PROFIT PLANNING AND CONTROL OF MACHHAPUCHHRE BANK LIMITED

By

BISHNU PRASAD ADHIKARI

Shanker Dev Campus

Campus Roll No.: 680/061

T.U. Regd. No.: 7-1-48-1367-99

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the degree of Master of Business Studies (MBS)

Kathmandu, Nepal

July 2010

RECOMMENDATION

This is to certify that the thesis

Submitted by:

BISHNU PRASAD ADHIKARI

Entitled:

PROFIT PLANNING AND CONTROL OF MACHHAPUCHHRE BANK LIMITED

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

……………………..…………..……..	........…………..…….….………	……………..…………………
Asso. Prof. Prakash Singh Pradhan	**Prof. Bishweshor Man Shrestha**	**Prof. Dr. Kamal Deep Dhakal**
(Thesis Supervisor)	**(Head, Research Department)**	**(Campus Chief)**

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

BISHNU PRASAD ADHIKARI

Entitled:

PROFIT PLANNING AND CONTROL OF MACHHAPUCHHRE BANK LIMITED

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

<u>Viva-Voce Committee</u>

Head, Research Department ………………………..………

Member (Thesis Supervisor) …..………………………..

Member (External Expert) …..…………………………..…

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Profit Planning and Control of Machhapuchhre Bank Limited**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Prakash Singh Pradhan** of Shanker Dev Campus, T.U.

....

Bishnu Prasad Adhikari

T.U. Regd. No.: 7-1-48-1367-99

Campus Roll No. : 680/061

ACKNOWLEDGEMENT

This thesis entitled *"Profit Planning and Control of Machhapuchhre Bank Limited"* has been prepared in partial fulfillment for the degree of Masters of Business Studies (MBS) under the supervision of Asso. Prof. Prakash Singh Pradhan of Shanker Dev Campus.

I owe an indebtedness to all reputed authors whose writings have provided me the necessary guidance and invaluable material for the enrichment of my thesis in all possible ways. I am equally thankful to all those personalities who are directly and indirectly involved conducting this research and are associated with me in different capacities for this help, suggestions and encouragement. I am grateful to many individuals and institutions whose words have contributed to my understanding whether or not they are identified here or not.

Needless to say 'to err is human' and I cannot to the expectation. For any remaining error in the calculation and the description reported in this thesis are, of course, entirely my responsibilities. I hope the possible errors would be covered by the subsequent studies in this field in this future.

Bishnu Prasad Adhikari

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country because it is not possible to develop all the sectors by the investment of funds by the Government alone. Commercial bank occupies quite an important place in the framework of every economy because it provides capital for the development of industry, trade and business by investing the saving collected as deposits from public. A bank is an institution that deals with money and credit. It accepts deposits from individuals and business institutions and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Banks are the most important financial institutions in the economy. They are also the lending buyers of bond and cater to the need for financial services to the public and their enterprises. They are also the most important source of short-term working capital for business and long-term business loans for new plants and equipments. Therefore, Banks are the principle source of credit for individual business and government. Bank is a dealer of money. At present context, bank is not only confined to accepting deposits and disbursing loan but also engaged in different function as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills facilitating foreign trades through letter of credit (LC) etc.

Nepal is adopting mixed economy where public and private sectors co-exist. Nepal is a developing country. In any economy, the importance of financial sector in general and banking sector in particular can not be undermined. Banking sector definitely plays a vital role in the overall development of an economy. The

Nepalese banking sector is at an exciting point in its development. The opportunities to enter new business and new markets and to deliver higher levels of customer services are immense. As the Nepalese banks position themselves as financial service providers, banking business is getting refined. Technology is unsetting the earlier business process and costumers‟ behavior is undergoing considerable changes. These have enhanced the forces of competition.

It is said that the banking sector mirrors the large economy. Its linkage to all sectors makes it a proxy for what is happening in the economy as a whole. Indeed, the Nepalese banking sector today has the same sense of excitement and opportunity that is evident in the Nepalese economy. Nepal’s economic progress is being declined, political stability is not cleared and agriculture production is not sufficient, the number of financial institution is being increased day by day.

Increasing financial institution has no harms for the country. This will help the nation’s economic growth. From side of customer also they will get cheapest and best service in the banking field and it is sure that any business activities will help youth and educated unemployment problem will be decreased. But there is a little harder for self banking and financial institutions. All the financial institutions small or large are being involved only in dealing with undifferentiated Vanilla banking products. Because of numerous increment of financial institution, the tough competition is raised automatically among them. So the FIs are developing there skills and products to attract the customers and increasing interest to saver and decreasing interest to creditors.

The primary objective of this joint venture is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc. that means they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

In summary, increase in number of Bank and financial institution may provide positive impact for nation and its people. However, the tough competition among them with regard to management improvement, transparencies of transaction, globalization of marketing and compliance of NRB rules and regulation will make them hard to sustain with better performance.

As a management student, selected to know the profit planning of Standard Chartered Bank Nepal Limited. Many industries and construction companies are emerging. For them a lot of fund is needed. So that banks provide loans with security. Banks are largely investing in hydro sector as well as construction, trade, business, education, health, sport etc. Their contribution is highly recognized.

Especially, commercial banks that collect money from public giving low rate of interest and granting loan with high interest rate. The difference between interests is the profit along with commission and charge deducting all kinds of expenses.

1.2 Introduction of Bank

Meaning of Bank

Simply we can say that bank is an institution, which deals in money & credit. R.S. Sayers-"Ordinary banking business consists of changing cash for bank deposits & bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bills of exchange, government, bonds, the secured or unsecured promises of businessmen to repay." Indian Company Acts defines banking as "The accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise withdrawal by cheque, draft or otherwise." Similarly, United States Laws has defined it as "Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank."

"Banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development. Bank renders valuable service to trade and industry. Industrial development can take place only if sufficient money is invested in industries. Banks undertake the stupendous tasks by mobilizing the saving of the people and lending the same to the traders and industrialists. The bank helps in the uniform development of the different regions in the country" (Munch and Rechard, 1989: 281-282).

The banking business has its genesis form its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit card business, documentary credit, traveler cheques business etc.

Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early days of the business. "The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments and the techniques used in performing these functions" (Bhattacharya, 1998: XV). A banker or bank is a financial institution whose primary activity is to act as a payment agent for customer and to borrow and lend money.

Need of Bank

A well developed banking system plays an important role in the economic development of a country. A country, developing or developed need adequate and well-diversified banking services for the development of any concerned sector. In the modern economy, banks are to be considered not merely as the dealers in money but also the leaders in development. Therefore, banking is a backbone of any country’s economy. Bank plays vital role in the overall development of the nation. Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. Following are some of the needs of establishing financial institution 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 financial institutions have become much more significant than ever. Their activities for the poor can be considered as the major role-played by the endeavor toward poverty alleviation.

Historical Background of Banks

The evolution of banking industry had started a long time back, during ancient time. The name bank derives from the Italian word banco "desk/bench", used during the Renaissance by Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times. In 1157, the first bank named “Bank of vanish” was established. The first modern bank was found in Italy in Genoa in 1406, its name was Banco di San Giorgio (Bank of St. George). But after the establishment of “Bank of England” in 1694, modern banking was begun. Now, there are a lot of banks that are providing quality services world widely. To think about business, trade even life without bank is now impossible. For the contribution of economic development, banking sector plays vital role. In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadar Shakhwa, a surda merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. The establishment of the "Tejaratha Adda" during the year 1877 AD was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. Tejaratha Adda distributed credit facilities to the public especially on the collateral of gold and sliver. Hence, the establishment of Tejarath Adda" could be regarded as pioneer foundation of banking in Nepal. When government started trade with India and Tibet the need of banking institution was realized. In the 1937 AD, Nepal Bank Ltd was established under the "Nepal Bank Act 1937" as the first commercial bank of Nepal with 10 million authorized capitals. Rastriya Banija bank, the second commercial bank was established in the year 1965 AD. RBB being the largest commercial bank plays a major role in the economy. The financial shapes of the two old banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position . Having felt need of development of banking sector and to help the government for formulate monetary policies, fiscal policies, issue of currency etc., Nepal Rastra Bank was established in 1956 A.D. as a central bank of the nation under Nepal Rastra Bank act 1956 A.D. Since then, it has been functioning as the government bank and has contributed to the growth of financial sector. With the opening of Nabil Bank Ltd. in 1985 AD, the door of opening commercial banks was opened to the private sectors. As the commercial banks grew they stopped entertaining small projects. Thus a scope for opening finance companies emerged. Nepal Housing & Development Finance Company was the first finance company (www.nrb.org.np). No matter what name give to banks like Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, etc, they all perform the same basic function. Like other organization, the main objective of the banking industries will be profit maximization and wealth maximization. Many other financial activities were added over time. For example banks are important players in financial markets and offer financial services such as investment funds. Banks have influence economics and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies.

1.3. Conceptual 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 applies 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 the objectives have a great significance for the proper 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 evaluating 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 a tool of direction, co-ordination 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. According to G.A. Welsch, R.W. Hilton and P.N. Gordon "A comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of planning and controlling functions.''

Specially, PPC model involves.

i. Development and application of broad and long – range objectives 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.

The basic concept 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 up to implementation 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 under the Company Act 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 measurement of the efficiency.

1.4 Profile of Machhapuchhre Bank Ltd

Introduction

Machhapuchhre Bank was registered in 1998 as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today, with a paid up capital of above 1,314 million rupees, it is one of the full fledged commercial bank operating in Nepal; and it ranks in the topmost among the private commercial banks. Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices. Machhapuchchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named GLOBUS BANKING SYSTEM developed by Temenos NV, Switzerland.Currently it is using the latest version of GLOBUS,referred as T-24 BANKING SYSTEM. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers. The bank in the last few years have really opened up with branches spread all around the country. At this stage, it has its Corporate Office in Kathmandu and branch offices in other parts of Kathmandu, Damauli, Bhairahawa, Birgunj, Banepa, and different parts of Pokhara in addition to the Head Office in Naya Bazar, Pokhara. A full-fledged banking branch is in operation in Jomsom located high up in the mountains too. The bank aims to serve the people of both the urban and rural areas. Currently the bank has 12847 investors and 177 thousand customers.

Deposit Schemes

Current Accounts

It can be opened in the names of Individuals (singly or jointly), Proprietary Concerns, Partnership Firms, Companies, Corporations, Trusts, Government Agencies and other Organizations.

Call Deposit

Any amount exceeding the agreed minimum balance in Current account is automatically transferred to call deposit on a daily basis. Interest will be calculated on daily call account balance at the agreed rate and shall be credited to current account on semi annually basis.

Saving Accounts

It is suitable for inculcating the habit of saving among customers. It offers liquidity for the money and also earns interest. Saving accounts can be opened in the name of Individuals (singly or jointly), Minors (children aged below 16 years) and other non-profit organizations.

Royal Saving Accounts

Such accounts are suitable for the savers who maintains big amount in the account for any future needs. We offer attractive package of facilities in addition to interest and liquidity.

Pewa Bachat Khata

It is a Personal Saving Account. Only females can open this account. (However, account operator can be male if accountholder authorizes so). Account can be opened with NPR 500/- This account can be opened in the joint name of minor as well. (Minor can be son or daughter). Account can be opened in Local currency only.

Yuva Bachat Khata

It is a new saving account scheme for youths.

Higher Education

This is a Personal Individual Deposit Account opened on behalf of individuals below 14 years of age by their parents/guardians

Kiddy Bank Account

Kiddy Bank Account is a variant of Savings Account, which can be opened in the name of children below 16 years of age, for their future savings. It has higher interest rate than that of the normal Savings Account.

Access Plus Account

Access Plus Account is a variant of Savings Account, specifically designed for young people (students/ graduates/ young professionals).

Diva Account

Diva Account is a variant of Savings Account, specifically designed for the modern woman who wants value for her money.

Loan and Advance

Machhapuchchhre Bank Limited provides various types of Loans and Advances designed to suit the varied requirements of Industrialist, Business Houses, Professionals, Entrepreneurs and Individuals. Please select one requirement suitable to your.

Your requirement is something special, please contact to our nearest branch and we provide you a product tailor-made to your needs.

- Term Loan
- Working Capital (Overdraft / Short Term Loan)
- Trust Receipt / Importers' Loan
- Packing Credit / Exporters' Loan
- Priority Sector / Deprived Sector Loan
- Home Loan
- Hire Purchase Loan
- Education Loan
- Foreign Employment Loan
- Loan Against
  - 1st Class Bank Guarantee
  - Other Bank Guarantee
  - Other Financial Guarantee
  - Our Fixed Deposit
  - Other's Fixed Deposit
  - Government Bonds
  - Foreign Currency Deposits
  - Marketable Securities
- Loan against Marketable Securities
- Consortium / Syndicate Loan
- Other Loans

Product and Services

Mobile Banking

Machhapuchchhre Bank brings you the SMS Banking facility - a facility that lets you keep track of your account even while you are on the move. This facility is available for all your deposit Accounts.

MBL Debit Card

The bank has joined hands with Smart Choice Technologies (SCT**)**, the first company in Nepal to provide networked ATMs.

Safe Deposit Lockers

Such lockers are available in Head Office in Pokhara, Kathmandu, Newroad and Birgunj branch respectively at a very nominal rent allowing you to have very safe custody of your valuables. You are fully assured of the safety of your valuables.

Money 2 Nepal

The bank has been putting a lot of emphasis on the proper channeling of funds from different parts of the world to Nepal. It has established relations with the Houses for this purpose.

SME Banking

MBL provides SME Banking service. It issues Letter of Credit, overdraft, Short-term loan, Demand loan, Term loan, Trust Receipt Loan/Importer's Loan, Export Credit, bank guarantees

Online Banking

MBL Online Banking, our internet banking service, connects the customers safely to their bank account any time, anywhere

Broad Objectives and Goals of Machhapuchhre Bank

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

Vision

The vision of the Bank has been stated as "Bankers with state of the art technology strive for the growth with profitability, professionalism and excellence.'' It is mentioned that the profitability is the core vision that shall be achieved with professionalism and excellence.

Mission

The mission of the Bank states " We at MB, our goal is to aim and achieve the highest standard of professionalism and service to create a lifelong relationship with our client by providing customized financial products and services through proactive management. It further states "Our multinational team of innovative and dynamic master- minds march across the geographical and cultural boundaries with contemporary, competitively designed and differentiated quality financial products and services to achieve strategic advantages in a dynamic environment." Thus, the objectives and goals set by the bank can be noted from above statements as follows: To aim and achieve highest standard of professionalism to aim and achieve to provide highest standard of customized products and services to their clients to create lifelong relationship with their client to maintain management proactively. to achieve strategic advantages in the dynamic environment over their contemporary with their competitively designed and differentiated quality financial products.

Corporate Philosophy

The objectives of the Bank have been further reflected in the Corporate Philosophy of the Bank that states as follows: "Life long relationship with our client is our most valuable asset. We serve with excellence, always standing by to cater the need of our valued client. We develop relationship of mutual respect and faith founded on the bedrock of commitment to provide with value added and quality service. We create an environment that is Progressive, Productive and Professional encouraging, Management by group objectives and teamwork through proactive and multidisciplinary management to promote corporate excellence. We strive to enhance shareholders wealth remaining catalyst to the rapid growth and socio- economic development of the nation."

Technology

From its operation, the bank has been providing the services with latest technologies and computerized equipments. The bank is currently providing Tele banking facilities, which enables the clients to get the information as well as statements through fax whenever required simply by dialing a phone. The bank is using PUMORI PLUS banking software designed by Mercantile office system as its banking software. The bank has also obtained a membership of SWIFT which has enables it to transmit message of remittances, letter of credit etc. to other member bank in no time. The bank has also established an ATM at it Putalisadak branch to facilitate the banking transaction of the clients. The bank is providing ABBS facility and Embanking to its client.

General Activities

As like in other business concerns, commercial Banks are also very much concerned about making profit because profit is the major element of each and every business endeavor for their survival, further development and fulfilling social expectations. In modern business, the 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 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.

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

1. Acceptance of deposit
2. Providing of 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

Share Capital & Ownership of MBL

Particular F/Y 2064/065

1 Share Capital

1.1 Authorized Capital 1,000,000,000

A) 20,000,000 Ordinary Shares of Rs. 100 each 2,000,000,000

1.2 Issued Capital 1,000,000,000

A) 14792696 Ordinary Shares of Rs. 100 each 1479269600

1.3 Paid Up Capital 620,784,000

14792696 Ordinary Shares of Rs. 100 each 1479269600

Share Ownership

Promoters	51%
General Public	49%

Management Team

Surya Bahadur K.C.	Chairman
Ajad shrestha	Director
Gita shrestha	Director
Prakash K.C.	Director
Naresh Bahadur Malla	Director
Praneshwor Pokhrel	Director
Kishor Kumar shah	Director

1.5 Statement of the Problem

Profit Planning and Control (PPC) model provides a tool for more effective 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 deployment of those resources, which generates income. The differential interest income over the interest cost, which is popularly called as Interest Margin or Spread, can be considered as the Contribution Margin in the Profit of the bank. The other operational expenses form a burden to the 'Contribution Margin', which, the 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 MBL. Furthermore, the study has tried to answer the following research questions:

1. Does MBL has appropriate profit planning system?
2. Does the Bank mobilize the deposit and other resources at optimum cost?
3. Does the Bank deploy the resources generating satisfactory yield?
4. Does the bank giving proper attention toward non-funded business activities thereby generating satisfactory amount of other income?
5. What are the overall PPC problems of MB and what suggestions can be recommended for their proper solutions

1.6 Objective of the Study

The basic objective of this study is to appraise the application of comprehensive PPC system in MBL. Thus the major objectives are:

1. To analyze the trend of profit of the fiscal year 2060/61 to 2065/66 of Nepal Machhapuchhre Bank.
2. To highlight the current profit-planning premises adopted and its effectiveness in MBL
3. To observe MBL's Profit planning on the basis of overall managerial Budgets developed by the Bank
4. To analyze the variance of budgeted allocation and actual achievements
5. To study the growth of the business of the Bank over the period
6. To provide suggestion and recommendations for improvements of the overall profitability of the bank

1.7 Limitation of the Study

Every research has certain boundary since the world is dynamic therefore 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:

1. The study is made on the profit planning of MBL.

2. The profit planning of MB has been analyzed, leaving other areas uncovered.
3. The study covers the period of seven years from F/Y 2060/61 to 2065/66 only.
4. Primary data is collected only from the informal discussion with the personnel of the Bank.
5. The accuracy of this study is based on the data available from the management of MBL, the various published documents of the Bank and the response made by the respondent during the informal discussion.

1.8 Significance of the Study

This research is concerned with the profit planning in commercial Banks with a case study of MBL after the management taken Nepal Rastra Bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization. Accomplishment of objectives in every organization depends upon the application of scarce resources most effectively. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. Therefore the planning process of every organization will be effective and result oriented, then the pace of development naturally steps forward. Profit planning is the core area of management. It tells us profit as the most important indicators for judging managerial efficiency because profit does not just happen for this every organization has to manage its profit. Various functional budgets are the basic tools for planning of profit & control over them. This research study may be useful for those who want to know the PPC in the MBL. It may also be helpful for future researchers as a reference material

1.9 Design of the Study

Chapter – 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 MBL Objectives of the Study, and Statement of the Problems, Significance of the Study and Scope and Limitation of the Study.

Chapter – II Review of Literature

This Chapter includes; Concept of Commercial Banks and their various activities, Broad Pictures of PPC and Review of previous research work.

Chapter – III Research Methodology

The research Design, Data Collection Procedures and the Tools and techniques to be employed for the analysis of data.

Chapter – 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.

Chapter – V Summary, Conclusion and Recommendations

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper.

Besides these chapters, bibliography and annual reports are included in this research paper.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Profit Planning as a Concept

"The term comprehensive profit planning and control has recently come into existence 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 planning and control functions. Profit planning and control includes the following matters:

1. The development and application of broad and long range objectives for the enterprises.
2. The specification of enterprise goals.
3. The development of strategic long-range profit plan in broad terms.
4. The specification of tactical short-range profit detailed by assigned responsibility (division, products, and projects).
5. The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures." (Welsh 1999) 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 conferences 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" (Geneva Conference Doc, 1980).

Profit plan is 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 manner that does not result in a loss. (Mohan & Goyal 1981: 305). Profit plan represents an overall plan of operations, cover 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 day's 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 an objective established 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 include all of its important elements. It has main objectives of attaining the optimum profit in the enterprises.

2.2 Concept of Profit

A general term for the excess of revenue, proceeds or selling price over related costs; any pecuniary benefit arising form a commercial operation, from one or more individual transaction of any person; usually preceded by a qualifying word or phrase signifying the inclusiveness of the off setting expenses or cost as "gross" or "net" according to and followed by an indication of the source and time covered as "from operations for the year" either the singular or the plural of the world may be used where two or more related transactions are considered together. Profit is the primary measure of business success. At least, normal profit is necessary for the operations of any kind of organizations. Without profit organization can't operate its functions. A sound banking system with wide spread of branches through out the country, availing varieties of banking services to fulfill commerce, industry, trade & agriculture needs of the country is of crucial important of Nepal. Making profit is not easy because “Profits do not just happen, profits are managed” (Lynch, 1984: 99). “Profit is a motivating factor behind many managerial activities. Profit is financial reward. Economics theories on profit may be put in three broad categories. The first theory looks upon profit as the reward for bearing risks. The second view, profit as the consequence of friction and imperfection in the competitive adjustment of the economy to dynamic changes. Third sees profit as the reward for successful innovation” (Welhs, 2006: 140). A business firm is an organization designed to make profit and profit is the primary measurement of its success. Profit can not be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management.

2.3 Concept of Planning

Planning means deciding in advance what’s to do in future. It is a method of thinking out acts and purpose before hand. Planning is and effective management tool for decision making. It gives direction to the decision makers as well as manager to take the proper decision. All effective planning involve the same basis elements which may be summarized as follows:

1. A clear definition of objectives.
2. An analysis of the steps required for attaining the objectives
3. Examination of risk involved and as assent to the allowance necessary to Cover uncertainties.
4. Calculation of the total time and cost involved.
5. Consideration of the alternative method of reaching the objectives
6. Decision on the method to be implemented

7. Establishment to time schedule for individual part of the agreed plan i.e. relative to calendar time scale. According to Oxford Dictionary, planning means:

(To do something) arrangement for doing or using something considered or workout in advance. Way of arrangement something especially when shown on a drawing scheme. Go according to plan. The term „plan‟ with reference to budgeting has a specific connection. It includes two aspects that have a bearing on the operation of an enterprise.

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 determining 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

a. Establishing enterprise objectives
b. Developing premises about the environment in which they are to be accomplished
c. Selecting a course of action for accomplishing the objectives
d. Initiating activities necessary to translate plans into action and
e. Current preplanning to correct current deficiencies" (Welsch, 2006: 3).

"Management planning and control system proved the comprehensive framework within which organizing, staffing, leading and controlling process is carried out. 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” (Lynch, 1984: 139). Three major function of management are planning, execution and control and these are the key elements of the management process. Business management must plan to its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyzed and handled. “Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that the management can plan its activities and condition, the state of the enterprises that determine its destiny” (Pandey, 1991: 20). Planning is the 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 , s/he can’t be separated from the planning task i.e. their commonality is planning differs as the level. In planning the manger 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 upon planning. Planning is effective management tool for decision maker as well as manager to take the proper decision.

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 is directed towards efficiency.

