDO of the Bank as prescribed by the NRB from time to time. Such amount provided by the bank against the loan is called loan loss provision. The ratio of the loan loss amount against the LDO is based on the classification of the loans. As per NRB's current directives, banks are required to classify their outstanding LDO on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F/Y 2061/062 which are as follows:

Pass : Advances include in this category are those loan accounts which are within the validity or past due upto a period of three months. Amount of loan loss to be provided for is 1% of the outstanding loan falling under this category.

Substandard : All loans and advances those are past due for a period of three months to six months shall be included in this category. The required provisioning is 25% of the outstanding loan falling under this category.

Doubtful : All loan and advances those are past due for a period of more than six months to one year are included in this category and require provisioning of 50% of outstanding LDO falling under this category.

Loss : All loan and advances those are past due for a period of more than one year, are included in this category which shall have to be provided for 100% of the LDO falling under this category.

All classified loans except 'Pass' are called non-performing loan. The higher amount of non-performing loan consumes the profit of the bank, as they require higher amount of provisioning toward loan loss. Therefore banks have to make reasonable effort for regularizing their loans to keep them performing in order to reduce the amount of loan loss
provisioning and thereby enhancing the profitability.

Now, we analyze the loan loss provision to total LDO mobilized by the bank in following table, diagram and graph:

Table 18: Yearly Status of Loan Loss Provision to total LDO.

Amount in Rs. '000'

Fiscal Year	Loan Loss Provision	Total LDO	Loan Loss Provision to LDO
2060/061	91092	7130126	1.28%
2061/062	140409	10126056	1.39%
2062/063	103808	12776208	0.81%
2063/064	129719	17286427	0.75%
2064/065	135989	26996652	0.50%

Figure 14: Bar Diagram of Yearly Status of Loan Loss Provision and Total LDO.

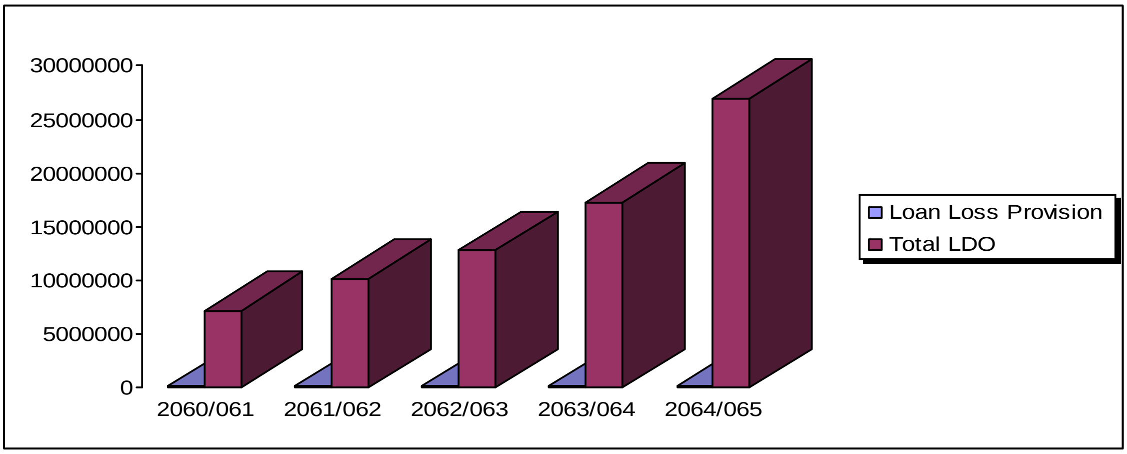
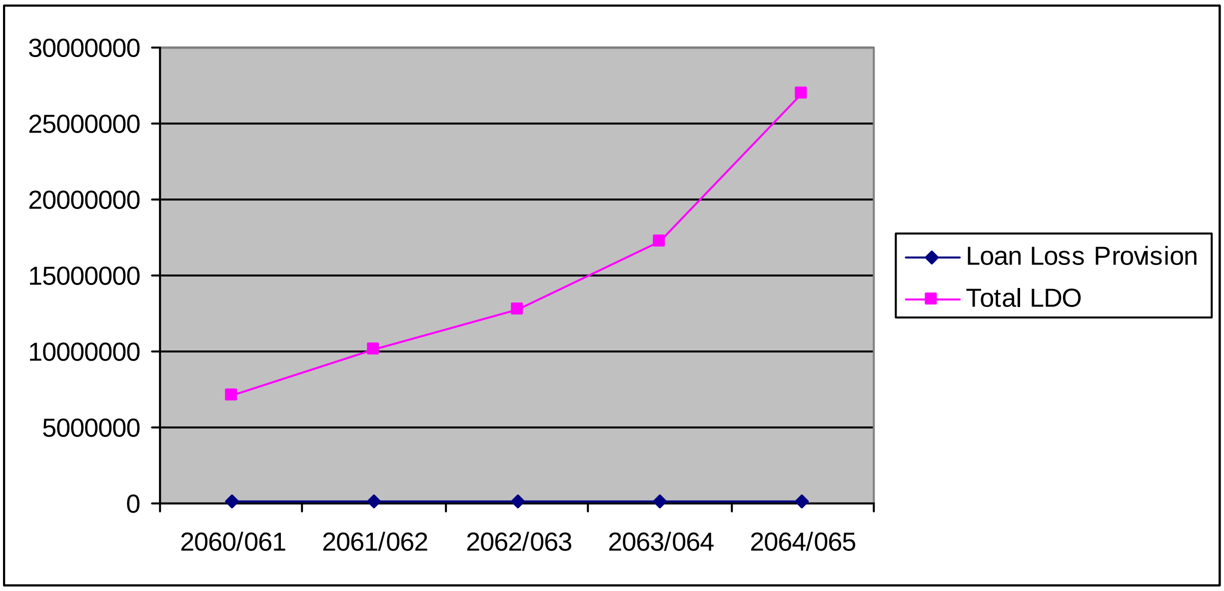


Figure 15: Scatter Diagram of Yearly Status of Loan Loss Provision and LDO.



Above table, diagram shows that loan loss provision has increased upto 1.39% of total

LDO. The bank should control this ratio in order to improve its profitability.

4.4.6. Revencre Planning of NIBL

NIBL generates its revenue from its income earning activities. Such activities are mostly fund-based, that is generated out of the deployment of fund, and some portion from nonfund based business activities. Income of NIBL can be broadly categorized in to two types viz. Interest income and other income. Interest Income is the interest earned from the loan advances and overdraft provided to the borrowers, investments in HMG bonds etc. Interest income holds major share in total income portfolio of the Bank. Other income consists the income other than interest income, which are as follow:

1. Income from Commissions & Discounts
2. Dividend received from investment in shares
3. Income from foreign exchange transactions
4. Various kinds of service Fees & charges etc.

