

# **BUDGETING PRACTICE IN NEPAL BANK LTD.**

**Submitted by:**

**PRASHANT BALLAV PANT**

**Roll No: - 193/063**

**T.U. Regd. No: - 7-2-503-41-2003**

**Shanker Dev Campus**

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## **VIVA- VOCE SHEET**

We have conducted the viva-voce of the thesis presented by

**PRASHANT BALLAV PANT**

Entitled

**Budgeting Practice in Nepal Bank Limited**

And found the thesis to be original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (M.B.S.).

### **Viva-Voce Committee**

Head of the Research Department .....

Member (Thesis Supervisor) .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

## **RECOMMENDATION**

**This is to certify that the Thesis**

**Submitted by**

**PRASHANT BALLAV PANT**

**Entitled**

**Budgeting Practice in Nepal Bank Limited**

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

.....

**Prof. Dr. Kamal Deep. Dhakal**  
**(Thesis Supervisor)**

.....

**Prof. Bisheshwor M. Shrestha**  
**(Head of Research Department)**

.....

**Prof. Dr. Kamal Deep. Dhakal**  
**(Campus Chief)**

.....

**Shankar Raj Joshi**  
**(Thesis Supervisor)**

# **TRIBHUVAN UNIVERSITY**

**Faculty of Management**

**Shanker Dev Campus**

## **DECLARATION**

I hereby declare that the research work in this thesis entitled “Budgeting Practice in Nepal 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 of Master of Business Studies (M.B.S.) under the guidance and supervision of Prof. Dr. Kamal Deep Dhakal and Mr. Shankar Raj Joshi of Shanker Dev Campus.

Date: - .....

.....

Researcher

Prashant Ballav Pant

Campus Roll No: - 193/063

T.U. Regd. No. : - 7-2-503-41-2003

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This thesis entitled “Budgeting Practice in Nepal Bank Limited” has been prepared for the partial fulfillment of the requirement of Master’s Degree of Business Studies under the Faculty of Management, Tribhuvan University. This work is based on research models involving the use of quantitative as well as qualitative aspect of budgeting to help enhance the profit of NBL. I have worked sincerely, honestly and diligently as far as possible to prepare a reliable research work.

I highly appreciate to all the staffs of NBL, NRB Library, Shanker Dev Campus Library and central library for their valuable advices and support in collecting and presenting the necessary data and journals.

I express my deep gratitude to my friends, family members and related people who were directly and indirectly involved to assist me in the entire preparation period.

Finally, I don’t want to state that this research is complete and perfectly satisfactory. There may be various limitations and short comings. I am responsible for all the errors and omissions, I apologize for any mistakes and thankful for your valuable suggestions.

Thank You.

Researcher

Prashant Ballav Pant

## LIST OF ABBREVIATION

A/C	Account
ABBS	Any Branch Banking Services
Act.	Acting
Amt.	Amount
ATM	Automatic Telling Machine
BC	Before Christ
BOK	Bank of Kathmandu
BS	Bikram Sambat
CEO	Chief Executive Officer
Com.	Commission
CV	Coefficient of Variation
CVP	Cost, Volume and Profit
Dept.	Department
Dis.	Discount
EBL	Everest Bank Limited
Exp.	Expenses
f/y	Fiscal Year
Govt.	Government
HBL	Himalayan Bank Limited
ID	Identification
i.e.	That is
Int.	Interest
LABP	Loans, Advances and Bills Payable

Ltd.	Limited
MBS	Master in Business Studies
MS	Microsoft
NB Bank	Nepal Bangladesh Bank
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra Bank
NP	Net Profit
P.E	Probable Error
P/L	Profit and Loss
PPC	Profit Planning and Control
Pref.	Preference
Pvt.	Private
RBB	Rastriya Banijya Bank
ROA	Return on Assets
ROE	Return on equity
ROL&A	Return of Loans and Advances
Rs.	Rupees
SCB	Standard Chartered Bank
SMS	Short Messaging Service
Std.	Standard
T.U.	Tribhuvan University
%	Percentage
&	And

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# **CHAPTER: 1**

## **INTRODUCTION**

### **1.1 General Background**

In today's modern era, profit is what every institution is opting to get to run its corporation for a longer period of time. No any corporation can be operated smoothly without earning sufficient amount of profit. Profit plays an important role for the success of any institution and it is not optional with any other objectives perceived by any corporation. For that reason profit planning is vital for every organization. The important aspects of profit planning which is considered as a proper budgeting practice, is yet to be realized by Nepalese corporation and due to lack of proper knowledge of profit planning by Nepalese corporation through the aid of budgeting, it provides a huge platform for any research study. The thesis presented is also based on the topic of the budgeting practice to maximize the profit, focusing on the banking sector particularly Nepal Bank Limited (NBL).

Nepal is a multicultural, agriculture dominated underdeveloped country. The development of the country depends upon the economic growth of the country. The capitals invested on available resources are very poor in Nepal. Resources are not mobilized properly. Resources available in Nepal are of various types like mineral resources, forest resources, water resources, monetary resources, and etc. Here in this thesis the discussion is focused on monetary resources/ financial resources. Monetary resources are the prime factor for the economic growth of any country. So, financial resources, if utilized properly can help any country in the path of economic success. The manufacturing sector and service sector are the two prime sectors which use the financial resources at most. Among various service sectors, the banking sector plays the most significant role in the economic growth of the country.

Due to political insurgency prevailing in our country in recent years manufacturing sector is not growing as expected but service sector is growing rapidly. Among various service industries, financial sector plays the dominant role. Among these financial sectors it's the banking sector that has been growing at highest rate. Nowadays there is turbulence in the field of banking sector with the establishment of maximum number of banks and financial institution. Banking sector is the most dynamic part of economy which collects unused funds and mobilizes it for the development of the individual and the whole nation. Banks are confined to make huge investments compared to other financial institution which invest from small household commodities to huge project involving huge amount of capital.

The development of the country depends up on the financial sectors because they lend money for various development projects which in turn help in the development of the country. A financial sector utilizes the unused capital of individual for the purpose of economic development of the country. Banks are one of the most important parts of financial sector. Banks primary role is receiving and lending of money among various parties. These role played by bank assist in the economic development of the country.

The essence of banking sector lies upon borrowing of unused fund from various parties and utilizing the same funds for their own development. The bank earns its profit from differentiating interest earned from various parties against interest paid to various parties from the fund available with the bank along with other incomes and expenditure. The survival and growth of banking sector lies on the movement of fund among parties.

## **1.2 History of Banking Development**

The word bank was derived from a disputed words like 'Banco', 'Bancus' or 'Basque' but the meaning is same that is bench. The history of banks can be traced from a religious temples way back in third millennium B.C. The oldest bank in the history of Banking is "Bank of Venice" established in the year 1157, followed by "Bank of Barcelona" in the year 1401, and "Bank of Genoa" in 1407. (Vaish, 1996) The history also tells that the bank with full banking services



began with the establishment of “Bank of Sweden” in the year 1668. Subsequently “Bank of England” and “Bank of America” were established to provide the banking services to the public. But the history of banks reveals that it was “Bank of England” which is considered as the first bank after commencement of “Banking Act” in United Kingdom in the year 1833 which is also got the honor to become the first central bank of the world. ([www.thehistorybank.com](http://www.thehistorybank.com))

In the Nepalese history it was barter system that prevails in our society way back and their felt no necessity of banks. But after the end of barter system, when people exchanged goods in return of coins and other valuable bullions their felt the necessity of some institution that will help protect these from theft and robbery. This led to the origin of some institution that facilitated to protect these precious items from lost, damage, robbery and theft which is known as banks.

In Nepal goldsmiths, merchants, and money lenders are the ancient bankers. The monetary history of Nepal dates back to 1<sup>st</sup> century during the Lichhhavi dynasty and Malla dynasty. But for the first time the state owned institution named “Tejarath Adda” was established during the Rana regime under the prime minister ship of Ranodhip Singh Rana, which used to provide loan to civil servants and to some extent to public against some gold, silver, bullions, and other valuables as collateral. Then after in the period of Prithivi Narayan Shan came “Kausi Tosha Khana” as providing loans to govt. officials and public. But these couldn’t be considered as bank in real sense since it did not collect deposits from public. (Kunwar, 2009)

Modern Banking System was introduced in Nepal in 30<sup>th</sup> Kartik 1994 BS (1937 AD) with the establishment of first commercial bank i.e. Nepal Bank Limited. This can be considered as a landmark in the field of banking as well as economic development of Nepal. It was established under the special banking act in 1993 B.S. as a semi government bank with an authorized capital of Rs. 10 million and a paid up capital of Rs. 142 thousand. NBL is considered as “The Pioneer Bank of Nepal” because it was established as the first bank in the history of Nepal. Then after, Nepal Rastra Bank, the central bank of Nepal, was established in the year 2013 B.S. for the purpose of helping the government in formulating monetary policies and fiscal policies of Nepal for its overall development. Then after Cooperative Bank in 2019 which was

converted to Agricultural Development Bank in 2024 BS, Rastriya Banijya Bank in 2021 BS were established. Then after various other joint ventures banks were established in Nepal. Till now there are 27 commercial banks licensed under NRB in Nepal which are enlisted below. (www.nrb.org.np)

**Table 1.1**  
**Lists of Commercial Banks in Nepal**

<b>S. No.</b>	<b>Name of Banks</b>
1.	Nepal Bank Limited
2.	Rastriya Banijya Bank
3.	NABIL Bank Ltd.
4.	Nepal Investment Bank Ltd.
5.	Standard Chartered Bank Ltd.
6.	Himalayan Bank Ltd.
7.	Nepal SBI Bank Ltd.
8.	Nepal Bangladesh Bank Ltd.
9.	Everest Bank Ltd.
10.	Bank of Kathmandu Ltd.
11.	Nepal Credit and Commerce Bank Ltd.
12.	Lumbini Bank Ltd.
13.	Nepal Industrial & Commercial Bank Ltd.
14.	Machhapuchhre Bank Ltd.
15.	Kumari Bank Ltd.
16.	Laxmi Bank Ltd.
17.	Siddhartha Bank Ltd.
18.	Agriculture Development Bank Ltd.
19.	Global Bank Ltd.
20.	Citizens Bank International Ltd.
21.	Prime Commercial Bank Ltd.
22.	Bank of Asia Nepal Ltd.

23.	Sunrise Bank Ltd.
24.	Development Credit Bank Ltd.
25.	NMB Bank Ltd.
26.	Kist Bank Ltd.
27.	Janata Bank Nepal Ltd.

Source: [www.nrb.org.np](http://www.nrb.org.np)

### 1.3 Financial Sector in Nepal

In the context of our country Nepal, the financial sector comprises of Class A (Commercial banks), Class B (Development banks), Class C (Finance companies), Class D (Micro-credit development banks), Saving and Credit Co-operatives, Non-Government Organizations, insurance Companies, Nepal Stock Exchange, Citizen Investment Trust, Employee Provident Fund and Postal Saving Service. Out of these commercial banks, development banks, finance companies, micro-credit development banks are registered under company Act and are licensed by NRB to run banking services in Nepal. Saving and Credit Co-operatives are registered under Cooperative Act 2049 and are authorized to collect saving and extend loan to its member by the Act. Besides the above mentioned banks and credit co-operatives all other components of financial sector are registered under various other Acts. (Thapa, 2004)

According to NRB bulletin there are 27 commercial banks (still increasing in number), 63 development banks, 77 finance companies, 15 micro credit development banks and thousands of saving and credit co-operatives which are providing the facility of financial service in Nepal. ([www.nrb.org.np](http://www.nrb.org.np)) Among all the financial sectors discussed in this paragraph, the research work focuses on the banking sector, especially the activities of “Nepal Bank Limited” which is the first commercial bank of Nepal established in the year 1994 BS.

## **1.4 Nepal Bank Limited**

Nepal Bank limited (NBL) is the first formal banking organization in Nepal. It was established with the vision statement of becoming the leading financial institution of the country. NBL objective was to render service to the people whether rich or poor and to contribute to the nation's development and economic growth. At the beginning NBL was established with an authorized capital of Rs. 10 million and issued capital of Rs. 2.5 million but only succeeded to generate Rs. 842 thousand as paid up capital from the market with only 10 shareholders. So it was very difficult at the beginning for the operation of the bank. But during its first year of operation it succeeded to collect Rs. 1.7 million rupees as deposit from the public then the rest was history. Now the bank has 1000 million rupees as authorized capital with 500 million as issued capital and 380.383 million as paid up capital with the shareholding composition of government of Nepal, A Class financial institution, NRB licensed financial institutions, other institution, general public, and others. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

Today NBL is considered as a sound institution where a depositor has faith in the security of their funds. They have assurance of the property along with reasonable interest against deposit. NBL provides safety and service for the customer, reward and opportunity to those who associate with the bank. NBL help the clients by appropriate credit facilities at reasonable price, cooperate and support for the economic community of the nation.

NBL has provided employment to 2923 employees. NBL has 109 branch offices spread over 56 districts. NBL management committee comprises of 4 members with a coordinator Dr. Puspa Raj Karnikar, Dr. Binod Atreya as Chief Executive Officer along with 3 Act. Deputy General Manager and 8 various level Chief Managers. NBL also have senior manager, deputy manager, and assistant manager operating in Kathmandu region, Biratnagar region, Birgunj region, Pokhara region, and Nepalgunj region. (NBL Annual Report, 2066)

NBL accepts deposits from the customer into various accounts like current account, saving account, fixed account, NBL Sahuliyat Bachat Khata and etc. NBL provides various corporate

loans and consumer loans like personal loans, auto loans, marginal lending, home loan etc, to its customers. NBL offer various facilities like web remit, safe deposit vaults, trade finance, sms banking, ABBS, internet banking, ATM/ debit card, and etc, to its customer. (NBL Annual Report, 2066)

## **1.5 Statement of the Problem**

The successful operation of an organization totally depends upon its planning mechanism. The profit planning of any corporation is the most difficult and challenging aspect for its survival and growth. So, Profit Planning should be developed through proper budgeting practice and under proper authority and by the group discussion among those who are competent in the field of planning, finance, accounting, and other necessary fields.

The main problem areas relating to Profit Planning through budgeting practice are:

- 1) Lack of education about the importance of profit in long term.
- 2) Inappropriate understanding of planning.
- 3) Ignorance to corporate strategic planning
- 4) Lack of competent manpower in planning process.
- 5) Carelessness in overall planning which affects various short term planning.
- 6) Profit objectives are not well defined.
- 7) Lack of understanding of contribution and calculation of profit.
- 8) Lack of co-ordination between other plans with profit plan.
- 9) Lack of coordination between employees of various departments in the calculation procedure of profit.
- 10) Decreasing the amount of profit as well as increasing competition.
- 11) Ignorance to co-ordination between profit and budget.

In the above context, the present study tries to answer the following research questions.

- How is the profit determined in long term perspective?
- Provides the know-how of profit and importance of planning to NBL?
- How to determine profit objective for NBL?
- What steps should be taken to co-ordinate between other plans and profit plan for the overall improvement of NBL to compete in the market?
- How to increase the volume of profit and tackle with competitors?
- Finally, how profit can be planned with the aid of budget for future years for NBL?

## **1.6 Objectives of the Study**

The main objective of this study is to provide insight knowledge of planning of NBL. Apart from the main objective proposed in the research study the researcher has tried to fulfill the following objective.

- 1) To access the profit capability of NBL.
- 2) To find out the profitability trend and its relation with loans.
- 3) To help in providing suggestion for the formulation of a proper strategic plan for NBL.
- 4) To recommend the further steps to be taken to improve the profit planning in NBL.

## **1.7 Signification of the Study**

This research is concerned with the profit planning through the aid of budgeting in NBL. Profit is the essence for the survival as well as growth of any organization. In the context of Nepal, most of the establishments are not been able to make profit. The changing government policy, political insurgency, etc are the main reason of not making profit by these organizations.

Banking sector is the only sector that's making million rupees of profit even though the competition among banks is at the peak here in Nepal. The research work, journals and articles

available on profit planning of any banks provide a bird eye view of profit planning and budgeting practice of any banks. The field of profit planning with the assistance of budgeting practice is yet to be explored in depth by any researcher about any particular banks so this research work tries to explain about profit planning of commercial bank especially NBL.

The banks in Nepal are competing for being number one bank in respect to earning profit every year. In this competition some banks are lacking far behind even having the potentiality, so is the case with NBL. Thus, it is felt necessary to study the profit planning in NBL to bring it in competitive position to stand in front of the race and compete successfully against various other banks.

This study would be very useful for employees, entrepreneurs, investor and researcher because it will help them to know how profit is planned and what steps could be carried out to accomplish that plan for the success and growth of the bank. It may also be helpful for future researchers as a reference material.

## **1.8 Limitation of the Study**

In this modern dynamic world, nothing exists in perfection. Every work has certain boundary so does this research work. The researcher has however tried to eliminate the limitation to the best possible extent, yet it suffers from the following limitations:

- 1) The study covers data of previous years for planning of future years by applying only few mathematical and statistical tools.
- 2) The study concentrates only on those factors which are related with profit.
- 3) The accuracy of the research work will be dependent on the data provided by NBL since the secondary data published by NBL are used in this research work.
- 4) The primary data is collected only from some discussion with the personnel of the bank.
- 5) Being a student time and financial resource is the major constraints.

- 6) The profit planning is done mainly based on financial documents like Balance sheets, Profit and Loss accounts, Cash flow statement and various other related documents.

## **1.9 Plan of the Study**

### **Chapter 1: Introduction**

The first chapter of the study deals with introduction, which highlights the background of the study, history of banking, brief overview, statement of problem, Objectives, significance, and limitation of the study.

### **Chapter 2: Conceptual Framework and Review of Literature**

The second chapter of the study presents conceptual framework and review of available literature. It highlight on concept of profit planning and budgeting as well as focuses on important research that has been carried out in similar areas by earlier scholars. It includes conceptual framework, various reviews from various sources like books, journals, article, reports and other thesis as well if any.

### **Chapter 3: Research Methodology**

The third chapter provides an insight to research methodology used in the study. It focuses on various sequential steps to be adopted by a researcher. It explains about research design, various research methods, sources of data, data collection techniques and analysis of that particular data for the view of profit planning.

### **Chapter 4: Presentation and Analysis of Data**

The data collected from NBL is dealt in this chapter. Information is presented and analyzed by using various mathematical and statistical tools in specified form to meet the stated objective of study. This chapter also includes chart, graph, and diagram to present the data. This chapter also includes major findings of the research study in the process of profit planning.



## **Chapter 5: Summary, Conclusions and Recommendations**

The final chapter describes about summary, conclusion and recommendation on the basis of the results from data analysis, the researcher concluded the research work with this chapter. Lastly any important suggestion to the concerned organization for its betterment is also provided in this chapter.

In the final part of the study bibliography, appendix, along with questionnaire and resume of the researcher will be presented.