Planning involves selecting mission and objectives and the action to achieve them it requires decision making that is choosing from among alternative future course of action (Alpine TcMc, 1976: 45). In sum planning is pre-determined course of action for achieving goals or objective effectively at a fluid environment within a certain time frame through the selection of best alternatives among the various alternatives. On the other hand, it holds accountability and responsibility about result to individual. Planning also states what, where and how things will be accomplished. An adequate planning is necessary for control of operations

2.3.1 Concept of Strategic, Tactical & Corporate Planning

Strategic planning is considered as a constituent of corporate planning. It is long range on its time perspective and complete in its breath of scope and depth of penetration. Long range plans are usually from two to five years in length. Sometimes they are detailed and sometimes are not. Very often corporate planning is concerned with long range planning and it is interchangeable used. Corporate planning is concerned with objectives determination and developing means to achieve objectives. It may encompass short range as well as the long range plans depending on the requirement, capabilities of organizations. Corporate planning means the systematic process of setting corporate objectives and making strategic decision and developing the plans necessary to achieve these objectives. It 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 Roberston, “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 department, treat it as a corporate whole. Take full account of the company’s environment before doing up any plan. S. Bhattacharya makes a fair difference between corporate planning and tactical planning could be on the basis of following attributes: Corporate planning is comprehensive and embraces long and short terms where as tactical planning is fragmentary and tends to concentrate on short-term basis.

Corporate planning is systematic which covers the whole planning process logically and sequentially, where as tactical planning is ad-hoc. Corporate planning in formal in which the thinking process, the assumption and the reasons are set down in writing and figure where as tactical planning is informal often no more than idea. The distinction between strategic and tactical planning is related to three dimensions, which are as follows:

2.3.2 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. According to I.M Pandey "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, 1991:35). When an estimate of future condition is made on the systematic basis, the process is referred to as forecasting. Its aim is to reduce the area of uncertainty that management decision making with respect to cost and capital investment

2.3.3 Planning Vs Forecasting

Forecasting and planning is not same thing. A forecast is predication of future event condition or situation where as plans includes a program of intended future events, action and desired results. Forecasting predicts the future events in such a way that the planning process can be formed more actually. Forecasting is our best thinking about what will happen to us in the future. In planning we correspondingly develop our objectives in practical detail to achieve these objectives. A simple definition might be that a forecast is a prediction of future event condition where as a plan includes a program of intended future action and desired results. A forecast is not a plan rather it is a statement of future condition about a particular subject. A forecast should always state the assumptions upon which it is based and it is only input into the development of plans. Actually planning is usually an important part of the total procedures.

2.4 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,

1. Have a power or authority over somebody or something
2. Regular something
3. Management, guidance, restriction
4. Standard of comparison for checking the results of the experiment (Rathmem, 1994:20).

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 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 dominant” (Goet, 2062: 202).

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 words, it is assumed that objectives that objectives, plan, policies, and standards have been developed and communicated to those manager who have the related performance responsibilities. Thus, 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 of new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organization 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 course 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-1999) The comparison of actual result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback. The facts shown in a performance report cannot be changed; however the historical measurement may lead to 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 (1) 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 the action has taken place. Moreover, feedback is of instrumental in re-planning.

2.5 Meaning and Definition of Profit, Planning and Control

Profit, planning and control are an important approach, mainly in profit oriented enterprises. Profit planning is nearly a tool of management, which is used to plan and control business operation and interaction. Profit planning and control is a new term in the literature of business. Though, it is a new term, it is not a new concept in the management. It is also known as comprehensive budgeting. It can be defined as a management planning covering all phase of profit operation for a definite future period. A project planning is a formal expression of policy, plan, objectives and goals established by manager for the concern as a whole as for each sub-division.

The term comprehensive profit planning and control may be broadly defined as a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management. Specifically, it involves the development and application of Broad and long range objectives of the enterprise

Specification of enterprise goals

- A long range profit plan developed in broad term
- A short range profit plan detailed by relevant responsibilities (division, products and projects).

Profit planning and control cannot be through as a separate technique. It cannot be operated in dependently of the total management process. It is integration in different managerial approach and technique such as sales forecasting. Production planning and control, inventory control also focus on performance reporting and evaluation of performance to determine the causes of both high and low performance. “Profit planning or budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of management in respect of the various aspects of the business. Profit planning, in face, is a managerial technique and it is a written plan in which all aspects of business operation with respect of definite future period included. It is a formal statement of policy, plan, objectives and goals established by the top management in respect of some future period. Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a tool, which may be used by the management in planning the future course of action and in controlling actual performance” (Gupta, 1992: 521). Profit planning is management’s primary tool to accomplish its objectives. Because it:

- Provides a disciplined approach to the solution of business problems.

- Develops throughout the organization and atmosphere of profit mindedness, encouraging an attitude of coat-consciousness and maximum assets utilization.
- Coordinates the operating plan of the diverse segments of the business into a single, comprehensive plan.
- Affords the opportunity to appraise systematically every facet of the business as well as examine and restate periodically its basic policies and guiding principles.
- Aids in directing capital and effort into the most profitable channels.

Provides yardsticks or standards to measure performance and gauge the managerial judgment and ability of the individual executive (Gupta,1992:560). The international management institutions conference on budgetary control held at Geneva in 1980 has defined profit plan as and 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 (Intel Mgmt Institutions Geneva Conference Dec, 1980). “Profit plan is as estimation and predetermination of revenues and expenses that estimate 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” (Kulkarni, 1981: 293). “Profit planning represents and overall plan of operations, covers a definite period of time and formulates the planning decision of management. It consists of the operating budget, the financial budget and the appropriation budget” (Kukarni, 1981: 310). “Long range profit planning is systematic and formulized process for purposefully directing and controlling future operations with a view to achieve desired objectives for periods extending beyond one year. The success of each enterprise realizing its optimum profit is determined by the extent, to which it attains its objectives, develops coordinated plans to realize them and exercises control of its entire process constitutes a budgetary planning and control programs" (Kulkarni, 1981: 192).

According to Welsch, the three most relevant aspect of PPC concept are:

- PPC requires major planning decision by management;
- PPC entails pervasive management control activities and;
- PPC recognizes many of the critical behavioral implication throughout the organization (Welsch, 2006: 31). For long range success the stream of managerial decision must generate plans and actions to provide the essential inflows that are necessary to support the planned outflows the enterprise so that reasonable level of profit and returns on investment are earned continuing generation of profit by managerial manipulation of the inflows and outflows provide the substance of profit planning and control. Thus, profit planning is used for development and acceptance of objectives and goals and moving an organization efficiently to achieve those objectives and goals. Profit planning is developed to meet the objectives of effective performance of the management process.

2.5.1 Problems and Limitation of Profit Planning and Control

PPC is not full proof: it suffers from certain problems and limitations. The major problems in developing profit plan are as follows:

1. Developing management sophistication in its application.
2. Developing a realistic plan, objectives and standards.
3. Adequate communication of the attitude, politics and guidelines by higher level of management.
4. Attaining managerial flexibility in application of the system.
5. Seeking the support and involvement of all levels of management.

6. Maintaining effective follow up procedures and adopting the budgeting system wherever the circumstances change. Management must consider the following limitation in using the PPC system as a device to solve managerial problems:
   - The profit plan is based on estimation: The strength or weakness of a profit planning program depends to a large degree of accuracy with which the basic estimates are made.
   - A PPC program must be continually adopted to fit changing circumstances.
   - Execution of a profit plan will not occur automatically: Once the profit plans are complete, they will be effective only if all responsible executives exert continuous and aggressive effort toward their accomplishment.
   - The profit plan will not take the place of management and administration: PPC does not take place of management; it is a tool that can aid in performing the management process in relevant ways (Welsch, 2006: 61).

2.5.2 Objectives of Profit Planning and Control

The main objectives of the profit planning are as follows:

- To state the firms goal clearly formal terms to avoid confusion and facility their attainability.
- To avoid the detailed plan of action for reducing uncertainty and for its proper directions of individual and group effort to achieve goals.
- To communicate expectation to all concerned with management of the firms. So that they are understood, supported and implemented.
- To coordinate the activities and efforts in such a way that the use of resources is maximizes.
- To provide a coordinated plan of action which is designed to achieve the estimates reflected in the budget.

- To provide a guide for management decision in adjusting plan and objectives as uncontrollable conditions change.

2.5.3 Importance of Profit Planning and Control

The major importance of profit planning is as follows:

i. It reduces cost by increasing the span of control because less supervision in needed. Profit planning pinpoints efficiency and inefficiency.
ii. It forces management to give adequate attention to the effect of general business conditions.
iii. Profit planning rewards high performance and seeks to correct unfavorable performance.
iv. Profit planning forces management top consider expected future trends and conditions.
v. Profit plan compels management to plan for the most economical use of the labor, material and capital.
vi. Profit plan requires adequate and appropriates historical accounting data. It forces a periodic self analysis of the economy.
vii. It forces recognition and collective actions. It promotes understanding among members and management of their coworkers problems (Welsch, 2006: 60).

2.5.4 Process of Profit Planning

The planning process should involves periodic consistent and in depth re-planning so that all aspect of operation are carefully re-examined and re-revaluated. This prevents a budget planning approach that involves only justification of increases over the prior period. The concept of re-evaluation and necessary of justify all aspect of the plants periodically. Finds its strongest support in what has been called zero base budgeting,

The major processes of profit planning are:

1. Identification and evaluation of internal variables: identification involves separate consideration of variable that are not controllable and those that are

controllable. Management planning must focus on how to manipulate the controllable and non controllable variables.

2. Development of the broad objective of the enterprises: it is responsibility of executive management. The statement of broad objective should express the mission, vision and ethical character of the enterprises. Its purpose is to provide enterprises identity. Continuity of purpose and identification.
3. Development of specific goal for the enterprises: The purpose of the goal phase of the profit planning process is to bring the statement of broad objective into sharper focus and to move from the realms of general information to move specific planning information. 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 goal.
4. Development and evaluation of company strategies: Company's strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term and long term.
5. Executive management planning instruction: This phase involves communication of the substantive plan to middle and lower management levels. It explains the broad objectives, enterprises goals, enterprises strategies and tactical profit plans. It is also called the statement of planning premises of planning guidelines.
6. Preparation and evaluation of project: Project plans encompass such items as plan for improvement of present products, new industries exist from products and industries new technology and other major activities that can be separately identified for planning purpose.
7. Development and approval strategic and tactical profit plan: When the managers of the various responsibility contras in the enterprises receive the executive management planning instructions and the project plans. They can

begin intensive activities to develop their respective strategic and tactical profit plans.

8. Implementation of Profit Plan: Implementation of management that has been developed and improves in the planning process involves the management function of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies and polices should be communicated and understood by subordinates. There are many factors involved in management leadership. However, a comprehensive profit planning program may aid substantially in performing this functions. Plans, policies and strategies developed through significant participation establish the foundation for effective communication.
9. Use of periodic performance report: As profit plans are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting departments on a monthly basis.
10. Use flexible budgets: The flexible expenses budget is also referred to the variable budgets, sliding scale budgets; expenses control budgets and formula budget. The flexible budget concept applies only to expenses. This is completely separate from the profit plan, but it used to complement. Many companies do not use flexible budget procedure (Welsch, 2006: 73).

2.6 Budgeting as Tools for PPC

Budget planning is one of the methods used for planning, coordinating and control of activates of an enterprises. The budget is a technique for comparing various alternatives in terms of results and costs. It forces consideration of all compassing climbs as to the directions in which the effort of an organization should be applied. Budgeting is the heart of the cut of business decision. It involves objectives and compares the means of reaching them. Budgeting has long been recognized as the accepted procedure for profit planning and many of the most successful companies have applied it to good effect over a period of years (Alpine, 1976). Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in an organization. It serves as a guide to conduct operations and a basis for evaluating actual results. Budget as tools of management are an integral part of the broader system of planning and control. One of the primary objects of an annual budget is to measure the profit expectations for the next financial year with due regards to all the circumstances that can influence the trading prospects. Profits do not emerge of their own accord. They have to be influenced by management. The quality of management is often judged by the size of the profit figures at the end of the financial year. For its own protection and in the interest of business, management must plan to make profit and the accepted basis for this is the annual budget, properly supported by long-term strategic planning and operation planning.

Profit planning is a heart of management and budgeting is sole appropriate technique for this most for the Nepalese PEC have been suffering the problem of poor performance and sometimes losses also. Functional budget are the tools for planning and controlling the profit of any enterprise. In budgeting, we plan the desired profit and in the time of execution the performance is verified and controlled by the budget. “Budgeting as a tool of planning and control is closely related to the broader system of planning in any organization will pursue and the fundamental policies that will guide it. In operational term budgeting involves four steps:

1. Setting the objectives
2. Specify the goals
3. Laying down the strategies
4. Preparation of budgets & profit plans (Khan & Jain, 2003).

A budget is a realistic statement of income and cost objective for a yare. It is a plan against which ensuring actual performance is compared to achievement and control by detecting and correcting off standards performance (Khan & Jain, 2003). A budget is a detailed quantitative plan to guide its operations in the planning organizing and controlling all the financial operating activities of the firms in the forthcoming period (Lynch & Williams, 1984). Thus, the primary purpose of budgeting is profit planning and control and in this connection it is concerned with every aspect and every activity of a business. The essence of the accurate budgeting is to be used to the events and for this reason it is unusual to operate through an annual budget as the ideal project. There is the further aspect that the performance of companies is judged by the annual accounts and it follows that management should focus its profit aims on the same period. There are two distinct stage of budgeting: first the formulation of the plan and the means of achieving them and second the translation of these plans into financial term and preparing a profit budget and balance sheet. Such that, the first stage is generally a function of line management and the second is an accounting function (Alpine, 1976).

2.6.1 Objectives of Budget

The main purpose of budget is to ensure the planned profit of the enterprise. So, it is considered as a tool for planning and controlling the profits on the primary objectives of an annual budget is to measure the profit expectations for the next financial year with due regard to all the circumstances favorable and unfavorable. They can influence the trading prospects. The main purpose of an operating budget can be shown as following:

a. It is a plan, which reflects the policy of a business in financial terms.
b. It is a control document by which management can monitor actual performance. It acts as a motivator of employees.
c. It is a measure against which to evaluate the quality of management.

d. It is a means of forecasting future financial positions.
e. It is means of giving information in organizations future intensions. The purpose of budgeting in a context of an annual budget it to projects an accurately as possible the sale incomes, expenditure and profit for the ensuring year. This is the principle objectives and all other requirement of budgeting term from it.

2.6.2 Budgets and Budgeting

Budgeting is an amalgamation of managerial techniques and approaches whereas the budget is a financial expression for a certain period for certain areas. Budget is a formal statement policy plans, objective and goal established by the top management in respect of some future period. It is more numerical than theory. Budget provides media for self-discipline and control throughout the length, breadth and depth of the organization. We should consider the classification of budget. Nowadays, many types of budget are in use; mainly we can segregate the budget in four types:

1. Expenditure Budget
2. Financial Budget
3. Profits Budget
4. Capital Budget

All or a part of operating cost is expense budget. Financial budget is concerned with cash planning. To plan annual profit is profit budget. Capital budget covers the expenditure of fixed assets. So that some major budgets have been discusses below.

2.7 Sales Budget

Sales plan presents sales unit and sales revenue to be sold in specific time period. It is the most important and most difficult task to prepare. Sales plan provides basic management decisions about marketing. “The sales plan is the foundation for periodic planning in the firm because practically all other enterprises are built on it. The primary source of cash is sales; the need of capital addition, the plan of expenses, the manpower requirement, production level and other important operational aspects depends on the volume of sales. A comprehensive sales plan includes two separate but related plans- the strategic and tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premises. So, the primary purpose of a sales plan is as follows:

1. To reduce uncertainty about future revenues.
2. To incorporate management, judgment and decisions into the planning processes.
3. To provide necessary information for developing other elements of comprehensive profit plan.
4. To facilitate management to control of sales activities” (Goet, 2062: 2). The sales planning process is a necessary part of PPC because (a) it provides for the basic management decisions about marketing, and (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic (Welsch, 2006: 171).

2.7.1 Sales Forecasting and Sales Planning

At first, people think the sales planning and sales forecasting are same. But the sales planning and forecasting are quite different. “Sales forecasting is not a plan, rather it is a statement and or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices, sales, efforts, production and financing. It is converted to a sales plan when management has brought to bear on its judgment, planned strategies, commitment of resources and the managerial commitment to aggressive action to attain sales goal" (Goet, 2062: 2.2).

2.7.2 Types of Sales Plan

Sales plan is the foundation of the all the other plans. It forms a basis for production plan and marketing plan. Comprehensive sales plan includes two separate but related plans.

1. Long Range (Strategic) Sales Plan
2. Short Range (Tactical) Sales Plan

Strategic sales plan is known as long range sales plan. Usually, it covers 3 to 5 or 10 years. As a practical approach, a company may schedule completion of the strategic planning term sales plan as one of the first steps in the overall planning process. It is usually developed as annual amounts. The long term sales plan uses broad grouping of products (Product lines) with separate consideration of major and new products and services. Usually it requires depth analysis of future market potentials, which may be built up from a basic foundation such as population changes, state of economy, industry projections and finally company objectives. Long term management strategies would affect such areas as long term pricing, new directions in marketing efforts, expansion in distribution channels and cost patterns. The influence of managerial strategy decisions is explicitly brought to bear on the long term sales plan primarily on a judgment basis.

In planning short range or tactical sales plan are should consider its long range plan. A general practice in planning for short term sale is to consider time period not more than 12 months future time period detailed by quarter and months for the first quarter. At the end of each months or quarter throughout the year the short-term sales plan is revised or reconstructed base on past period performance. It includes a detailed plan for each major product a groupings of minor products. It is usually developed in terms of physical units and in sales and for service in dollars. Now, on the basis of long range sales plan and short range sales plan is prepared. A short-range sales plan must take consideration of policies and strategies set by long-range sales plan. Tactical plans are usually subject to review and revision on a periodical basis based on period completed immediately. A short-range sales plan should be included considerable detail, where as long range plan should be included broad terms.

2.8 Production Budget

Production budget is the projection of production of goods for specified periods. It has a very important role in planning, coordinating and control on comprehensive profit plan and control. Developments of production plan require the conversion of sales plan into production plans. It should also consider the estimation of future sales and inventory policies. Production planning is the matter of concern for only manufacturing organizations. The production plan specifies the planned volume of each product to be produced for each time period throughout the planning period. This entails the development of policies about efficient production level, use of productive facilities and inventory levels. It can be presented in equation: Production Requirement = Sales Volume + Inventory The main purpose of production plan is to bring balance between the sales, inventory and production. So that firm does not suffer from cost of carrying and cost of not carrying inventory, opportunities cost and stock is run out cost. "The production budget is the initial step in budgeting manufacturing operations.

In addition to the production budget, three other principal budgets are relevant to manufacturing:-

1. Direct material and purchase component budget: It specifies the planned material and component requirement.
2. Labor Budget: It shows the planned quantity and cost of direct labor.
3. Manufacturing expenses or factory overhead budget: It includes the plans to all factories, costs other than direct material and labor. To plan production effectively, the manufacturing operations are necessary for each product. The manger should develop information about the use and output capacities of each manufacturing department. The manager must provide historical data about production units, cost and the availability of resources. Production planning responsibility rests directly upon the production managers to management policies must be considered in such matters as inventory levels, stability of production and capital addition with respect to production planning, the manger must plan an optimum coordination between sale, inventory and production levels.

2.9 Material Purchase and Usage Budget

A comprehensive PPC program includes planning and controlling raw materials and components used in the manufacturing of finished products. Material budget is prepared after the planned production. It is a coordination of the required raw material and parts inventory level of raw material and part that must be purchased. It should be specify quantities of each raw material and part by time, product and responsibility center. The major objectives of material budget are as follow:

- To established effective inventory policy.
- To provide quantity data for purchase
- To provide quantity data to compute marginal cost per units.
- To prepare effective cash budget
- To select cheap and smooth supplies of required raw materials.

The raw material and components parts budget to ensure that the appropriate amounts of raw material and component parts will be on hand at the time required and to plan for the costs of such materials and parts, the tactical short term profit plan should include (i) A detailed budget that specifies the quantity and cost of such materials and parts. (ii) A related budget of materials and parts purchase. Planning raw materials and parts usually requires the following for sub budgets:

a. Material and Parts Budget
b. Material and Parts Purchase Budget
c. Cost of Materials and parts Usage Budget (Welsch, 2006: 240). The three separate sub-budgets are listed above directly related. Collectively, they can be viewed as the material and purchase budgets.

2.10 Direct Labor Budget

It deals the planned direct labor requirements necessary to produce the type and quantities of outputs planned in the production budget. The main objectives of direct labor budget are assessing labor requirements, prepare manpower planning, estimate per unit labor cost, estimate cash budget, control labor budgets etc. Effective planning and systematic control of labor costs are essential for planning and controlling labor costs involves major and complex problem are:

- Personnel needs
- Recruitment
- Training
- Job description and evaluation
- Performance measurement
- Union negotiations
- Wages and salary administration

Labor costs include all expenditure for employee from top executives to unskilled labor. To plan and control labor costs effectively the different types of labor costs must be separately considered. DLC includes the wage paid to employees who work directly on specific product. While indirect labor costs refers to the costs of other employees who do not work directly on the product. The responsibility for preparing the direct labor budget should be assigned to the executive responsible for the production function.

Approaches: The approach used to develop the direct labor budget depends as:

a. Method of wage payment
b. Type of production processes involved
c. Availability of standard labor hours
d. Adequacy of the cost accounting records relating to DLC

Basically, three approaches are used to develop the direct labor budget:

1. Estimate the standard DLH required for each unit of each product, and then estimates the average wage rates by department, cost center or operation.
2. Estimate ratios of DLC to some measure of output that can be planned realistically.
3. Develop personnel tables by enumerating personnel requirements for direct labor in each responsibility center. Here, the primary elements of control of DLC are: Day to day attention to such costs and Performance reporting and evaluation of results

2.11 Overhead Budget

Managers should view expensive planning as necessary to maintain reasonable expenses levels to support the objectives and planned programs of the enterprise. Expenses planning should not focus on decreasing expenses, but rather than on better utilization of limited resources. Expenses planning may cause either decreased or increased expenditure. Expenses planning should focus on the relationship between expenditures and the benefits derived from this expenditure.

2.12 Cost Behavior

In the expense planning the knowledge of cost behavior is important. Cost behavior is the response of a cost of different volume of output. There are three distinct categories of expenses, they are as follows:

1. Fixed Expenses: These expenses are constant in total, from month to month, regardless of fluctuations in output or volume of work done.
2. Variable Expenses: These expenses are changes in total, directly with changes in output or volume of work done. The output must be measured in terms of some activity base, such as units completed, DLH, sales amount or number of service calls, depending as the activities on the responsibility centers.
3. Semi-Variable Expenses: These expenses that are neither fixed nor variable because they posses some characteristics of both. As output changes semi variable expenses changes in the same direction but not in proportion to the change in output.

2.13 Administrative Expenses Budget

Administrative expenses include those expenses other that manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprises rather than in the performance of any one function. Because of large portion of administrative expenses fixed rather than variable. The nation persists that they cannot be controlled a side from certain top management, salaries, most administrative expenses are determined by management decisions. “It is advisable to base budget administrative expenses on specific plans and programs. Past experience adjusted for anticipated change in management. Policy and general economic conditions are helpful. Most administrative expenses are fixed, and an analysis of the historical record will often provide a sound basis for budgeting them” (Welsch, 2006: 317).

2.14 Flexible Budget

The concept of flexible budget is that all expenses are incurred because of passage of time, output activity or combination of time and output activity. Therefore, it is complementary at tactical profit plan. It helps to provide an expenses plans. They should be adjusted to actual output for comparison with actual expenses in periodic performance report. It is the budget, which estimate costs and profit at several levels of activity. It depends upon the cost behavior as analyzed in the above analysis. For the purpose of our analysis the maximum sales during the past five years under study is assumed to be 100% level activity. The flexible expenses budget is also referred to as the variable budget; sliding scale budget expenses control budget or formula budget. The flexible budget concept applies only to expenses. It is completely, separate from the profit plan but is used to complement it. It gives realistic information about expenses that make it possible to computer budget amounts for various output volumes in each responsibility center. To do this, the flexible budget provides a formula for each expense in each responsibility center. To apply the concept in a department then, each expense must be classified into three categories:

a. Fixed
b. Variable
c. Semi-variable (Welsch, 2006: 345).