Table 19: Yearly Income Structure of NIBL

Amount in Rs. '000'

Revenue	2060/061	2061/062	2062/063	2063/064	2064/066
Interest Income	731403	886800	1172742	1584987	2194276
Commission & Discount	55747	93551	115942	163899	215292
Dividend					
Other Income	36816	56567	35902	47319	66377
Forex Income	87980	162518	125747	135355	165839
Non-operational Income	1767	6192	391	1426	7048
Total Revenue	913713	1205628	1450724	1932986	2648832

The above table shows that the revenues are increasing each year. Income from interest is the highest among the others in total revenue for each year.

4.4.6.1. Interest Income

As interest income contributes the major portion of Total Revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore this is popularly called Yield on Fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, we have grouped the out-standing Loan, Advances & Overdraft and the Bills discounted together to call LDO and have included the bills discounting commission too into the total interest income amount (YOF). Now, we shall analyze the comparative status of total YOF with the total LDO with the help of following table and Bar, Scatter Diagrams.

Table 20: Status of Interest Income to total LDO

Amount Rs. in '000'

Fiscal Year	Interest Income	Total LDO	Avg. Yield on LDO
2060/061	731403	7130126	10.26%
2061/062	886800	10126056	8.76%
2062/063	1172742	12776208	9.18%
2063/064	1584987	17286427	9.17%
2064/065	2194276	26996652	8.13%

From above table we can see that the yearly YOF of NIBL Bank ranges from 8.13% to 10.26% in various years. The average YOF for the period of study is 9.10%.

It is significant to analyze the relationship between Outstanding LDO and Interest income (YOF). The figures of LDO amount and Interest expense amount: has been presented in tabular form above. In order to find out the variability, of actual LDO and actual Interest income of different years we have to calculate arithmetic mean, standard deviation, and coefficient of variation technique and correlation of coefficient.The detail calculations of these statistical tools are presented in appendix no. 5. Now summarizing the results from appendix 5 we have,

Table 21: Summary of actual LDO & interest income amount

Amount in Rs. '000'

Statistical Tool's Name	Actual LDO Rs. in X in '000'	Interest Income Amount in Rs. Y in '000'
Mean	14863094	1314042
Standard Deviation ( )	6923715	527293
C.V.	0.4658	0.4013

The above results shows that actual outstanding LDO are more variable than interest income. Hence the coefficient of variation of actual outstanding LDO is higher than of interest income. Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding LDO and Interest Income. There should be positive correlation between actual outstanding LDO and Interest Income. In other words the actual LDO increase as the Interest Income increase or vice versa. To find out correlation between Interest income and actual outstanding LDO, we can take the help of Karl Person's coefficient of correlation and it is denoteds by 'r' we can examine whether there is positive correlation between Interest Income and actual LDO outstanding or not.

For this purpose, actual LDO (X) is assumed to be independent variable and Interest Income (Y) is assumed to be dependent variable. So that increase in LDO will support to increase in Interest Income and vice versa. After this significance of 'r' is tested with probable error of r, the detail calculation of 'r' and probable of 'r' is presented in appendix 5. From this appendix we have calculated value of r and PE 0.995 and 0.005 respectively. Since r> 6P.E (995>6x0.005) the value of 'r' is significant. There is perfect correlation between actual deposits and actual LDO.

From the calculation shown in appendix 5, we have obtained the value of r being 0.995. 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 square of (r).

Therefore the coefficient of determination $=(r)^2 = (0.995)^2 = 0.99$.
The data of actual deposits and interest expenses incurred can also be presented in diagrams as below:

Figure 16: Bar diagram of Yearly LDO and Interest Income :