## **CHAPTER: 2**

### **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

Any research is incomplete without a proper review of past literature. So, the researchers must look into the past knowledge and into the previous research that has been conducted by any researchers in the particular topic on which the later is trying to study. The previous studies can not be ignored because they provide ground level idea to the present work. In this part of the study, attempt has been made to present conceptual framework and the review of literature regarding the budgeting practice adopted by any banks or any other institutions. The review has been conducted through conceptual framework, definitions of related terms and finally any related studies on the particular topic along with research gap.

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Profit Planning and Control**

Profit Planning is a newly developed concept as an important aspect of budgeting to generate reasonable amount of profit. It is a recent phenomenon used extensively in the literature of business enterprise. Today, profit planning and budgeting practice go hand in hand in any business corporation just simply because without proper budgeting practice management cannot achieve its profit objectives. The other terms, which can be used in the same context, are comprehensive budgeting, managerial budgeting and simply budgeting only.

Each and every organization is established with definite objectives. According to the objectives, the organization prepares its activity plans. A well prepared budget helps in the overall efficiency of work along with proper flow of activity to achieve the organizations objectives.

"The concept and techniques of Profit Planning have wide application in individual business enterprises, government units, charitable organization and virtually all group endeavors". (Welsch, Hilton & Gordon, 1999)

"Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future". (Fregmen, 1976)

"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 it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance". (Gupta, 1994)

Profit is what the organization opt to maximize in the long run. Profit is the ultimate goal of every institution but profit can not be achieved easily. Every organization should prepares a plan in advance to achieve the objectives of maximizing profit. It should be tackled in the most intellectual way to achieve the desired objectives. So profit is the planned and controlled output which is planned in advance by the top level management teams through the aid of budgeting. It helps in predetermining the profit potentiality of any organizations. In very simple term, profit is the difference of revenue over cost. Profit can be maximized either by increasing revenue or by reducing cost.

Therefore, profit planning and control (PPC) represents an overall plan of operations prepared in advance along with providing guidelines to management about what they should do in the days to come. It also shows how well they are performing their work compared to their planned work to achieve the desired objectives. It enables the management to work smoothly as well as correct any deviations between actual and standard work policy.

The basic concepts of PPC model includes: (Bajracharya, Ojha, Goiet, & Sharma, 2005)

- PPC is management laid process comprising of all management functions from planning to controlling and providing feedback.

- PPC is the concept where participation and view points of every members of the organization is taken into, even though prepared by top management.
- PPC is the plan prepared in advance comprising both short range and long range plans.
- PPC is focused towards the enterprises goals.
- PPC is totally based on formulating plans and controlling those plans that are formulated with the assistance of budgeting, and
- Finally, a follow-up procedure is conducted to check whether it is along with the budgeted plan or not.

Profit Planning and control can be considered as a tool, which may be used by the management in planning the future course of action and controlling the actual performance. PPC is a written plan in which all aspects of business operation concerned with future periods are included. Budgetary practice takes into consideration detail plan of action developed and distributed to overall departments for its overall improvements towards attending its objectives.

In this way, Profit Planning can be considered as a basic phenomenon which is completely dependent on budgetary practice that is prevalent in any organization for the purpose of attaining the objectives. Budgeting practice should be systematically studied and should be looked in-depth by any researcher to generate the overall efficiency of any organization. So considering this fact the budgeting practice is what the thesis is based on to improve the overall profit planning of the organization. Here this thesis is prepared to improve the present condition of NBL.

### **2.1.2 Profit**

The term profit in itself is a very vague and difficult term to define. No one perfect definition of profit can be considered as a realistic and providing enough detail of profit. So let us take into account some of the definition provided by various scholars. “Profit does not just happen, profit are managed. (Lynch, & Williamson, 1989) Profits are considered as a planned activity where it is the difference in revenue and expenditure. “Profit is the basic elements of profit plan so that the concept of profit planning may not be completed and meaningful in absences of the clear-cut, well defined idea of profit. (Hornby, & Cowie, 1992) Profit can be considered as

reward for risk taking by an entrepreneur. Profit is return in excess of investment made by an investor. Accordingly, the definition of profit changes for labor, landlord, government, and accountant and so on. The definition of profit can be summarized as “profit is any aspect which is considered as an end result which any individual or corporation tries to attain during a specific period of time.” So, profit is the yardstick to measure the efficiency for any organization during two specific periods. No company can survive long period without profit.

### **2.1.3 Planning**

Planning is a deciding in advance what's to do, when to do and who is to be assigned to do any particular job in advance. It is a thinking process to determine a possible way to reach to the desired objectives by developing various alternative course of action and finally choosing the best alternatives among the developed alternatives which will help in attaining the desired objectives. Planning therefore involves risk and is totally future based which is uncertain and unpredictable. (Dangol, 2005) Therefore planning is considered as the most difficult job in any organization and thus carried out by the top executives. Planning bridges the gap between where they are and where they want to reach in near future.

Planning is a process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes: (Welsch, Hilton & Gordon, 1999)

- 1) Establishing enterprise objectives,
- 2) Developing premises about the environment in which they are to be accomplished.
- 3) Selecting a course of action for accomplishing the objectives.
- 4) Initiating activities necessary to translate plans into action and
- 5) Current re-planning to correct current deficiencies.

Planning could be taken as the tools of achieving organizational goals efficiently and effectively from the selection of various alternatives. "Planning consist in setting goals for the firm both immediate and the long-range considering the various means by which such goals may be achieved. And deciding which of any variable alternative means would be best suited to the condition express to prevail." (Sharma, & Gupta, 1984)

Planning involves the determination of what should be done, how the goals should be reached and what are the possible paths that should be generated by top management to reach that particular goal. Planning decides in advance the future action that should be taken to reach at a particular destination.(Fago, & Koirala, 2054) Forecasting, an essential tool of planning, is considered as a vital aspect in planning simply because without forecasting planning process could not be carried out. As said "Good planning depends on good forecasting" forecasting should be done in such a matter that it includes all the external and internal environmental factors into consideration. Forecasting is thinking what will happen in future considering the above mentioned facts.

“Planning starts from forecasting and predetermination of future events. Planning is the whole concept of any business organization, without proper and effective planning no firms can accomplish its predetermined goals and objectives. Hence it is the life blood of any organization which helps them to run efficiently in competitive environment. Planning is a techniques were by the use pattern of resources is carried out”. (Bagavathi, 2000)

“Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. The term profit planning and control is defined as a systematic and formalized approach for performing significant phase of the management planning and control function”. (Welsch, Hilton, & Grodon, 2001)

“Planning is the conscious recognition of the futurity of present decision”. (Drucker, 1989)

#### **2.1.3.1 Long-range Planning**

The term long-range planning signifies planning done for a period of 5yrs and more which can be extended up to 20 yrs. Long range planning is the most complicated and difficult plan to prepare because it normally include the whole objectives, work plan and all the activities that are to be carried out by the organizations. Long range planning is prepared by almost all the organization because they are established with the motive of running for a longer period of time. Long range planning include planning for attaining organization objectives, exploring opportunities, developing the long range business plans, developing various alternatives to achieve objectives, developing techniques, attaining sources of funds and their uses, and

various other factors. Therefore it is the long range plan that decides whether the organization will be a success or failure in near future.

“Long range planning is the continuous process of making present entrepreneurial (risk taking) decision, systematically and best possible organization efforts is needed to carry out these decisions and measuring the result of these decision against the exceptions through organized and systematic deed back”. (Drucker, 1989)

“A long range planning is closely concerned with the concept of the corporation as a long living institution”. (David, 1964)

#### **2.1.3.2 Medium-range Planning**

The term medium range planning signifies planning done for a period of two to three years. In the process of preparing medium term plans, the management focuses on interim objectives that are to be achieved by the organizations within the said period of time. (Munakarmi, & Shrestha, 2003) During this period a standard of work is set and after the said period is over the actual performance is compared with standard to check the deviation and if any, they are corrected to solve the problem and then again reformulation of the long range plans is done, if necessary. The most important aspects of medium term planning are, it incomprises the entire detail work plan, the resources to be utilized, the personnel to be assigned to the job, and the then. Therefore medium range planning should also be formulated keeping in mind that it should be a work plan that should assist in attaining the objectives in the long run.

#### **2.1.3.3 Short-range Planning**

The term short range planning signifies planning done for a period of a year or less than a year. It is the most detailed plan where all the necessary activity and daily work schedule is prepared. (Fago, & Koirala, 2054) It is a plan which assists in accomplishment of medium range planning. It is a plan which is prepared on hand and carried out on hand and feedback is provided on hand within a short period of time. It shows how efficiently the organization is carrying out its activities compared to what it has planned in advance. It also shows the capabilities of the organization towards attaining the goals set in various planning periods.

#### **2.1.4 Budget and Budgeting**

The term budget refers to the allocation of planned activities to various sectors. It is comprehensive and coordinated plan for the whole organization in total. "A budget is a comprehensive and coordinate plan expressed in financial terms for the operation and source of an enterprise for some specific period in the future". (Pandey, 1991) "Budget is designed as a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of enterprise for some specified period in the future". (Fregmen, 1976) The budget is just a quantitative aspect of what is planned and forecasted by the management team of any organization. The budget is prepared with the help of plans and with the technique of forecasting. Budget simply is the translation of plan in numerical form. Budget is prepared enlisting numbers and possible outcomes in numbers in future for the well established plans. Budget helps to locate what the organization has in total. It is through budget that every possible department and every possible resource are allocated to different branches and subsidiaries. Budget is what, that is prepared by every department and every working groups for their convenience. Budget should be prepared simply in every organization to limit the use of available resources efficiently. Thus, in every organization budget plays an important role to translate what a workplan is prepared as a mere planning.

The term budgeting go hand in hand with planning and forecasting. "Budgeting in fact is a managerial technique and a business budget is such a written plan in which all aspect of business operations with respect to a definite future period are included. It is formal statement of policy plan, objective and goals established by the top-level management in respect of some future period". (Gupta, 1994) "Budgeting is a forward planning. It serve as a device for management control, it is a pivot of any effective scheme of control. Budgeting is the principal tool of planning and control offered to management by accouting functions." (Welsch, Hilton & Gordon, 1999)



## 2.2 Definition of related terms

### 2.2.1 Banks

Banks are the institution which deals with cash (domestic and foreign), receives deposits of money and lends those monies to third parties. An organization, usually a corporation, chartered by a state or federal government, which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes; certifies depositor's checks; and issues drafts and cashier's checks are termed as banks. ([www.thefreedictionary.com/bank](http://www.thefreedictionary.com/bank)) In other words, a financial institution generally chartered by a state or the federal government, which accepts deposits and uses those funds to make loans are called banks. Banks earn income on the difference between the interest they pay on deposits and the interest they receive on their loans and investments. Banks also generally offer many other services including selling savings bonds, issuing cashier's checks, certifying customer checks, renting safe deposit boxes, service of ATM, ABBS, SMS banking, E- banking, web remit and etc. ([www.en.wikipedia.org/wiki/bank](http://www.en.wikipedia.org/wiki/bank))

Thus the business of banks can be listed as follows: ([www.thefreedictionary.com/bank](http://www.thefreedictionary.com/bank))

- Receiving money on deposit from its customers;
- Paying a customer's cheques or drafts on it to the amount of deposit by such customers, and holding Dominion Government and bank notes and coin for such purpose;
- Paying interest by agreement on deposits;
- Discounting commercial paper for its customers;
- Dealing in exchange and in gold and silver coin and bullion;
- Collecting notes and drafts deposited;
- Arranging credits for itself with banks in other towns, cities and countries;
- Selling its drafts or cheques on other banks and banking correspondents;
- Issuing letters of credit;
- Lending money to its customers on the customers' notes, by way of overdraft (or) on bonds, shares and other securities.

### 2.2.2 Commercial Banks

Commercial banks can be defined as “an institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as current, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of government.” ([www.academic.brooklyn.cuny.edu/bank](http://www.academic.brooklyn.cuny.edu/bank)) While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses to earn revenue for their survival. In other word, a commercial bank is an institution of credit or an institution whose purpose it is to facilitate or effect exchanges with or without the use of money. ([www.thefreedictionary.com/bank](http://www.thefreedictionary.com/bank)) Every bank maintains a money reserve and has money transactions over the counter. A commercial bank is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. (Stein, Urdang, 1985) Finally it can be concluded stating that commercial banks are banks which are privately owned bank that provides a wide range of financial services, both to the general public and to firms. The principal activities are operating cheques for current accounts, receiving deposits, taking in and paying out notes and coin, and making loans. Additional services include trustee and executor facilities, the supply of foreign currency, the purchase and sale of securities, insurance, a credit-card system, and personal pensions. They also compete with the finance houses and merchant banks by providing venture capital and with building societies by providing mortgages. (American Institute of Banking, 1972)

Thus the business of commercial banks can be listed as follows:

([www.thefreedictionary.com/bank](http://www.thefreedictionary.com/bank))

- processing of payments by way of telegraphic transfer, internet banking, or other means
- issuing bank drafts and bank cheques
- accepting money on various deposit accounts
- lending money by overdraft, installment loan, or other means
- providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures

- safekeeping of documents and other items in safe deposit boxes
- sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products as a “financial supermarket”
- Traditionally, large commercial banks also underwrite bonds, and make markets in currency, interest rates, and credit-related securities, but today large commercial banks usually have an investment bank arm that is involved in the mentioned activities.

## **2.3 Nepal Bank Limited (NBL)**

NBL was inaugurated by King Tribhuvan on Kartik 30, 1994 Bikram Sambat which marked the beginning of an era of formal banking in Nepal. Then Prime Minister Juddha Shamsheer J.B.R. speaking on the occasion with the kind permission of the King stated, “This work which is being done in the larger interest of the nation is a great moment for me. Until today a bank could not be opened in Nepal. Therefore this bank, which is being established under the name of Nepal Bank Limited to fill that, need and to be inaugurated by the King, is a moment of great joy and happiness. The Bank's objectives is to render service to the people whether rich or poor and to contribute to the nation's development will also need the support and best wishes of all, which I am confident, will be forthcoming.” ([www.nepalbank.com.np](http://www.nepalbank.com.np))

### **Vision Statement of NBL**

“To remain the leading financial institution of the country”. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

### **Mission Statement NBL**

“Nepal Bank Limited seeks to provide an environment within which the bank can bring unique financial value and services to all customers. It will be a sound institution where depositors continue to have faith in the security of their funds and receive reasonable returns; borrowers are assured of appropriate credit facilities at reasonable prices; other service- seekers receive prompt and attentive service at reasonable cost; employees are paid adequate compensation with professional career growth opportunities and stockholders receive satisfactory return for their investment.” ([www.nepalbank.com.np](http://www.nepalbank.com.np))

**Value Statements of NBL are as follows:**

At Nepal Bank Limited, we believe that our banking should be based on:  
([www.nepalbank.com.np](http://www.nepalbank.com.np))

- Respect, service and safety for the customers we serve
- Respect, reward and opportunity for the people with whom we work
- Respect, cooperation and support for the economic community of Nepal

The objectives perceived by NBL are as follows: ([www.nepalbank.com.np](http://www.nepalbank.com.np))

- Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
- Provide competitive and customer oriented banking services to all customers through competent and professional staff.
- Reclaim leadership within the national financial community.

At the beginning the bank has an authorized capital of Rs. 10 million. It floated equity shares worth Rs. 2.5 million, but was successful only in raising Rs. 842 thousand. The total deposits for the first year was Rs. 1.7 million where current deposits was about Rs. 1.3 million, fixed was about Rs. 0.4 million and saving was Rs. 14 thousand. Loan disbursed and outstanding at the end of the first year was Rs. 1.985 million.

From the very conception and its creation, Nepal Bank Ltd, was as joint venture between the government and the private sector. Out of 2500 equity shares of Rs. 100 face value, 40% was subscribed by the government and the balanced i.e. 60% was offered for the sale to private sector. There were only 10 shareholders when the bank first started. But today NBL has a shareholder composition involving individuals, Govt., financial institution and etc.  
([www.nepalbank.com.np](http://www.nepalbank.com.np))

Till now the bank has been successfully providing banking services to a wide variety of customers through its different branches in different geographical locations of the country.

### **2.3.1 Deposits in NBL**

NBL provides various deposits accounts to its customer for the purpose of providing services to its valuable customers. Customers can deposit their money in various accounts in NBL. Deposits in NBL can be detailed as follows: ([www.nepalbank.com.np](http://www.nepalbank.com.np))

#### **A. Current Account**

The term current account signifies the account where money is kept but no interest is provided by the bank. This account helps in reducing the burden of carrying around cash for every transaction the customers makes. For simplicity every customer is provided with cheque books and customer have to just write on cheque when they deal with the third party.

#### **B. Saving Account**

The term saving account signifies the account where money is kept and along with that interest is provided by banks. Under saving account customers deposits their excess or extra money in banks and in return the banks provides interest on that money which is deposited in bank. The interest rate provided by NBL is 2%, which is less in comparison to other banks interest rate in Nepal but still NBL is able to collect sufficient amount as deposits from customers to advance loan to other customer who needs money charging interest rates on the amount issued as loan to customers. Under saving account the customer can deposit and withdraw their money at any time when required.

#### **C. Fixed Account**

The term fixed account signifies the account where money is kept by customer for a fixed period of time. That means the customer cannot withdraw their money within that fixed period of time. They are not liable to get interest on their deposits if they withdraw the amount within the said time. The difference between saving account and fixed account are the facilities to withdraw money, deposit money and interest rate. Normally fixed account provides more

interest rate as compared to saving account. The interest rate also varies along with time periods. NBL fixed deposits time periods and interest rates are enlisted below:-

<u>Time Period</u>	<u>Interest Rate</u>
1 month	2%
3 months	2.25%
6 months	2.5%
1 year	3.5%
2 years	4%
3 years	4.25%
5 years	5%

Along with this the bank provides other fixed deposits with names like Special fixed deposits for amount greater than 10 lakhs with time period of 1 year with interest rate of 5%. Apart from that the other fixed deposits named Prime fixed deposits offer interest rate of 5.5% for amount greater than 3 corer with the time period of 1 year and lastly for amount more than 5 corer rupees the bank provides interest at a rate of 6% for 1 year with name Corporate fixed deposits.

#### **D. Sahuliyat Bachat Khata**

This is a new deposit account offered by NBL to its customers. It is offered in favor of working employees of any Nepalese organization. Under this account the Nepalese employees with reference letter from working organization can open account with just rupees 500. It works in same manner as saving account providing interest with an interest rate of 2% and customer can deposit and withdraw money as an when needed.

#### **2.3.2 Loans Provided by NBL**

Banks need to provide loans to customers for various purposes. Loans are the sources of income for banks. Banks collect deposits and pay interest on deposits amount in one hand and in other hand it charges interest on loan provided to customers. Loans are provided against

fixed deposits, bonds, valuable jewelries, stable future income, etc. The various categories under which loan are provided by NBL are as under: ([www.nepalbank.com.np](http://www.nepalbank.com.np))

#### **A. Personal Loans**

NBL provides personal loans to various customers to fulfill their personal needs. This loan is provided under collateral of land and building owned by their customers. Loan is provided to those who have regular and stable income sources along with some experience. The customer must be atleast 21 years of age and should be Nepalese citizen. This loan is provided under personal term loan and personal overdraft loan charging 1% of the financed amount as processing charge. Interest rate charged varies due to time limit from 7.5% to 10% and according to loan amount too.