2.15 Capital Budget

Capital budgeting is the process of planning and controlling the strategic (long term) and tactical (short term) expenditures for expansion and contraction of investments in operating fixed assets (Welsch, 2000: 394). Capital budgeting's the planning of expenditure whose returns stretch the beyond a one- year time interval. It is the process of deciding whether or not to commit resources to a project whose benefits would be spread over several time periods (Mohan, 1981). The investment decisions are commonly known as capital budgeting. Capital budget means planning for capital expenditure in acquisition of capital assets such as new building, new machinery or new project as a whole. Thus, the capital budgeting involves following steps: Consideration of investment proposal including alternatives. Application of profits, cash flows and analysis of cost benefit of the project. Estimation of available funds and utilization of funds. The objective is to maximize the profits with the utilization of available funds. A capital budgeting is useful to earn future revenues organization and to reduce future a cost, capital expenditures includes such as fixed assets as property, plant, equipment, major renovation and potential. The main responsibility of capital budget lies on top executives or executive management and departmental managers. The organization capital budgeting for planning and controlling purpose can be as follows:

i. To avoid excess capacity.
ii. To avoid ideal operating capacity.
iii. To avoid investment in capacity that will earn less than and adequate return as the invested amount.
iv. To keep evaluate alternative capital expenditure etc.

2.16 Liquidity

Liquidity refers to that state of position of bank refers its capacity to meet all of its obligations. In other words, it refers to the capacity of bank to pay cash against and upcoming obligation. Banking is a business of financial dealing whose major source of financing is public-deposit. As we know that a large part of bank deposit are withdrawn on demand and hence the bank dust be prepared with sufficient degree of liquidity of its assets. Therefore liquidity generally refers to the cash or any assets that can be converting into cash immediately. On the other hand banking is a serious business. Once the confidence is lost in depositor's eye, they may withdraw all their deposits within a brief period without giving any chance the bank to manage since most of the assets of bank are attached in the loan and advance. Even the best bank can hardly survive in such situation. Confidence depends upon the ability of the bank to meet the ready demands for cash made by customers. Hence, the liquidity position of a bank is such an important factor that is most enable to meet its cash requirement either by its cash in vault or by the help of converting its assets into in case of demand for such from its customers. There is no sense if the bank has adequate assets but not liquidity I.e. they can't serve the purpose so liquidity when required. Commercial banks maintain liquidity in all or many forms of following:

1. Cash in self vault and in other banks specially in Nepal Rastra Bank (first line of Defense)
2. Overnight placements, money at call or short notice or any other very short term placement (second line of defense)
3. Investment on marketable securities like government securities which can be easily sold and readily convertible into cash (third line of defense) (Bhattachaarya, 1981: 41).

2.16.1 Trade – off Between Profitability and Liquidity

As stated above, the profitability of commercial banks is highly dependent on the optimum utilization of available financial liquidity in the profit generating assets like loan and advance and investments. However banks can not ignore the necessity of maintaining a portion of the deposits in their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without loosing and further value. A sound liquidity position of the bank satisfies the demand of the deposits holder, which maintains the goodwill of the banks. Since banks are faithfully considered as the last resort for monetary needs of the public, the incapability of fulfilling their demands will lose the faith of the depositors/ public. Once any signaling effect is negatively attached in the perception of the depositors, they tend to doubt in the banks dependability and that can consequent in the bank run. Further, bank must maintain the certain portion of deposits in the vault and in Nepal Rastra Bank.

However, liquid assets are almost all idle. They do not generate any returns. The cash in the vault meets any upcoming obligations immediately but banks will not be able to generate any returns in such a case. Further, banks do not get any interest or other return in the accounts maintained in the central bank, Nepal Rastra Bank in our case. Profitability and liquidity maintain a highly negative co-relation. Since both are equally important for commercial banks, banks cannot ignore any of them. So, the crucial decision for the management of the banks is to trade-off between them. The more liquidity the less will be the profitability and vice verse.

2.17 The Financial Statements of a Commercial Bank

Banks are simply the business forms selling different kinds of products. The product a bank deals with is the financial instrument representing various financial claims. The particular services a bank chooses to offer and the overall size of a banking organization are reflected in the financial statements. Two basic financial reports commercial banks have to submit to the regulatory authorities and the public each year are: The Report of condition (Balance Sheet) and Report of income (Statement of income and expenses or profit and loss account). These statements are viewed as the lists of inputs and outputs. As with and other firm's balance sheet, the sources of bank's fund must equal to total uses of bank's fund (i.e. Total assets = total liabilities + equity capital). The balance sheet (report of condition) reflects all assets, liabilities and net worth of the bank on a particular day of a year. Assets represent used of funds / sources to generate revenue for the bank. Liabilities and net worth are sources of bank fund. "One useful way to view a bank's balance sheet is to note that bank liabilities and equity capital represents accumulated sources of fund, which provide the needed spending power for the bank to acquire the assets. A bank's assets, on the other hand, are its accumulated uses of funds, which are made to generate income of its stockholders, pay interest to its depositors, and compensate the bank employees for their labor and skill" (Welsch, 2006: 127).

2.17.1 Cash and Cash Item

The most liquid asset held by any commercial bank is cash. Since cash is and idle asset, a minimum level of cash is held by banks to ensure that the statutory requirement is at least fulfilled. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses. This item includes currency and coins in the bank vault. And cash balance maintained in other banks and financial institutions and cash items in the process collections for clearing and this all composition is regarded as the first line of defense for meeting liabilities. Cash items refer to the clearing checks, which are in the collection process, and written against deposit accounts of other banks. Eventually (not more than 2 or 3 days later) the bank sending these clearing items will receive credit for them, either in its reserve accounting maintained in the central bank (NRB in our case) or in the form of an increase deposits at a correspondent bank.

2.17.2 Money at call or Short Notices & Overnight Placements

This is a bank to bank and accept to account transaction for a very short period of between 1 to 7 days. As per the statutory requirements, banks are supposed to maintain a level of liquidity including the fund maintained in the central bank's account. Commercial bank may find a very hard time to retire a heavy liability, knowingly and unknowingly and they feel shortage of liquidity. In such a situation, bank with deficit or fund may fund another bank with excess reserves and debit, as per agreement between Rastra Banks account and credit the account of their own maintained in the central bank for the very short position. This is appeared on the balance sheer as the liquid asset and which can be used as the second line of defense for the bank granting the short time fund collectable at a call or a short time notice.

2.17.3 Investment in the Securities

As the third line of defense to meet demands of cash and reserve, as a quick source of funds is the bank's liquid security holdings, often called secondary reserves. These assets normally compose more than one third of total assets of banks. These typically include holding of shorter-term government bonds like treasury bills; development bonds etc. and other securities purchased in the open market and readily convert into cash in the financial market. These security bear low risk, low return, but higher liquidity. The remaining securities banks invest in are investments, direct and indirect, in the sectors where by virtue the statutory requirements are imposed, for example, most or the Nepalese commercial banks feel continent to invest in the rural developments bank's share as this complies both NRB regulations for priority sector lending and also they get moderate return from them.

Commercial banks invest their excess funds to the shares and debenture or the other company. They generally do so when there is excess of funds than required and there is no alternative opportunity to make investment and there is no alternative opportunity to make investment in the profitable sector. Now days the commercial banks of Nepal have purchased shares and debenture of regional development bank, NIDC and other development banks and for other advantages like tax shelter etc. investment are recorded in their cost price or markets value whichever is lower.

2.17.4 Loan and Advances

This is the primary source of income and most profitable asset to a bank. A bank is always wiling to lend as more as possible since they constitute the larger part of revenue. This occupies the highest proportion of assets of any commercial banks bearing more than 40% of the assets used. But a bank has to be more careful while providing loans and advances since they may not be realized at short period of time. And sometimes they may turn into bad debts. Therefore it is wise not to rely on them at the time of emergency for all banks. A commercial bank hardly lends money for a long period of time. It lends money for short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long –term loan because it has synchronize the loan and advances with the nature of deposits they receive. Loan and advances are provided against the personal security of the burrower or against the security of the immovable and movable properties. Banks provide the loans in the various forms; overdrafts, cash credit, direct loans and discounting bill of exchange.

2.17.5 Other Assets

The great majority of banks assets are financial claims. However, banks assets also include the value of bank buildings, vehicles, equipments, computer and other miscellaneous fixed assets like different revenue expenditure, leaseholds and freeholds, prepaid expenses and advances. However, only a small portion (2 to 5 percent) of total asset is covered in this category.

2.17.6 Deposits

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. It is a direct claim of outsider to the bank. The total assets of banks are financed supported by more than 75% from the deposits. In case of Nepal Bangladesh Bank total assets were forum supported more than 75% from the deposits. Normally deposits are classified into three categories: Demand checking deposits, saving deposits and fixed term/ Time deposits. Demand deposits are permitted for unlimited check writings, but they do not bear any interest liabilities. However, a minimum balance is fixed for the depositors. By the viewpoint of banks, these are the cost free deposits but banks are not confirmed to invest them for a longer period, since they can be demanded at any time. This is an easy mean for more circulating transaction and suitable for business concerns. Saving deposits are normally meant for the individuals, non-profit making organizations and others who are for saving motive and also want to earn some interest from the deposits. However, there is a minimum balance fixed. Banks offer interest in the minimum monthly balance to the saving depositors and also permit withdrawal and deposits to these accounts. However, banks impose some constraints in the maximum one –time withdrawal. If the maximum one time limit is exceeded and minimum balance is not maintained, no interest is offered to the depositors. These deposits are of some how stable and banks can feel confirmed to invest them in the medium term financings.

Fixed term deposits (also called time deposits) are the major sources for banks longer-term investments as these deposits bear a fixed maturity period. These deposits are offered a stipulated interest rate (normally higher than the savings rate) a fixed denomination of amount and a prefixed maturity period. Banks tend to offer different interest raters to these deposits according to the deposits amount and maturity time. The more amount and longer maturity period, the higher the interest rates and vice versa. Nepalese commercial banks have introduced a different type of deposit account: call deposit. Banks are happy to find the heavy corporate source of deposits stable in the time span. Banks are interested to find the single source of heavy deposits constable to invest it in the market. These types of deposits have various benefits. Banks can serve a single corporate depositor more carefully than various small accounts. The deposits are of constable nature and banks can invest them without hesitation. So, banks provide a special interest rate to such deposit, permit to write checks against them, but also fix a minimum balance for maintaining this account.

2.17.7 Borrowings from the Non- Deposit Sources

A sizeable amount of funds stem from miscellaneous liability accounts. Bank assets are supported from other non- deposit liabilities with or without costs. Bank t bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks are some examples for nominal cost bearing sources. However, these are short term liabilities, due to no obligation for banks to maintain reserve for them, these type of liabilities is also important for banks. Other cost free sources of liabilities are accrued interests payable, differed expenses, accounts payable, differed tax liabilities, obligations such as bankers acceptances bankers checks, matured time deposits, remittance awaiting disposals and other liabilities.

2.17.8 Stockholders Equity / Internal Financing Sources

Every new bank begins with a minimum amount owner's capital normally accounts less than 10% value of the total assets. So, banks are the institutions having the greatest financial leverage using from external sources of finance. Though relatively a small item, banks capital account typically includes value of paid up capital, share premium, statutory and other reserves and retained ploughed back profits. Usually the largest item in the capital account is retained earnings, undivided profits, which include accumulated profit over each year after payments of dividends.

2.18 Contents of Report of Income / Profit and Loss Account of Commercial Banks

2.18.1 Operating Income

Operating income for a business entity is the regular and prime source of revenue for that business. It is main identity of a business regarding what a business stands for Nepalese commercial banks are allowed to invest in the shares of another entity like other commercial banks, rural development banks, financial institutions and other organized institutions. The investing bank receives dividend income and other income. Further banks receive various types of fees from safe deposit locker, credit cards, ATM cards issuance and renewals, consultancy fees and other non banking and casual incomes like gain from sale of assets, revaluation gain of assets etc.

2.18.2 Operating Expenses

Operating expenses of a business entity is the regular and prime item of cost and expenditure. It is the main identity of a business regarding what a business expenses for. This of expenditure is directly attributable to the production/ service that entity provides for.

2.18.3 Interest Expenses

The main expenditure item for a commercial bank is interest deposits. Normally this type of expenditure covers more than half of the total expenditure. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

2.18.4 Administrative Overheads

Under non interest expenses bank has to bear the various fixed and variable administrative overheads like office occupancy expenses, depreciation expenses, amortization of deferred expenditures, personnel expenses and other general and administrative expenses like insurance, statutory, repair and maintenance, fuel, telephone, electricity rates and taxes and others expense.

2.18.5 Non – Operating Expenses

Under this heading, the casual type expenditures like loss on sale of assets and others. In addition to other expenditures, banks deduct from revenue any loss from revaluation of foreign currency, staff bonus, loan loss provision and income tax before arriving to net disposable income.

2.18.6 Off Balance Sheet Activities

The massive expansion and growth of banking in the last couple decades and constant pressure on improving the rate of return have forced the banking sector to diversity from its traditional function of lending and deposit mobilization with deregulation of financial system, new financial institution mostly in the form of off- balance sheet commitment have increasingly emphasis on activities that generate income with increasing the assets in the balance sheet. The banks, in their traditional function, increased lending and committed itself beyond the strength of the bank. Quality of the assets were questioned i.e. lending became bad due to slow recovery, but banks continued lending and thereby increasing the portfolio and the balance sheet footling. Off – balance sheet activities arise from the contingent of banks in the present time, which can appear as real liabilities in the future. These activities are not recognized as assets and liabilities in balance sheet. These activities are very important, as they are the good source of profit to the bank, though they have risk. The- off balance sheet items are not included in the balance sheet until they are recognized as real liabilities. Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations that are not recognized as assets or liabilities on balance sheet.

Few typical off-balance sheet transactions are as follows:

- Letter of credit
- Letter of guarantees
- Document negotiated under reserve
- Commitments
- Acceptance
- Bills of collation
- Performance bond
- Bid bond
- Forward foreign exchange transaction]
- Currency exchange
- Option, etc

It is estimated that the joint venture banks generate more than one third of the total income funds from fee- based activities. The joint venture bank has been successful in harnessing the fee- based activity to the maximum possible extent so as to earn profit.

2.19 Cash Budget

It is an effective way to plan and control the cash flows, assess cash needs and effectively lose excess cash. The planning and controlling of cash flows focused on cash inflows, cash outflow and the related financing. Cash budgeting is an attractive way to plan and control the cash flows assets; cash needs and effectively use excess with. Therefore, cash management is important in both large and small enterprises, planning and controlling of cash includes right quality of money, right source of money, right time for solve money, right quality for liquidity and right costs of capital. A comprehensive PPC program establishes the foundation for a realistic budget. Cash budget shows the planned cash inflows, outflow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. A cash budget basically includes two parts:

1. The planned cash receipts (inflows) and,
2. The planned beginning and ending cash position for the budget period and this will indicate. The need of financing probable cash deficits: The need for investments planning is to put excess cash to profitable use.

The primary purposes of cash budgets are:

1. Give the probable cash position at the end of each period
2. Identify cash excess organization shortage by time periods.
3. Establish the need for financing and or the availability of idle cash for investment.
4. Establishing a sound basis for continuous monitoring of the cash position (Welsch, 2006: 434). Preparation of the cash budget should be the responsibility of the company treasurer. The cash budget is a forecast of expected cash receipts and payments for a future period. Cash forecast precedes a cash budget.

The cash budget consists of three parts:

- Estimates of cash receipts
- Estimates of cash disbursement and
- Cash balances each month of budget periods

Cash budget may be done daily, weekly or monthly basis. The period and frequency of cash budget generally depends upon the size of the firms and philosophy of management. The cash budget can be prepared by two approaches

a. The cash receipt and cash disbursement approach organization

b. The financial accounting approach. Now, the cash receipt and disbursement approach basically involves the use of detailed data from the budgeted cash amount. Financial statement approach states with net income, which is adjusted to a cash basis to compute cash flow from continuing operations.

The remaining cash sources and uses must be determined by using data from various budgets already prepared. The cash receipt and disbursements approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used for broad analysis of the cash position and for strategic long range planning.

2.20 Profit Budget

The profit budget is decided subtracting the budgeted costs from the budgeted revenue. The amount of investment is forecasted and a budget rate of return is developed for the annual management of profit plan. The development of annual profit plan ends with the planned income statement the planned balance sheet and the planned of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company. "At this point in profit planning the budget director has an important responsibility. Besides for designing and improving the overall system, the budget director has been described as an advisor to the various managers to help develop plans for each responsibility center. Now, the parts must be assembled into a complete profit plan. This is the reasonability of the budget directors" (Welsch, 2006: 466).

2.21 Performance Reports

"Performance reporting for internal management use is an important part of compressive PPC system. The performance reporting phase of comprehensive

PPC program significantly influences the extent to which the organization planned goals and objectives are attained" (Welsch, 2006: 542). The performance reports should be prepared periodically generally on a monthly basis and occasionally generally, on weekly or daily basis for each responsibility centre, starting with those at the lowest level, which is turn in complied into summary report for each higher level. Periodic performance reports are prepared for each responsibility are distributed monthly basis and follow a standardize format. Such reports are designed to facilitate internal control by management. Frequently they identify problems that require special attention since, these reports are prepared to pin point both efficient and inefficient performance. These reports serve to motivate managers to perform in conformity with expected actions. The main objectives of performance reports are the communication of performance measurements actual and the related variables. In additions to control implications performance reports after management is essential insights into all facts of operational efficiencies. Performance reports pose critical behavioral problems because inefficiencies as well as inefficient of individual are pin pointed and reported. Therefore certain performance reports should be:

i. Tailored to the organizational structure and locals of controllability
ii. Designed to implement the management by exceptions principle.
iii. Repetitive and related to short plan periods
iv. Adopted to implement the management by exceptions information
v. Accurate and designed to pin point significant distinctions
vi. Prepared and presented promptly
vii. Constructive in tones.

Performance reports clearly distinguish between controllable and non-controllable items. Performance measurement requires that actual results be compared with objective and standards. So that differences call managers the areas that need satisfactory performance variance from plans identify for managers the areas that need investigations and possible actions. Management actions may be corrective commendatory minimizing the time gap between the decisions and reports in another important aspect of performance report. If a loss to the company and it is more significant to the supervisor at the time they occur. Similarly at the time they are also equally important. When performance reports give the favorable and unfavorable variance on monthly basis than managers should give immediately priority to determine the cause of very high and low performance.

“The primary value of performance reports is in the comparison of actual results with budgeted targets and in the analysis of the resulting variation. There are numerous methods of variances. The expression of variance as absolute amounts is not always satisfactory because an absolute amount standing alone frequently is not meaningful. Variable also should be expressed in relative terms that are as a percentage of the planned amounts. Although statistical central limits can be developed to determine the significance of variables most companies find it satisfactory to establish a general “rule-of-thumb” policy for this purpose” (Welsch, 2006: 555).

2.22 Budget Variance

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than taking action only the basis of differences between actual and budgeted costs variance analysis enables management to decompose such differences into smaller sub variances. It is the deviation between budgeted goals and actual result. As performance reports shows variances the next step is to analyze such variance and to determine the underlying causes for managerial planning and control purpose.

“Variance analysis or comparison of actual results with budgeted goals has been emphasis as an integral part of control process. A basic feature of performance reports is the reporting of variances between actual and planned goals. If variance is significant a careful management study should be made to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause" (Welsch, 2006: 569). Some of the primary approaches are the following: Analysis of work situation including the flow of work coordination of activities effectiveness of supervision and other prevailing circumstance.

- Direct observations.
- On the spot investigation by the line managers.
- Investigation by staff group
- Internal audits

Special studies variances analysis has wide application in financial reporting.
It is frequently applied in the following situations.

i. Investigations of variances between actual results of current and prior period. The prior period is considered as the base.
ii. Investigations of variances between actual results and standard costs. The standard cost is used as the base.
iii. Investigation of the variances between actual results and budget goals reflected in the profit plans. The budget goals are used as the base

2.23 Review of Research Studies

Few researches have been made in the areas of profit planning in Nepalese context in the fulfillment of Master Degree of Business Studies. Of those researches done in the past, the study is that is based on joint venture commercial bank from profit planning point of view. An attempt has been made to review journals and some dissertations submitted in the topics on profit planning of commercial banks.

Thapa (2004), has conducted a research entitled *"A Study on Profit Planning and Control of Nepal SBI Bank Limited"* This research of Mr. Thapa was mainly concerned with examining system of profit planning applied in Nepal SBI Bank Limited. The study covered ten years period of time form fiscal year 1993/94 to 2002/03. The data and other necessary information were collected by using secondary as well as primary sources. In the research he has come across certain findings and recommendations. The following are important findings are:

Findings:

- Nepal SBI Bank does not prepare long-term strategic profit plan. It only period of this budget covers one fiscal year.
- The budget is not based on past performance but on target growth, which is very optimistic in both the budgeted years

Strength

Highly experience expatriates staff at the top level with extensive exposure in international banking environment. Huge volume of business origination form successful business man of Indian origin. Extensive network of Branches Company in India of its parent company State Bank of India. Very friendly and cordial ties between Nepal and India in all aspects. Increasing Volume in cross border trade between India and Nepal.

Weakness

- Lack of clear cut mission and goals of the company.
- Inadequate coordination between departments
- Lack of corporate belongingness. Inadequate autonomy in the credit decision making to the credit department. Unnecessary interference of the governing board in the functioning organization. Its mission and objectives have not been clearly defined and delegated to the lower level.

The bank has not been able to maintain a minimum level of coordination between the departments and staff. The profit budget is extremely ambitious. 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. Those have 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 for the profit planning process.

Gautam (2006), has conducted a research in the topic "*A Study on Comprehensive Planning Practice of Himalayan Bank Ltd.*" This research of Gautam was mainly concerned with examining system of profit planning in HBL. The time period covered by this research was five year i.e. FY 2058/059 to 2062/063. The data and other necessary information were collected by using secondary data. The specific objectives of this thesis are as follows:

- To analyze the effectiveness of profit plan and practices of Himalayan Bank Limited.
- To analyze the profit trends and determine the variables
- To enumerate the variance between budgeted and actual performance.
- To provide appropriate recommendation to improve the situation. In this research, he has pointed various findings. Some remarkable findings are as follows:

Corporate Level Planning

- HBL performs SWOT analysis before preparing profit plan.
- HBL has three types of core planning team to make plan, policy, program and budget.

- HBL has adopted two types of planning formulation methodology. One is seminar at head office and other is seminar at regional level of offices.
- The main objective of profit plan of HBL is to achieve 4% profit on outstanding.

Resource Mobilization

1. Major concentration of resource mobilization of bank, was at deposit mobilization. In F/Y 2058/059, it was 87.35% and in F/Y 2062/063, it was 86.63% of total resource mobilization.
2. Budget achievement of deposit collection in F/Y 2062.063 was 104.33%.
3. Budget and actual deposit collections from F/Y 2059/060 to 2062/063 were overlapping in amount.
4. The estimate target set for deposit mobilization by the bank is found to be considerably maintaining every year.
5. Form the data analysis of deposit budget and actual achievements by coefficient of variance, it was found that the actual deposits were variable than budgeted one.
6. Resource mobilization other than deposit collection amounted to 13.37% of total resource in average.
7. Resource other than deposit collection is not satisfactorily mobilized.

Resource Deployment

- Bank's resource deployment for non-yielding liquid assets (Cash and bank balance) was in fluctuating trend every year and supporting to meet liquidity requirement of the bank.
- Major portion of the resources have been deployed in LABP and investments. LABP covers around 50% of deployment and around 40% is covered by investment sectors.