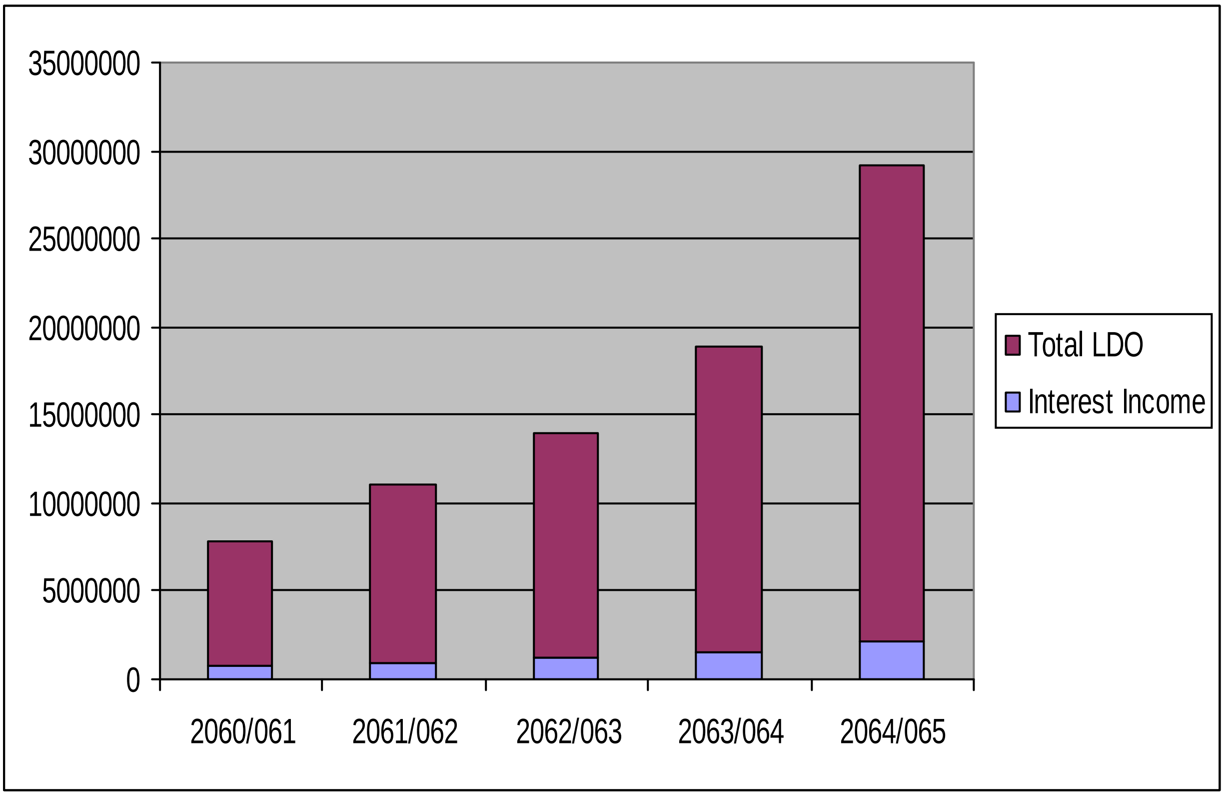
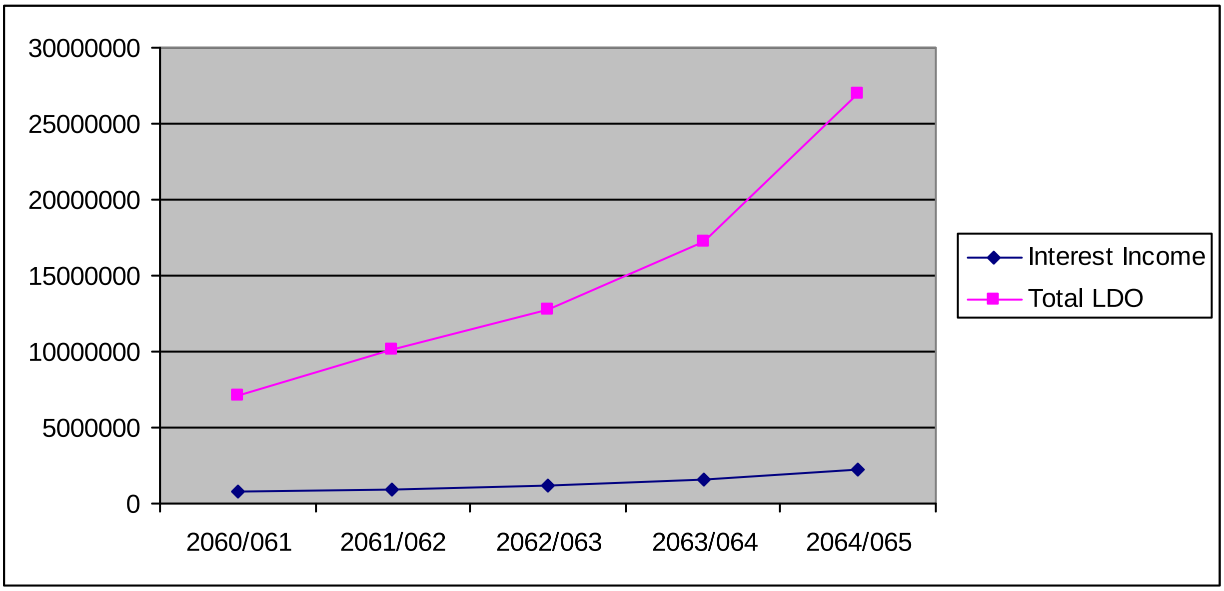


Figure 17 : Scatter diagram of Yearly LDO and Interest Income



Above diagrams show that, both the actual deposit and interest expenses incurred are in increasing trends. However the ratio of interest expenses is higher than LDO.

4.4.6.2. Income Other than Interest Income

Income earned by the bank other than interest income, are called other income. Most part of such incomes are earned from non fund based activities in the form of commissions, fees, charges, profit on foreign exchange sale, revaluation gains, commitment charges, remittance fees, service charges etc. The amount of other income earned by the Bank in various years are as shown in above table no.18.

4.4.7. Interest Spread

Interest spread if the difference amount obtained by subtracting total interest expenses amount from the total interest earned. In the other words, it is the margin on interest or net interest income of the bank.

Following table gives the status of interest income, expenditure and spread of the bank for the study period.

Table 22 : Yearly Spread of NIBL

Amount in Rs. '000'

Fiscal Year	Interest Income	Interest Expenses	Interest Spread
2060/061	731403	326202	405201
2061/062	886800	354549	532251
2062/063	1172742	490947	681795
2063/064	1584987	685530	899457
2064/065	2194276	992158	1202118

Figure 18: Bar diagram of int. income, int. exp. and Spread

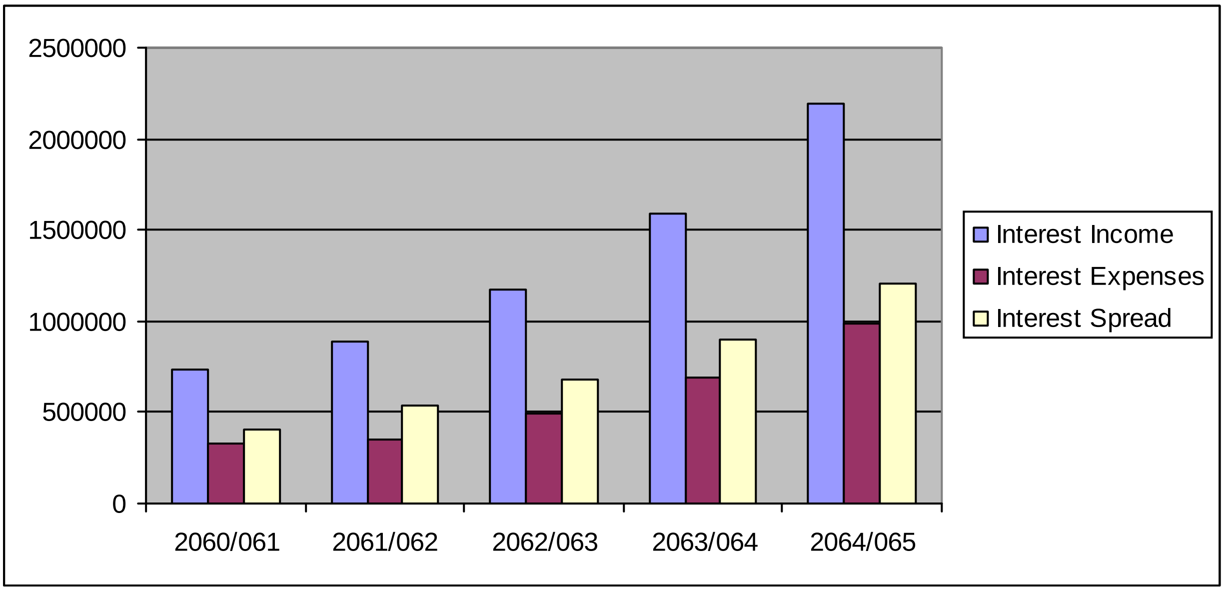
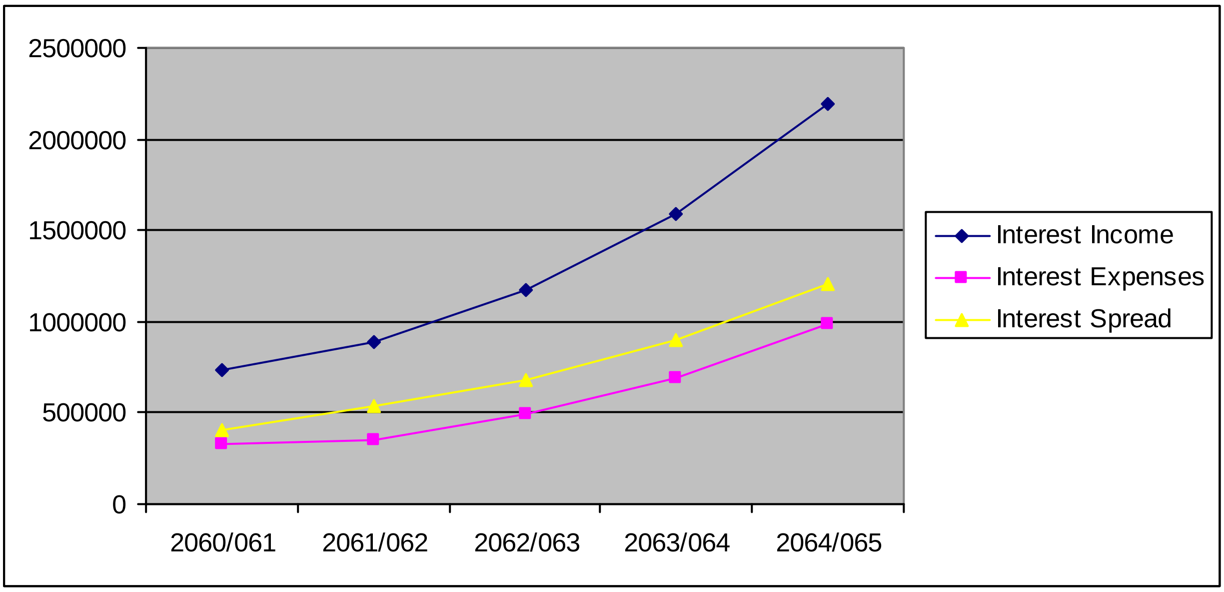