#### **B. Auto Loans**

NBL provides auto loans for the purchase of new vehicles for both private use and public use as well as for swapping vehicles from private to commercial use and vice-versa. This loan is also provided to only Nepalese citizen and to those who have salaried income or self-employed or employed to various companies. The loan takers must be 21 years of age and should have some work experience. For company taking loan it should be in operations for a minimum of three years and should be authorized by BOD. Processing charge is same as in personal loans and interest rate varies from 8% to 10%, according to nature of use, time period and amount borrowed.

#### **C. Margin Lending**

NBL provides margin lending loan facilities to its various customers against holding of shares of various companies by their customers. Loan is provided against shares of listed companies in NEPSE or other companies acceptable to NBL. Shares of commercial banks, manufacturing and processing companies, hotels, trading companies, finance companies and development banks are accepted by NBL for the purpose of margin lending. Only Nepalese citizen are eligible to take loans or Nepalese company who owns the shares are eligible to take loans. Interest rate charged varies from 8.5% to 9.5% according to amount of loan taken and time

period. A nominal management fees at a rate of 0.25% is charged against loan amount if the loan is approved.

#### **D. Home Loan**

NBL provides home loan for various purposes to its customers, which includes purchase of plot of land, construction of building, purchase of already constructed buildings, loans for renovations, modifications or extension of existing buildings, etc. Processing fees at a rate of 1% is charged if the loan is approved and provided to those customers who have a regular source of income and who is a Nepalese citizen and must have some work experience. The borrower must be 21 years of age. The interest rate charged under home loan varies from 8% to 10.5% depending upon the loan amount and time period.

#### **E. Education Loans**

NBL provides education loans to their customer for the purpose of promoting education capabilities of their customers. NBL provides education loans to their customer charging certain amount of interest. This loan is provided against certain collateral and upon the field of study which the borrower is opting to study. The bank charge interest from 10% to 13% for education loan and a processing fee of 1% is charged if the loan is approved. The interest depends upon loan amount and time period.

#### **F. Consumer Loans**

Besides the above mention loans NBL provides consumer loan to its customer charging various interest rate and against various consumer utilities goods. Consumer loans are provided against collateral like gold and silver, fixed deposit receipts, government securities certificates, bank guarantees, working capitals, export loans, etc. For these various types of loans the bank charges interest rate from 5.5% to 10% depending upon the collateral and time period.

#### **G. Corporate Loans**

Finally the NBL provides corporate loans to big business houses to establish its branches or subsidiaries. The loan provided under these categories involves huge amount of money so the processing fees as well as rate of interest charged by NBL totally depends upon negotiation.



Banks negotiate with corporate houses and upon their understanding these loans are provided for longer period of time.

### **2.3.3 Account Opening in NBL**

NBL offers various accounts to its customers. Customers willing to open an account in NBL can open an account under various categories depending upon their needs and requirements. Customers have a multiple choice of which account is appropriate for their use including account for organizations, institutions and various companies. For the purpose of opening account with NBL the interested parties must submit various documents required by NBL to open an account with them. The account opening facilities in NBL are enlisted below: ([www.nepalbank.com.np](http://www.nepalbank.com.np))

- 1) Personal Account
- 2) Proprietorship Account
- 3) Partnership Account
- 4) Account of Corporate bodies, and
- 5) Accounts of Clubs, Societies, and Associates.

### **2.3.4 Any Branch Banking Services (ABBS)**

The term ABBS signifies that the customer having account on any branch of NBL can access their account from any other branches having ABBS facilities. It is facilitated through online network that are interlinked with various other branches. The ABBS of NBL is the largest ABBS networks with having 38 branches throughout the country. In ABBS facility customer can deposit, withdraw and remit money from any one branch to other branch, which are connected with central node. These facilities are provided in evening counters also to facilitate the customers. With this facility the customers can transfer money to any other branches within the valley for free and very nominal charge if it is inter-regional transfer. Thus ABBS facility has provided a very important platform for the growth of NBL. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

### **2.3.5 Safe Deposit Vaults**

NBL offers safe deposit vaults to its customer for the purpose of protection of most important valuables. Under this facility valuables are safely stored in another location providing protection against fire and theft. Those items whose loss causes trouble for any individual or business houses are stored in such safe deposits vaults. Items that are kept under safe deposits vaults include jewelries, rare stamps, important documents like birth certificates, insurances policies, bonds, mortgages papers, contracts, FD certificates, etc. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

### **2.3.6 SMS Banking Services**

SMS stand for short message service which is provided under computerized branches in NBL. SMS banking services helps customer to know various account information by just sending sms to NBL. It helps in knowing balance information, perform transaction with some pin code, exchange rate facility, account related facility, cheque book and account statement print facility, along with various other facilities to its valuable customers upon their request. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

### **2.3.7 Internet Banking Services**

The latest addition of NBL banking services is the addition of internet banking services. Through these services the customer can access their account information in their desktop or laptop at any where they go. With the help of internet banking services the customers can check their balance, issue cheque, print statement and can use various other facilities. This facility is available just by filing up the form that is available in various branch of NBL. The customers are provided with a user ID and a login password to use these facilities. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

### **2.3.8 NBL Web Remittance**

NBL remittance is another new services added lately by NBL. Through this facility NBL customers can easily reemit money to their near and dear ones. Through this facility it is easy to transfer earnings of Nepalese and Nepalese expatriates in foreign countries. Through the help of these services not only it is possible for foreign remittance but instead it also facilitates in domestic money transfer. For the use of this service customer has to pay very nominal charge.

The facility is available for both instant cash and credit to the beneficiary personal account. This facility is available via. two exchange houses viz. Eastern exchange estate, Doha, Qatar and Arabian exchange co W.L.L. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

### 2.3.9 Other Services

Apart from the above mentioned services NBL provides other services to its valuable customers which includes the facility of trade finance and ATM/ Debit Card. NBL helps its customers through trade finance and through the facility of ATM/Debit Card. Trade finance helps customers to access loans easily whereas ATM/ Debit Card facility helps in cash withdrawal, balance inquiry, POS transactions, PIN change and E-commerce facility. ([www.nepalbank.com.np](http://www.nepalbank.com.np))

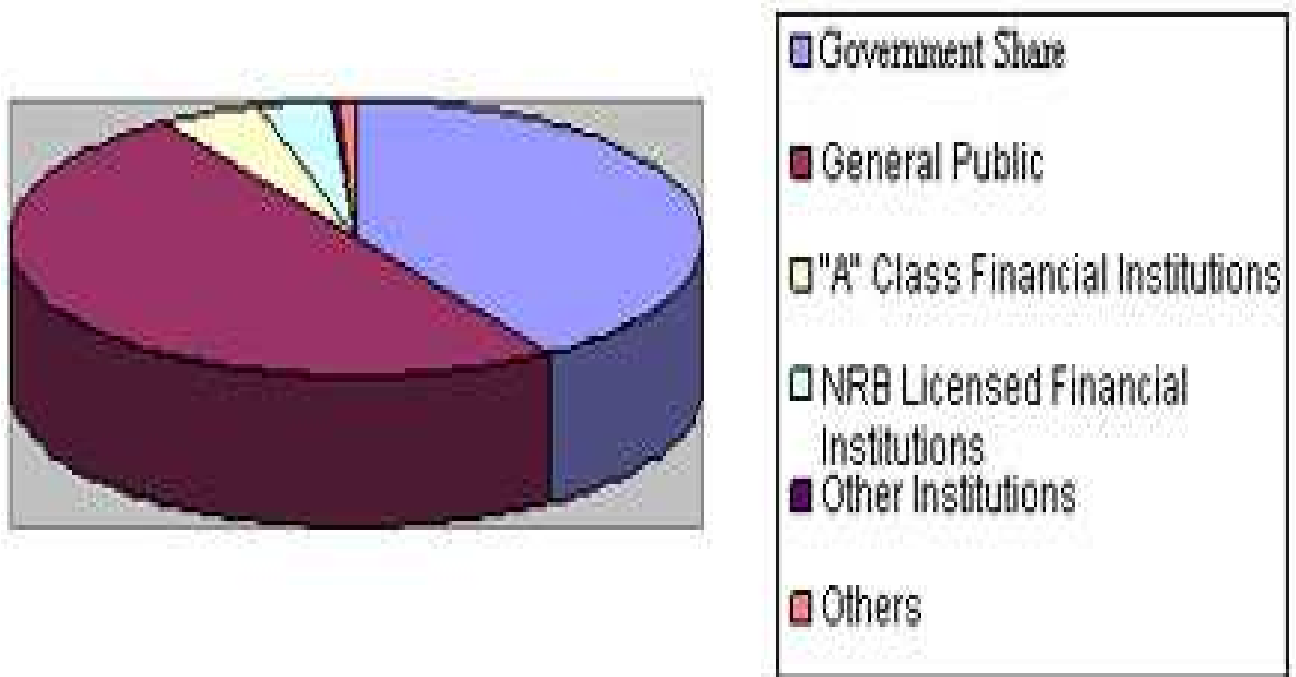
### 2.3.10 Shareholding Composition of NBL

**Table 2.1**  
**Shareholding Composition of NBL**

<b>S.No.</b>	<b>Ownership</b>	<b>Percent</b>
1.	Government of Nepal	40.49
2.	‘A’ Class Financial Institutions	4.92
3.	NRB Licensed Financial Institutions	3.42
4.	Other Institutions	0.52
5.	General Public	49.94
6.	Others	0.71
<b>Total</b>		<b>100</b>

Source: [www.nepalbank.com.np](http://www.nepalbank.com.np)

**Figure 2.1**  
**Shareholding Composition of NBL (Pie-Chart View)**



Source: [www.nepalbank.com.np](http://www.nepalbank.com.np)

### **2.3.11 Management Personnel**

NBL has an employee composition of 2923 staffs. It has its 46 branches which are under computerized system with its operation from head office located at New Road, kathmandu Nepal. The bank is under the control of central bank of Nepal, NRB which has appointed four members management committee in NBL which are considered as BOD of the bank. The current CEO of NBL is Dr. Binod Atreya under whom the present management team and office personnel of NBL looks like:-

**Table 2.2**  
**Management Personnel of NBL**

S. No.	Level	Post	Permanent		
			Male	Female	Total
1.	-	Chief Executive Officer	-	-	0
2.	-	Deputy Executive Officer	-	-	0
3.	11	Senior Chief Manager	-	-	0
4.	10	Chief Manager	11	0	11
5.	9	Senior Manager	16	2	18
6.	8	Manager	51	5	56
7.	7	Deputy Manager	154	14	168
8.	6	Assistant Manager	336	72	408
9.	5	Senior Assistant	619	262	881
10.	4	Assistant	680	243	923
11.	3	Junior Assistant	13	0	13
	-	Senior Peon	356	58	414
	-	Peon	16	15	31
<b>Total</b>			<b>2252</b>	<b>671</b>	<b>2923</b>

Source: [www.nepalbank.com.np](http://www.nepalbank.com.np)

Along with this the organization structure of NBL looks like:



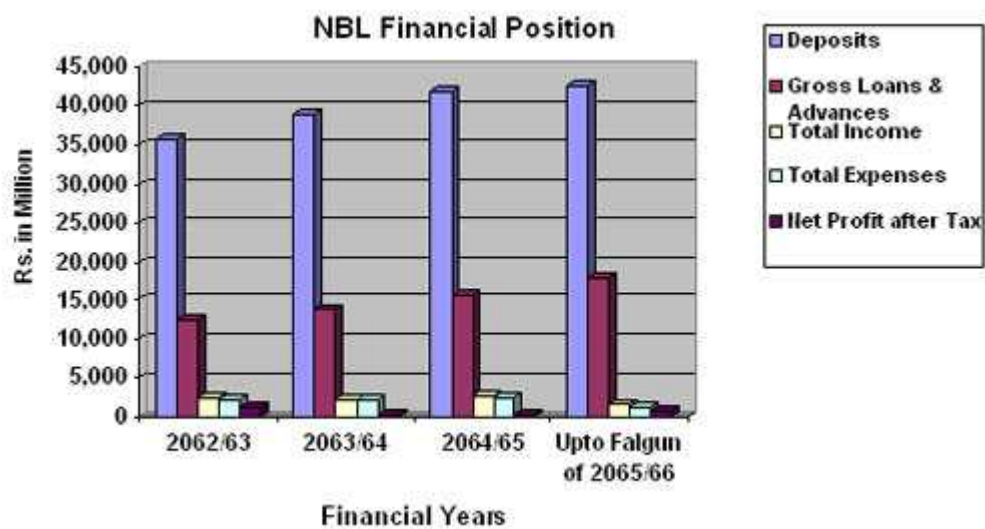
### 2.3.12 NBL Network Overview

**Table 2.3**  
**Network Overview of NBL**

S. NO.	Region Wise Branches	No. of Branches
1.	Kathmandu Region	27
2.	Biratnagar Region	28
3.	Birgunj Region	18
4.	Pokhara Region	20
5.	Nepalgunj Region	16
<b>Total No. of Branches</b>		<b>109</b>

Source: www.nepalbank.com.np

**Figure 2.2**  
**Financial Position of NBL**



Source: www.nepalbank.com.np

## 2.4 Review of Related Studies

The researcher always tries to look into previous related studies before continuing the research. Some studies have been made in the subject of “Budgeting Practice” but there is insufficient studies regarding budgeting practice of any banks. The topic is explored only from the manufacturing company’s point of view or comparative point of view between various banks and financial institutions. The review of related studies is enlisted below.

Karki (2000), in her research paper on the topic ‘A comparative study on Budgeting System of Rastriya Banijya Bank Ltd (RBB) and Himalayan Bank Limited (HBL)’ has pointed out some objectives, findings, and recommendation. The data and other necessary information were collected mostly by using secondary as well as few data from primary sources.

Some of the objectives are:

- 1) To determine comparative systematic budgeting capacity between these banks.
- 2) To identify comparative revenue and cost efficiency.
- 3) To know the comparative fund mobilization and lending policy.

Some findings are:

- Total revenue & total cost of RBB is higher than HBL but its profits are lower.
- Government seems less conscious in the present situation of RBB.
- In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuation in cost.
- As the accounting system, of RBB is careless that it has not been audited from the f/y1993-94 and it is difficult to take decision about data analysis.
- No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- Interest coverage ratio of both banks is more than 1 except in the f/y1995-96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
- Interest spread is higher in RBB than in HBL.



- Return on paid of capital is always negative in RBB. Net profits also negative in RBB.

Sharma (2002) has studied the profit planning in commercial banks with a case study of NB Bank. The data was collected mostly through secondary sources and some data through primary sources. His major objective and findings can be listed as follows:

The objectives are:

- 1) To identify the efficiency of planning of NB Bank Ltd.
- 2) To determine the profitability of NB Bank Ltd.
- 3) To examine the fund mobilization and lending policy.
- 4) To study the impact of new management techniques in making profit.

The findings are:

- NB Bank lacks active and organized planning department to undertake innovative products research and development works.
- Objectives of the banks are expressed in literary form, and not specified clearly, therefore there is a danger if it being misinterpreted in the ways of one's benefit by the concerned.
- Major concentration of resources mobilization of NB Bank is at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.
- Bank's resources deployment for non yielding liquid assets (cash and bank balance) is increasing every year, which is detrimental to profitability objectives, but it is supportive to meeting liquidity requirement of the Bank.
- Outstanding letter of credit liability of the bank is increasing every year however the growth is not consistent.
- Interest expenses amount of the bank is the highest among other income items in the total revenue.
- The average current ratio of the bank has found to be always higher than standard ratio 2:1, which shows satisfactory liquidity position of the bank.

Tiwari (2003) has conducted research titled “Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited”. In his research paper he pointed out the following objectives and findings:-

The objectives are:

- 1) To highlight the current profit planning premises adopted and its effectiveness in SCB.
- 2) To analyze the variance of budgeted and actual achievements.
- 3) To study the growth of the business over the period.
- 4) To provide suggestion and recommendation for improvements of the overall profitability of the bank.

The findings are:

- The bank is awarded bank of the year 2002, since its management policy is strong with qualified employees with optimum number of employees.
- The bank is quick in adopting new technology with efficiency in customer services on various aspects.
- The bank has carried out social responsibility in various fields.
- The customer deposit is on the higher side, thus loan deployment is also at the higher rate.
- The bank's overall performance is very good with all the departments and overall ranking of the bank is on the higher side.

Thapa (2004), in his research topic entitled “A study on profit planning and control of Nepal SBI Bank Limited” has enlisted the following objectives and findings:-

The objectives are:

- 1) To identify the profit planning process adopted by the bank.
- 2) To sketch the trend of profit and loss.
- 3) To evaluate the variance between target and actual performance.
- 4) To recommend the steps to be taken to improve the profit planning process.

The findings are:

- The bank lacks strategic profit plans instead focus on short term plan of a year.
- The budgets are based on the objectives and trend of performance are ignored.
- SWOT analysis is lacking in the bank system.

- There is lack of co-ordination between departments and staff members.
- The banks yield rate is at the lower side due to increasing competition.
- The prepared budgets are not used effectively in the process of profit planning.

Kharel (2008), on his thesis entitled “Profit Planning of Commercial Banks in Nepal: A Comparative study of Everest Bank Limited, Nabil Bank Limited, and Bank of Kathmandu Limited” has focused on some objectives and found out some findings which are enlisted below:-

Some of the objectives are:

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

Some of the findings are:

- EBL liquidity position is better than NABIL bank and BOK.
- NABIL bank has the highest investment in government sectors compared to EBL and BOK.
- NABIL has lowest loan loss provision due to more efficient loan policy compared to EBL and BOK.
- EBL is in better position than NABIL and BOK, from the point of view of asset management ratio.
- BOK has higher investment on shares and debentures to total working fund ratio.
- Interest earned to total outside assets, return on total working fund ratio, return on loan and advances ratio and return on assets is lowest of all with EBL.
- The trend of the total investment, total deposit, loan and advances and net profit of EBL shows that it is in better position compared with NABIL and BOK.

Rimal (2008), in his research topic of profit planning and control of NB bank has studied the profit planning and control mechanism of NB bank. The data was mostly collected through secondary sources and some data was collected through primary sources. His major objective and findings can be listed as follows:-

The objectives are:

- 1) To analyze the trend of profit.
- 2) To highlight the current profit planning premises adopted in NB bank and its effectiveness.
- 3) Observe profit planning on the basis of overall managerial budgets.
- 4) Analyze variance of budget allocation and actual achievements.
- 5) To study the growth of business over the period.