- The estimated targets for deployment towards LABP have been well met in average. It did not meet the target in F/Y 2058/059 and FY 2060/061 with negative figures of achievements.
- From the analysis of budgeted and actual LABP with the help of co-efficient of variance, it is found that the actual LABP is more variable than the budgeted one.
- Likewise, deployment in investment also did not meet the achievement in F/Y 2058/059 and F/Y 2060/061 than the budgeted figure. From analysis of budgeted and actual investments with the help of co-efficient of variance, it is also shows that the management is not planning their investment with considering other variables.
- The data analysis of LABP and deposit with the help of correlation coefficient shows that the deposit and LABP are perfectly correlated. It also shows that LABP is more variable than the deposit.
- The study also shows that deployment in other source is also not satisfactorily good.

Expenditure

- Interest expenses amount is the highest among total expenses items of the bank every year. In F/Y 2062/063, it was 39.48% of total expenses.
- The interest expenses of the bank are found fluctuating every year. The interest expenses show positive but not perfect correlation with deposits.
- Cost of deposit of the bank is found to be fluctuating and is in decreasing trend. The CoD of F/Y 2062/063 is 2.45%.
- Other expenses other than provision for doubtful debts are in increasing every year.
- The bank has not maintained loan loss provision as per the requirement of the bank. It was 0.87% in F/Y 2062/063.

Revenue

- Interest income amount of the bank is the highest contributor in the total revenue. It is 77.4% of total revenue in F/Y 2062/063.
- The amount of interest in increasing every year corresponding to increase in LABP. There is a perfect correlation between interest income and LABP.
- Yield on LABP (ratio of interest income on total LABP expressed in
- Percentage) was the lowest level of 10.31% in F/Y 2060/061 and at the highest level of 12.62% in F/Y 2058/059. Yield on LABP in F/Y 2062/063 is 10.69%.
- Other income of the bank is also in increasing trend.
- The interest spread or the amount of interest margin is found to be increasing each year.
- Net burden of the bank is in fluctuating trend. In F/Y 2062/063, it was growth was negative 9.73%.
- The net profit of the bank is constantly in increasing trend.

Ratio Analysis

- The average current ratio of the bank has found to be always lower than standard ratio 2:1, which shows dissatisfactory liquidity position of the bank but than bank has its working capital level is satisfactory.
- The cash to current assets ratio of the bank has found to be satisfactory. It is always higher than standard rate of 5%.
- Cash ratio is always satisfactory. It has ratio of 2.46:1 in F/Y 2062/063.
- Generally, the debt equity ratio of the bank is higher because they mobilize fixed deposit much more times of their capital fund. HBL is also not exception to it. The ratio was 9.36:1 in F/Y 2062/063.
- Interest coverage ratio of the bank is higher than 1, which is satisfactory.

- Return on equity (ROE) of the bank is also satisfactory result. The bank has deployed most of the fund on non-business and fixed assets. Therefore, the ratio is very lower than the standard rate of 10%.EPS, MPS and P/E ratio are in increasing trend. It has 59.26 pe share income in F/Y 2062/063 and P/E ratio of 18.57 times.

Cash Flow

- Cash flow analysis of the bank shows the sources of cash flow are adequately met by the bank for the cash outflow.
- Deposit mobilization is the major contributor for cash inflow in the bank.
- Loan and advances id the major cash outflow factor of the bank.

Karki (2007), has conducted a research in the topic *"A Comparative Study on Profit Planning of Rastriya Banijya Bank Ltd (RBB) and Himalayan Bank Ltd (HBL)."* This research of Karki was mainly concerned with examining system of profit planning applied in RBB and HBL. The time period covered by this research was five year. The data and other necessary information were collected by using secondary as well as primary sources. In the research she has come across certain findings and recommendations. The following are important findings.

1. Total revenue and total cost of RBB is higher than HBL but its profit is lower.
2. Volume of loans and advances is increasing every year in both the banks and provision for bad debts are higher in RBB than in HBL.
3. Ratio of interest income to total income is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.
4. Return on paid up capital is always negative in RBB. Net profit is also negative in RBB.

5. Ratio of loans and advances to customers deposit shows that more than 60% of customers deposit in utilized in RBB where as in HBL it is around 50%.
6. Interest spread is higher in RBB than in HBL.
7. Regression analysis showed that volume of profit is directly related with the size of loans and advances. There is only 0.5% profit in every loan of NPR 100 in RBB and 3.7% in HBL.
8. Interest coverage ratio of both banks in 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.
9. No proper planning strategy seems to be developed. Although HBL is operating at profit but RBB is running with heavy cumulative loss.
10. As the accounting system of RBB is careless that it has not been audited from the FY1993/94 and it is difficult to take decision about data analysis.
11. Incase 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 fluctuating in cost.
12. Analysis of profit planning and control is basically an internal affair. It needs to analyze the insight positions. As insight is not flashed out due to the cause of secrecy attempt is made to analyze on the basis of data published.
13. Government seems less conscious in the present situations of RBB.

Shakya (2007), entitled *"Financial Analysis of Joint Venture Banks"*, this thesis was submitted to IOM, TU with main objectives of evaluation of financial performance of Nabil and SCBL comparatively. The study covered six financial years. Besides this main objective, he had specified other objectives too:

1. To evaluate the trend of Deposit and Loans and advances of Nabil and SCBL.

2. To evaluate the liquidity, profitability, capital structure, activity and capital adequacy position of Nabil and SCBL.
3. To suggest and recommend some measure on the post company performance, evaluation and findings for the improvement of financial performance of Nabil and SCBL in future.

In this thesis work he had presented so many findings (about 32 in numbers), among them some major finding he had presented are as follows:

1. Loan and advances as well as total deposits if Nabil are increasing each year.
2. There exists highly positive correlation between total deposits and loan and advances of Nabil during the study period.
3. There exist highly positive correlation between total deposit and loan and advances of SCBL.
4. Average cash and bank balance to current deposit ratio of SCBL is higher than that of Nabil.
5. Nabil's fixed deposit ratio is in increasing trend but the same o SCBL is in declining trend.
6. Saving deposit to total deposit is in increasing trend for both SCBL and Nabil.
7. NRB balance to total deposit ratio is in highly fluctuating trend for the both banks.
8. SCBL's liquidity position is comparatively better than of Nabil.
9. Investment to total deposit ratio is fluctuating trend for Nabil and increasing trend for SCBL.

Rijal (2008), on *"Joint Venture Bank; A Case Study of Nepal` SBI Bank "* concludes that Nepal SBI bank limited (NSBL) has earned less profit in terms of net profit to its total risky assets. From shareholders point of view earnings per share of NSBL is not much satisfactory because a minimal amount has been given to the shareholders as dividend and in last year of his study the dividend payment to its shareholders is reduced by 50% in comparison to previous years. The growth rates of NSBL in respect net profit, earning per share, and dividend per share are low. A study undertaken by Khandgendra Prasad Ojha on "Profit planning in public enterprises in Nepal" A comparative study of royal Drugs limited and Herbs Production and Processing Company." He has examined and analysis the current practices of profit planning and its effectiveness in Nepalese public enterprises. His research had the following findings and recommendations:

1. Objectives of Nepalese public enterprises are not clear. Conflict between social objectives and profit objectives and hindering to profit planning program of PEs. RDL and HPPC have not any effective program to increase profitability but these have numbers of social objectives.
2. Nepalese public enterprises are not successful to maintain coordination within organization.
3. One major problem in Nepalese public enterprises is behavioral. But this PEs has not any attempt to solve behavioral problems that are in organization.
4. Pricing system of Nepalese Public Enterprises is not scientific. PEs adopts traditional pricing methods. Usually, cost – plus pricing method is applied to detrainment price. Certain products are priced below costs as per HMG circular.

2.24 Research Gap

Most of the past research studies were about profit planning system is basically related to profit planning system of manufacturing organization or production oriented activities and comparative study of joint venture banks. The researcher could not find only one study so far that has been related to profit planning system of a commercial bank. All dissertations have pointed out there is no proper planning and controlling system and recommend for the effective implementation of profit planning and controlling 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 and controlling 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 recommendation 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 and profit planning, in the bank with a specific reference to Nepal Bangladesh Bank Ltd. The forthcoming chapter includes the Research Methodology adopted for the study

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the way to solve systematically about the research problem (Kothari, 1990: 39). Research methodology is the procedure of planned outline which deals with research design, data collection procedure, nature of data, indentify the population, making confidence of the sampling method and sampling variables, data selecting styles, presentation style of collected information and data and interpreting it. Now, no doubtingly it is obvious that the research methodology is helpful to attain the objectives of the research.

This study mainly concentrated on the profit planning of Machhapuchhre Bank Nepal Ltd. Research methodology, therefore, is designed and implemented to study about the sources, causes and methods of profit planning. The analysis is income, expenses, loan, deposit, employee status of MBL.

3.2 Research Design

Research design is that outline which configures the collection and analysis style of the data and information. Research design is a plan of structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances (Kothari, 1997: 275). Descriptive research is process of accumulating facts. It does not necessarily seek to explain relationship and test hypothesis make predictions or get at meanings and implications of a study (Wolff and Pant, 2002: 81). Analytical method is used to present information and data. A part from this, there is also qualitative aspect and these aspects are described in word detail wherever it is necessary.

The first step of the study is to collect necessary information and data concerning the study. Research design means the definite procedure and technique which guides the study and propounds ways or doing research. The research has its basic objective to highlight the degree of application of profit planning concept in MBL with respect to planned prediction and actual production, degree of sales realization in respect to budgeted figures and examine the cost structure. This study is an examination and evaluation of the budget process of profit planning program of MBL various related information. Functional budget and statement of MBL are tools to analysis and evaluated the profit planning system of MBL. Also to figure out the problems and provides them with some recommendations.

3.3 Period Covered

The research covers the period of five years from F/Y 2060/61 to F/Y 2065/66. Data are taken from MBL and analysis is basically made on the basis of Six years data.

3.4Natures and Source of Data

For any research work, information is the life blood. Therefore, it is the major task to gather the information and data collection. Mostly secondary data has been used in the study. It has been collected from the following sources:

1. Published annual accounting and financial report of MBL
2. Publication of Nepal Rastra Bank, publication of National Planning Central Bureau of Statistics and related publication.
3. Books, booklets, articles, magazines and official records of MBL.
4. Previous dissertations, electronic media such as websites.
5. Published and Unpublished document related to MBL

3.5 Data Collection Procedure

Data gathering, recording which the most important part of the research is consists of obtaining information from some body’s hand. It is therefore, very difficult activity of the whole research process. Researcher had made frequent visits to central office of MBL in order to collect the required data form official published book, articles, magazines and the official records are the main source of secondary information.

In this study, we have been taken to analysis the collected data. Financial and statistical tools are used to analyze data. Financial tools mainly used are financial ratio. Similarly, the statistical tools are used such as mean, standard deviation, covariance correlation, trend analysis and diagram etc. Once the data and information collected then tabulated, presentation, analysis and interpretation has been done.

3.6 Research Variables

Research variables play vital role in developing profit plan. Customer deposit, loan, investment, profit, interest expenses, interest expenses, other income, other expenses, other assets, staff of MBL are research variables of this study.

3.7 Research Tools

Collected data and information are analyzed, presented in suitable table and format, chart, diagram and graph. Financial and statistical tools are used to analyze the presented data which includes trend analysis, ratio analysis, percentile analysis.

CHAPTER – IV
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, various elements and variables related with profit of MBL are analyzed. This study is mainly focused on analysis of revenue collection, deposit, loan and advances, investment, assets etc. by using financial and statistical tools, such as mean, standard deviation, coefficient of variation, variance analysis, correlation analysis and ratio analysis. For this purpose, data of 6 years period from F/Y 2060/061 to 2065/066 of MBL are used.

4.2 Resource Mobilization

The term resources have been used for the sources of fund required by the bank for its activities. Bank mobilizes its resources from the following sources:

- Deposit Collection
- Loan and Borrowing from Others
- Capital Fund

Among the above 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. Loan 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 which includes reserve fund also is raised from shareholder’s equity. This is the net worth of the bank capital fund of commercial bank is divided into two categories viz. core capital and supplementary capital. Following table shows the resources mobilized by the bank over the period of study.

Table 4.1

Status of Resource Mobilization

(Amount in Rs.'000')

F Y	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66
Deposit	2754632	5586802	7893297	9475451	11102242	15596790
% of deposit	79.94%	86.51%	87.08%	87.68%	89.44%	89.13%
Capital fund	554421	637739	931091	1000228	1163346	1700197
% of capital fund	15.98%	9.76%	10.26%	9.255%	9.34%	9.71%
Borrowing	102107	154217	131675	228504	0	0
% of borrowing	3.44%	2.325	1.43%	2.035%	0	0
Other liability	37612	77700	113765	103395	144449	193792
% of other liability	0.87%	1.08%	1.21%	0.92%	1.12%	1.08%
TOTAL	3448634	6456460	9069830	10807616	12410040	17490782

Source: MBL Annual Report

On the basis of above observation and data presentation, it could be said that the bank has substantially fund collection from deposit collection. The bank has no borrowing fund in F/Y 2064/065. The bank has increased capital fund every year. Other liability is in fluctuating trend over the study period. From the above table, it was observed that the customer deposit collection contributes the major share in resource mobilization, which was more than 86% without 1st year Therefore, total source of resources mobilization comprised of two categories as follows:

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

4.2.1 Deposit Collection

Customer Deposit is the major source of resource mobilization of the bank. The contribution of customer deposit to total resources is high. Deposit is collected form various sectors such as “A” class licensed institutions, other licensed institutions, other organized institutions, individual and others, which qualify to open an account in the Bank. If deposits are utilized properly, it will increase the profit of the bank. As per the data of study period, the contribution of customer deposit to total resources of MBL is 79.94%, 86.54%, 87.08%, 87.68%, 89.44% and 89.13% in F/Y 2060/061 to F/Y 2065/066 respectively. Except in F/Y 2061/062, the amount of deposit collection is increasing trend due to political stability, peace, security. Deposits are collected on customer’s accounts, which are opened as per the bank’s policy. The customer’s deposit accounts are of two types: One is non-interest bearing deposit account and another is interest bearing deposit account.

1. Non Interest Bearing Account
   i. Current Deposits A/C
   ii. Margin Deposits A/C
   iii. Other Deposits A/C
2. Interest Bearing Account
   i. Saving Deposits A/C
   ii. Fixed Deposits A/C
   iii. Call Deposits A/C

Table 4.2

Deposit Position of MBL

(Amount in Rs. '000')

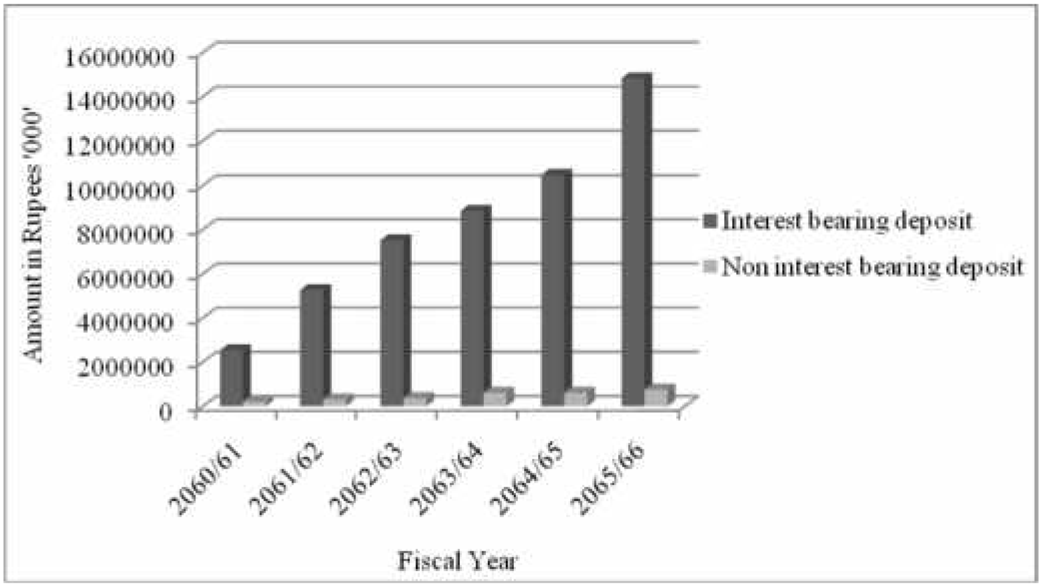
F Y	Interest Bearing Deposit	Non Interest Bearing Deposit	Total	% of Interest Bearing	% of Non Interest Bearing
2060/61	2542372	212260	2754632	92.30%	7.7%
2061/62	5270282	316520	5586802	94.34%	5.66%
2062/63	7524240	369057	7893297	95.32%	4.68%
2063/64	8859307	616144	9475451	93.5%	6.5%
2064/65	10483874	618367	11102242	94.41%	5.59%
2065/66	14836199	760591	15596790	95.12%	4.88%

Source: MBL Annual Report

The above table shows that percentage of interest free deposit is decreasing trend from F/Y 2060/061 to F/Y 2063/064. In F/Y 2064/065, it is slightly increased. Similarly, percentage of interest bearing deposit is increasing trend except in F/Y 2064/065. This indicates that the overall management system of the bank is efficient. This also indicates the planning system of deposit is also good. Good customer services, quality services, adequate and trained human resources, goodwill of the bank and good governance are the main feature of the efficient management system and MBL is considering all those to attract the customers and increase the deposit position.

Figure 4.1

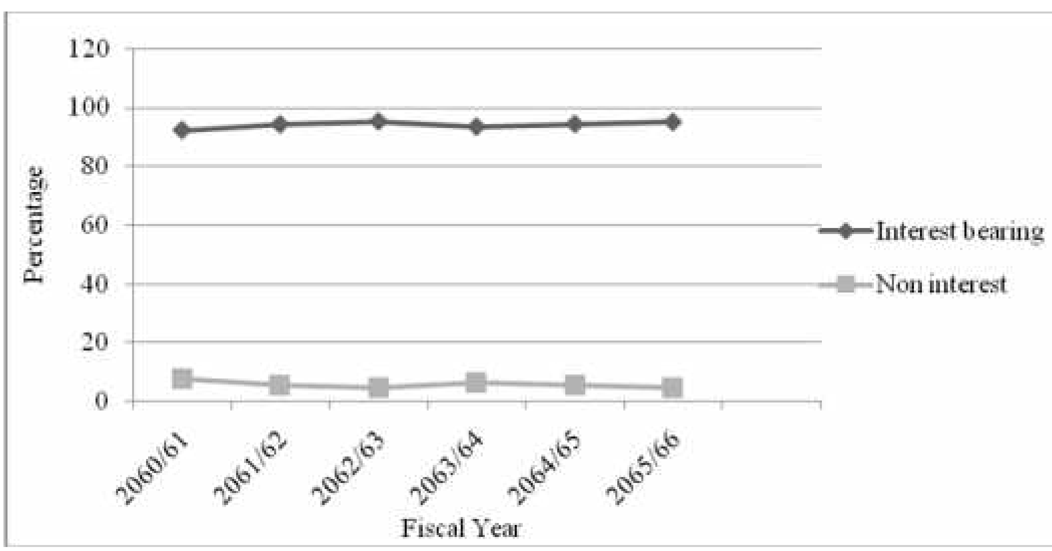
Bar Diagram Showing Deposit Position of MBL



The above figure shows that interest bearing deposit is increasing more than non interest bearing deposit.

Figure 4.2

Bar Diagram showing Deposit Position of MBL



4.2.2 Deposit Collection Budget of MBL

The following table shows the budgeted amount of deposit collection which has been find out following the time series approach was adopted to ascertain the budgeted figure for Deposit collection from F/Y 2060/61 to F\Y 206566. Realizing its significance the bank has started to prepare budget statement from current year. The actual amount of deposit and achievement of it on the budgeted amount is given in the table.

Table 4.3

Status of Budgeted and Actual Deposit Collection

(Amount in Rs '000')

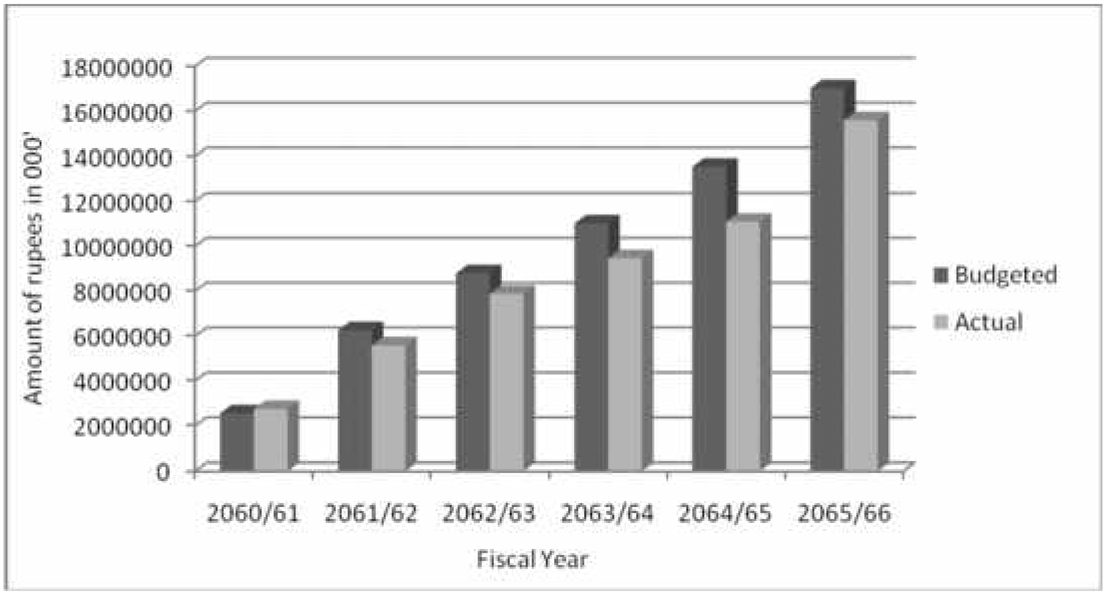
F Y	Budgeted	Actual	Achievement
2060/61	2562103	2754632	107.49%
2061/62	6256300	5586802	89.33%
2062/63	8800000	7893297	89.69%
2063/64	11020000	9475451	85.98%
2064/65	1355000	11102242	82.22%
2065/66	17025000	15596790	91.17%

Source: MBL Annual Report

The table shows that the Deposit collection target was achieved recording 107 % in the first fiscal year 2060/61 and then afterwards this picture shows the low level of achievement made by the Bank in deposit collection. The Bar diagram shows the achievement level remaining lower than the budgeted level. Similarly, in the scatter diagram, the actual line is running lower than the budgeted line. The reason behind it is the declination of faith of customers towards bank because of its heavy investment on non-performance assets.

Figure 4.3

Bar Diagram of Budgeted and Actual Deposit Collection



4.2.3 Resource other than Customer Deposits

Resources other than customer deposit (RMOD) contribute to average 11.26% on total resources of the bank. This is formed with the capital fund, borrowings, reserve fund and other liability. The following table shows the RMOD over the period of study.