Figure 19: Scatter Diagram of int. income, int. exp. and spread



Above diagram and tables show that the interest spread is in increasing trends. However the increasing trend of interest income is the highest among all.

4.4.8. Burden

Burden is the overall expenses of the bank excepting interest expenses incurred for the payment of deposit interest. That is, the operating cost of the bank excepting interest cost is called the burden. The Net burden is the net amount of burden cost obtained which is the difference between other expenses and other income.

The nature of this cost is semi fixed where as interest cost is variable cost. The following table shows the status of net burden in the Bank over the period of the study:

Table 23: Table showing Burden of NIBL

Amount in Rs. '000'

Fiscal Year	Other Expenses	Other Income	Net Burden
2060/061	434841	182311	252530
2061/062	558932	258828	300104
2062/063	619946	288687	331259
2063/064	812835	427576	385259
2064/065	1061518	556132	505386

Figure 20: Bar Diagram showing annual Burden of NIBL

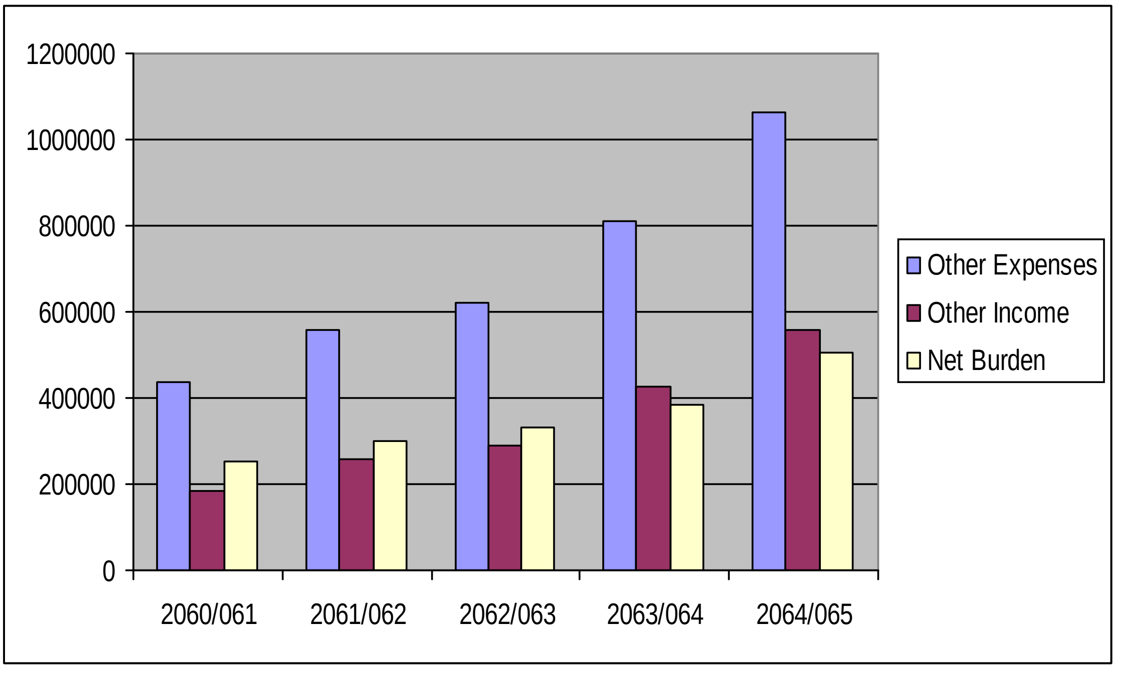
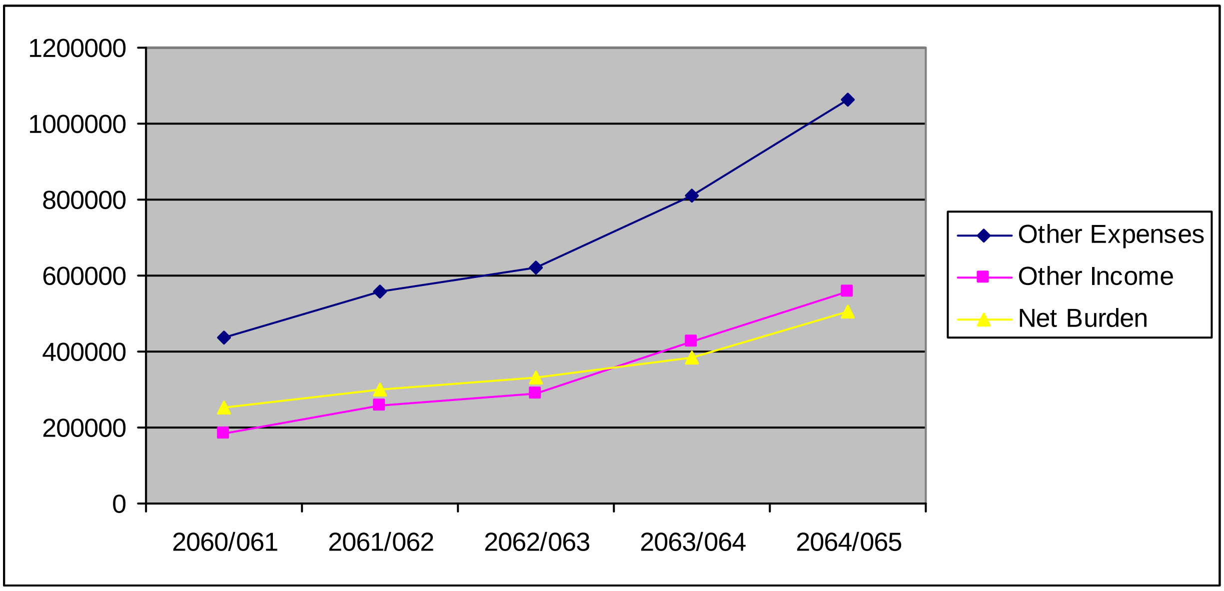