The findings are:

- Profit trend is at growing stage but due to increasing cost the bank is not quite been able to make up to its profit potentiality..
- A proper job description should be adopted to increase profit potentiality of NB bank.
- NB bank lacks specific planning and research department to prepare plans and budgets according to its need rather it is prepared without a proper base in NB bank.
- The deposit cost is high so NB bank should try to lower that cost to substantially increase the profit.
- The banks CD ratios, LDO ratios, are at higher side.
- Lending policy as well as some restriction provided by NRB seems to be in the way of NB bank to reach its objectives.

Kunwar (2009), in his research topic of profit planning of Nabil Bank Ltd. has studied the profit planning of the bank. The data was mostly collected through secondary sources and some data was collected through primary sources. His major objective and findings can be listed as follows:-

The objectives are:

- 1) To find out the relationships between total investment loan and advances, deposits, net profit and outside assets.
- 2) To identify the investment priority sectors of commercial banks.
- 3) To assess the impact of investment on profitability.
- 4) To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial bank.
- 5) To provide suggestion and possible guidelines to improve investment policy and its problems.

The findings are:

- Profit trend is fluctuating according to various related variables.
- Non-performing assets are at declining trend which is good sign for profit increment.
- Correlation coefficient between variables is mostly positive.
- All the trends analysis shows that they are in increasing trend.
- The bank ratios are at higher side.
- Lending policy as well as some restriction provided by NRB seems to be in the way of the bank to reach its objectives.

Maharjan (2009), in her research topic of profit planning in commercial bank, A case study of Standard Chartered Bank has studied the profit planning and control mechanism of the bank. The data was mostly collected through secondary sources and some data was collected through primary sources. Her major objective and findings can be listed as follows:-

The objectives are:

- 1) To highlight the current profit-planning premises adopted and its effectiveness in SCB.
- 2) To observe the bank profit planning on the basis of overall managerial budgets developed by bank.
- 3) To analyze the variance of budgeted and actual achievements.
- 4) To study the growth of the business of the bank over the period.

The findings are:

- The banks workforces are competent and capable since they hire highly qualified employees who can perform well for profit enhancement.

- The deposit costs are at higher side.
- Major portion of resources have been deployed by LABP.
- Both income and expenses are at increasing trend in SCB.
- Profit trend is at increasing stage every year.
- The bank has a satisfactory ratio position.
- SCB has a competent planning and research department to prepare plans and budgets according to its need.

## **2.5 Research Gap**

Budgeting practice is the most important aspect for any organization whether it is profit oriented or not. Without proper budget, one cannot even imagine the successful running of the organization. Budgeting practice is carried out in almost all the aspect of any organizations and it is not exceptional for NBL too. The budgeting practice of NBL is spread over various aspects which are dealt in this thesis. The previous thesis has either made comparative study between various banks or made study of manufacturing organizations in respect to budgeting practice/profit planning. The available thesis has only studied profit planning of various private banks only. If any researcher has touched any government institutions then they have study only comparative study between banks. So there is a need felt in the said topic to make any analytical study. Thus, to fulfill this gap a step has been taken forward to prepare a thesis on “Budgeting Practice in NBL”. There is no any previous research with this topic; the closet research that can be traced is with the topic of “Profit Planning” of various private banks only. So the research work will try to fulfill this research gap to some extent.

## **CHAPTER: 3**

### **RESEARCH METHODOLOGY**

#### **3.1 General**

The research methodology is followed to achieve the basic objectives and goals of this research work. This chapter deals with research methodology such as research design, population and sample, period covered, nature and sources of data, tools used, research variables and research questions. A well thought out activities has been planned to find out the answer to the research problem. The word research signifies to search again and again following a systematic way. This research is taken to solve a problem regarding Budgeting Practice in NBL. This chapter shows a plan about how research is done scientifically from the quantitative and qualitative aspect.

“Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, one studies the various steps that are generally adopted by a researcher, studying the research problem among with the logic behind them”. (Kothari, 1990)

“The research for going the knowledge about method of goal achievement, which is desire, is known as research methodology”. (Joshi, 2001)

This research work is also taken to gather, record, analyze, examine, interpret, and develop some conclusion about budgeting practice in NBL. Following are the major contents of research methodology followed in course of this dissertation.

#### **3.2 Research Design**

The Research design of the study is analytical as well as descriptive approaches. It begins from collection of data and the instrument used to interpret the data and finally the conclusion to be

reached through the same data. A proper research design helps in controlling variance by helping the researcher in moving in right direction towards the goal of the organization. (Wolff, & Pant, 2008) This study is closely related with the various functional budgets and other accounting statements as well as the actual result of the budgets procedure of NBL. These information and data are presented in an analytical method. A good design is that which accommodate flexibility, efficiency, economy and so on. The design that minimizes bias and maximizes the reliability of the data collected and analyzed is considered as a good research design. (Wolff, & Pant, 2008) Thus, this is a case study research.

### **3.3 The Population and Sample**

This research work is related with budgeting aspects of NBL. Therefore, the population and sample term are not relevant for the current study. Instead the focus is shifted towards studying the various aspects of budgeting adopted by NBL. And the budgeting aspect is studied from five years point of view. Thus, these can be considered as sample for this case study.

### **3.4 Period Covered**

The Study covers a time period of 5 years from f/y 2060/ 061 to 2065/ 066. As per the NRB directives all the commercial banks including NBL have to follow accounting year of twelve months, so the above period begin from first of sharwan and end at end of asadh. Data are taken from "NBL" and the analysis is basically made on the basis of these 5 years data. For the purpose of the analysis of budgeting practice, data are taken of as recently covered period as possible.

### **3.5 Nature and Sources of Data**

To fulfill the objectives of this study, mostly secondary data have been used but some of the primary data are also used. Primary data are collected through questionnaire as well as interview with the related officer and other staff of NBL.



Secondary data have been taken from the annual published documents of "NBL", book, booklets, magazines and similar other handouts and brochures, prospectus, articles, journals, dissertations and other publications that are available on net or NRB or central bureau of statistic. Questionnaires for gathering information is given in appendix iv .

### **3.6 Tools Used**

Data collected from various sources are managed, analyzed and presented in proper tables, formats, graphs, diagrams and charts. Such representations are interpreted and explained wherever necessary. To analyze the collected data, financial, statistical, and mathematical tools are used. Most of the calculations are done with the help of MS Excel software and MS Word software. The various financial, statistical and mathematical tools used in this research work are detailed below:-

- 1) Financial tools: - Financial tools used to analyze the data include ratio analysis and CVP analysis. These tools helps in studying arithmetical relationship between two or more data in one hand and in other hand it helps to study cost, volume, profit, and price worth of NBL.
- 2) Statistical and Mathematical tools: - The following statistical and mathematical tools are used in this study to reach to a desired conclusion. Which includes:-
  - Mean
  - Standard Deviation
  - Regression Analysis
  - Coefficient of Variance
  - Correlation Coefficient
  - Trend Line
  - Probable Error

- 3) Analytical tools: - The analytical tools were also used in this research study for various analysis like deposits, loans and advances, capital structure, balance sheet, and cash flow analysis for finding out various results about NBL.

### **3.7 Research Variable**

The research variables of the study are mainly related with the accounting statement of "NBL". Profit and loss statement, balance sheet statement, cash flow statement, relating to long term and short term period of "NBL" are the main research variables of this study. All the other related information is extracted through individual parts of these main documents presented by NBL.

### **3.8 Research Question**

As the basic of this study is to examine how far the different functional budgets are being applied as tools for overall budgeting practice in NBL. The research has tried to seek answer of this to reach to an adoptable conclusion based on this. The forthcoming chapter includes the data presentation and analysis of what research methodology that has been adopted in this chapter.

## **CHAPTER: 4**

### **PRESENTATION & ANALYSIS OF DATA**

#### **4.1 Introduction**

This chapter deals with the main part of the study on the backgrounds of various literature reviews in the preceding chapter. It is attempted to study the budgeting practice of NBL. According to the objectives of the study this chapter tries to present all the necessary data and later on analyze those data to study on budgeting practice of NBL to provide recommendation to improve the budgeting practice adopted by NBL. To summarize one can say that this chapter is the heart which deals with all the numbers, figures, graphs, diagram, and etc to formulate and analyze the budgeting practice in NBL. The researcher is going to analyze the budgeting practice that is prevalent in NBL to develop a relatively well structured budget for NBL to improve its performance in coming years as well as help NBL to generate healthy amount of profit to survive and compete in the competitive banking sector. Researcher is going to analyze, interpret and evaluate the data with the help of financial, statistical, mathematical and analytical tools mentioned in the earlier chapter to formulate and implement an effective budgeting practice in NBL. For the purpose of analysis, the collected data, information and facts have been properly processed and tabulated and than over all interpretation is made to find out the hidden implication and conclusions.

#### **4.2 Financial Analysis**

By the term financial analysis the focus is on the implication of establishing the relationships between various items from profit and loss account, balance sheet, cash flow statement and other documents if necessary. It shows the financial strength and weaknesses and helps to develop on strengths and to overcome the weaknesses. The main tools that are used for financial analysis are ratio analysis from various aspects.

## **Ratio Analysis**

The process of developing an arithmetical relationship between two figures is known as ratio analysis. It shows the relationships between two figures and is calculated by dividing one item by another item to find out their efficiency. Ratio simply means one number expressed in term of another to judge its overall effectiveness with the standard which is already predetermined. (Bajracharya, & Bhattarai, 2007) Ratio analysis is a technique of analyzing and interpreting the financial statement to evaluate the financial performance of organization. This study has focused on the following ratios:

- 1) **Liquidity Ratio**
- 2) **Capital Structure Ratio**
- 3) **Profitability Ratio**
- 4) **Activity Ratio**

### **Liquidity Ratio**

The term liquidity means the firms ability to meet various obligations. It helps to judge the short-term financial strength of any business. (Chaudhary, & Sharma, 2058) It helps in maintaining cash and cash equivalent items in the business to meet short period obligation. Insufficiency in liquidity results in poor credit worthiness, loss of shareholders or even in legal suits resulting in the closure of the bank at extreme cases. Thus, every business firms or organization should maintain enough level of liquidity to help grow its profit and status in the business world.

#### **a) Current Ratio**

Current ratio signifies the current status of the firm in terms of money. The main components of current ratio are current assets and current liabilities. Current assets are those assets, which can be converted into cash and cash equivalent items within a short period of time, normally within a year whereas current liabilities are those liabilities that should be paid off or cleared within a short period of time, normally within a year. (Bajracharya, & Bhattarai, 2007) Cash balances, bank balances, inventory, debtors, receivables, marketable securities, short term investment, prepaid or paid in advance, accrued or outstanding income, loan and advances, etc

comprises current assets whereas creditors, bank overdraft, payables, provisions, outstanding expenses, etc comprises current liabilities. The industry average for current ratio is 2:1, but higher the ratio ensures company liquidity positions. Lower the ratio might create insolvency of any organization resulting in the cash not being available to repay the current liabilities. The formula to calculate current ratio is given below:

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

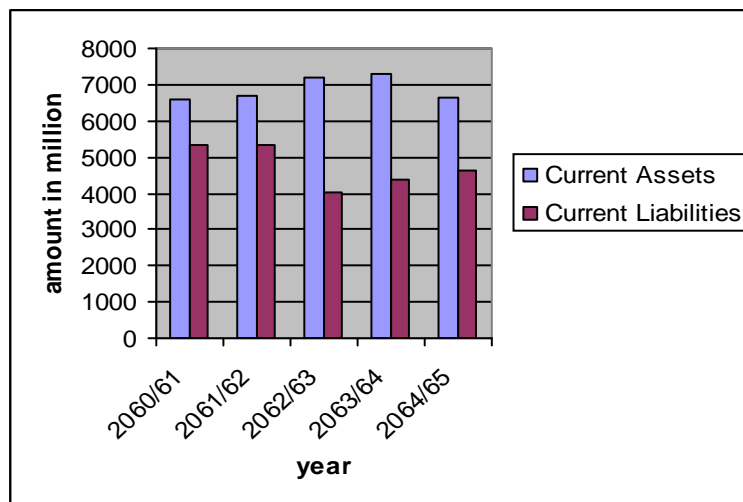
**Table 4.1**  
**Current Ratio**

Rs. In million

<i>Fiscal Year</i>	<i>Current Assets</i>	<i>Current Liabilities</i>	<i>Current ratio</i>
2060/61	6613.06	5317.64	1.24
2061/62	6709.34	5322.36	1.26
2062/63	7174.06	4050.29	1.77
2063/64	7317.29	4390.15	1.67
2064/65	6616.99	4624.17	1.43

Source: Banking & Financial Statement NBL

**Figure 4.1**  
**Current Ratio on Bar Graph**



According to the above table the liquidity position of NBL is not as per the average standard of the firm which is 2:1. The current ratio is in between 1.24 to 1.77. The trend of current ratio is moving up in earlier years and again in later years it's moving downward. Since, deposits are considered as current liabilities it can be said that the current ratio of NBL is in sound position even if it's below standard since maximum amount is under deposit heading. There is a fluctuation in current ratio mainly because of changes in deposits in recent years. In one hand the deposits increment caused the current ratio to fall down in recent year. In other hand, the current asset position also fell down in the year 2064/65 which caused current ratio to fall down. But, it can be said that NBL current ratio is in satisfactory level to maintain its liquidity position.

#### **b) Cash and Bank Balance to Total Deposit Ratio**

The essence of the bank lies in its cash and bank balance items. Cash and bank items comprise its total deposits which are highly liquid for the bank. The depositors are free to withdraw their deposits at any time in case of need until and unless it's fixed deposits. Depositors obtain interest on their deposits at different rates on interest bearing deposits whereas on non interest bearing deposits they don't obtain interest. This ratio helps in checking out the ability of any institution to repay its obligations. Cash & bank balance include cash in vault, cash at NRB and balance in other domestic and foreign banks whereas total deposit includes all the deposit collected by the bank through different sources of collecting deposits which are discussed in chapter 2. According to NRB directives each and every commercial banks has to maintain at least 2% of the deposit liabilities as cash at vault and 5% cash & cash equivalent as obligations to meet the liabilities. The formula to calculate cash and bank balance to total deposit is given below:

$$\text{Cash \& bank balance to total deposit ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

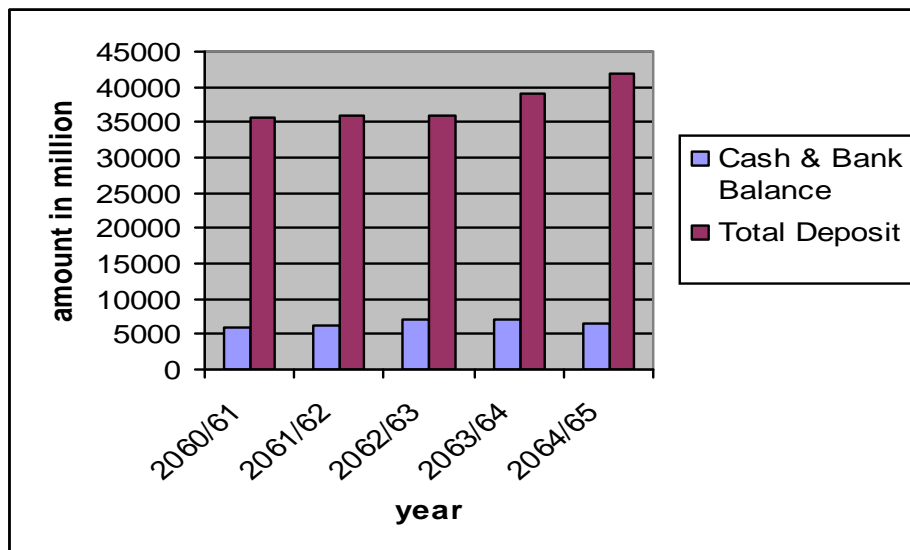
**Table 4.2**  
**Cash & Bank Balance to Total Deposit Ratio**

Rs. In million

Fiscal Year	Cash & Bank Balance	Total Deposit	Percentage
2060/61	5861.07	35735.04	16.40
2061/62	6159.34	35934.16	17.14
2062/63	7174.06	35829.77	20.02
2063/64	7117.29	39014.20	18.24
2064/65	6616.99	41829.39	15.82

Source: Banking & Financial Statement NBL

**Figure 4.2**  
**Cash & Bank Balance to Total Deposit Ratio on Bar Graph**



The minimum requirement of cash and bank balance to be maintained by commercial banks is at least 5% of its total deposit. NBL has cash and bank balance in the range of 16% to 18%, which shows the higher liquidity position of the bank. This amount is considered good for enhancing the goodwill of the bank but in other hand, bank is losing the opportunity to earn more through investing these ideal cash and bank balance. In recent years NBL is trying to lower down this ratio towards maintaining the adequate level so that the amount of cash and

bank balance remains at the required level and the bank does not lose the investing opportunity or keep ideal cash and bank balances. Thus, it can be said that NBL has satisfactory level of cash and bank balance to total deposit ratio to maintain its liquidity position.

### **Capital Structure Ratio**

The term capital structure represents the long term financial stability of any banks. The capital structure ratio helps in determining the appropriate mixture of capital in case of debt, equity and other mixtures in the capital structure. (Bajracharya, & Bhattarai, 2007) The appropriate capital structure ensures the money in NBL at the lowest possible charges. Under this ratio the focus are on the following ratios:

#### **a) Debt to Equity Ratio**

It is the ratio between total debts owned by the firm against the owner's equity. Here, debt signifies borrowings, deposits, bills payables, proposed dividend payable and all other liabilities of the bank including various other debts collected by the bank in different years. The equity here signifies the share capital of NBL. The formula to calculate debt equity ratio is given below:

$$\text{Debt to Equity ratio} = \frac{\text{Totaldebt}}{\text{TotalEquity}}$$

**Table 4.3**  
**Debt to Equity Ratio**

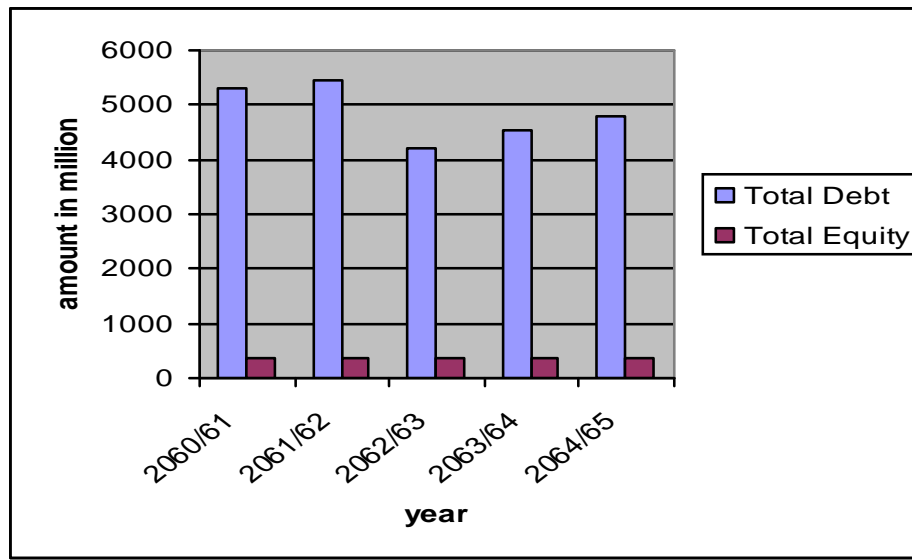
Rs. In million

Fiscal Year	Total Debt	Total Equity	Ratio
2060/61	5317.64	380.382	13.98
2061/62	5447.07	380.382	14.32
2062/63	4222.04	380.382	11.10
2063/64	4550.63	380.382	11.96
2064/65	4806.17	380.382	12.64

Source: Banking & Financial Statement NBL

**Figure 4.3**  
**Debt to Equity Ratio on Bar Graph**





The debt to equity ratio of NBL is at the higher side mainly because of two main reasons, one is that, in case of total debt whole debt including deposits are included and the other one is, in case of equity only share capital is considered. The main reason for doing this is the NBL past losses which are very heavy so its reserve and fund are at negative side and equity are comprised of only share holder's capital. This shows the average debt to equity ratio of NBL is round about 11.1 to 13.98 times. It has characteristic of both upward and downward trend. Thus, it can be said that the NBL debt to equity ratio is adequate.