Table 4.4

RMOD of MBL

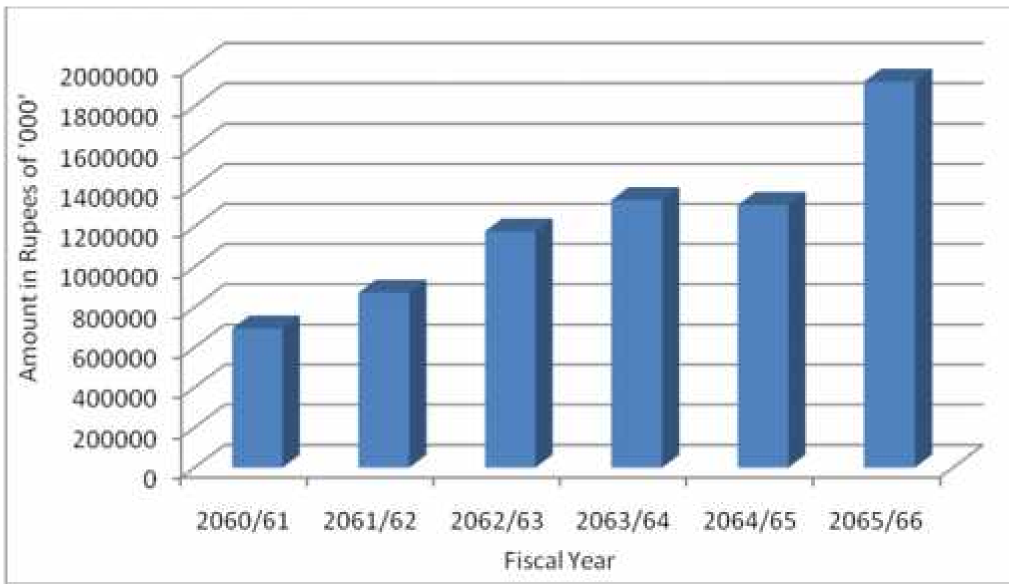
(Amount in Rs. '000')

F Y	RMOD	Change in amount
2060/61	694002	0
2061/62	869658	175656
2062/63	1176533	306875
2063/64	1332165	155632
2064/65	1307798	(24367)
2065/66	1920992	613194

The above table shows that RMOD is fluctuating trend. In F/Y 2064/065, it was decreased than previous year. The bank has made the policy to decrease borrowings and increase capital fund and reserve fund therefore, the RMOD is highly fluctuating. Minimizing its borrowings level and increasing its capital fund and reserve fund is good for the bank. The bank should also try to increase its other source of resources.

Figure 4.4

Bar Diagram Showing RMOD of MBL



The above chart also shows that RMOD is fluctuating trend. Due to bank's policy to decrease borrowings and to decrease debt ratio and increase capital fund and reserve fund, RMOD is fluctuating trend.

4.3 Resource Deployment

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.

4.3.1 Deployment of Liquidity

This is made for meeting expected withdrawal and other kind of payments obligations of the bank. The resource 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 expecting in the case money placed in interest bearing accounts. The central bank of Nepal, NRB has instructed commercial bank to mandatory maintain approximately 10% of their customer deposit liability as liquid form (Cash in Vault and at NRB). For this study, cash and bank is grouped in one deployment portfolio.

4.3.2 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 base exposure is taken by the bank in following two portfolios:

i. Loans, Advances and Bills purchased (LABP)

ii. Other Investments

LABP includes all loans, advances, overdraft, bills purchased/discounted and other types of loan availed to the borrowers of the bank in return of which the bank earns interest income. Other investment includes investment shares, treasury bills, placement of fund on call market etc.

4.3.3 Deployment in Other Assets

This includes the deployment of the resources towards the non yielding assets such as fixed assets, other capital expenditure subject to write off in future course of time, income receivable; advance payments, sundry debtors etc. Following table shows the status of resources deployed by the bank over the study period.

Table 4.5

Status of Resource Deployed by MBL

(Amount in Rs.'000')

F Y	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66
Cash and bank balance	410744	731133	813923	1284078	1500055	2766647
%	11.91%	11.31%	8.94%	11.85%	12.08%	15.78%
Investment	274406	468612	1190829	1278468	1443550	1246158
%	7.84%	7.13%	13.13%	11.83%	11.60%	7.08%
Loan, Advance and bill purchase	2493107	5061433	6068427	7129891	8642323	12516012
%	72.38%	78.44%	66.885	65.92%	70%	71.52%
Fixed assets	62412	86212	104943	259532	535886	664158
%	1.74%	1.24%	1.1%	2.31%	4.27%	3.77%
Other assets	207961	109069	891704	855643	288224	297803
%	5.81%	1.55%	9.82%	7.87%	2.25%	1.65%
TOTAL	3448634	6456460	9069830	10807616	12410040	17490782

Source: MBL Annual Report

Investment was the major area for deployment of resources of the bank. After investment, LABP was the second major area for deployment of resources. It has highest deployment of 78.44% in F/Y 2061/62 and lowest deployment of 66.88% in F/Y 2062/63. Investment covers around 10% of total deployment. The range of investment is between 7.08%-13.33 % in 6 consecutive years. The bank has been investing mainly the shares of different limited companies including bank and financial institutions as its area for investment. The proportion is fluctuated in 5 consecutive years but the amount of investment had been increasing trend from F/Y 2062/063.. The proportion of other assets of the bank in total deployment of resource was 5.81%, 1.55%, 9.82%, 7.87%, 2.25% and 1.65% in F/Y 2060/061 to F/Y 2065/066 respectively, whereas fixed assets of the bank is below 1% to 5% over the study period. From the above analysis, it could be said that the bank has increasing deployment of resources significantly. The bank could able maintained to balance the cash and bank balance within limit prescribed by NRB guidelines of at least of 10% of deposit collection. Likewise, LABP and Investment are major deployment sector of the bank so, if LABP increases then investment decreases and vice versa. The poor management of resources is the main reason of fluctuation of deployment.

In this study, researcher has segregated the deployment into following three categories:

- Deployment in LABP
- Deployment in Investment
- Deployment in other portfolio (OP)

4.3.4 Deployment in LABP

Table 4.6

Statement of LABP

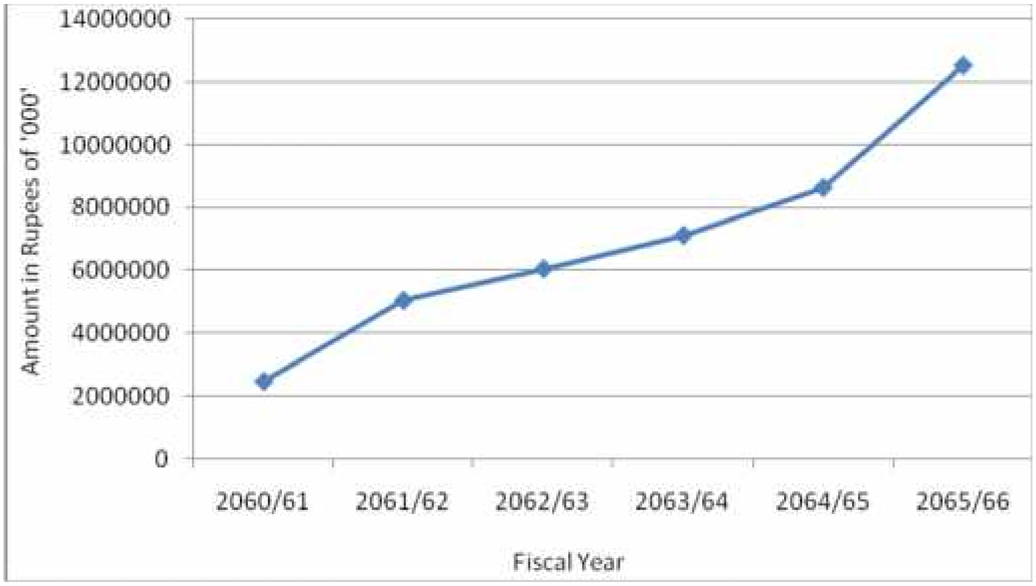
(Amount in Rs. '000')

F Y	LABP	Change in LABP
2060/61	2493107	0
2061/62	5061433	2068326
2062/63	6068427	1006994
2063/64	7129891	1061464
2064/65	8642323	1512432
2065/66	12516012	3873689

The above table shows that total amount of LABP is increasing every year. it was 2493107 thousand in 2060/61 and increased to 12516012 thousand in F/Y 2065/66.. The main reason of increasing was political and business environment of the country. Due to political stability, market system, LABP was increasing trend over the period of study.

Figure 4.5

Bar Diagram showing Statement of LABP



The above figure shows that MBL is increasing its investment in LABP every year. In F/Y 2065/066, it was highly increased.

4.3.5 Deployment in Investment

Investment was the major area for deployment of resources of the bank. Increase in investment will increase return so bank should try to invest in secured sector.

Table 4.7

Status of Investment

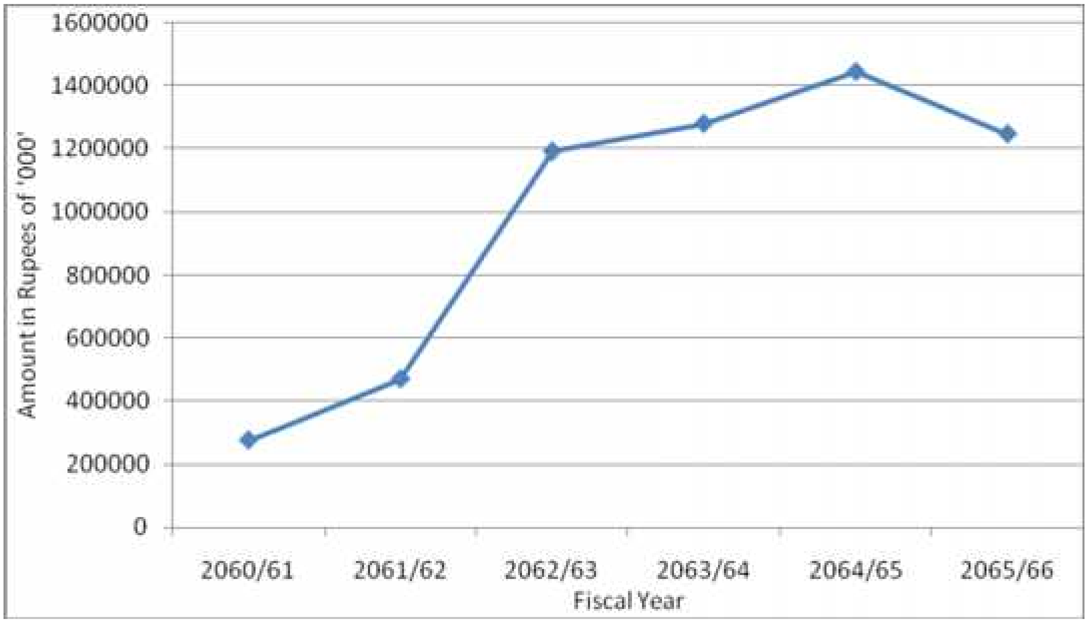
(Amount in Rs. '000')

F Y	Investment	Change in Investment
2060/61	274406	0
2061/62	468612	194206
2062/63	1190829	722217
2063/64	1278468	87636
2064/65	1443550	165082
2065/66	1246158	(197392)

Source: MBL Annual Report

Figure 4.6

Bar Diagram Showing Status of Investment



The above table and figure shows that the trend of investment was increasing over the study period except in F/Y 2065/066; it was decreased by 197392 in F/Y 2065/066 than previous year. This indicates that investment policy of the bank was satisfactory. The main reason of fluctuation was political and business environment of the country and investment policy of the bank. This also indicates that bank invest in secured sectors only. Increase in investment in secured sectors will increase the return of the bank.

4.3.6 Deployment in Other Portfolio (OP)

Deployment in other portfolio includes cash and bank balance, fixed assets and other assets.

Table 4.8

Status of Other Portfolio

(Amount in Rs. '000')

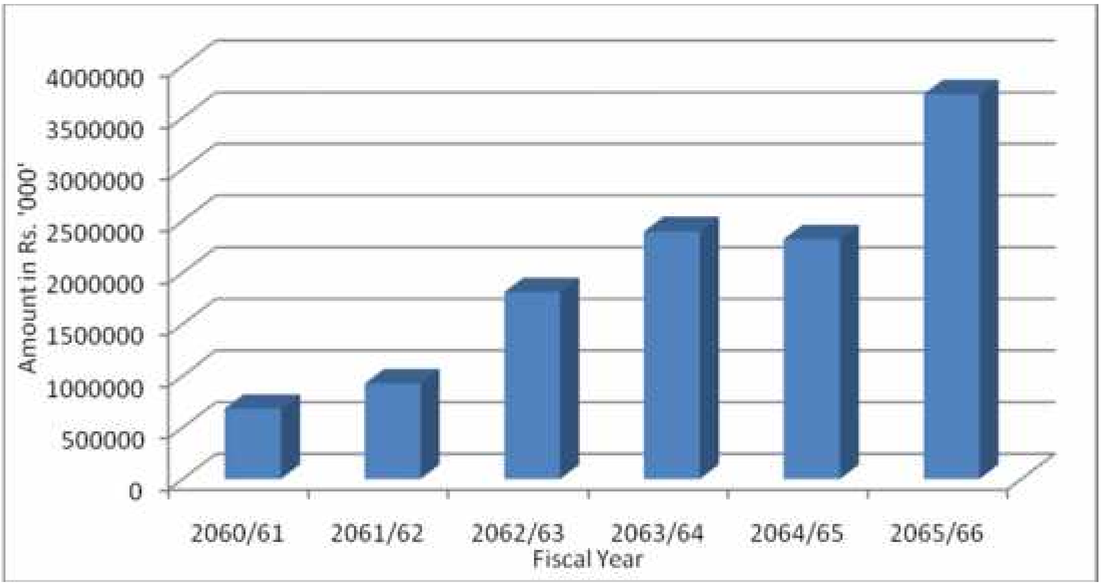
F Y	Amount of Other Portfolio	Change in Amount
2060/61	681121	0
2061/62	926415	245294
2062/63	1810574	884159
2063/64	2399257	588683
2064/65	2324167	(75090)
2065/66	3728612	1404445

Source: MBL Annual Report

The above table shows that the other portfolio was in increasing trend in every year without 2064/65. It was decreased by 75090 in F/Y 2064/065 than respective previous year. The main reason of decreasing was decrease in investment in other assets and fixed assets and bank also increases the new loan investment.

Figure 4.7

Bar Diagram showing Status of Other Portfolio



The above figure shows that the trend of other portfolio was decreased in F/Y 2064/65 and then it was increasing trend every year.

4.4 Actual Deposit Collection vs. Actual LABP Status of MBL

As it is understood that the major source for resources mobilization of the bank is the customer deposit and similarly, the major outlet for deployment portfolio is for loan, advance and bills purchase (LABP), it is desirable to analyze the comparative status of the same the study period.

Following table shows the actual balance of customer deposit collection by the bank and actual position of deployment towards LABP and the ratio of LABP to deposit (CD ratio) for the corresponding fiscal year.

Table 4.9

Actual Deposit Collection Vs. Actual LABP Status of MBL

(Amount in Rs.'000')

FY	Actual Deposit	Actual LABP	LABP to deposit(CD ratio)
2060/61	2754632	2493107	1.10
2061/62	5586802	5061433	1.11

2062/63	7893297	6068427	1.30
2063/64	9475451	7129891	1.33
2064/65	11102242	8642323	1.28
2065/66	15596790	12516012	1.24

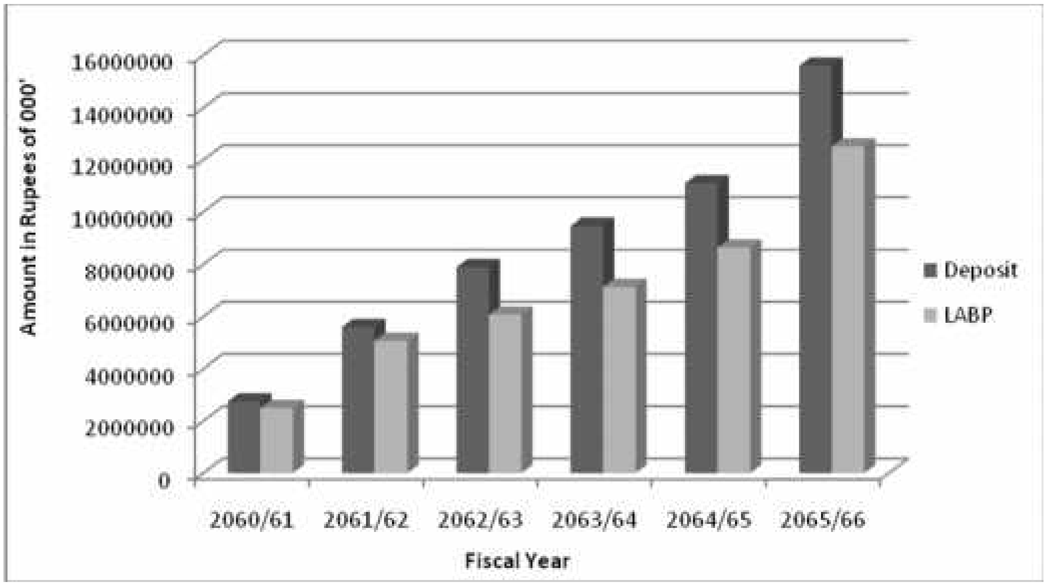
Source: MBL Annual Report

From the above table, it was observed that the LABP to Deposit ratio (CD ratio) was between 1.1 to 1.33. The average CD ratio over the period of the study was 1.24. This implied that the bank was able to lend to customers from the deposit collection from the customers to the extent of average percentage of 39.98%. The study indicates that LABP to deposit ratio and actual deposit were fluctuating trend and outstanding LABP amount is increasing trend.

LABP covers more than 70% of customer's deposits. Deposits are deployed in major two sectors. One is LABP and another is investment. There in inverse relationship between LABP and investment, if deployment in LABP increases, deployment in investment decreased and vice versa. The main reason of fluctuation was deployment policy of the bank. It could be said that the bank was succeeded in real banking business. Bank was able to use average 39.98% only of its resources collection from customers. The bank should focus on utilization of collected resources in income generating activities.

Figure 4.8

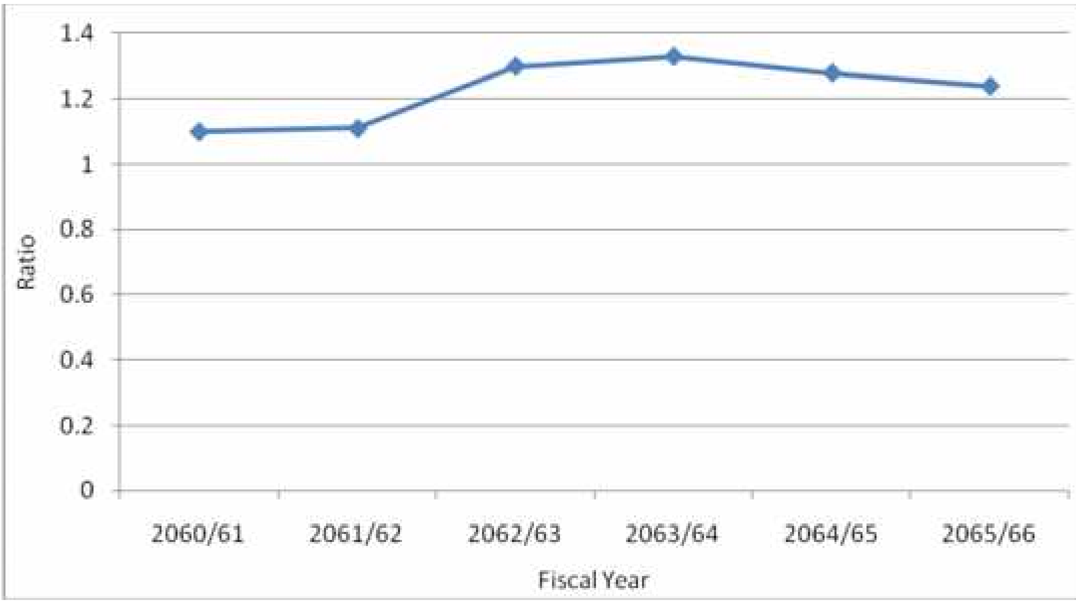
Bar Diagram Status of LABP Vs. Actual Deposit of MBL



The above diagram shows that both actual deposit and LABP were in increasing trend. It is satisfactory for the bank.

Figure 4.9

Scatter Diagram Showing CD Ratio of MBL



4.5 Expenditure Planning of MBL

Planning for expenses is the most essential to maintain reasonable level to support the objectives and planned programs of the bank. Expenses planning focus on the relationship between expenditure and the benefits derived form these expenditures. The following table shows the status of expenditure incurred by the bank for the study period.

Table 4.10

Yearly Cost Structure of MBL

(Amount in Rs ‘000’)

F Y	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66
Interest expenses	113579	187027	288661	397721	407919	580036
% in total	57.65%	54.51%	54.33%	51.31%	42.10%	49.65%
Staff expenses	19872	29581	43410	54360	71421	90995
%	9.69%	8.45%	8.11%	6.57%	7.36%	7.62%
Office expenses	42357	59973	85924	104181	124408	182841
%	21.42%	17.205	16.03%	13.15%	12.63%	15.25%
Loss provision	15980	21455	34702	157606	264487	258935
%	7.65%	6.12%	6.41%	19.73%	27.36%	21.18%
Provision for staff bonus	5187	12868	19229	11402	15922	17626
%	2.55%	3.495	3.58%	1.31%	1.05%	0.84%
Provision for tax	0	30945	58293	39940	74206	53016
%	0	8.745	10.94%	3.94%	7.36%	4.23%
TOTAL	196980	343304	530219	765210	958363	1183449

Source: MBL Annual Report

The above table shows that each type of expenses was fluctuating trend except operating expenses. Operating expenses was decreasing trend. Interest expenses covered 57.65% in F/Y 2060/061 but it covered only 42.10% in F/Y 2064/065. The increase and decrease in interest expenses would be affected accordance of the deposit collection amount during the year. Interest expenses fully depends upon the customer deposits so higher the customer deposit, it should be higher the interest expenses as well. Similarly, staff expenses proportion to total expenses was 9.69%, 8.45%, 8.11%, 6.57%, 7.36% and 7.62% in F/Y 2060/061 to F/Y 2065/066 respectively. It seems that proportion of staff expenses a re increasing and fluctuating trend every year .The amount of staff expenses are increasing every year. The increase in cost of staff was mainly due to company’s policy to regular increase in salary every year to existing staff with certain percentage and additional new staff on expansion. The bank has created provident fund as per the Income Tax Act 2058 as a separate entity. The bank has been provided bonus to staff of the net profit before tax as per Bonus Act, 2030. This showed that the bank has motivated those employees who are the key to success of the bank. The proportion of operating expenses was decreasing trend. The proportion of operating expenses was 21.42%, 17.20%, 16.03%, 13.15%, 12.63% and 15.25% in F/Y 2060/061 to 2065/066 respectively. The amount of operating expenses is decreasing trend. Provisions for possible losses are made as per NRB directive to cover the risk inherent in Bank's loan provision. Provision of doubtful debts was 2.25%, 2.90%, 4.31%, 2.84% and 4.66% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 respectively.

It shows that the higher possible losses provision was 4.66% in F/Y 2064/065. Provisions for possible losses are below 5% in 5 consecutive years. It showed the efficient management of loans. The bank is providing loans to secure sectors only. The proportion of provision for staff bonus was 2.55%, 3.49%, 3.58%, 1.31% , 1.05% and 0.84% in F/Y 2060/061 to 2065/066 respectively. The proportion of provision for staff bonus was fluctuating trend but the amount of provision for staff bonus is increasing every year. The staff bonus is based on net profit of the bank therefore, if bank earns more profit, staff bonus is increased subsequently. The tax expense is also based on the profit of the bank. The proportion of provision for income tax was fluctuating trend but the amount of Income tax provision was increasing every year. The bank has the profit in increasing trend therefore, the amount of income tax provision is also increasing rate.