Figure 21:Scatter Diagram showing annual Burden of NIBL



4.4.9. Net Profit

Profit is excess of income over expenses. In this context, this study has calculated the net profit being the excess spread over the net burden. Spread is the net interest income (excess interest income over the interest expenses), and the net Burden is the difference amount from Other Expenses and Other Income.

Following table and graphs shows the status of Spread, Burden and Net Profit of various year of the study.

Table 24: Yearly Net-profit Status of NIBL

Amount in Rs. '000'

Fiscal Year	Spread	Burden	Net Profit
2060/061	405201	252530	152671
2061/062	532251	300104	232147
2062/063	681795	331259	350536
2063/064	899457	385259	514198
2064/065	1202118	505386	696732

Figure 22: Bar Diagram of annual Net profit of NIBL

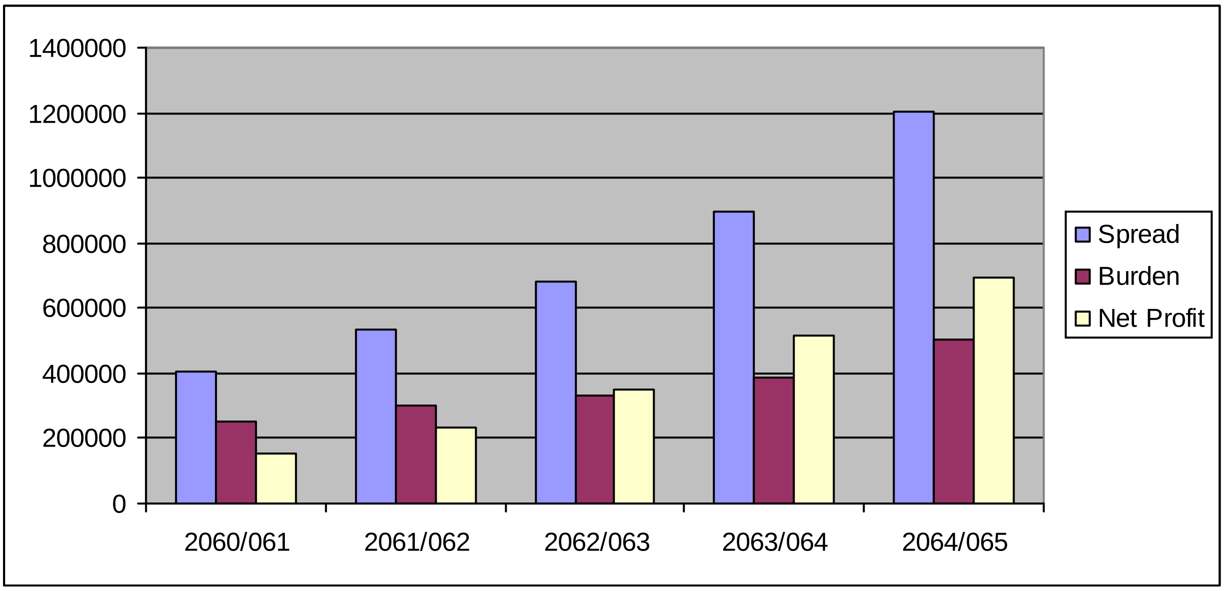
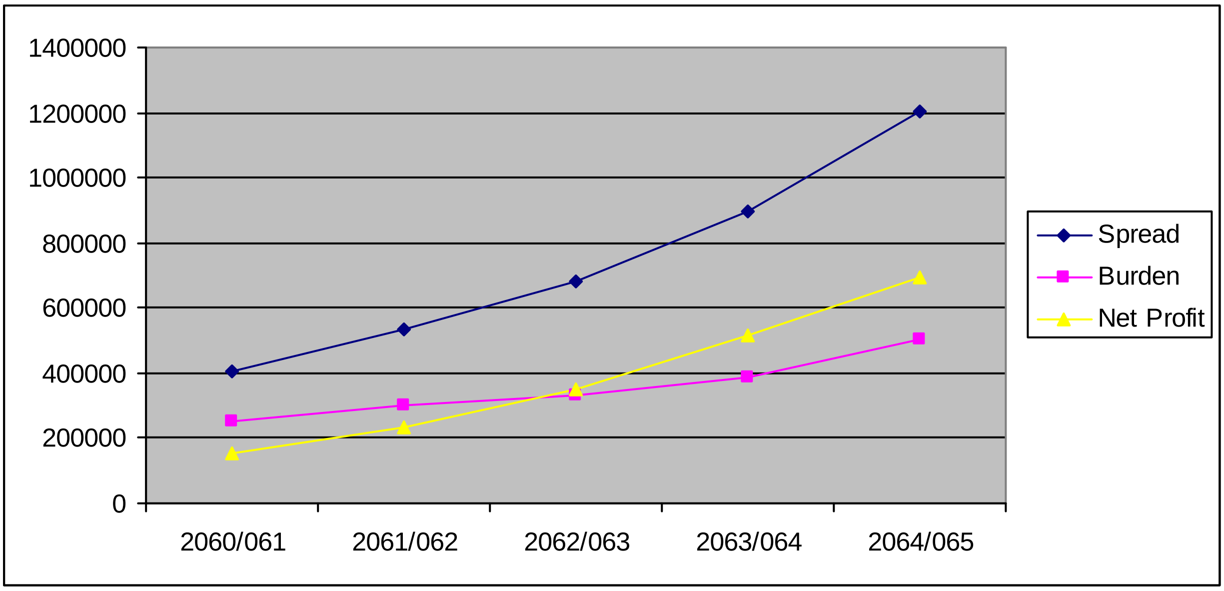