#### b) Total Debt to Total Asset Ratio

It is the ratio between total debt and total asset of NBL. It is the ratio which helps to measure the debt paying capacity of NBL in terms of its total assets. Here the total debt is same as calculated in debt equity ratio and total asset signifies the total of asset presented in the balance sheet. The formula to calculate total debt to total asset ratio is given below:

$$\text{Total Debt to Total Asset Ratio} = \frac{\text{Totaldebt}}{\text{Totalasset}}$$

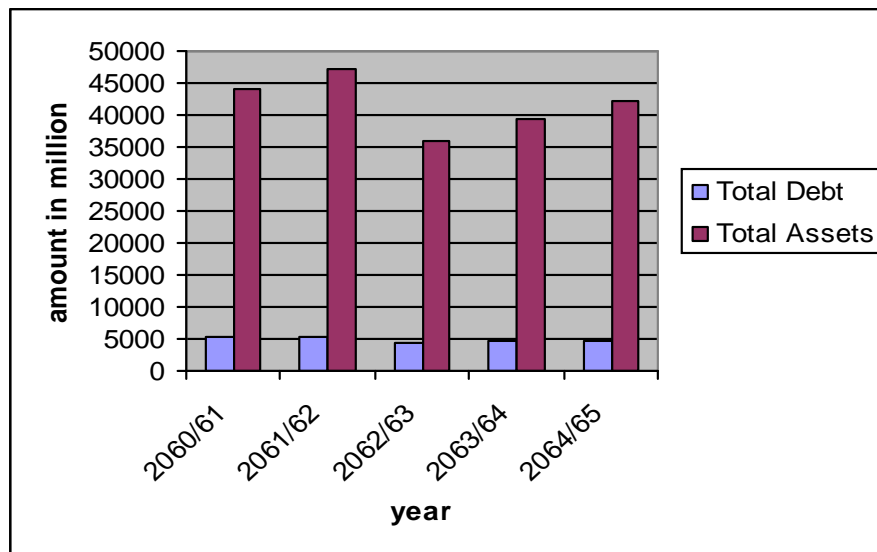
**Table 4.4**  
**Total Debt to Total Asset Ratio**

Rs. In million

Fiscal Year	Total Debt	Total Assets	Ratio
2060/61	5317.64	44161.88	0.12
2061/62	5447.07	47045.15	0.12
2062/63	4222.04	35918.91	0.12
2063/64	4550.63	39258.79	0.12
2064/65	4806.17	42053.44	0.11

Source: Banking & Financial Statement NBL

**Figure 4.4**  
**Total Debt to Total Asset Ratio on Bar Graph**



From the above table it is clear that NBL has a steady ratio of total debt to total asset. The ratio is around 0.12 which is continuously same until the latest year where it drop down to 0.11 but still it is at the satisfactory level. NBL total debt includes all the debt including deposit and total asset is the amount shown in its balance sheet. Thus, it can be said that NBL total debt to total assets ratio is at the satisfactory level.

### c) Interest Coverage Ratio

This ratio helps in measuring the interest payment capacity of NBL. The interest coverage ratio helps in determining the relationship between interest expenses and net profit before interest and tax. It shows how interest amount is payable in terms of its profit before interest and tax amount being adjusted. The formula to calculate capital structure ratio is given below:

$$\text{Interest Coverage Ratio} = \frac{NP_{\text{before int and tax}}}{Int. \text{ exp amt}}$$

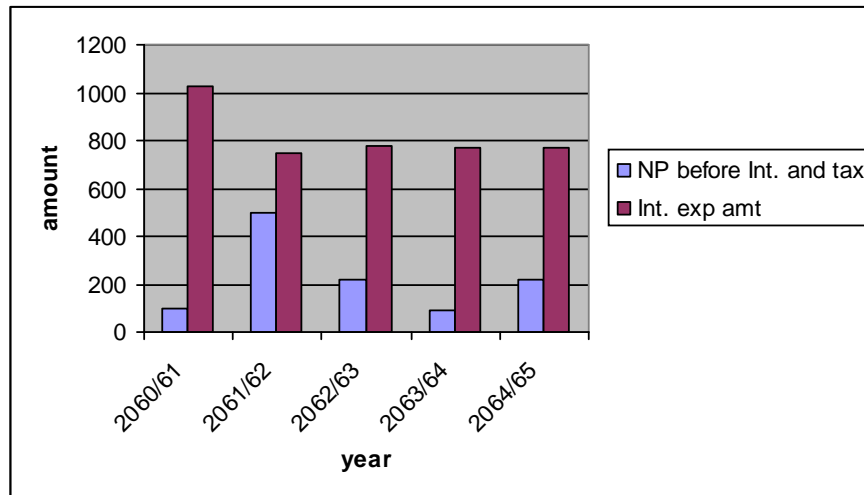
**Table 4.5**  
**Interest Coverage Ratio**

Rs. In million

Fiscal Year	NP before Int. and tax	Int. exp amt	Ratio
2060/61	101.19	1025.53	0.0987
2061/62	496.22	748.95	0.6626
2062/63	218.39	774.32	0.2820
2063/64	89.82	772.64	0.1163
2064/65	222.21	772.65	0.2876

Source: Banking & Financial Statement NBL

**Figure 4.5**  
**Interest Coverage Ratio on Bar Graph**



According to the above table and diagram it can be said that the debt structure of NBL is at a minimum satisfactory level at first year since its NP before interest and tax is very less compare to its interest expenses but in recent year's interest expenses has risen up and amount of NP has been fluctuating causing difficulty in computing interest coverage ratio. The trend of interest coverage ratio should be increased in coming year to boost up the performance of NBL. Thus, it can be said that NBL interest coverage ratio is at the unsatisfactory level in recent years.

### **Profitability Ratio**

Profit is the essence of survival for any business enterprises. Profit is the return for various activities carried out by the firm therefore; the return of the firm is calculated under this ratio. The overall efficiency is measured through this ratio. The return in terms of various activities is calculated under this ratio. In case of banks every banks survive with the volume of profit they earn in their business operation. Profit is earned through differentiating with various activities in the business operation. The following ratio measures the efficiency of NBL in terms of profitability:

#### a) Return on Assets

Return on assets ratio shows the relationship between Net profit and total assets to determine how efficiently the total asset has been used by the management. This ratio measures the profit generating capacity of NBL in terms of total assets employed. The formula to calculate return on assets is given below:

$$\text{Return on assets} = \frac{NP_{\text{after tax}}}{\text{Total assets}}$$

**Table 4.6**  
**Return on Assets**

Rs. In million

Fiscal Year	NP after tax	Total Assets	Percentage
2060/61	710.39	44161.88	1.61
2061/62	1730.13	47045.15	3.38
2062/63	1207.26	35918.91	3.36
2063/64	226.95	39258.79	0.58
2064/65	239.21	42053.44	0.57

Source: Banking & Financial Statement NBL

From the above table it is clear that the return of NBL against its total assets is around 0.5 in recent years. In the previous year they are high because the profit level on those year were high but due to various contingency it's reduced in recent years. These contingency are discussed in net profit analysis. So to analyze the trend it is better to focus on recent few years. There is a sharp fall during the last two years because there is a sharp downfall of profit of NBL which caused ROA to fall down. The other reason might be its increase in total assets due to increase in LABP which caused ROA to fall down drastically in recent years. But it can be said that NBL ROA is at the satisfactory level and it has been able to generate profit of around point half percent against its huge amount of total assets.

### b) Return on Capital Employed

It shows the relationship between net profit and total capital employed by NBL. This ratio measures the profitability of the firm in terms of its total capital employed and borrowings/loans to determine the return to its shareholders. The formula to calculate return on capital employed is given below:

$$\text{Return on capital employed} = \frac{NP_{\text{after tax}}}{\text{Share capital} \Gamma \text{ Borrowings / loans}}$$

**Table 4.7**  
**Return on Capital Employed**

Rs. In million

Fiscal Year	NP after tax	Share Capital + Borrowings/Loans	Percentage
2060/61	710.39	1132.37	62.73
2061/62	1730.13	1627.45	106.31
2062/63	1207.26	2097.82	57.55
2063/64	226.95	1985.25	11.43
2064/65	239.21	2200.47	10.87

Source: Banking & Financial Statement NBL

From the above table it is clear that the return of NBL against its share capital and borrowings/loans is at the higher side is previous year compared with recent years due to its changing NP and share capital and borrowings. But the true picture is not same since only share capital and loan without adjusting reserve and fund deficit is shown here so one might be confused. Thus it is better to look after adjusting its accumulated losses. If this is done then NBL return on capital is at the negative side. Thus it can be said that NBL ROE is at unsatisfactory level only due to its accumulated past losses.

### c) Return on Loans and Advances

This ratio measures the profit in terms of its investment policy in loans and advances. This ratio shows the relationship between loans and advances and profit of NBL. This ratio enables the management to know about its earning capacity through fund mobilizing policy of NBL. The formula to calculate return on capital employed is given below:

$$\text{Return on loans and advances} = \frac{NP_{\text{after tax}}}{\text{Loans and Advances}}$$

**Table 4.8**  
**Return on Loans and Advances**

Rs. In million

Fiscal Year	NP after tax	Loans and Advances	Percentage
2060/61	710.39	8881.82	7.99
2061/62	1730.13	8218.91	21.05
2062/63	1207.26	9756.16	12.37
2063/64	226.95	11058.48	2.05
2064/65	239.21	13251.96	1.81

Source: Banking & Financial Statement NBL

From the above table it is clear that the return of NBL against its loans and advances is around 2% in recent years. In the previous year they are high because the profit level on those year were high but due to various contingencies NP has reduced in recent years. These contingency are discussed in net profit analysis. So to analyze the trend it is better to focus on recent few years. During these period its loans and advances has increased, since NBL advanced more loans to customers whereas the volume of NP decreased which is the reason for its low return on loans and advances. But still it can be said that NBL return on loan and advances is at satisfactory level since it has advance huge amount as loan to its customers.

#### **d) Net profit to Gross Income Ratio**

This ratio helps in finding out the relationship between net profits to gross income of NBL. It shows the total efficiency of profit in relation to total income of NBL. The higher ratio suggests higher efficiency and vice versa. The formula to calculate net profit to gross income ratio is given below:

$$\text{Net profit to gross income ratio} = \frac{NP_{\text{after tax}}}{\text{Gross Income}}$$

**Table 4.9**  
**Net Profit to Gross Income Ratio**

Rs. In million

Fiscal Year	NP after tax	Gross Income	Percentage
2060/61	710.39	3981.28	17.84
2061/62	1730.13	4171.28	41.48
2062/63	1207.26	2488.99	48.50
2063/64	226.95	2317.28	9.79
2064/65	239.21	2601.47	9.20

Source: Banking & Financial Statement NBL

From the above table it is clear that the net profit to gross income of NBL is around 10% in recent years. In the previous year they are high because the profit level on those year were high but due to various contingencies NP has reduced in recent years. These contingency are discussed in net profit analysis. So to analyze the trend it is better to focus on recent few years. During these years its gross income increased but its NP did not increase at the same proportion which caused its NP to gross income to a lower level. But it can be said that NBL net profit to gross income is at satisfactory level considering its expenditures and other items.



**e) Interest Income to Total Income Ratio**

This ratio helps in measuring the relationship between interest incomes against total income. It shows how much affect interest income might causes to the total income of NBL. It shows how much portion of total income is occupied by interest income. The formula to calculate interest income to total income is given below:

$$\text{Interest income to total income ratio} = \frac{\text{Interest Income}}{\text{Total Income}}$$

**Table 4.10**  
**Interest Income to Total Income Ratio**

Rs. In million

Fiscal Year	Interest Income	Total Income	Percentage
2060/61	1825.04	3981.28	45.84
2061/62	1987.12	4171.28	47.64
2062/63	2049.03	2488.99	82.32
2063/64	1848.62	2317.28	79.78
2064/65	2094.91	2601.47	80.53

Source: Banking & Financial Statement NBL

From the above table it is clear that the interest income to total income of NBL is around 0.8 in recent few years. In the previous year they are at lower side because NBL did not advance huge amount as loans to its customer so it contributed less towards total income. But in recent year due to its policy changes, it advances loan to its customer due to which its interest income contribute most in its total income and in coming future years also it will rise up. Thus it can be said that NBL interest income to total income is at satisfactory level considering its other income sources.

**f) Earning per Share**

EPS measures the per share profit availability to each equity shareholders in terms of rupees earned per share. It measures the profitability of NBL on per equity share basis. The ratio is computed by dividing the net profit after preference dividend by total number of equity shares.

$$\text{Earning per share} = \frac{\text{NP after tax \& pref. dividend}}{\text{No. of share outstanding}}$$

**Table 4.11**  
**Earning per Share**

Rs. In million

Fiscal Year	NP after tax and Pref. dividend	No. of share outstanding	Rs per share
2060/61	710.39	3.8	186.76
2061/62	1730.13	3.8	454.84
2062/63	1207.26	3.8	317.38
2063/64	226.95	3.8	59.66
2064/65	239.21	3.8	62.89

Source: Banking & Financial Statement NBL

From the above table it is clear that the EPS of NBL is at the highest side in previous year due to its high profit and low number of share outstanding. But the true picture is not same since its net profit is per year based and the profit is the profit which is without considering its past losses which is at the higher side and NBL is still covering up those losses till now. So one might be confused with EPS of NBL but it is just a mere calculation so to know the true picture one should take in account its accumulated losses and if that is done then NBL EPS might be very low or even at the negative side. The EPS shows the inefficiency in the management part since NBL is not able to generate positive EPS, if the past losses are considered in the above calculation. Thus it can be said that NBL EPS is at unsatisfactory level only due to its accumulated past losses which are not considered in the above calculation.

## **Activity Ratio**

The activity ratio helps in measuring the relationship between various activities and number of employees. It helps in measuring the efficiency of any organization in terms of its labor forces. The various activities are calculated and presented in terms of number of employees signifies the activity ratio of NBL. The various activity ratios which can be calculated are computed and presented in the following table which helps to measure the efficiency of NBL in terms of its number of employees.

**Table 4.12**  
**Employees Productivity Ratio**

Rs. In million

Fiscal Year	Deposit Collected	Loans and Advances	No. of Employees	Deposit per employee	Loans and Advances per employee
2060/61	35735.05	8881.82	3808	9.38	2.33
2061/62	35934.16	8218.91	2912	12.34	2.82
2062/63	35829.77	9756.16	2960	12.10	3.30
2063/64	39014.20	11058.48	3937	9.91	2.81
2064/65	41829.39	13251.96	2885	14.5	4.59

Source: Banking & Financial Statement NBL

From the above table it can be said that both deposit per employee and loans and advances per employee of NBL are at minimum satisfactory level. The deposit per employee is at increasing trend so do loans and advances. The deposit of NBL in most recent year is 14.5 million per employee which is the highest amount in past five years whereas the loans and advances of NBL in most recent year is 4.59 million which is also the highest amount in past five years. Considering these fact it can be said that NBL performance is at the increasing trend and NBL is enhancing its activities in both deposit collection and loan advancement through its largest pool of employee. NBL performance for activity ratio is improving in recent years. Therefore NBL activity ratio is at the satisfactory level but the bank has potentiality to increase this ratio

in both the sector of deposit and loan through its employee by enhancing their capabilities by launching some employees training and development programs.

### 4.3 Statistical Analysis

By the term statistical analysis the focus is on the application of various statistical tools to develop the relationship between various variables from profit and loss account, balance sheet, cash flow statement and other documents if necessary. It shows the quantitative aspects of various figures and tries to develop a relationship between these figures. The main tools that are used for statistical analysis are outlined below:-

#### **Correlation Coefficient**

Correlation coefficient helps to find out whether two variables are inter-correlated or not. Correlation coefficient helps to define relationship between these two variables. To be inter-correlated they should fall in between the correlated point. To find out correlation coefficient the most widely used application is Karl Pearson's Coefficient of Correlation which is calculated as under:

$$\text{Correlation Coefficient} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

#### **Probable Error**

Probable error helps in determining the reliability of the value of Pearson's coefficient of correlation. The process of measuring the reliability is, if 'r' is the calculated correlation coefficient in a sample of 'n' pairs of observation, then its standard error, usually denoted by S.E. is given by:

$$\text{S.E. (r)} = \frac{1 Z r^2}{\sqrt{n}}$$

Probable error of the coefficient of correlation can also be calculated from S.E. of the coefficient of correlation. Probable error can be calculated with the help of the following formula:

$$\text{Probable Error (P.E.)} = 0.6745 \mid \frac{1 Z r^2}{\sqrt{n}}$$

Where r= coefficient of correlation

n= no of observations

The probable error is used to test whether the calculated value of correlation is significant or not.

If  $r < 6 * \text{P.E.}(r)$ , then the value of r is not significant

If  $r > 6 * \text{P.E.}(r)$ , then the value of r is significant

The calculations of various mean, standard deviation, coefficient of variation, correlation coefficients and probable error between various variables have been shown under the following table:

**Table 4.13**  
**Summary of Various Calculations among Various Variables**

Particulars	Mean	Std. Deviation	C.V	r	P.E.	6 P.E.
Deposits	37668.52	37746.11	100.21%	-	-	-
Profit	822.79	1006.40	122.32%	-	-	-
Investment	14467.45	14598.60	100.91%	-	-	-
Loans and advances	10233.47	10387.73	101.51%	-	-	-
Between deposits and profit	-	-	-	0.7880	0.1140	0.6860
Between deposits and investment	-	-	-	0.9955	0.0003	0.0162
Between profit and loans and advances	-	-	-	0.7267	0.1423	0.8540
Between profit and total investment	-	-	-	0.7606	0.1271	0.7628

From the above table various analyses between variables can be done. Mean is the statistical constant which enables us to comprehend in a single effort of the whole. Mean represents the entire data by a single value. The various year data of various variables has been denoted by single value mean in the above table. Standard deviation represents the risk which is also summarized into single figure for various years in the above table along with C.V. “r” represents the correlation coefficient between various variables. The variables are correlated

when change in the value of one results in change in value of other variables. P.E. helps in measuring the reliability of the value of the coefficient and if the value of 'r' is less than the probable error then there is no evidence of correlation and if the value of 'r' is more than six times of the P.E. the coefficient of correlation is practically certain.