4.5.1 Interest Expenses to Total Deposit

Interest expenses are the expenditure incurred for making payment of interest to the deposit collected by the bank. As the customer deposit holds a major share on total resources of the bank, interest is also highest among others in total expenses of the bank. The customer deposit is one of the major sources for resources mobilization by the bank. There are various kinds of deposit account from non-interest bearing account to interest bearing 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.

Table 4.11

Status of Interest Expenses to Total Deposit (Cost of Deposit)

(Amount in Rs '000')

F Y	Interest Bearing Deposit	Interest Expenses	Cost of Deposit
2060/61	2542372	113579	4.33%
2061/62	5270282	187027	3.41%
2062/63	7524240	288661	3.72%
2063/64	8859307	397721	4.45%
2064/65	10483874	407919	3.81%
2065/66	14836199	580036	3.91%

Source: MBL Annual Report

From the above table, it was observed that cost of deposit (CoD) was fluctuating trend. It was 4.33%, 3.41%, 3.72%, 4.45%, 3.81% and 3.91% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 and 2065/66 respectively. The bank has maintained less minimum cost of deposit. The reason for minimum cost of deposit was due to the bank policy to collect the deposit with low interest rate. The average CoD for the period of the study was 3.95%. It indicates that the profitability position of the bank because lower CoD refers to better position of the bank.

Figure 4.10

Bar diagram of Status of Interest Expenses to Total Deposit of MBL

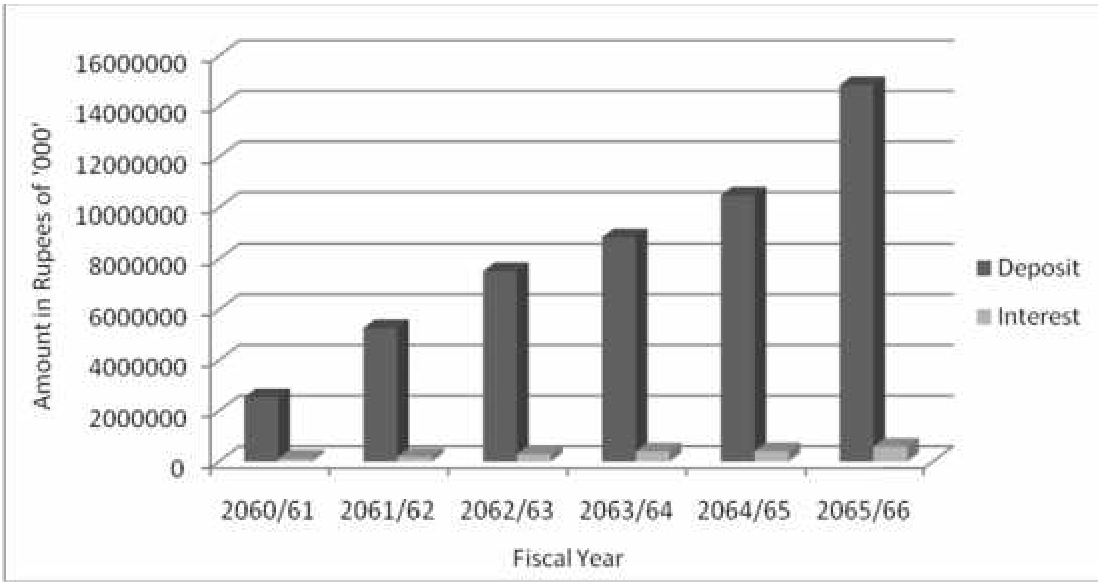
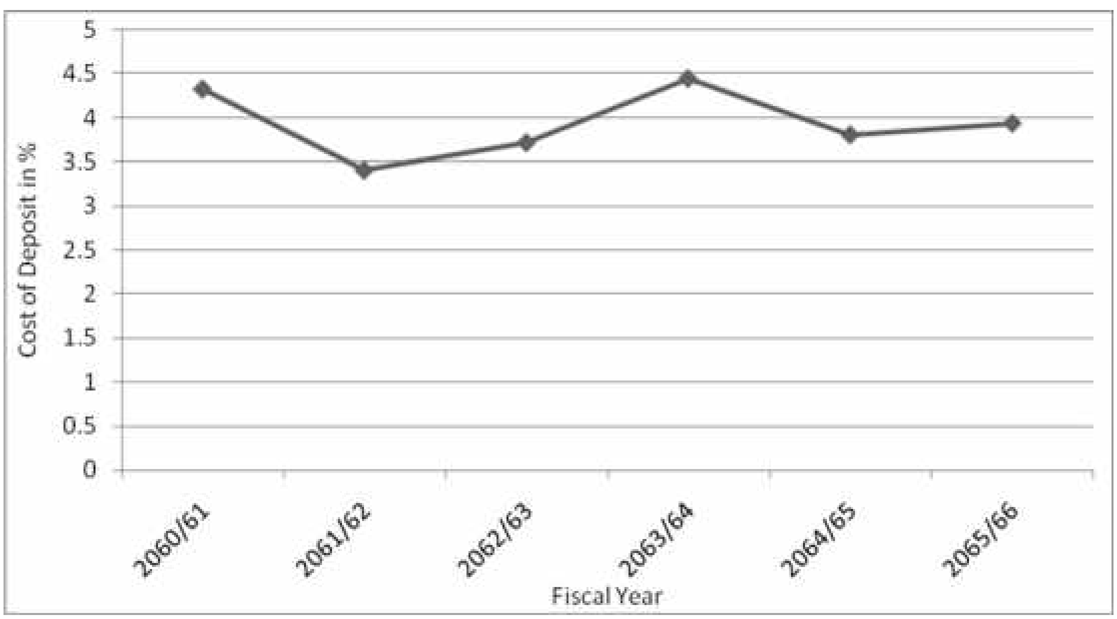


Figure 4.11

Scatter Diagram showing status of LABP vs. Actual Deposit of MBL



4.5.2 LABP Vs Provision for Doubtful Debts

As per the directives of Nepal Rastra Bank, the commercial banks are required to set aside some amount form their operating profit at a fixed ratio against the outstanding LABP of the bank as prescribed by NRB from time to time. Such amount provided by against the LABP is based on the classification of the loans. As per NRB current directives, banks are required to classify their outstanding LABP on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F/Y 2060/61 to 2065/66 which are follows:

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

Loss

All loans and advances chose are past due for a period of more than one year, are included in this category which shall to be provided for 100% of the LDO falling under this category. All classified loans except „Pass‟ are called non-operating 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 loan to keep them performing in order to reduce the amount of provisions for those losses to enhance the profit. Further, internationally accepted standard rate of percent for total loan loss provision to total loan is as 3%.

Table 4.12

Status of Provision for Doubtful Debt to LABP

(Amount in Rs "000")

FY	Provision for Doubtful Debt(Loan Loss)	Actual LABP	Provision for Doubtful Debt to LABP
2060/61	15980	2493107	0.64%
2061/62	21455	5061433	0.42%
2062/63	34702	6068427	0.57%
2063/64	157606	7129891	2.21%
2064/65	264487	8642323	3.06%
2065/66	258935	12516012	2.06%

Source: MBL Annual Report

The above table shows that the percentage of provision for doubtful debts to total LABP was 0.64%, 0.42%, 0.57%, 2.21%, 3.06% and 2.06% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 and 2065/66 respectively. Provision for doubtful debt to LABP is average 2%. This indicates that the bank in lending their deposits securely. This is the good sign for the bank. Both the directives of NRB and management are responsible to control loss provisions.

Figure 4.12

Scatter Diagram of Provision for Doubtful Debt and Total LABP

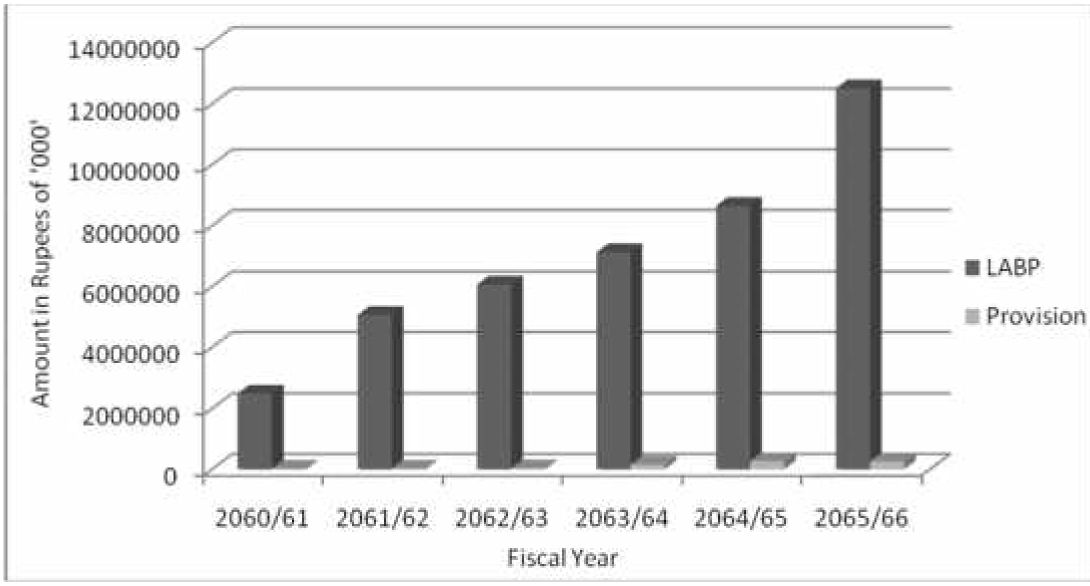
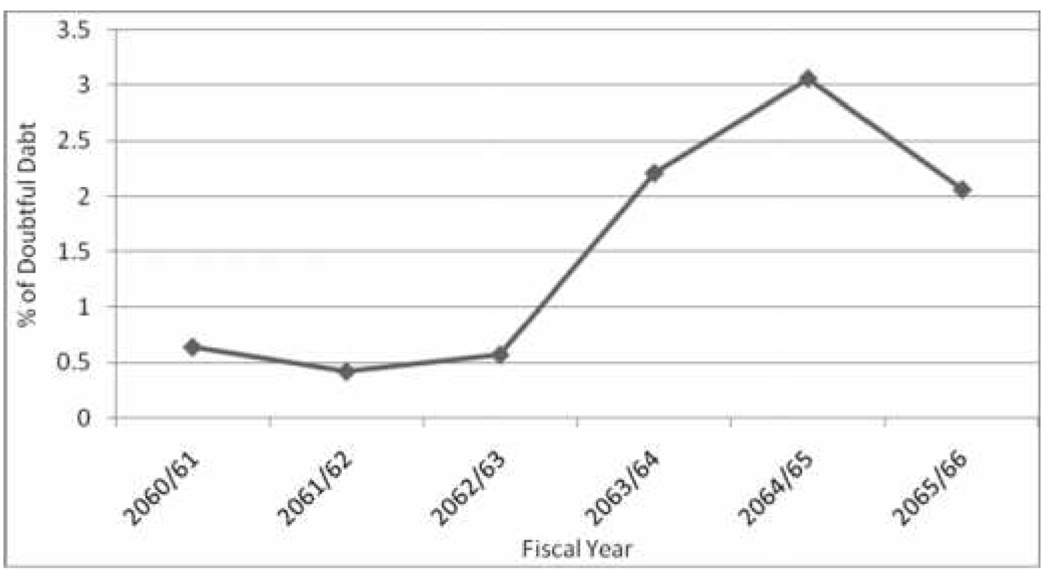


Figure 4.13

Scatter Diagram of Provision for Doubtful Debt and Total LABP



4.6 Revenue Planning of MBL

Bank generates its revenue from its income earning activities. Such activities are mostly fund based, that is generated out of the deployment of fund and some portion from non-fund based business activities. Income of bank can be broadly categorized into two type viz. interest income and other income. Interest income is the interest is the interest earned from loan, advances and overdrafts provided to the borrowers, investments in government bonds etc. Interest income holds major share in total portfolio of the bank. Other income consist the income other than interest income, which are as follows:

- Income form commission and discounts
- Dividend received from investment in shares
- Foreign exchange gain
- Various kinds of service fees and charges

Table 4.13

Income Structure of MBL

(Amount in Rs '000')

F Y	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Interest income	215206	381930	288661	397721	796597	1041473
%	87.5%	90.47%	75.67%	76.47%	84.87%	86.12%
Commission and discount	14840	21391	33401	34305	35616	38017
%	4.16%	4.76%	8.91%	6.66%	3.85%	3.10%
Exchange fluctuation	12621	11359	35152	29036	45699	59817
%	4.11%	2.38%	9.45%	5.68%	4.96%	4.95%
Non operating	0	286	0	462	0	24276
%		0.046%		0.90%		2%
Other income	1001	13203	13690	49039	30072	57135
%	0.41%	2.4%	3.51%	9.60%	3.86%	4.87%
TOTAL	243669	428174	370904	510563	907984	1220718

Source: MBL Annual Report

The above table shows that the revenue was increasing every year. Income form interest was the highest among the others in total revenue for each year. The average proportion of interest is around 84% of total revenue. The proportion of interest income was 87.5%, 90.47%, 75.67%, 76.47%, 84.87% and 86.12% in F/Y 2060/061 to 2065/066 respectively. It seems every year share of income from interest amount is increasing for the bank. Overall, generation of interest income of MBL is satisfactory. The interest income is based on the amount of LABP amount was also increasing every year. MBL gives loan, advance and bill purchase in higher rate of interest and gives lower rate of interest to its depositors. The proportion of commission & discount was 4.16%, 4.76%, 8.91%, 6.66%, 3.85% and 3.10% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 and 2065/66 respectively. The above table shows that commission & discount is in fluctuating trend but it was nominal fluctuation. This can be regarded as normal fluctuation only. Foreign exchange income was also major part of total revenue collection. The proportion of foreign exchange income was 4.11%, 2.38%, 9.11%, 5.68% , 4.96% and 4.95% in F/Y 2060/061, 2061/062, 2062/063, 2063/064, 2064/65 and 6065/066 respectively. The proportion of foreign income is decreasing trend but the amount of foreign exchange is increasing trend except in F/Y 2061/062, The reason of increase or decrease in foreign exchange income is due to decrease or increase in US Dollar rate. Non-operating income contributes to total income was very negligible proportion. It was below 0.48% over the study period. Similarly, proportion of other income was 0.41%, 2.4%, 3.51%, 9.60%, 3.86% and 4.87 % in F/Y 2060/061 to 2065/066 respectively. It was negligible proportion in total income.

4.6.1 Interest Income to LABP

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 proudly called Yield of Fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, researcher has grouped the outstanding loan, advances and overdraft and the bills discounted together to call LABP and have included commission too into the total interest income amount (YOF). Now, researcher shall analyze the comparative status of total YOF with the total LABP with the help of following table and bar diagram.

Table 4.14

Status of Interest Income to LABP

Amount in Rs "000"

F Y	Total interest income with commission charge	LABP	Interest income to LABP
2060/61	230046	2493107	9.26%
2061/62	403321	5061433	7.90%
2062/63	322062	6068427	5.28%
2063/64	432026	7129891	6.48%
2064/65	832213	8642323	9.65%
2065/66	1079490	12516012	8.72%

Source: MBL Annual Report

From the above table, it was observed that the yearly YOL of MBL range form 5.28% to 9.65% in various years. The yield on LABP was 9.26% in F/Y 2060/061 whereas; it was 7.90% in F/Y 2061/062 and highest 9.65% in 2064/65. The average YOF for the period of study was 7.67%. The above table indicates that total interest income is in increasing trend but YOL is in decreasing trend. The decrease in yield was mainly due to decrease in interest rate. Due to poor market system, political situation and other instability, the bank has decreased its interest rate to mobilize its deposits.

Figure 4.14

Bar Diagram of Interest Income to Total LABP

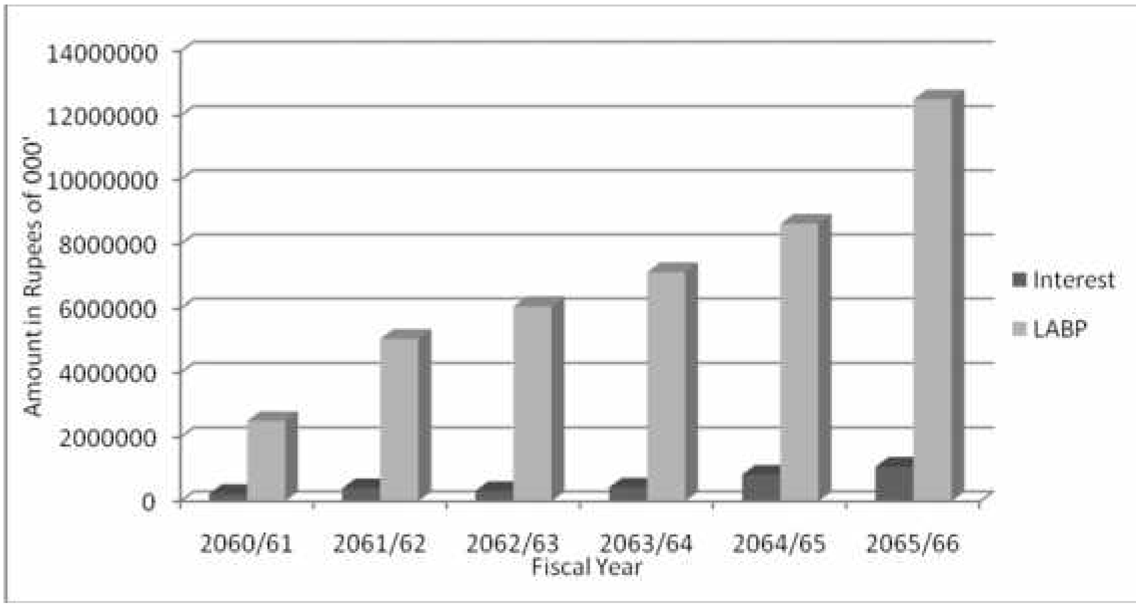
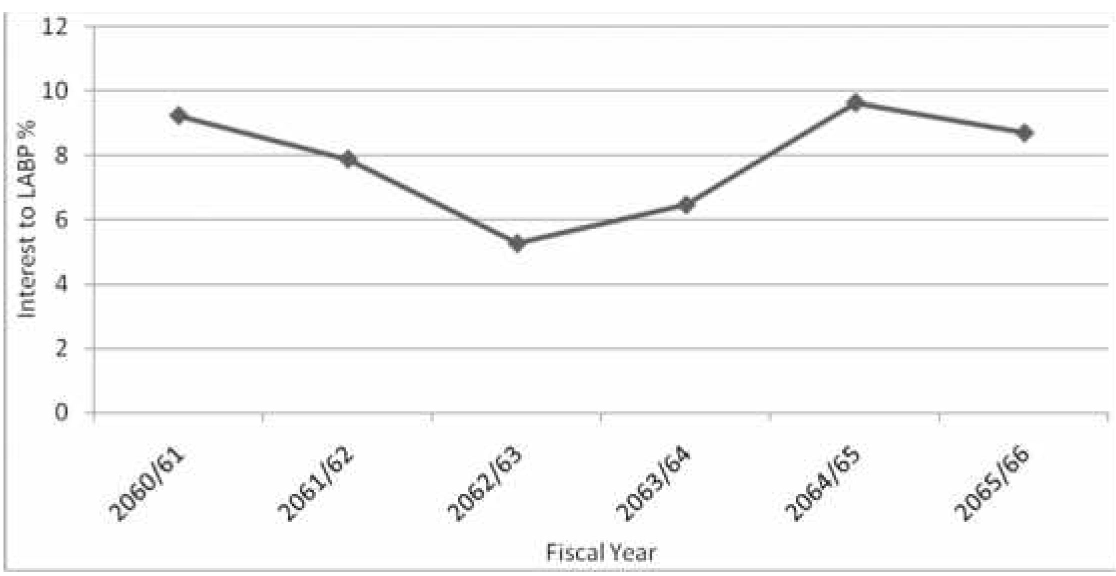


Figure 4.15

Scatter Diagram of Interest Income to Total LABP



4.6.2 Interest Spread

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

Table 4.15

Yearly Spread of MBL

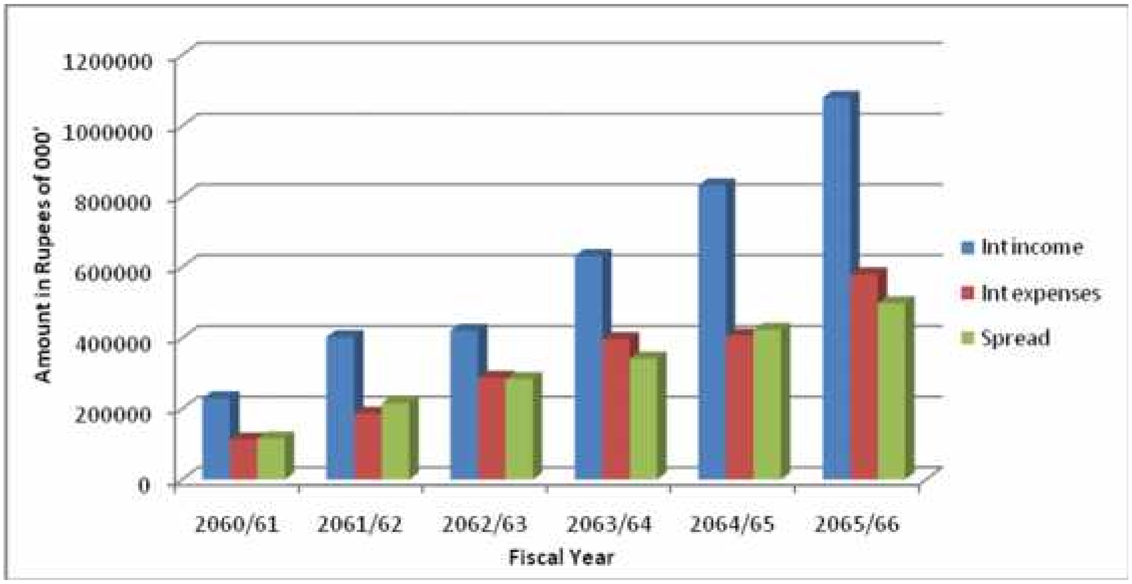
(Amount in Rs ‘000’)

F Y	Interest income	Interest expenses	Spread
2060/61	230046	113579	116467
2061/62	403321	187027	216294
2062/63	422062	288661	285040
2063/64	632026	397721	343005
2064/65	832213	407919	424294
2065/66	1079490	580036	499454

Source: MBL Annual Report

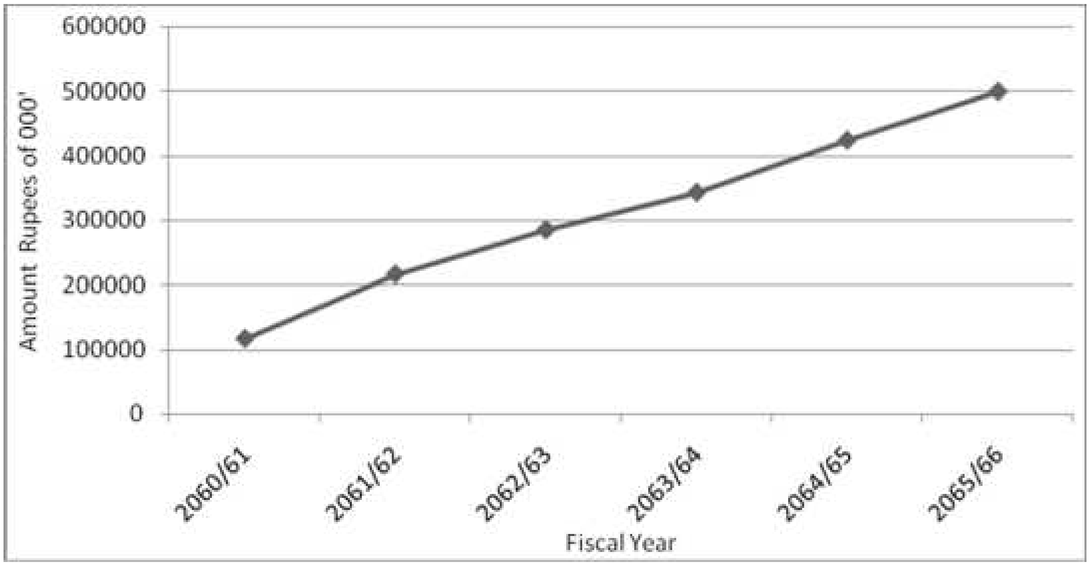
The above table shows that the status of interest income, interest expenditure and spread of the bank for the study period. It was observed that in F/Y 2060/061, the spread of the bank was Rs. 116467000. It was Rs. 216294000 in F/Y 2061/062. Similarly, it was Rs. 285040000 in F/Y 2062/063 and It was Rs. 343005000 in F/Y 2063/064 and Rs. 424294000 in F/Y 2064/065 and growth rate increased by 12.69% and 12.07% than the previous year. The above table indicates that interest spread is in increasing trend. The amount of interest income and interest expenses are also increasing trend. Therefore, growth of interest spread is also increasing too. The increasing was mainly due to political stability, peace and other stability.