Figure 23: Scatter Diagram of annual Net profit of NIBL



4.5. Performance Evaluation of NB Bank

Performance evaluation for internal management use is an important part of a comprehensive profit planning & control-system. (Welsch-1999), All companies regardless of their size have reporting requirements to show their overall performance.

Performance reporting is an important phase of control process. We can use various techniques & criteria to evaluate performance of NIBL, which are as follows

1. Ratio Analysis,
2. Cost Volume Profit Analysis.

4.5.1. Ratio Analysis

An arithmetical relationship between two figures is known as ratio. Ratio analysis is a financial device to measure the financial positions, major strengths, and weaknesses of a firm. To evaluate the performance of an organization by creating the ratios from the figures of different account consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups:

- Liquidity Ratio
- Capital structure ratio
- Activity Ratio
- Profitability Ratio

a. Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. Its reflects the short-term financial strength of the firm. Now we use current ratio to measure relationship of current assets & current liabilities of NIBL. It is calculated by dividing the total current assets by current liabilities.

Table 25: Calculation of Liquidity Ratio

Amount in Rs. '000'

Fiscal Year	Current Assets (A)	Current Liabilities (B)	Current Ratio (A/B)
2060/061	13214149	12526448	1.05:1
2061/062	16070060	14883371	1.08:1
2062/063	21388631	19914698	1.07:1
2063/064	27314061	25712721	1.06:1
2064/065	38435867	36186521	1.06:1

Table no. 25 presents the detailed charts of liquidity ratio of NIBL for the years from fiscal year 2060/61 to 2064/065. Current ratio of NIBL is remarkable because it is stable. Its shows that NIBL's solvency position is better.

b. Capital Structure Ratio

To judge the long-term financial position of NIBL the leverage ratio are calculated. The following two ratios are calculated in Capital Structure Ratio.

1. Debt equity ratio
2. Interest coverage ratio

Debt equity ratio: The relationship between borrowed fund and owner's equity is debt equity ratio. We have taken th& amount of fixed deposit as long term debt for the Bank.

Table 26:Calculation of Debt Equity Ratio

Amount in Rs. '000'

Fiscal Year	Fixed Deposit (A)	Capital Fund (B)	Debt Equity Ratio (A/B)
2060/061	2294680	295293	7.77:1
2061/062	3212266	587739	5.47:1
2062/063	5412970	590586	9.16:1
2063/064	7516687	801352	9.38:1
2064/065	7944233	1203915	6.59:1

From the above table no: 26, debt equity ratio shows high debt portion in comparison to capital fund. But as the Bank's one of the major function is to accept customer deposit, it is obvious that the bank will have higher debt equity ratio.

Interest Coverage Ratio: This ratio measures the Interest payment capacity of NIBL. It is computed by dividing Net Profit before interest & Tax by interest cost amount.

Table 27:Calculation of Interest Coverage Ratio

Amount-in Rs. '000'

Fiscal Year	Net Profit before interest and tax (A)	Interest Expenses Amount (B)	Times
2060/061	648767	326202	0.50
2061/062	828634	354549	0.43
2062/063	1099669	490947	0.45
2063/064	1538624	685530	0.45
2064/065	2148108	2194276	1.02

Interest coverage ratio of NIBL is in increasing trend year by year, which means it, is favorable for NIBL

c. Employee Prorluctivity ratio (Activity Ratio)

The relationship between various activities and the number of employees are indicated by employee productivity (activity) ratio. These ratios reflect how efficiently the organization is utilizing its rnenpower. These are expressed as LDO per employee, deposit per employee and non funded activities per employee.

Table 28: Calculation of *employee* Productivity ratio of NIBL Bank

Amount in Rs '000'

Fiscal Year	Deposit Collected	LDO Deployed	Non funded Business	No.of Employee	Deposit per Employee	LDO per Employee	Non funded Business Employee
2060/061	11524680	7130126	2386896	324	35570	22007	7367
2061/062	14254574	10126056	2325551	352	40496	28767	6607
2062/063	18927305	12776208	2827790	390	48532	32760	7251
2063/064	24488856	17286427	4587703	514	47644	33631	8925
2064/065	34451726	26996652	5469503	616	55928	43826	8879

Above table shows that Deposit per employer and LDO per employer is in increasing trend and non funded business per employer is in stable condition which means productivity of NIBL is remarkable.

Profitability Ratio

It shows the overall efficiency of the organization. The relation of the return of the firm to either its sales or its equity, or its assets is known as profitability.

Table 29: Calculation of Profitability Ratios

Amount in Rs.'000'

Fiscal Year	Net Profit	Total Assets	Return on assets	Total capital fund	Return on Capital
2060/061	152671	13463937	1.13%	729048	20.94%
2061/062	232147	16390652	1.42%	1180173	19.67%
2062/063	350536	21732081	1.61%	1415440	24.77%
2063/064	501399	28073517	1.79%	1878124	26.70%
2064/065	696732	39405959	1.77%	2689786	25.90%

Table no.29 shows the results of return on assets & capital fund of NIBL which is remarkable. It indicates that net profit of NIBL is in increasing trend. The profitability ratio of NIBL is sound and strong. It's profit ratio indicate of the higher overall efficiency of the NIBL and better utilization of total resources available.

4.5.2. Cost Volume Profit Analysis

The 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 and profit. It is also an important tool used for the profit planning in the business. There are three factors of cost volume of profit analysis, which are interconnected and dependent on one another. For example profit depends up on sales, selling price to a greater extent will depend up on the costs, costs depend upon the volume of production.

Cost volume profit analysis is great helpful in managerial decision making specially cost control and profit planning.

CVP analysis of NIBL based on following assumptions

1. Cost volume structure is based on the accounting data offiscal year 2064/065 and CD ratio and YOF is taken for the last seven years average
2. Activity base is seleated in Cirms of RS.'000'
3. In case of Bank Net Burden is treated as fixed cost which is calculated on the basis of total other cost and total other income of fiscal year 2064/065 and interest margin (Spread) is calculated on the basis of total interest income and total interest expenses of fiscal year 064/065.