In the above table the coefficient of correlation between various variables are more than 0.70, maximum being 0.9955, which shows the degree of correlation between these variables. The correlations between the variables are high. There is high degree of positive correlation between deposits and investment and positive correlation between other variables shown by above table. The correlation coefficient is significant between deposit and profit. and deposit and investment whereas insignificant between profit and loans and advances and profit and total investment since correlation coefficient is more than 6 P.E in case of above two variable and correlation coefficient is less than 6 P.E in case of lower two variables. Thus it can be concluded stating that NBL have positive correlation between variables indicating that NBL are efficient in their operations.

#### **4.4 Deposit Analysis**

Deposits constitute one of the most important aspects of any commercial banks. Deposits are collected from customers and are mobilized by banks to earn profit for its survival. With the help of deposits, banks carry out its daily activities or overall activities. The banks collect deposits into various accounts as mentioned in chapter two. With the aid of these deposits a proper budget can be prepared to analyze the budgeting practice in deposit collection procedure. The following table shows deposit collected by NBL in various fiscal years along with that deposits analysis is further carried out in other tables and figures. The budgeted deposit amount and actual deposits amount of previous year are also presented below to show the bank's performance according to its budget:

**Table 4.14**  
**Growth of Deposits**

Rs. In million

Fiscal Year	Deposits	Growth	Percentage
2060/61	35735.05	-	-
2061/62	35934.16	199.11	0.56
2062/63	35829.77	(104.39)	(0.29)
2063/64	39014.20	3184.43	8.89
2064/65	41829.39	2815.19	7.21

Source: Banking & Financial Statement NBL

From the above table it is clear that the deposit of NBL is at increasing trend in terms of figure but the percentage growth of deposit of NBL is at unsatisfactory level. Even though the deposit of NBL is increasing every year but it is not quite able to collect deposit at higher level to make a percentage wise increment in deposit figure. The deposit increase slightly in 61/62 but fell down in next year and again in 63/64 it increased with a rapid pace but again in 64/65 it decreased compared to 63/64. With the increase in competition in recent years, other banks interest rates being higher compared to NBL and lack of innovative idea from management side to attract the depositor has caused the deposits to suffer. The amount figure though shows that it's increased but NBL should try to attract depositors in coming years by launching some schemes since its interest rate is very low. But in overall it can be said that though the deposit is fluctuating NBL has been able to collect deposit at a healthy percentage to advance loan to make profit for its survival.



**Table 4.15**  
**Budgeted and Actual Deposits**

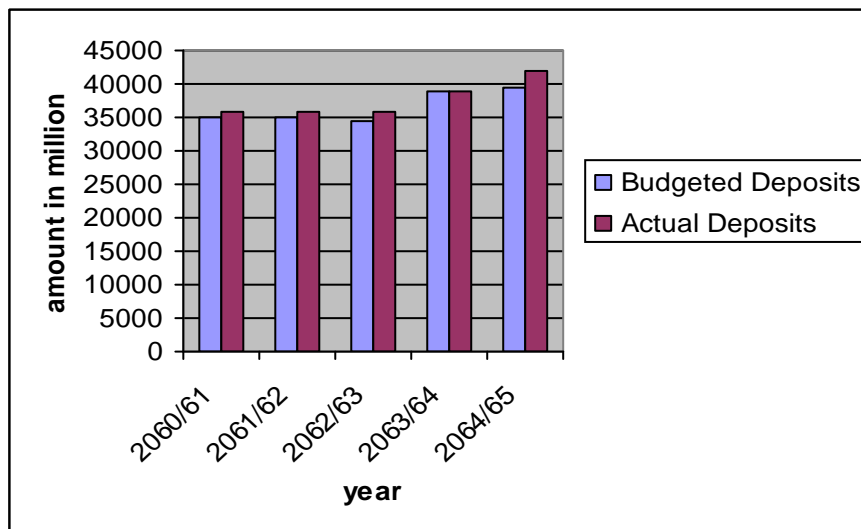
Rs. In million

Fiscal Year	Budgeted Deposits	Actual Deposits	Achievement
2060/61	34928.21	35735.05	102.31%
2061/62	35016.73	35934.16	102.62%
2062/63	34355.91	35829.77	104.29%
2063/64	38944.10	39014.20	100.18%
2064/65	39525.08	41829.39	105.83%

Source: Banking & Financial Statement NBL

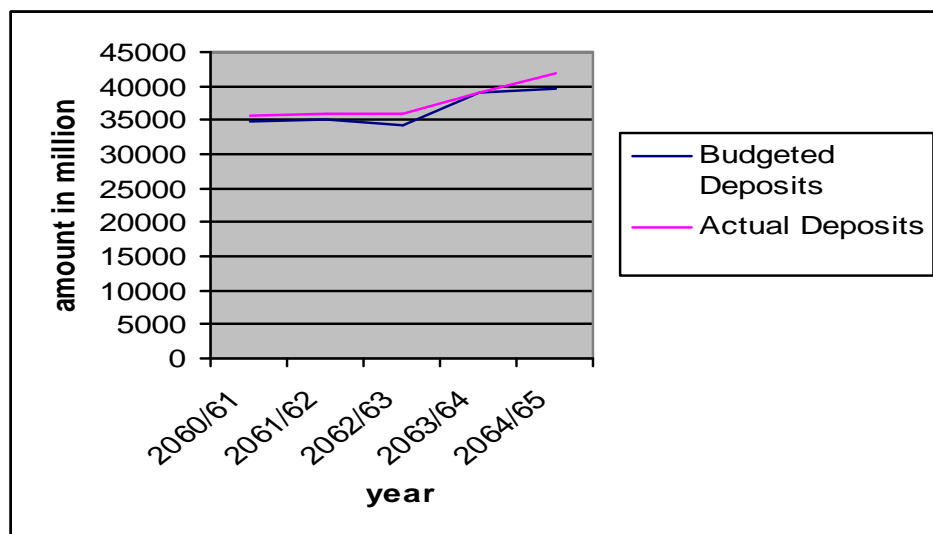
From the above table it is clear that NBL has achieved its objective of deposit collection to 100% every year. NBL budgeted deposit collection and actual deposit collection is only a little bit more than 100% being a maximum of 105.83%. The above data are presented in the following figures for analysis.

**Figure 4.6**  
**Budgeted and Actual Deposits on Bar Graph**



The above bar diagram shows the budgeted and actual deposit collected by NBL in five different years. The actual deposit is over the budgeted deposits suggesting that NBL has met its objective of deposit collection every year. It shows that actual deposit is more than 100% every year which is considered good for NBL. This can also be presented in following scatter diagram as follows.

**Figure 4.7**  
**Budgeted and Actual Deposits on Scatter Diagram**



The above scatter diagram shows that the actual deposit line is on the higher side compared to budgeted deposit line. This shows that NBL is able to meet its objective of deposit collection every year showing high level of achievement in deposit collection. But if the overall aspects of deposits are considered it can be said that management have prepared very optimistic budget to show its efficiency. The estimated budgeted figures are very low. Infact management is playing games with the stakeholder by underestimating the budgeted figure to show their better performance. Thus it can be said that deposit collected by NBL is at the minimum satisfactory level compared to what it has planned in advance and what the true picture is.

In the last part of deposit analysis let's focus on the composition of deposits. NBL deposits comprises of current account, saving account, fixed account as a main part and rest are combined together in others account heading. The composition of deposits and its percentage distribution are shown in the following table.

**Table 4.16**  
**Composition of Deposits of NBL**

Rs. In million

Fiscal Year	Current Account		Saving account		Fixed account		Other account		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2060/61	6164.29	17.25	21587.54	60.41	7318.54	20.48	664.68	1.86	35735.05	100
2061/62	5907.58	16.44	23443.45	65.24	6482.52	18.04	100.61	0.28	35934.16	100
2062/63	6123.31	17.09	23794.55	66.41	5851.00	16.33	60.91	0.17	35829.77	100
2063/64	6811.88	17.46	26627.19	68.25	5434.67	13.93	140.46	0.36	39014.20	100
2064/65	7868.11	18.81	28803.72	68.86	4802.01	11.48	355.55	0.85	41829.39	100

Source: Banking & Financial Statement NBL

From the above table it is clear that NBL deposit comprises mostly of saving account followed by current account and fixed account. Saving account occupies 68.86% of the total deposit collection of NBL in the year 2064/65. All the other deposits are consistent to some extent compared to previous years. The current deposit of around 17.5% can be considered good for NBL but the problem is with the percentage of fixed deposits. The fixed deposits percentage has been dropped down from 20% in the year 2060/61 to 11.48% in the year 2064/65. NBL should adopt various policies to increase the volume of fixed deposits so that it can increase its loans and advances to increase the net profit figure in the future. Thus it can be said that NBL composition of deposit is at a minimum satisfactory level with amount distributed to various accounts offered by NBL.

## 4.5 Loan and Advances Analysis

The term loan and advances are the sources of income for banks and financial institution. It is one of the major components of banking transaction which helps customers to get money in one hand and in other hand it helps in earning revenue to bank to increase profit in the near future. Loan signifies the quantity aspects of banks where money is dispersed by banks to earn profit. The various aspects of loan and advances analysis are presented in the following tables:

**Table 4.17**  
**Growth of Loans and Advances**

Rs. In million

Fiscal Year	Loans and Advances	Growth	Percentage
2060/61	8881.82	-	-
2061/62	8218.91	(662.91)	(7.46%)
2062/63	9756.16	1537.25	18.70%
2063/64	11058.48	1302.32	13.35%
2064/65	13251.96	2193.48	19.84%

Source: Banking & Financial Statement NBL

From the above table it is clear that the loans and advances of NBL are at increasing trend except in 61/62. The loan and advances made by NBL are increasing in figure wise and in percentage wise too. In recent year it is in increasing trend. Even though the loans and advances of NBL are increasing every year but it is not quite able to make loans to its customer according to the amount of deposit collected. The loans and advance decreased in 61/62 with negative figure but increase with 18.7% in 62/63, again decreased to 13.35% in 63/64, and again increased with 19.84% in 64/65 which is the highest percentage increase in loans and advances. The loans and advances are increasing in NBL because it has adopted liberal policy in advancing loan to its customers. Loans and advances are provided for on the basis of valuation of collateral by the engineers of NBL.

So the figure is in increasing trend. The fluctuation in loans and advances indicates inefficiency in the part of management for advancing loans and advances to its customers. But NBL has been able to advance loans to its customer at a healthy percentage to make profit for its survival.

**Table 4.18**  
**Budgeted and Actual Loans and Advances**

Rs. In million

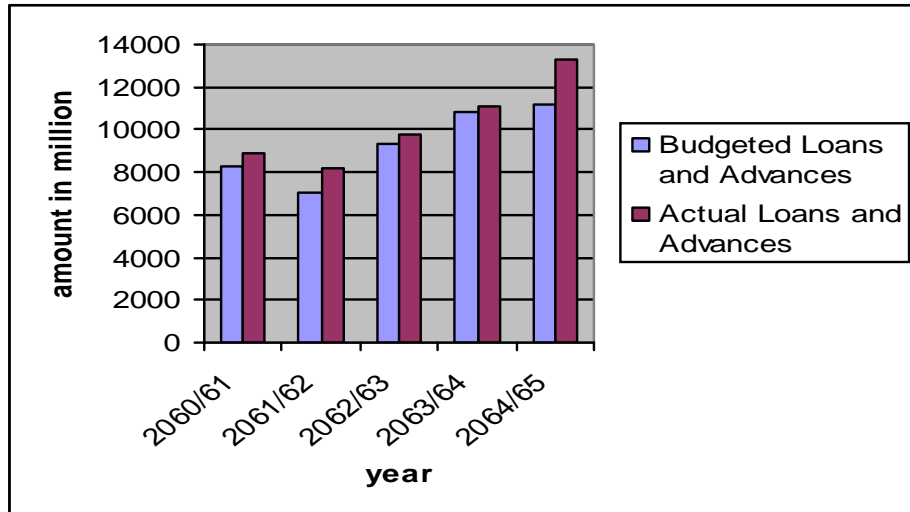
Fiscal Year	Budgeted Loans and Advances	Actual Loans and Advances	Achievement
2060/61	8246.05	8881.82	107.71%
2061/62	7055.46	8218.91	116.49%
2062/63	9320.88	9756.16	104.67%
2063/64	10789.37	11058.48	102.78%
2064/65	11200.10	13251.96	118.32%

Source: Banking & Financial Statement NBL

From the above table it is clear that NBL has achieved its objective of advancing loans and advances to its customer at above 100% every year. NBL budgeted loans and advances compared to actual loans and advances is a little bit more than 100% in 60/61 but it increased to 116.49% in 61/62 and again dropped down to 104.67% in 62/63 and again in the year 64/65 it reached to a maximum of 118.32%. The above data are presented in the following figures for analysis.

**Figure 4.8**

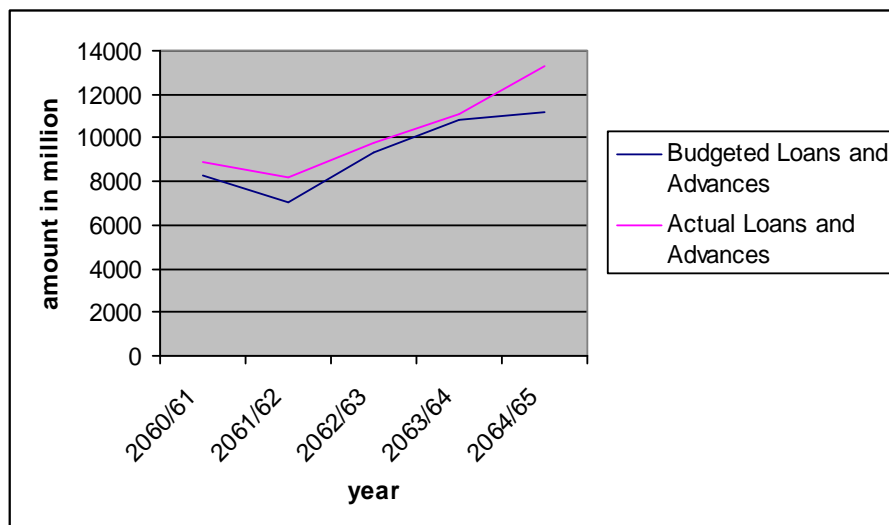
**Budgeted and Actual Loans and Advances on Bar Graph**



The above bar diagram shows the budgeted and actual loans and advances provided by NBL in five different years to its customers. The actual loans and advances are over the budgeted loans and advances suggesting that NBL has met its objective of advancing loans and advances every year. It shows that actual loans and advances is more than 100% every year which is considered good for NBL for generating income every year. This can also be presented in following scatter diagram as follows.

**Figure 4.9**

**Budgeted and Actual Loans and Advances on Scatter Diagram**



The above scatter diagram shows that the actual loans and advances line is on the higher side compared to budgeted loan and advances line. This shows that NBL is able to meet its objective of advancing loan every year. This shows high level of achievement of NBL in dispersing loan to its customer. But if the overall aspects of loans and advances are considered then it can be said that management have prepared very optimistic budget to show its efficiency. The estimated budgeted figures are very low. Infact management is playing games with the stakeholder by underestimating the budgeted figure to show their better performance. Thus it can be said that loans and advances provided by NBL is at the minimum satisfactory level compared to what it has planned in advance and what the true picture is.

In the last part of loans and advances analysis let's focus on the composition of loans and advances. NBL loans and advances can be summed up in four main components viz. Agriculture loans, Industrial loans, Service sector loans and finally Deprived sector loans. These components of loans and advances and its percentage distribution are shown in the following table.

**Table 4.19**  
**Composition of Loans and Advances of NBL**

Rs. In million

Fiscal Year	Agriculture sector Loans & Advances		Industrial sector Loans & Advances		Service sector Loans & Advances		Deprived sector Loans & Advances		Total Loans & Advances	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2060/61	2152.06	24.23	3709.05	41.76	2503.79	28.19	516.92	5.82	8881.82	100
2061/62	1761.31	21.43	3687.82	44.87	2303.76	28.03	466.02	5.67	8218.91	100
2062/63	1920.99	19.69	4238.08	43.44	3057.58	31.34	539.51	5.53	9756.16	100
2063/64	1465.25	13.25	5235.08	47.34	3775.37	34.14	582.78	5.27	11058.48	100
2064/65	1512.05	11.41	6382.14	48.16	4676.62	35.29	681.15	5.14	13251.96	100

Source: Banking & Financial Statement NBL

From the above table it is clear that NBL loans and advances comprises mostly of industrial sector loans followed by service sector loan and agriculture sector loans. NBL used to advance relative amount as loan for agriculture sector but in recent year it has decreased due to policy of loan disbursement in NBL and also due to increasing number of defaulters in agricultural loan sector. Since agriculture depends on nature and weather, and due to low fertility of agricultural land, the incapability of paying the loan amount is increasing for agricultural loan. Agriculture loans decreased from 24.23% in the year 2060/61 to 11.41% in the year 2064/65. The loan dispersed by NBL is mostly on industrial sector with 48.16% in the year 2064/65. NBL loans for industrial sector have been increasing along with service sector loans even though bad debts from these sectors are increasing. Theoretically the industrial sector loans has chances of recovery but in the context of Nepal, due to ineffective government policies and frequently happening strikes and lockouts has caused industrial sector to suffer. Due to which the bad debts are happening every now and then with these type of loans. Finally, NBL has provided loan to deprived sector as well at a consistent rate of 5% every year which is also align to NRB rules and regulation. Thus, after analyzing the loans and advances components it can be said that NBL loans and advances components are at the minimum satisfactory level.

## **4.6 Expenditure and Revenue Analysis**

The other important aspect of any commercial banks which directly affects its profit strategy is the items of expenditure and revenue. The item of expenditure and revenue plays an important role for any banks to affect its profit directly or indirectly. The bank has to perform various expenditures to maintain its everyday transaction in an efficient way. Along with that the bank also collects revenue everyday from various transactions. A proper budgeting practice in expenditure and revenue helps any bank to earn a high amount of profit. The expenditure and revenue of NBL is also categorized into various fields starting with the items where most of the expenditure is made and revenue is collected from towards the least expenditure items and least revenue collected items which can be categorized under other expenses and other income respectively. First of all let's discuss about the expenditure and then about the revenue of NBL. The expenditure items are categorized and discussed below:



## **Expenditure**

a) **Interest Expenses:** - The most important expenditure items of any banks are interest expenses. The bank pays interest into various deposits account with various rates. Customers deposit amount in banks, and in turn bank pays interest for the said deposit. The interest expenses budgeted and actual of previous year are presented in following table along with its analysis.