Figure 4.16
Bar Diagram of Interest Income, Expenses and Spread of MBL



Above Diagram shows that interest income, interest expenses and interest spread are in increasing trend. MBL has positive interest spread. This proves that the bank has sufficient income to pay the interest of deposit collected from customers, employee costs, operating costs, to pay capital providers etc

Figure 4.17
Scatter Diagram of Interest Income, Expenses and Spread



4.6.3 Burden

Burden is the overall expenses of the bank except 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.

Table 4.16

Net Burden of MBL

(Amount in Rs '000')

F Y	Other Income	Other Expenses	Burden
2060/61	28462	83396	54934
2061/62	46419	154822	108403
2062/63	82243	241558	159315
2063/64	112842	367489	254647
2064/65	111387	550444	439057
2065/66	179245	603413	424168

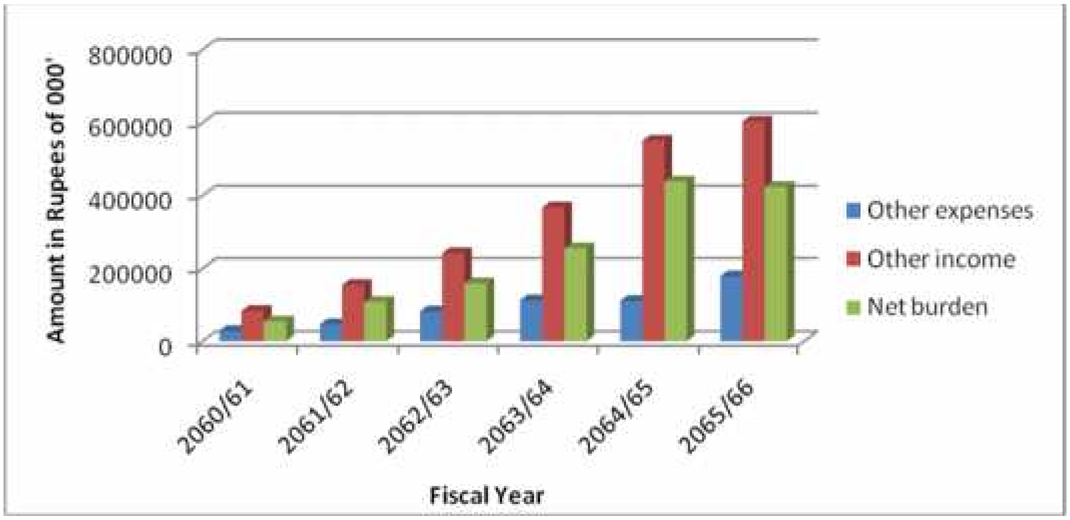
Source: MBL Annual Report

From the above table, it was observed that the net burden of the bank in F/Y 2060/061 was Rs. 54934000. It was Rs. 108403000 in F/Y 2061/062. Similarly, the net burden was Rs.159315000 in F/Y 2062/063, Rs.254647000 in F/Y

2063/064 and Rs.439057000 in F/Y 2064/065 and 424168000 in 2065/66. The major objective of this study was to find out whether other resources of income are maintaining the other expenses part or not. It was observed that the net burden of the bank was positive. The net burden of the bank was in fluctuating trend over the study period with fluctuating rate. The indication of the study showed that the other income are increasing or decreasing in respect to other expenses. The net burden of the bank was not so high so the bank could manage its fund to collect other source of income.

Figure 4.18

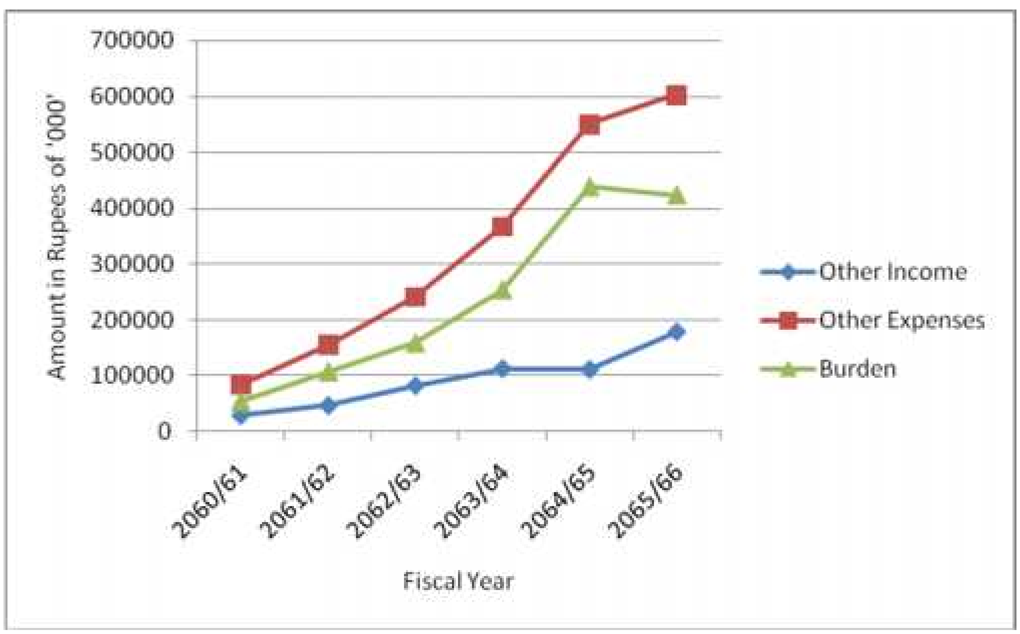
Bag Diagram of Other Expenses, Other Income and Net Burden



Further above diagram shows that trend of other expenses and other income are in increasing trend.

Figure 4.19

Scatter diagrams of Other Expenses, Other Income and Net Burden



4.6.4 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 the other expenses and other income. Following table and graphs shows the status of spread, burden and net profit of various year of the study period.

Table 4.17

Net Profit of MBL

(Amount in Rs '000')

F Y	Spread	Burden	Net profit
2060/61	116467	54934	46689
2061/62	216294	108403	84870
2062/63	285040	159315	133996
2063/64	343005	254647	74085
2064/65	424294	439057	85016
2065/66	499454	424168	123251

Source: MBL Annual Report

From the above table, it was observed that net profit of the bank in F/Y 2060/061 was Rs.46689000. Similarly, it was Rs. 84870000, Rs. 133996000 and Rs. 74085000, 85016000 and 123251000 in F/Y 2062/063, 2063/064 and 2064/065 and 2065/66 respectively. The above table indicates that interest spread and Net profit both are in increasing trend. Burden of the bank is decreasing trend in 2063/64 and then slightly increasing trend over the study period. As researcher analyzed earlier, burden is the difference amount of other income and other expenses and net income is the difference of total interest spread and total burden. Following diagrams will further clarify the net profit position of the bank. This shows the real success of the bank and bank's strategy for the expansion of its business.

Figure 4.20

Bar Diagram of Spread, Burden and Net Profit of MBL

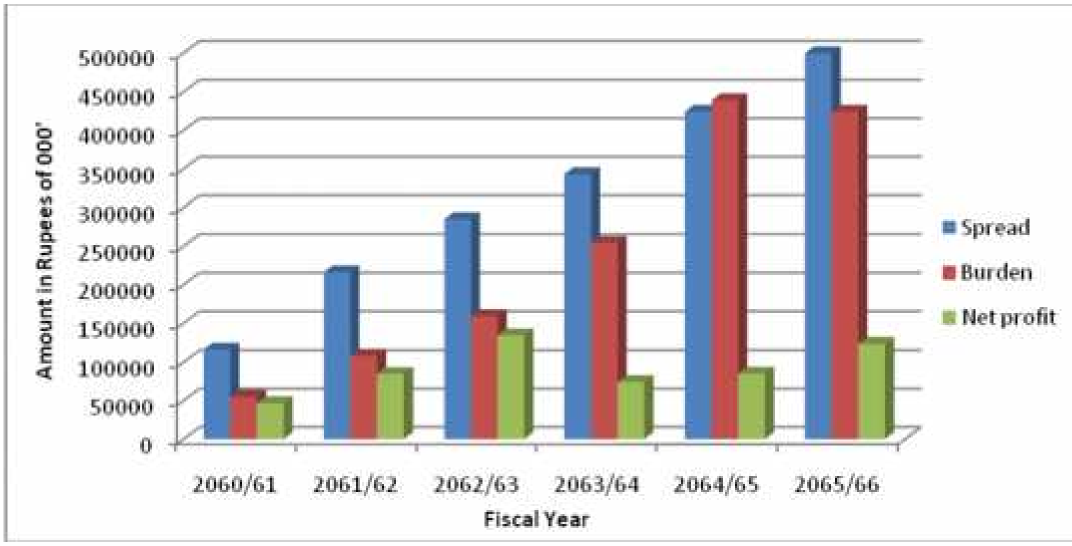
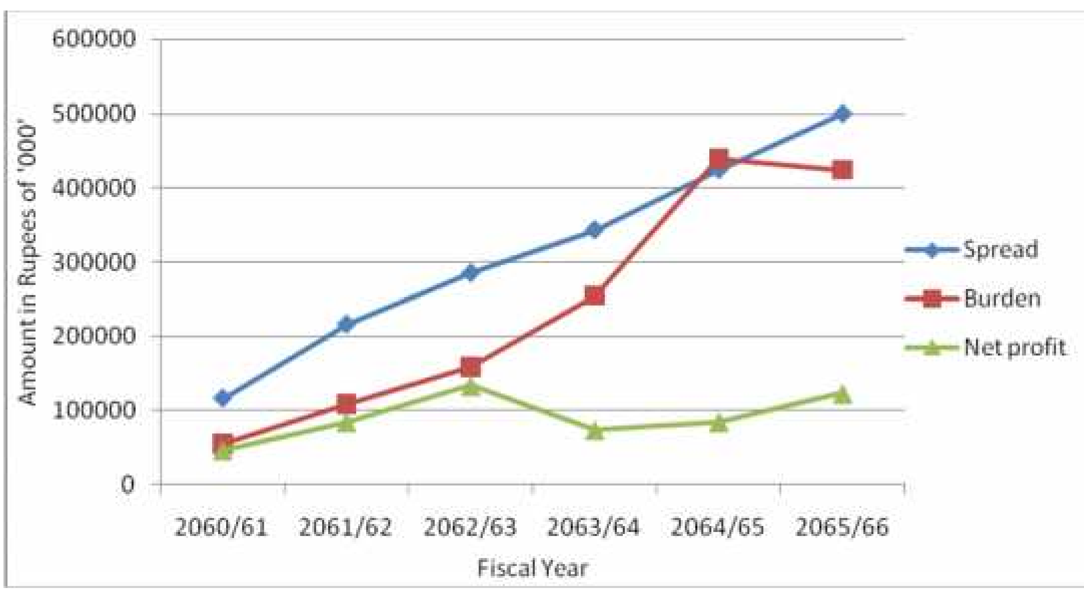


Figure 4.21

Scatter Diagram of Spread, Burden and Net Profit of MBL



The net profit of the bank is in increasing trend every year over the study. This proved that the management of the bank is efficient.

4.7 Performance Evaluation of Bank

Performance evaluation is used as an important part of comprehensive budgeting system. All companies regardless of their size have reporting requirement to show their overall performance. Performance reporting is an important phase of control process. Researcher can use various techniques and criteria to evaluate performance of bank, which are as follows:

1. Ratio Analysis
2. Cash Flow Analysis

4.7.1 Ratio Analysis

The ration analysis is a powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions" and as "The relationship between two of more things" (I.M. Pandey). An arithmetic relationship between two figures is known as ratio. Ratio analysis is a financial device to measure the financial positions, major strengths and weakness of a firm. To evaluate the performance of an organization by creating the ratios form the figures of different account consisting in balance sheet and income statement is known as ration analysis. Ratio can be classified for the purpose of exposition into four board groups:

a. Liquidity Ratio
b. Capital Structure Ratio
c. Activity Ratio
d. Profitability Ratio

4.7.1.1 Liquidity Ratio

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

Table 4.18

Liquidity Ratio of MBL

(Amount in Rs. '000')

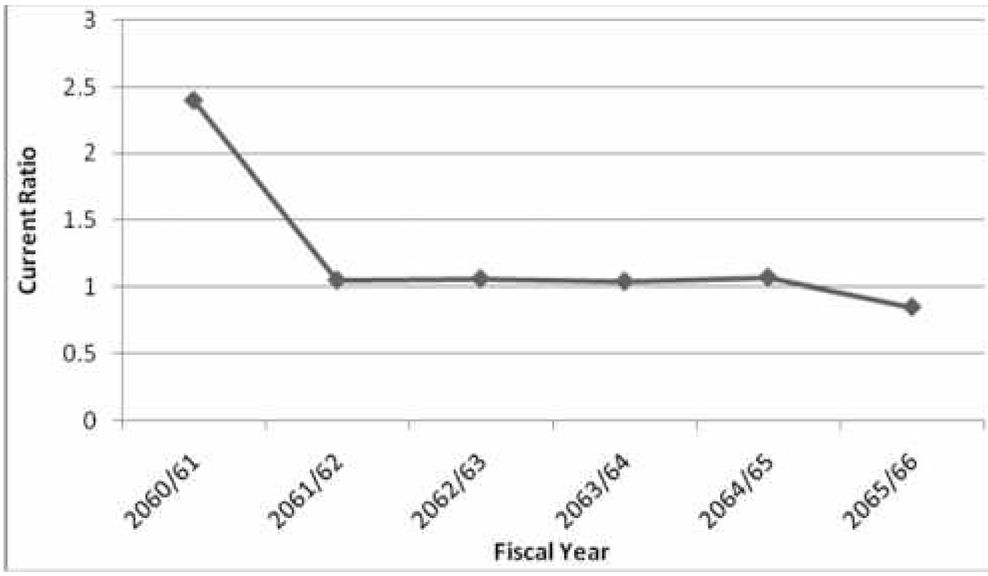
F Y	Current Asset	Current Liability	Ratio
2060/61	8589642	3579834	2.4:1
2061/62	11010725	10475703	1.05:1
2062/63	11852878	11234576	1.06:1
2063/64	14166795	13601395	1.04:1
2064/65	13087844	12246278	1.07:1
2065/66	11536956	13200865	0.87:1

Source: MBL Annual Report

The table 4.17 represents the detailed charts of liquidity ratio of MBL for the years from fiscal year 2057/058 to 2063/064. The standard of current ratio is 2:1. The Current ratio of MBL was remarkable because it was not more than standard ratio. It showed that Bank's solvency position was not better. From the above table and bar diagram, it was observed that the MBL has current ratio ranging form 2.4 times to 0.87 times during the study period. The highest current ratio was 2.4 times in F/Y 2060/061 and the lowest current ratio was 0.87 times in F/Y 2065/066. The company has positive working capital over the five years study period. It means the current assets are more than current liabilities. The bank has increased its investment in fixed assets that's why the bank was not able to maintain standard ration in F/Y 2064/065 and 2065/66. It showed that the performance of the bank was satisfactory. The bank has ability to pay its current obligation in time as and when they become due.

Figure 4.22

Bar Diagram Showing Current Ratio of MBL



4.7.1.2 Capital Structure Ratio

To judge the long term financial position of MBL, the leverage ratios were calculated. The following two ratios are calculated in Capital Structure Ratio.

1. Debt to Equity Ratio
2. Interest Coverage Ratio

(1) Debt to Equity Ratio

The relationship between borrowed fund and owner's equity is known as debt equity ratio. The standard ratio of debt ratio is 4:1. This shows the capital structure of any organization. For the purpose of analysis, the amount of borrowings and deposits liabilities of the bank has been taken as long term debt for the bank.

Following table shows the bank's debt equity ratio status.

Table 4.19

Status of Long-term Debt to Total Equity Ratio

(Amount in Rs. '000')

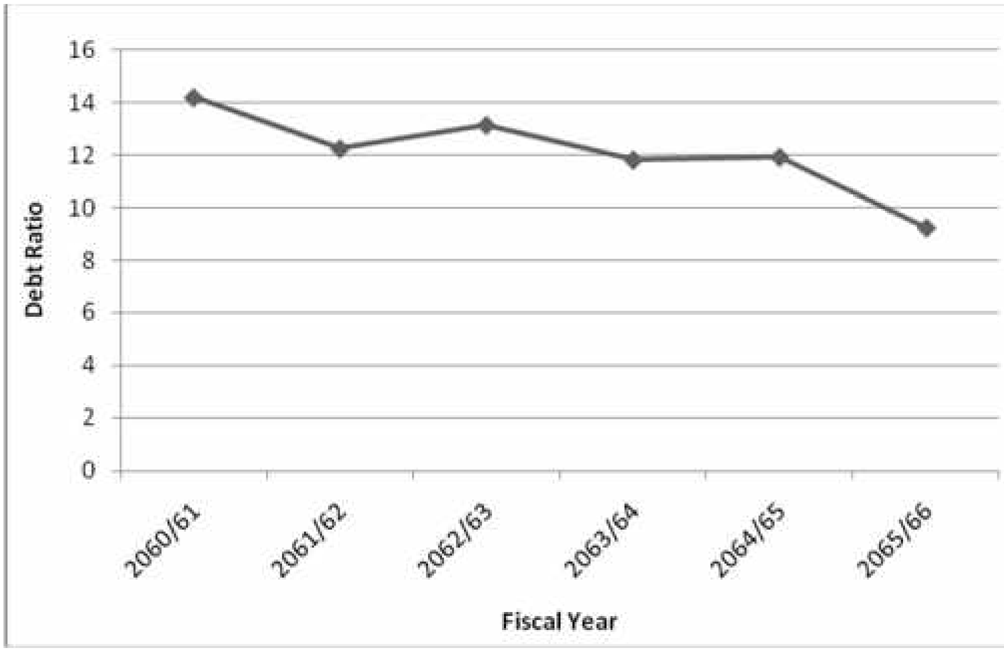
F Y	Deposit and Borrowing	Equity Capital	Debt to Equity Ratio
2060/61	21239734	1495739	14.20
2061/62	19391021	1582415	12.25
2062/63	23061032	1754139	13.15
2063/64	25047026	2116353	11.83
2064/65	29743999	2492547	11.93
2065/66	31263330	2856210	9.25

Source: MBL Annual Report

From the above table, it was observed that the debt to equity ratio of the bank was in fluctuating trend. It was 14.20:1 in F/Y 2060/061. It was decreased to 12.25:1 in F/Y 2061/062. It was 13.15:1 in F/Y 2062/063 and decreased to 11.83:1 in F/Y 2063/064 and increased and reached to 11.93:1 in F/Y 2064/065. As per the guidelines given by NRB, the deposit collection and borrowing of the bank was restricted to 10 times of capital fund. But the current guidelines have not restricted limit for long-term debt collection by the bank. The debt equity ratio of the bank was high which implied to more debt in comparison to capital fund. 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.

Figure 4.23

Scatter Diagram Showing Debt Ratio of MBL



The debt ratio shows the proportion of a company's assets which are financed through debt. If the ratio is less than one, most of the company's assets are financed through equity. If the ratio is greater than one, most of the company's assets are financed through debt. Companies with high debt ratios are said to be "highly leveraged," not highly liquid as stated above. A company with a high debt ratio (highly leveraged) could be in danger if creditors start to demand repayment of debt. The standard ratio of debt ratio is 4:1. But MBL has minimum of 11.83:1. It shows that the bank is highly leveraged but creditors start to demand repayment, bank could be in danger. Therefore, MBL should minimize its debt ratio near to 4:1.

(2) Interest Coverage Ratio

The ratio measures the interest payment capacity of MBL. It is computed by dividing Net Profit before interest and tax by Interest expenses amount.

Table 4.20

Status of Interest Coverage Ratio

Amount in Rs. “000”

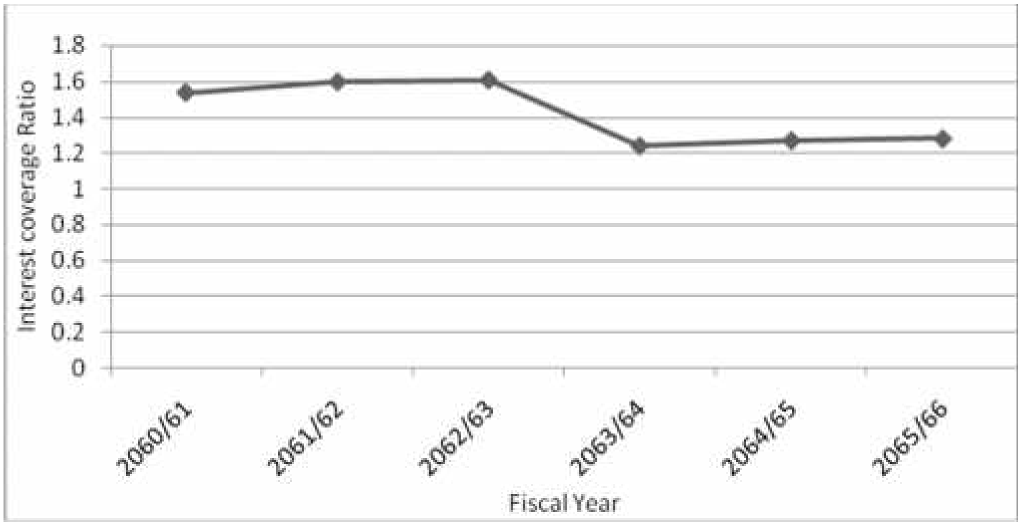
F Y	Net Profit before Interest and Tax	Interest Expenses	Interest Coverage Ratio
2060/61	175831	113579	1.54
2061/62	300187	187027	1.60
2062/63	467322	288661	1.61
2063/64	496501	397721	1.24
2064/65	521273	407919	1.27
2065/66	744370	580036	1.28

Source: MBL Annual Report

From the above table, it was observed that interest coverage ratio is in fluctuating trend over the study period. It was 1.54 times in F/Y 2060/061 which increased to 1.6 times in F/Y 2061/062. It was increased to 1.61 times in F/Y 2062/063 and again decreased to 1.24 times in F/Y 2063/064. It was increased to 1.27 times in F/Y 2064/065 and increased in 1.28 times in 2065/66. The highest interest coverage ratio was 1.61 times in F/Y 2062/063 over the study period. There is no standard ratio of interest coverage in case of the bank, however, it would be better if coverage ratio of the bank was higher than 1. The interest coverage ratio of the bank was higher than 1 over the study period, which means the bank could able to pay interest in borrowing adequately and its indicator of healthy financial status of the bank. Researcher can see that the trend line of interest coverage ratio below which is in fluctuating trend.

Figure 2.24

Scatter Diagram Showing Interest Coverage Ratio of MBL



4.7.1.3 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.