Cost Volume Profit Analysis of NIBL

Amounts in Rs. '000'

Total Interest income	Rs 2194276
Total Interest Expenses	Rs 992158
Total Other Expenses	Rs 1061518
Total Other Incomes	Rs 556132
Average Yield on Fund (YOF)	9.10%.
Average CD ratio	69.87%.

Net Burden = Total Other Expenses - Total Other Income

= 1061518 - 556132

= 505386

Interest Margin (Spread) = Total Interest Income - Total Interest Expenses

= 2194276 - 992158

= 1202118

i. We can calculate the BEP in terms of interest income of NB Bank as below:

BEP in % = Net Burden x100 / Spread

$$= \frac{505386 \times 100}{1202118}$$

= 40.04%

BEP in Rs = Interest Income X BEP %

= 2194276 X 42.04%

= Rs 922474

ii. We find out NIBL's break-even interest Income level is of Rs 92.24 Crore.

iii. Margin of safety for the year 064/065, can be calculated a below:

Margin of safety = Total Interest Income - BEP income

= 2194276 -922474

= Rs. 1278102

Margin of safety ratio (for 065/065)

$$\text{M/S Ratio} = \frac{Margin of safety}{Total interest Revenue} X100$$

$$= \frac{1278102}{2194276} x100$$

= 57.96%

iv. BEP in terms of Volume of LDO can be calculated as below:

$$\text{BEP LDO} = \frac{\text{BEP Interest Income}}{\text{Average YOF}}$$

$$= \frac{922474}{0.0910}$$

= Rs. 10137073 in thousand

v. BEP in terms of Volume of deposit can be calculated as below:

$$\text{BEP Deposit} = \frac{\text{BEP LDO}}{\text{Average CD ratio}}$$

$$= \frac{10137073}{0.6987}$$

= Rs.14508477 in thousand

The analysis shows that the Bank's future earning trend will be encouraging if it can increase its revenue and decrease its burden.

4.5.3. Major Finding

The major findings of this research study on profit planning in commercial bank, a case study of Nepal Bangladesh Bank' are as follows:

1. Management and Personnel

a. It is observed that the Bank is adopting a policy to keep minimum number of employees as possible.

b. The decision making process is highly centralized, however, top management takes the feed forwards for annual planning and strategy building through manager conferences and strategic meeting organized ones in every year at the Head Office.

c. NIBL lacks active and organized Planning department to undertake innovative products research and development works.

d. Advanced training to the personnel is lacking.

e. Bank has the policy to employ academically highly qualified (first class MBA) fresh candidates at Management Trainee, which may be considered as good aspect for future menpower building.

2. Branch Office

a. NIBL is currently operating with its 29 branch offices making its presence at almost all of the cities of the country. It is one of the banks, having highest branch network among the Joint-Venture/ private Banks in Nepal.

b. 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 stretch.

3. Objectives of the Bank

a. Objectives of the Bank are expressed in literary form, and not specified clearly, therefore there is a danger of it being misinterpreted in the ways of one's benefit by the concerned.

4. Resources Mobilizations

a. Major concentration of resources mobilization of NIBL is at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.

b. Deposit mobilized by the Bank is found to be considerably growing every year with an average growth over the period of last seven years being as high as 54.88%.

c. The targets set for deposit mobilization by the Bank has been well met every year.

d. From the data analysis of deposit budget and actual achievements, by coefficient of variance, it is found that, the actual deposits are more variable than the budgeted one.

e. From regression analysis of the budgeted and actual deposits, remaining the trend same for the coming year too, the deposit to be mobilized by the bank by the end of F/Y 2065/066 shall reach upto 42860.157 million.

5. Resources Deployment

a. Bank's resources deployment for non yielding liquid assets (cash and bank Balance) is increasing every year, which is detrimental to profitability objectives, but it is supportive to meeting liquidity requirements of the Bank.

b. Major portion of the resources have been deployed in LDO.
c. The targets for deployment toward LDO have been well met every year.
d. LDO of the Bank has found to be considerably increasing every year, with an average growth over the period of last seven years is as high as 31.93%
e. From the analysis of Budgeted and Actual LDO with the help of co-efficient of variance, it is found that, the actual LDO is more variable than the budgeted one.
f. From the regression analysis of budgeted and actual deposit, remaining the trend same as before, the estimated LDO by the end of F/Y 2065/066 shall be of 34989.167 million.
g. CD Ratio (Credit to Deposit Ratio, ratio of LDO on total Deposit expressed in percent term) of the Bank is high. The average CD ratio of the Bank for the period of last seven years is as high as 69.87%.
h. The data analysis of LDO and deposit, with the help of Karl Person's co-efficient of correlation shows that, the deposit and the LDO are perfectly correlated.
i. The data analysis of Deposit and LDO with the help of coefficient of variation shows that LDO is more variable than the Deposit.

6. Non-Funded business activities

a. Outstanding Letter of Credit liability of the bank is increasing every year however the growth is not consistent.
b. Outstanding guarantee liability of the bank is fluctuating.

7. Expenditure

Interest expenses amount is the highest among total expenses items of the Bank every year.

a. The interest expenses of the bank is found increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.
b. Average cost of deposit (calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year end expressed in percent term) of the bank is found to be increasing.
c. Other expenses of the bank are also in increasing trend every year.

8. Revenue

a. Interest income amount of the Bank is the highest among other income items in the total Revenue

b. 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 LDO.
c. Average yield on LDO (ratio of interest income on total LDO expressed in percent term) was at the lowest level of 9% in the first year, which increased afterwards and reached upto 14.14 % during F/Y 064/065.
d. The other income of Bank is also in increasing trend.
e. The interest spread or the amount of interest margin is found to be increasing every year. From the study it is found that during the period of last five years, average 68.32% of interest income is spent over paying interest to depositors leaving the interest margin or spread on average of 31.68% of interest income amount.
f. Net burden of the Bank is increasing every year, but as the average rate of growth of other income is higher than that of other expenses, it can be expected that it would not hamper much to the profitability if the same trend is continued.
g. The bank has suffered a loss of Rs. 4.993 million during the first year of its operation. It is in constantly increasing trend afterward. As the rate of growth of spread is higher than that of burden, the profitability of the bank is increasing.