**Table 4.20**  
**Budgeted and Actual Interest Expenses**

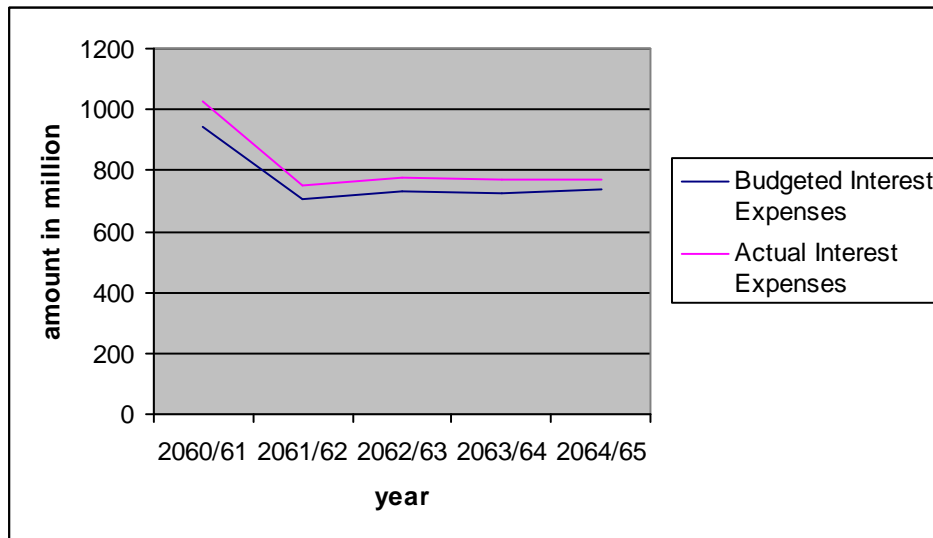
Rs. In million

Fiscal Year	Budgeted Interest Expenses	Actual Interest Expenses	Achievement
2060/61	943.71	1025.53	108.67%
2061/62	703.11	748.95	106.52%
2062/63	734.32	774.32	105.47%
2063/64	725.08	772.64	106.56%
2064/65	736.78	772.66	104.87%

Source: Banking & Financial Statement NBL

From the above table it is clear that the actual interest expenses are always greater than budgeted interest expenses which are unfavorable from NBL points of view. Interest expenses are dependent on deposit and since NBL actual deposits are higher than its budgeted deposit, it affects on interest expenses enhancing the amount of interest expenses. The actual expenses is around 108.67% in the year 60/61 but at present it is only around 104.87% showing NBL efficiency in planning of interest expenses. This can also be explained with the help of following scatter diagram.

**Figure 4.10**  
**Budgeted and Actual Interest Expenses on Scatter Diagram**



The above scatter diagram shows that the actual interest expenses line is on the higher side compared to budgeted interest expenses line. This shows that NBL planning in interest expenses is not efficient. But if analyzed from another point of view it can be considered good for NBL since it has been able to collect huge amount as deposit for making investment to earn profit. Even though its good for NBL the bank should plan efficiently its interest expenses amount to make align with its actual interest expenses. Thus it can be said that interest expenses made by NBL is at the minimum satisfactory level compared to what it has planned in advance in its budgeted figure even though its on the higher side.

b) **Staff Expenses:** - The other important expenditure items of any banks are staff expenses. NBL has one of the largest pools of staff. So staff expense is the most important expenditure items for NBL. The various expenditures paid to its staffs provide a good platform to study the budgeting practice in NBL. The budgeted and actual expenditure made for staff expenses are presented in the following table along with its analysis.

**Table 4.21**  
**Budgeted and Actual Staff Expenses**

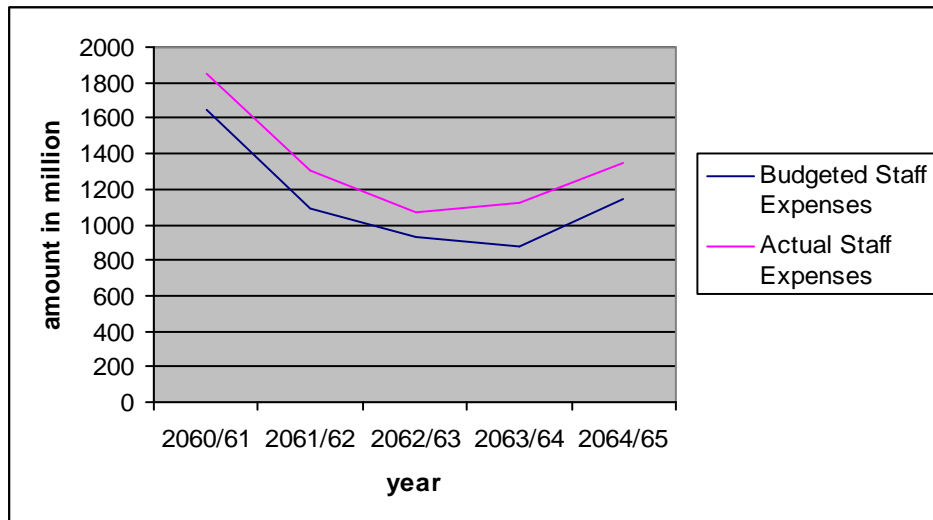
Rs. In million

Fiscal Year	Budgeted Staff Expenses	Actual Staff Expenses	Achievement
2060/61	1646.79	1848.85	112.27%
2061/62	1092.90	1305.25	119.43%
2062/63	932.27	1067.63	114.52%
2063/64	881.35	1125.22	127.67%
2064/65	1140.12	1346.82	118.13%

Source: Banking & Financial Statement NBL

From the above table it is clear that the actual staff expenses are always greater than budgeted staff expenses which are unfavorable from NBL point of view. Staff expenses are dependent on number of staff in one hand and in other hand various scheme of retirement payment adopted by NBL. Since NBL has the largest pool of staff its staff expenses are fluctuating every now and then to a greater extent. The actual expenses are around 112.27% in the year 60/61, and again it rose up to 119.43% in next year and again fell down in next year. So the trend of staff expenses is unpredictable for NBL where it reached to a maximum of 127.67% in 63/64, but at present it is around 118.13% showing that its staff expenses are still on the higher side. The main reason for these fluctuations is change in number of staffs of NBL. There were 3818 staffs in the year 60/61 compared to 2885 staff in 64/65 and 2937 in 63/64. This can also be explained with the help of following scatter diagram.

**Figure 4.11**  
**Budgeted and Actual Staff Expenses on Scatter Diagram**



The above scatter diagram shows that the actual staff expenses line is on the higher side compared to budgeted staff expenses line. This shows that NBL planning in staff expenses is not efficient. The actual staff expenses are always higher than what it had planned in budgeted staff expenses. Thus it can be said that staff expenses made by NBL is at the unsatisfactory level compared to what it has planned in advance in its budgeted figure.

c) **Other Expenses:** - Besides the above mentioned expenditure which constitute the most important part of expenditure of NBL all other expenses are summed together and categorized as other expenses. The bank has to pay for various other expenses for its smooth operation. The NBL also has to make various other payments to run its daily activities besides mention above. The budgeted and actual other expenses are presented in the following table along with its analysis.

**Table 4.22**  
**Budgeted and Actual Other Expenses**

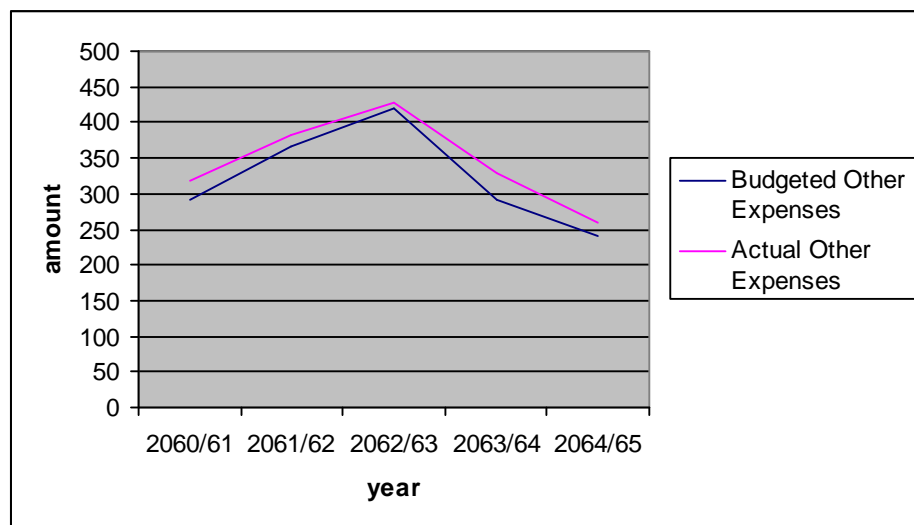
Rs. In million

Fiscal Year	Budgeted Other Expenses	Actual Other Expenses	Achievement
2060/61	291.65	317.58	108.89%
2061/62	366.02	382.71	104.56%
2062/63	418.52	428.65	102.42%
2063/64	292.53	329.59	112.67%
2064/65	240.04	259.79	108.23%

Source: Banking & Financial Statement NBL

From the above table it is clear that the actual other expenses are always greater than budgeted other expenses which are unfavorable from NBL point of view. Other expenses are mixture of various expenses which NBL tries to reduce every year since 62/63 because it was highest in the year before that. Still NBL other expenses are higher than what it has budgeted by 108.23% in the year 64/65, though the amount is on the lower side. This can also be explained with the help of following scatter diagram.

**Figure 4.12**  
**Budgeted and Actual Other Expenses on Scatter Diagram**



The above scatter diagram shows that the actual other expenses line is on the higher side compared to budgeted other expenses line. This shows that NBL planning in other expenses is not efficient. The actual other expenses are always higher than what it had planned in budgeted other expenses. Thus it can be said that other expenses made by NBL is at the unsatisfactory level compared to what it has planned in advance in its budgeted figure.

## **Revenue**

a) **Interest Income:** - The most important revenue items of any commercial banks or any other types of financial institution are interest income. The bank lends money in terms of loans and advances and charges interest at various rates for the said loan and advances amount. Customers willing to take loans have to fulfill various banking procedures and when the loan is granted to the customer, the customer has to pay interest for the loan amount which is the most important source of revenue for all the banks, so is the case with NBL. The interest incomes budgeted and actual of previous year are presented in following table along with its analysis.

**Table 4.23**  
**Budgeted and Actual Interest Income**

Rs. In million

Fiscal Year	Budgeted Interest Income	Actual Interest Income	Achievement
2060/61	1685.33	1825.04	108.29%
2061/62	1766.80	1987.12	112.47%
2062/63	1920.91	2049.03	106.67%
2063/64	1814.32	1848.61	101.89%
2064/65	1798.98	2094.91	116.45%

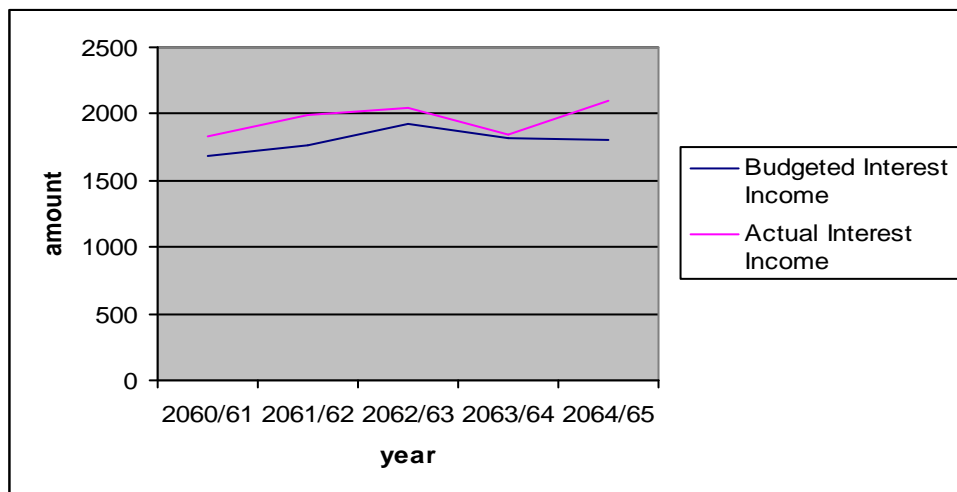
Source: Banking & Financial Statement NBL

From the above table it is clear that the actual interest incomes are always greater than budgeted interest incomes which are favorable from NBL point of view. Interest incomes are dependent on loans and advances made by NBL. Since NBL actual loans and advances are

higher than its budgeted loans and advances, it affects on interest income enhancing the amount of interest income. The actual income is only around 108.29% in the year 60/61 but at present it is around 116.45% showing its good performance in generating interest income. But on the other hand its efficiency in planning of interest income is not satisfactory since its actual interest income is always greater than budgeted amount. But still it is good for NBL for its profit enhancement. This can also be explained with the help of following scatter diagram.

**Figure 4.13**

**Budgeted and Actual Interest Income on Scatter Diagram**



The above scatter diagram shows that the actual interest income line is on the higher side compared to budgeted interest income line. This shows that NBL planning in interest income is not efficient. But according to the amount figure it is considered as efficient for NBL since NBL has been able to make huge amount as investment in loans and advances to earn more interest income. Even though it's good for NBL the bank should plan efficiently its interest income amount to make align with its actual interest income. Thus it can be said that interest income made by NBL is at the satisfactory level compared to what it has planned in advance in its budgeted figure.

b) **Commission and Discounts Income:** - The other important sources of revenue for banks are commission and discounts amounts for various services provided by banks. The NBL

charges different rates of commission and discounts for various types of facilities offered by the bank which is the good source of income for the bank. The budgeted and actual commission and discount income of NBL are presented in the following table along with its analysis.

**Table 4.24**  
**Budgeted and Actual Com. & Dis. Income**

Rs. In million

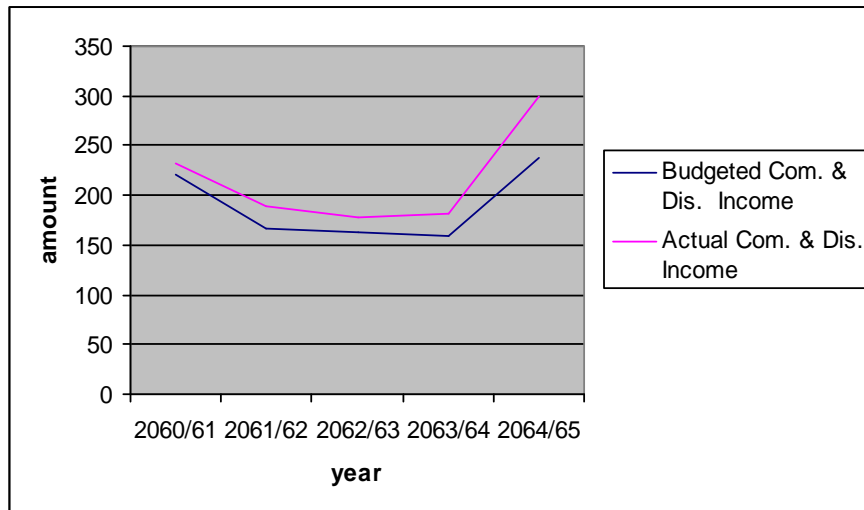
Fiscal Year	Budgeted Com. & Dis. Income	Actual Com. & Dis. Income	Achievement
2060/61	221.57	231.92	104.67%
2061/62	167.38	188.42	112.57%
2062/63	163.27	177.78	108.89%
2063/64	158.50	181.02	114.21%
2064/65	236.95	299.72	126.49%

Source: Banking & Financial Statement NBL

From the above table it is clear that the actual commission and discount incomes are always greater than budgeted commission and discount income which are favorable from NBL point of view. These incomes are dependent on various services offered by NBL and various other facilities provided by the bank, which are unpredictable. Therefore the amount is fluctuating so much between budgeted amount and actual income. It is around 104.67% in the year 60/61 towards 126.49% at present. Their performances in generating commission and discount incomes are good but not according to its budgeted figure. But it is considered good for NBL goodwill and profit enhancement. This can also be explained with the help of following scatter diagram.



**Figure 4.14**  
**Budgeted and Actual Com. & Dis. Income on Scatter Diagram**



The above scatter diagram shows that the actual commission and discount income line is on the higher side compared to budgeted commission and discount income line. This shows that NBL planning in commission and discount income is not efficient. Even though it is not efficient it is good for NBL performance in generating income and enhancing the profit. The actual commission and discount incomes are always higher than what it had planned in budgeted commission and discount income. Thus it can be said that commission and discount income earned by NBL is at the satisfactory level compared to what it has planned in advance in its budgeted figure even though it is on the higher side.

c) **Other Incomes:** - Besides the above mentioned revenue generating items the banks collect incomes from various sources to increase its volume of profit which are categorized under this heading. The NBL sources of other incomes from its daily activities besides mention above are aggregated and categorized under other income heading. The budgeted and actual other incomes are presented in the following table along with its analysis.

**Table 4.25**  
**Budgeted and Actual Other Income**

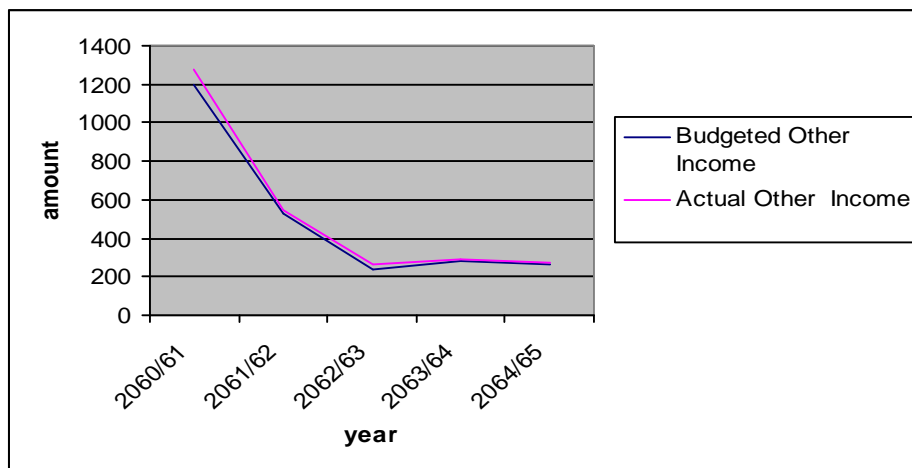
Rs. In million

Fiscal Year	Budgeted Other Income	Actual Other Income	Achievement
2060/61	1193.24	1278.80	107.17%
2061/62	532.42	544.29	102.23%
2062/63	238.63	262.18	109.87%
2063/64	278.54	287.65	103.27%
2064/65	264.89	276.84	104.51%

Source: Banking & Financial Statement NBL

From the above table it is clear that the actual other incomes are always greater than budgeted other incomes which are favorable from NBL point of view. Other incomes are mixture of various incomes which are collected by NBL. NBL tries to predict other income in an efficient manner by reducing and increasing its other income in various years. Still NBL other incomes are higher than what it has budgeted by a marginal figure of 104.51% in the year 64/65, which is good for NBL for its profit enhancement. This can also be explained with the help of following scatter diagram.