4.7.1.3.1 Calculation of Return on Equity of MBL

It shows the overall efficiency of the organization. It also shows the profitability position of the bank. This ratio is calculated as net income after tax divided by total equity capital. ROE ratio, on the other hand, is a measure of the rate of return flowing to the Bank's shareholders. It approximates the net benefit that the shareholders have received from investing their capital in Bank.

Table 4.21

ROE of MBL

(Amount in Rs. “000”)

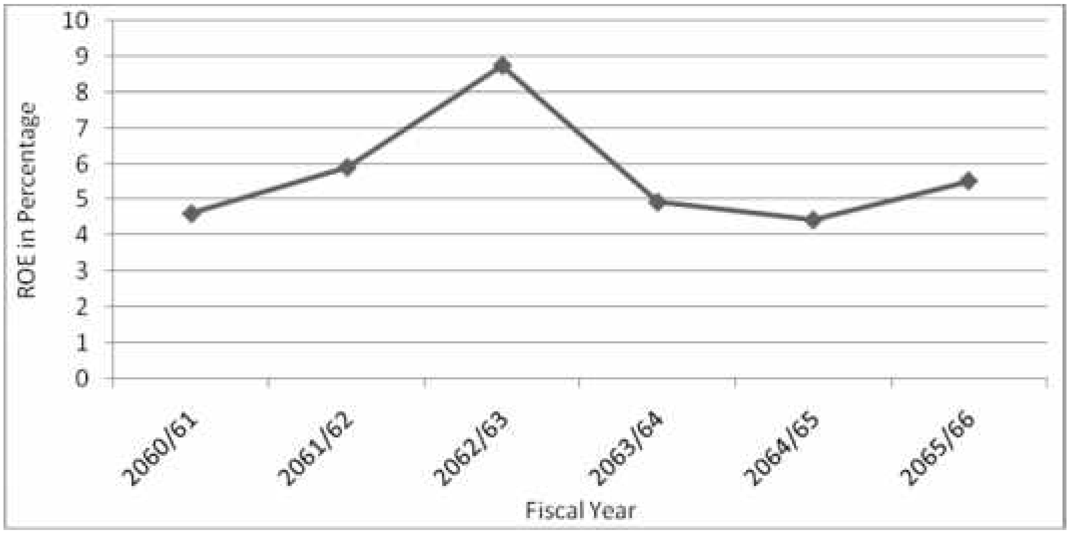
F Y	Net Income	Shareholder’s Equity	ROE
2060/61	46689	1495739	4.6%
2061/62	84870	1582415	5.9%
2062/63	133996	1754139	8.75%
2063/64	74085	2116353	4.92%
2064/65	85016	2492547	4.42%
2065/66	123251	2856210	5.52%

Source: MBL Annual Report

Above table shows the relationship between income after tax and total equity capital of the bank. The ROE of MBL was in fluctuating trend. It was 4.6%, 5.9%, 8.75%, 4.92%, 4.42% and 5.52% in F/Y 2060/061 to F/Y 2065/066 respectively. It was observed that the net income and equity capital amount is increasing every year. Any organization having more than 4% ROE is good so the bank has been maintaining its ROE level in very satisfactorily position.

Figure 4.25

Scatter Diagram Showing ROE of MBL



4.7.1.3.2 Calculation of Return of Assets (ROA) of MBL

ROA ratio is primarily an indicator of managerial efficiency. It indicates how capably the management of the bank has been converting the firm's assets into net earning. It indicates how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets,

ROA is displayed as a percentage. Sometimes this is referred to as "return on investment" Its measure in terms of relationship between net profit and total assets. Higher ratio shows the higher return on the assets in the business thereby indicating effective use of the resources available and vice versa.

Table 4.22

ROA of MBL

(Amount in Rs. '000')

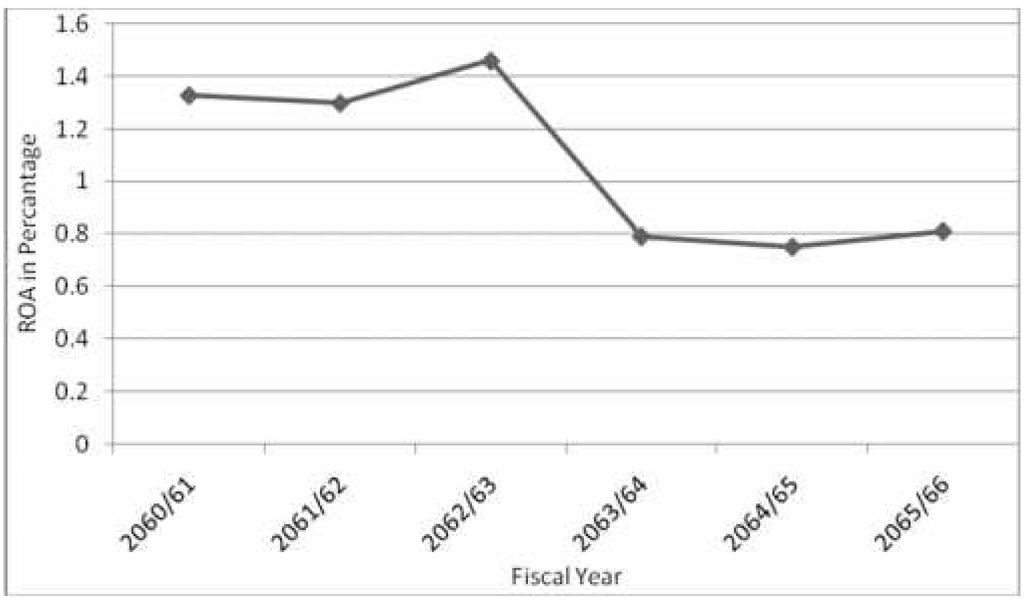
F Y	Net Income	Total Assets	ROA
2060/61	46689	3448634	1.33%
2061/62	84870	6456460	1.3%
2062/63	133996	9069830	1.43%
2063/64	74085	10807616	0.79%
2064/65	85016	12410040	0.75%
2065/66	123251	17490782	0.8%

Source: MBL Annual Report

From the above table, it was found that the ratio is in fluctuating trend. It was observed that the highest ROA was 1.43% in F/Y 2062/063 and the lowest ROA was 0.75% in FY 2064/065. It was 1.33% in F/Y 2061/062 and decreased to 1.3% in F/Y 2062/063. It was 0.75% and 0.8% in F/Y 2063/064 and F/Y 2064/065 respectively. The indication shows ROA level of the bank was fluctuating trend. It was not because of low profit but bank has invested its capital fund in fixed assets. The bank should invest their borrowings and deposits to income generating activities which will increase its net profit and ROA.

Figure 4.26

Bar Diagram Showing ROA of MBL



4.8 Plan for Non-Funded Business Activities of MBL

Apart from the business activities like advancing loans, overdrafts, Bills discounting and investments where fund are involved for income generation, there are other business activities too performed by the bank which does 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 free and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expenses burden of the bank.

Generally income generating non-funded business activities 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 as a special item in balance sheet of the Bank.

4.8.1 Letter of Credit

Letter of credit is the 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 providing the terms and conditions of the L/C.

The following table shows the letter of Credit of the Bank as of the closing of the respective fiscal year and its growth over the period of this study:

Table 4.23

Growth of L\C Business of MBL

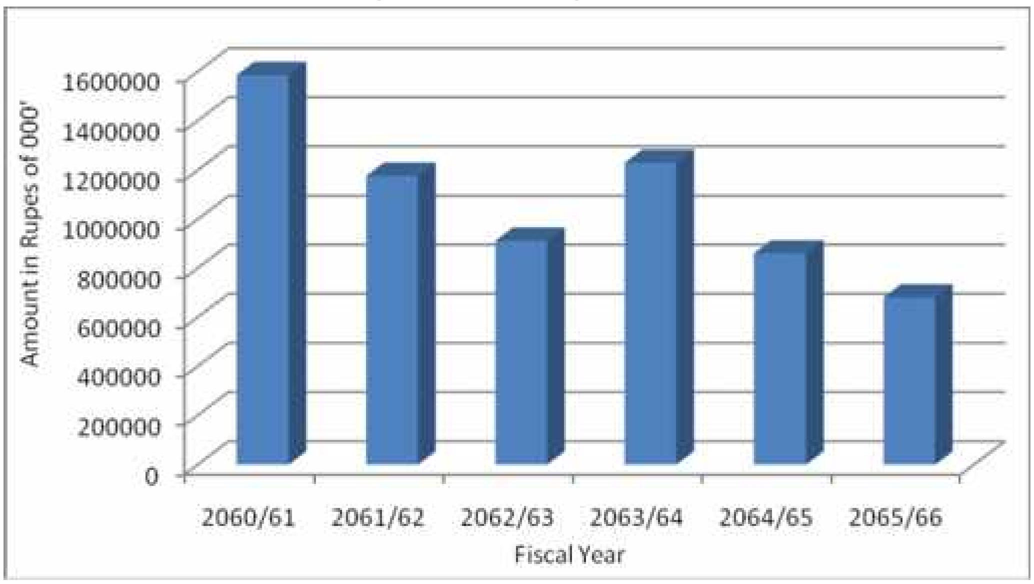
(Amount in Rs “000”)

F Y	L /C Amount
2060/61	1585753
2061/62	1176483
2062/63	911864
2063/64	1229670
2064/65	859858
2065/66	680644

Source: MBL Annual Report

The above table showed that the Letter of Credit outstanding were in decreasing trend each year. The growth of L\C business of the Bank has been presented in the Bar Diagram as below.

Figure 4.27
Bar Diagram Showing L/C of MBL



4.8.2 Bank Guarantee

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.

The following table shows the outstanding bank guarantee liability as of the end of the fiscal year over study period and the change in the subsequent year:

Table 4.24

Yearly growth in Bank Guarantee Liability

(Amount in Rs '000')

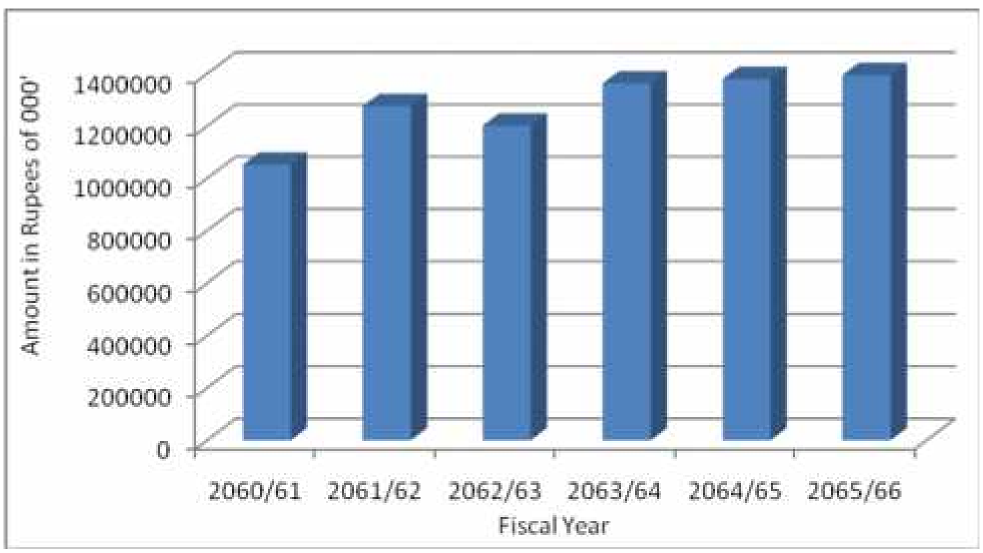
F Y	Bank Guarantee Amount
2060/61	1052566
2061/62	1276698
2062/63	1201592
2063/64	1363097
2064/65	1380260
2065/66	1394846

Source: MBL Annual Report

The above table shows that the Bank guarantee outstanding liability decreased each year .The growth in L/C business of the bank has been presented in the bar diagram as below:

Figure 4.28

Bar Diagram of Bank Guarantee Liability



4.9 Major Findings

4.9.1 Resource Mobilization

Major resource mobilization of MBL was deposit. Deposit mobilized by MBL was found to be considerably growing every year. Interest bearing deposit was growing rapidly every year than interest free deposit. The targets set for deposit mobilization by the bank were being well met every year.

4.9.2 Resource Deployment

Major area of the resources was deployed in investment. Investment was in increasing trend. Cash and bank balance was in fluctuating. LABP was in increasing trend over the study period. CD ratio (credit to deposit ratio, ratio of LABP on total deposit expressed in percentage) of the bank was high. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) increased every year. Thus making supportive to meeting liquidity requirements of the Bank. The targets of deployment of fund on LDO were met every year.

4.9.3 Expenditure

Interest expenses amount were the highest among the total expenses of the bank. Interest expenses of the bank were increasing trend every year. Interest expenses were perfectly correlated with deposit. Cost of deposit (Calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year and expressed in percentage) of the bank was increasing trend but the bank has maintained lower CoD. Amount of other expenses of the bank were fluctuating trend every year but the proportion on total expenses was decreasing trend.

Provision for doubtful debt to LABP ratio was 0.51% in F/Y 2064/065. It was because of granting good loan. Other expenses of the bank were also in increasing trend every year.

4.9.4 Revenue

Interest income was the highest among the others in total revenue. The amount of interest was increasing trend every year corresponding to increase in LABP. There is perfect correlation between interest income and LABP. Interest spread was in increasing trend but net burden was in fluctuating trend. The other income of Bank was also in increasing trend. The interest spread or the amount of interest margin was found to be increasing every year. Net burden of the Bank was in increasing trend every year, but as the average rate of other income was higher than that of other expenses, it can be expected that it would not hamper much to the profitability if the same trend was continued. Net profit of the bank was positive and increasing trend over the study period.

4.9.5 Performance Evaluation

Ratio Analysis

Liquidity ratio of the bank was 1.8:1 in F/Y 2064/065. The bank had able to maintain standard ratio till F/Y 2063/064 over the study period. Debt to equity ratio of the bank was 11.93% in F/Y 2064/065. The bank had maintained its debt to equity ratio as per NRB guideline. Interest coverage ratio of the bank was higher than 1, which is satisfactory. It was remarkable and it’s only because of management efficiency. ROA of the bank was 2.46% in F/Y 2064/065. The bank has deployed most of the fund in non business and fixed assets. Therefore, ROA of the bank was low. Generally the debt equity ratio of the bank was higher because they mobilized fixed deposit much more times of their capital fund. MBL was also not exception to it. The average Interest Coverage Ratio of the bank was 1.22 times during the study period. From the study of total number of manpower and total volume of overall activities of the bank, it was found that the volume of business per employee increased every year, which suggested increase productivity of manpower.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDRATIONS

5.1 Summary

Nepal is arguing to achieve economic prosperity though rich in natural resources, such resources for the economic progress of the country then to its poor economic condition. Its per capita income is only $383 according to the 2006/07 (CBS) that Nepal still belongs to the groups of the least development country. Due to recession, the economic growth is not increasing. Political instability, strikes, bandas, shortage of fuel, food, raw material, insecurity of public, higher rate of transportation, power cut of electricity, labor hike, higher rate of wages etc largely impact negatively in the development of industries, banks etc. In this time of insurgency, it is very hard to run a business and cope with these types of challenges. 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, commercial banks pool 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 labors and materials and service providers to such industries and trades which as a chain effect, promotes saving in the banks and more saving 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 suitable 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 mad 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, there by 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 is the planning of activities in such way that it helps in increasing the income at a minimum possible cost or at optimum cost. PPC can be used an effective remedy for the organization running in loss and maintain same or high level profit. It is combination of various financial and physical techniques, which not only helps on increasing profit but also to reduce unnecessary cost and utilize the expenses in the best manner. This study aims at examining the application of profit planning in a commercial bank, with a specific case study of MBL.

MBL is also one of the leading commercial banks of Nepal. It is Nepal’s largest international bank currently operating in Nepal since 1997. The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. This study has tried to cover the various aspects of profit planning in the bank from the time of fiscal year 2060/61 to the end of fiscal year 2065/66. In the first introductory chapter, this study report has tried to give brief introduction of banking and its relation to the economy, brief history of banking in Nepal, brief profile of the concerned bank, general concepts to profit and comprehensive planning, the problem statement, objective of the study ant its scope, limitation and significance.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and internet materials from relevant websites were also consulted. The work was complied into “review of literature” chapter. Research methodology followed for this research work is mentioned in the chapter three entitled as “Research Methodology”. Likewise, Data relating to various activities of the bank has been collected, presented in tabular and various diagram form and are tired 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 fourth chapter titled as “Data Presentation and Analysis” of the study. Finally, the summary and the recommendation are made for this study is hereby being presented in this chapter five titled as “Summary, Conclusion and Recommendations”.

5.2 Conclusion

Economical development plays the significant role for the countries overall development. In the Nepalese prospective since the establishment of financial institution have played progressive role for the economical development of the country. So far commercial banks have been proved as prime movers of the economical development in Nepalese scenario. But as a developing country Nepal need to strengthen its economical structure to achieve rapid overall development due to the problems of fund mobilization and investment. Similarly, Nepalese banks are still stuck to traditional approaches for fund utilization and management. Studying the available data, it can be concluded that major concentration of resource mobilization of the bank is deposit collection. Deposit collection of the bank is satisfactorily good but mobilization of resources other than deposit is not good. Likewise, resource deployment for non yielding liquid assets was in fluctuating trend each year. Major portion of resources are deployed in investments and LABP. Interest income is the main contributor of the income sources. Likewise, interest expenses are the major portion of the expenses. Cost of deposit of the bank is found to be increasing trend but the bank has maintained lower CoD. Other expenses other than operating expenses were increasing trend every year. Other source of income other than other income is also increasing trend. Interest spread is to be increasing trend each year and net profit of the bank was increasing trend over the study period. Most of the correlation shows positive correlation. MBL is able to maintain proper coordination between goals, objective and strategies. There is proper application of PPC system.

5.3 Recommendations

After studying the financial position of the bank and analyzing the available data the followings suggestions are recommended to improve the profit planning system of the bank.

- From the study it seems that MBL has been focusing in the urban side of the country. So, it should focus on rural areas too for development of the nation.
- Corporate Social Responsibility should be maintained very seriously because it has responsibility to change the environment around it survives.
- The bank should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level.
- MBL should follow the process of profit plan to increase its efficiency and to increase its profitability position. Making profit plan means making further plan for income, expenses and profit etc. This will help the bank to increase profit, income and reduce expenses.
- The bank should reduce its expenses (such as interest expenses, staff expenses, provision for doubtful debt). These expenses are increasing yearly which is not favorable for the bank.
- The bank should make effort to collect non interest bearing deposit. The bank should make effort to utilize the available resources effectively and

implement cost effectiveness technique to reduce operating expenses. It must utilize effectively its human resources to reduce its staff expenses. Decrease in expenses will increase net profit of the bank.

- The bank should increase its interest income as well as non interest income. The bank should mobilize its fund properly to increase income.
- The bank has able to maintain lower provision for doubtful debt to total LABP over the study period. It is suggested to maintain the same level. The bank should evaluate the project before flow the loan and granting the loan on secured projects.
- Investment is the safe sector to utilize the fund. It does not increase any losses. The bank should increase investment activities and should invest in profitable sectors. The bank should invest on industrial sector and hydropower sector, which really helps to develop the nation.
- Level wise specific job description and responsibility assignment should be mentioned clearly.
- 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.
- Employee training at advance level should be given more focus in order to keep the manpower updated with the changing practices and technologies.
- 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.
- 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.

- Objectives of the Bank should be clearly defined in order to avoid the risk of it being misinterpreted.
- 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 highly yielding assets, which are generally not liquid and obviously risky for the Bank.
- Banks CD ratios are 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 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.
- The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e. Spread) not to exceed 5%. Therefore the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.
- Expenses cannot 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 from a burden to the gross profit margin (interest margin) of the bank, therefore lowering the other expenses the bank shall enhance its profit.
- Bank should implement its activities with prior planning; there must be budgeting system, which enables it to achieve its objectives.

- Non performing assets could wreck bank's profitability but while lending to the borrowers proper analysis of the loan proposal must be done which will decrease the chances of bad loan to the bank.

With the abovementioned summary, Major Findings from the study and the recommendations suggested, the report is concluded

BIBLIOGRAPHY

Books:

Alpine, TcMc (1976). *The Basic Art of Budgeting.* New York: Business Books Limited.

Anthony, R. & Dearden, J. (1980). *Management Control System*. New York: Home Wood III.

Bhattacharya, S.(1981). *Corporate Planning Selected Concept*. IBH Publication Company.

Chalise, N.R. (1989). *Reform in the activities of Commercial banks in Nepal: An Overview, Economic Review*. Kathmandu: NRB Research Department.

Goet, J. (2062). *Budgeting, Profit Planning and Control*. Kathmandu: Asmita Books Publishers and Distributors.

Gupta, S.P. (1978). *Statistical Methods*. New Delhi: Sultan Chand and Sons.

Hilton, R.W. (1997). *Managerial Accounting*. USA: McGraw-Hill Inc.

Holmes, A.W., Meir, A.R. and Pobst, D.F. (1970), *Accounting for Control and Decision*, Texas, Business Publishing.

Keller, I.W. (1966). *Management Accounting for Profit Control*. New York: McGraw-Hill

Khan, MY & Jain, P.K. (2003). *Financial Management: Text & Problem*. New Delhi: Tata McGraw-Hill Publishing Company Limited.

Kothari, C.R. (1997). *Research Methodology*. New Delhi: Vishwa Prakashan.

Kulkarni, P.V. (1981). *Financial Management*. New Delhi: Himalayan Publishing House.

Lynch, R.M., Williamson, R. & Robert, W. (1984). *Accounting for Management*. New York: Tata McGraw-Hill Publishing Company Limited.

Matz, U. & Miltion, F. (1985). *Cost Accounting Planning and Control*. New York: Prentice Hall.

Mohan, M. & Goyal, R. (1981). *Principal of Management Accounting*. Agra: Sahitya Bhawan Publication.

Munch, R.M., Williomson, R. & Robbert, W. (1989). *Accounting for Management.* New York: Tata McGraw-Hill Publishing Company Limited.

Neupane, G.P. (2049). *Nepal Ko Arthasastra*. Kathmandu: M.K. Publishers and Distributors.

Pandey, I.M. (1991). *Financial Management*. New Delhi: Vikash Publishing House Private Ltd.

Rathmen, P.V. (1994). *Budgeting.* Bombay: Himalayan Publishing House.

Roginald, L.J. & George, H.T. (1970). *Budgeting Key to Planning and Control.* Bombay: DB Taraporevala Sons and Co. Ltd.

Van Horne, J.C. (1976). *Financial Management and Policy*. New Delhi: Prentice Hall of India Pvt. Ltd.

Welsch, G.A., Hilton, R.W. & Gordon, P.N. (2006). *Budgeting Profit Planning and Control.* New Delhi: Prentice Hall of India Pvt. Ltd.

Wolf, H.K. & Pant, P.R. (1993). *Social Science Research & Thesis Writing.* Kathmandu: Buddha Academic Publishers & Distributers P. Ltd.

Annual Report

Machhapuchhre Bank Limited (2060/61to 2065/66). *Annual Report*. Kathmandu.

Thesis:

Gautam, Y. (2008). *A Study on Comprehensive Planning Practice of Himalayan Bank Limited*. An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Karki, U.D. (2002). *A Corporate Study on Profit Planning of RBB and HBL*. An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Rijal, K. (2008). *Joint to Venture Bank A Case Study of Nepal SBI Bank.* An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Shakya, D.R. (1995). *Financial Analysis of Joint Venture Banks in Nepal.* An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Thapa, R. (2004). *A study on profit planning and control of Nepal SBI Bank Limited.* An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Website:

www.machhapuchhrebank.com

www.nrb.org.np