9. Ratio Analysis

a. The average current ratio of the bank has found to be always higher than standard ratio of 2:1, which shows satisfactory liquidity position of the bank.
b. Generally the debt equity ratio of the banks are higher because they mobilize fixed deposit much more times of their capital fund. NB bank is also not exception to it. The average debt equity ratio of the Bank is approximately 10:1.
c. The average Interest Coverage Ratio of the bank is 1.22 times during the study period.
d. From the study of total number of manpower and total volume of overall activities of the bank, it *is* found that the volume of business per employee is increasing every year, which suggests increasing productivity of manpower.
e. From the profitability ratio, it is found that, the ROC (Return on capital) is negative for the first year, afterward it is increasing gradually except in F/Y 057/058 where it has slightly decreased. This may be due to higher rate of increase in capital fund than that of net profit.
f. From the cost volume profit analysis, the break even income level of the bank

is found to be Rs. 26.83 Crore and BEP LDO and BEP Deposit to be 217.41 crore and 270.85 crore respectively.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary

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

To remain as the major contributing factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of a Bank, it must ensure reasonable profitability. As the Banks are formed as joint stock companies promoted by shareholders investment, it must give reasonable return on the fund of the shareholders. Further by the profit made by the bank, it may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the .morale of the employees and motivate them for better performances.

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial Bank also, being a commercial institution, has to plan for the reasonable profit earnings. Profit planning, in short, is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. This study aims at amining the applications of profit planning in a commercial bank, with a specific case study of Nepal Bangladesh Bank.

Nepal Investment Bank is one of the well-run commercial bank in Nepal established in the year 1986 with a joint venture between Nepalese and French partners. As the bank has just completed 23 years of its operation, its history is not that long in comparison to other older Banks RBB, NBL Nabil Bank etc.

This study has tried to cover the various aspects of Budgeting and Profit Planning in the Bank from the time of its inception to the end of fiscal year 2064/065. In the first introductory chapter, this study report has tried to give brief introduction of banking and its relation to the economy, brief profile of the concerned bank, general concepts to the Profit and profit planning, the problem statement, objective of the study and its scope, limitations and significance.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and internet materials from relevant web sites were also consulted. The works were compiled into the chapter two titled as ‘Review of Literature’ of this study report.

Research methodologies followed for this research works are mentioned in the Chapter three titled as ‘Research Methodology’.

Data relating to various activities of the Bank has been collected, presented in tabular and various diagram form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, mathematical and statistical tools have been listed in a systematic manner. All these works are compiled in the forth chapter titled as ‘Data Presentation and Analysis’ of this study.

Finally, the summary, Major findings and the recommendation made by the researcher by this study are hereby being presented in this current chapter, chapter five titled as ‘Summary, Major findings and Recommendations.’

5.2. Conclusion:

On the basis of major findings of study some conclusion has drawn about the NIBL. The bank is more conscious about its human resources as they have the policy of skill development programs, reward system and other motivational activities. NIBL only one Nepalese bank achieved the bank of the year award three times. NIBL increasing its internal fund by increasing capital year by year this means strengthen their capability internally. NIBL 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 NIBL is also remarkable since it gives the return to bank with out 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 relationship between loan loss provision and o/s LDO shows that the doubtful debt is decreasing trend. The major income source is interest margin the trend of interest margin is increasing trend every year.

The liquidity position of NIBL is better position bank has maintained the cash and bank balance to met the current obligations. The financial strength of NIBL is strong since Debt equity ratio shows that the NIBL use more internal fund to repay its borrowings.

The return on assets and return on capital is satisfactory of NIBL it shows the good earning capacity of the bank. The result of the study shows the overall performance of NIBL is satisfactory and progressive.

5.3. Recommendations

On the basis of the study on Profit Planning of NB Bank, the following suggestions are recommended to improve the profit planning system of the Bank:

A. In the internal management and personnel part

1. Level wise specific job description and responsibility assignment should be mentioned clearly.
2. Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time of the chief executive officer *for* other productive use.
3. Employee training at advance level should be given more focus in order to keep the menpower updated with the changing practices and the technologies.
4. It is suggested to the Bank to form a specific Planning and Research Department, which shall be responsible for developing new innovative products, further development and up-gradation of existing products, which in turn ensure better profitable business for the bank.

5. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head Office.
6. Objective of the Bank should be clearly defined in order to avoid the risk of it being misinterpreted.

B. In the Business part

1. The average cost of deposit of the Bank is high, therefore Bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risky for the Bank.
2. Banks CD ratio is high, which is rather a compulsion for the bank to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquidity and is more risky for the bank and calls for more provision for loan loss. In this way the profitability of the bank also get hampered on the long run. Therefore the Bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.
3. LDO of the bank has increasing significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures required (such as trained menpower, logistics, etc.) are not adequate. Therefore with such poor infrastructures, it is not advisable to go aggressively in LDO. The Bank should keep adequate requiredd infrastructure to support its objectives.
4. The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of t} e Bank (i.e.- Spread) not to exceed 5%. Therefore the bank has to put more focus on the other kind of funded activities by which it shall increasing income from other sources than interest to increase its profitability.
5. Expenses can not be avoided and always are growing with increasing activities, but it should be optimize and should be related with the income generating activities. Bank should minimize those expenses which are not related to income earning. Other expenses than interest form a burden to the gross profit margin (interest margin) of the bank, therefore lowering the other expenses the bank shall enhance its profit.
6. Net profit of the Bank is the amount, which is obtained by subtracting the amount

of net burden from the amount of gross interest margin. Therefore, Bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses. At the same time it should take a policy to make the interest margin at the maximum extent as allowed by the central Bank's norm.

With the above mentioned summary, Major Findings from the study and the recommendations suggested, the report is concluded.

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Appendix 1

Status of Budgeted and Actual Deposits

Fiscal Year	Budgeted Amount	Actual Deposit	X-X=x	Y-Y=y	x^2	
2060/061	11524680	11524680	-8347150	-9204748	69674920426256	84
2061/062	14254574	14254574	-5617256	-6474854	31553569884635	41
2062/063	18927305	18927305	-944525	-1802123	892128302085	3
2063/064	23659131	24488856	3787301	3759428	14343647444363	14
2064/065	30993462	34451726	11121632	13722298	123690687221792	188
	99359152	103647141	0	0	240154953279132	332

Arithmetic Mean of X $= \dfrac{Sum of X}{N}$

$= \dfrac{99359152}{5}$

= 19871830

Arithmetic Mean of Y $= \dfrac{Sum of Y}{N}$

$= \dfrac{103647141}{5}$

= 20729428

S.D of X = √1/N - 1 $\sum (X - X)^2$

= √240154953279132/5 -1