**Figure 4.15**  
**Budgeted and Actual Other Income on Scatter Diagram**



The above scatter diagram shows that the actual other income line is on the higher side compared to budgeted other income line. This shows that NBL planning in other income is not efficient but according to amount figure it is considered good for NBL. The actual other income are always higher than what it had planned in budgeted other income which from NBL point of view is good for its performance. Thus it can be said that other income collected by NBL is at the satisfactory level.

#### 4.7 Net Profit Analysis

Profit is the outcome of overall activities carried out by banks and financial institution. Profit in simple term is excess of revenue/income over expenditure. The net profit analysis is the most important analysis through which the factors enhancing the amount of profit and the factors that are hindering the profit to rise up are analyzed. Net profit analysis helps to determine these factors and to overcome these factors. The profit status of NBL in various years is presented in the following table along with its analysis. Some analysis has also been carried out in the above sub parts like in ratio analysis and statistical analysis too.

**Table 4.26**  
**Yearly Net Profits from Total Income and Total Expense**

Rs. In million

Fiscal Year	Total Incomes	Total Expenses	Net Profit	Change in Percentage
2060/61	3981.28	3270.89	710.39	-
2061/62	4171.29	2441.16	1730.13	143.53
2062/63	4325.54	3118.28	1207.26	(30.22)
2063/64	2603.76	2376.81	226.95	(81.20)
2064/65	2983.77	2744.56	239.21	5.40

Source: Banking & Financial Statement NBL

From the above table it is clear that the amount of net profit is comprised from total income and total expenses. The net profit of NBL is highly determined by differentiating these income

items with expenditure items. Net profit of 239.21 million is determined by differentiating total income with total expenses item in the year 2064/65 compared to 710.39 million in the year 2060/61. There is a huge change in percentage figure of net profit. Net profit percentage dropped down from positive 143.53% in the year 2061/62 to a negative of 30.22% in the following year and again in the year 2063/64 it reached to a negative 81.20% which is the lowest percentage figure decrement. But eventually net profit is improving with 5.40% in the year 2064/65. In one hand, the reason in the fall of net profit is due to adjustment of past losses in recent year more than compared to previous years and in other hand it is due to inefficiency of management to perform well to generate the greater amount of income as well as to reduce expenditure. But in recent year net profit figure is improving which shows positive percentage change. Thus, it can be said that NBL net profit is improving in recent years.

#### **4.8 Capital Structure Analysis**

Capital structure of NBL constitutes the other most important aspects of the bank. Capital is the source of investment of the banks. Capital are collected from various sources and termed as capital structure. Capital collection procedures of NBL to collect the needed fund to make the investment in various sectors provide a good platform to study about budget practice of NBL. The main source of capital structure includes:

- Share Capital including reserve and fund
- Debentures and Bonds
- Borrowings

These three items constitute the capital structure of NBL. The share capital of NBL is also further divided into various categories. The capital structure of NBL and its share ownership along with its % division are shown in the following tables and diagrams:

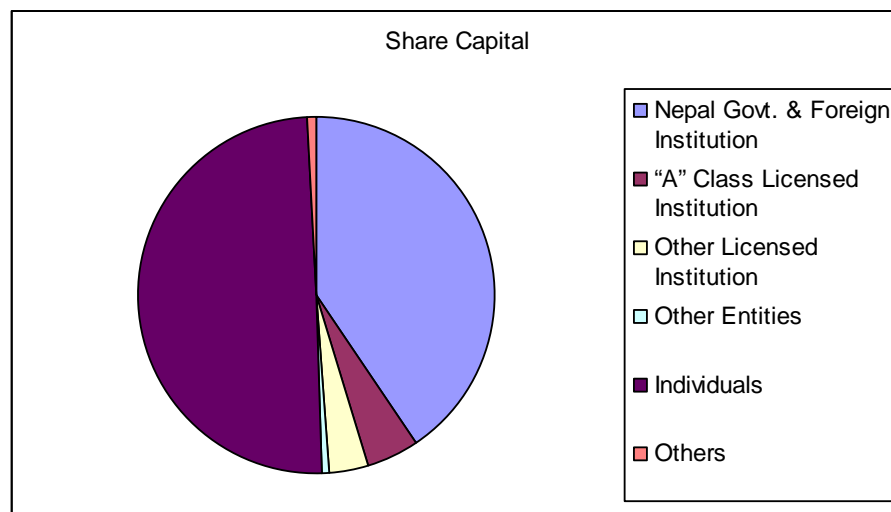
**Table 4.27**  
**Share Ownership**

Particulars	Percentage	Share Capital
Nepal Govt. & Foreign Institution	40.49	154032500
“A” Class Licensed Institution	4.92	18709300
Other Licensed Institution	3.43	13030200
Other Entities	0.52	1981500
Individuals	49.93	189941300
Others	0.71	2687800
Total	100	380382600

Source: [www.nepalbank.com.np](http://www.nepalbank.com.np)

From the above table it is clear that maximum number of share ownership of NBL lies with individual and Nepal government along with foreign institution. More than 90% of the share holding composition lies with these institution. This can also be explained with the help of following pie-chart.

**Figure 4.16**  
**Pie-chart of Share Ownership**



The above pie chart also explains about the share ownership of NBL with maximum area covered by individuals and Nepal Govt. with Foreign institution showing their dominance in ownership of share capital of NBL.

In the next part of capital structure analysis let's bring these capitals with borrowing and its percentage share for analysis in the upcoming table. Thus the following table explains about capital ownership of NBL in share capital and borrowing in five fiscal years.

**Table 4.28**  
**Capital Structure**

Rs. In million

Fiscal Year	Share Capital		Borrowings		Total	
	Amount	%	Amount	%	Amount	%
2060/61	380.3826	33.59	751.99	66.41	1132.37	100
2061/62	380.3826	23.37	1247.07	76.63	1627.45	100
2062/63	380.3826	18.13	1717.44	81.87	2097.82	100
2063/64	380.3826	19.16	1604.87	80.84	1985.25	100
2064/65	380.3826	17.29	1820.09	82.71	2200.47	100

Source: Banking & Financial Statement NBL

From the above table it can be said that the capital structure of NBL is mainly composed of share capital and borrowing. Borrowing occupies the most important place whereas share capital occupies small place and is same every year. The borrowing of NBL is increasing every year suggesting that NBL is borrowing huge amount to make investment and to advance loan to expand its operation which help in earning profit at a healthy rate for NBL.

## 4.9 Trend Analysis

The term trend analysis refers to process of making projection of futures years for various variables. It shows the behavior of various variables in series of time. (Fago, & Koirala, 2054) The trend analysis helps in forecasting of future numbers and figures that may be useful in managerial decisions. In other word it can be said that trend is the process of analyzing the data that are available with the management committee and later with the help of same data making a future projection of certain variables that are useful for enhancing the performance of any institution. Trend analysis is based on various assumption which helps in determining a predetermined figures, those assumption are outlined below:

- Other things being unchanged.
- Banks operation is same as now.
- The economic situation remains unchanged.
- Banking rules and regulation remains same.

Based on this, the trend line is computed as under:

$$Y = a + bx$$

Where,

Y= Dependent variables

a= Y- intercept, fixed component

b= slope of trend line or annual growth rate,

x= deviation from some convenient time periods.

So, following these rules the trend line of various variables are computed and presented in following tables and diagrams:

### **Trend of Deposits of NBL**

**Table 4.29**  
**Yearly Deposits and its Trend in Future Years**  
Rs. In million

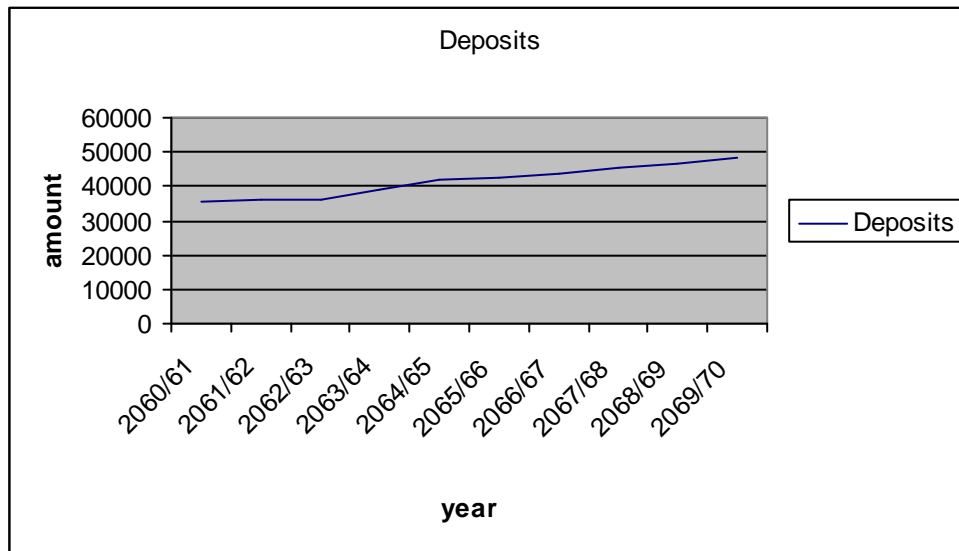
Fiscal Year	Deposits
2060/61	35735.05
2061/62	35934.16
2062/63	35829.77
2063/64	39014.20
2064/65	41829.39
2065/66	42249.13
2066/67	43775.99
2067/68	45302.87
2068/69	46829.74
2069/70	48356.61

Source: Banking & Financial Statement NBL & appendix III

The above table shows the trend of deposits collected by NBL. The bank has collected higher amount of deposits every year compared to pervious year. This signifies that NBL deposits trend is always increasing which shows the efficiency of NBL in collecting deposits from its customers. NBL is still not quite been able to collect huge amount of deposits simply because of its low interest rate provided to the customers. Management teams are also not been able to introduce various new schemes and offer to attract the potential customer. This has provided a great impact on the deposits growth. Deposits of NBL have not increased according to its potentiality instead only minor increments have been seen in deposits from the above calculations. This can also be explained with the help of following diagram.



**Figure 4.17**  
**Trend Line of Deposits**



From the above diagram, it is clear that the trend line of deposits of NBL is always increasing every year. The deposits curve is moving upward showing NBL performance in collecting deposits from its customers is improving. NBL deposits curve is moving upward at a slow pace which suggests that the bank has not been able to collect enough deposits. The potentiality of NBL is huge and if it can offer various facilities to its customers then it can surely attract large pool of customer which inturn will increase the volume of deposits of the bank. This will provide a good sign for NBL for its performance improvement. Various other banks are offering various facilities on the deposits account to attract the customer but NBL has not adopted any policies. So the bank should adopt a new and innovative policy to attract the customer to increase the volume of deposits. This will suggests that NBL will collect enough funds in the future to make further investment in the path of earning healthy amount of profit for its survival. Thus, it can be said that NBL is collecting minimum satisfactory amount of deposits every year.

### **Trend of Loans and Advances of NBL**

**Table 4.30**  
**Yearly Loans and Advances and its Trend in Future Years**

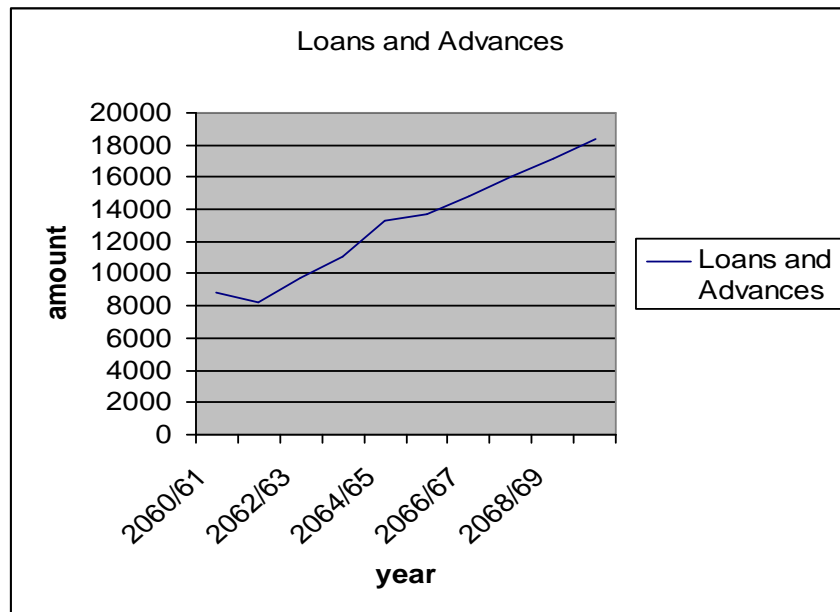
Rs. In million

Fiscal Year	Loans and Advances
2060/61	8881.82
2061/62	8218.91
2062/63	9756.16
2063/64	11058.48
2064/65	13251.96
2065/66	13707.44
2066/67	14865.43
2067/68	16023.42
2068/69	17181.41
2069/70	18339.40

Source: Banking & Financial Statement NBL & appendix III

The above table shows the trend of loans and advances dispersed by NBL. The bank has been able to float relative amount as loans and advances to its customer to satisfy their needs and wants. But still the bank has not been able to float as much amount as its loans and advances compared with the volume of deposits collected. The bank has been able to float only around 30% of the total deposits amount as loans and advances every year. But in recent years the trend is increasing which is a good sign for NBL. The new management committee along with new management techniques has surely contributed to the increment of loans and advances dispersed by the bank. So it can be said that loans and advances trend is improving in recent years which shows NBL performance in dispersing loans and advances is also improving. This can also be explained with the help of following diagram.

**Figure 4.18**  
**Trend Line of Loans and Advances**



From the above diagram, it is clear that the trend line of loans and advances of NBL is always increasing every year. The loans and advances curve is moving up ward showing NBL performance in floating loans and advances to its customers is improving. The curve even though is moving upward it can be said that NBL loans and advances amount figure has not been able to increase with a healthy rate. The past trend for advancing loans was not satisfactory but in recent year due to NBL new management committee the figure of loans and advances is increasing. This is a good sign for NBL in the road of success because with these amounts bank generates its income for its survival as well as will make higher amount of profit to show its position in the market. With the increment it can be said that the bank is in the path of success and in near future bank will perform well in respect of loans and advances. Thus, it can be said that NBL is advancing satisfactory amount of loans and advances in recent years.

### **Trend of Total Assets of NBL**

**Table 4.31**  
**Yearly Total Assets and its Trend in Future Years**

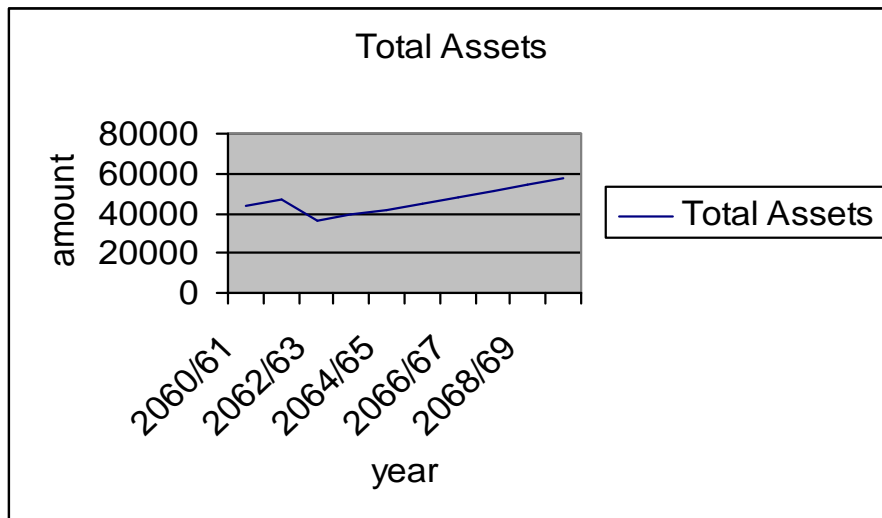
Rs. In million

Fiscal Year	Total Assets
2060/61	44164.88
2061/62	47045.15
2062/63	35918.91
2063/64	39258.79
2064/65	42053.44
2065/66	45211.59
2066/67	48278.86
2067/68	51346.13
2068/69	54413.40
2069/70	57480.67

Source: Banking & Financial Statement NBL & appendix III

The above table shows the trend of total assets of NBL. It is very difficult to calculate trend of total assets in NBL simply because it has huge amount of total assets in the year 2060/61 and 2061/62 which affect a lot in coming year trend calculation. If the whole data are considered for trend calculation then future trend will be decreasing which will not show the true picture. Thus to make a reliable calculation last three year base of total assets are taken to calculate its trend. Since new management committee and new management techniques are used in recent year this will provide a realistic value of trend for total assets. The bank has been able to increase its total assets in recent years. The amount figure has also increased at a healthy rate in recent few years. According to that trend it can be said that total asset of NBL is always increasing which shows NBL performance in its total assets is better compared to its deposits and loans and advances. This can also be explained with the help of following diagram.

**Figure 4.19**  
**Trend Line of Total Assets**



From the above diagram, it is clear that the total assets trend line of NBL is fluctuating in the previous few years. But in recent few years it is always increasing at a healthy rate. The total assets curve is moving up ward and downward in previous years but in recent years it is moving upward steadily showing NBL performance in its total assets is improving. This is a good sign for NBL since total assets are not fluctuating so much in recent year. Thus it helps in maintaining good position of NBL in the banking sector. Along with that NBL balance sheet also appears to be realistic and comparative every year. Thus, it can be said that NBL total assets are at satisfactory level in recent years.

#### **4.10 Balance Sheet Analysis**

The balance sheet of any company shows its financial position for the said financial year. The balance sheet comprises of capital and liabilities in one hand and in other hand it shows the assets position of NBL. Most of the items of balance sheet are comprised from various individual schedules and finally brought together to prepare the final balance sheet of NBL. The integral parts of balance sheet of NBL are prepared with the help of 17 schedules which are enlisted below:

- 1) Share capital
- 2) Reserve and fund
- 3) Debentures and Bonds
- 4) Borrowings
- 5) Deposits
- 6) Bills payable
- 7) Other Liabilities
- 8) Cash Balance
- 9) Balance with NRB
- 10) Balance with Banks/Financial Institution
- 11) Money at Call and Short Notice
- 12) Investments
- 13) Loan Advances and Bills Purchase
- 14) Fixed Assets
- 15) Non-Banking Assets
- 16) Other Assets
- 17) Contingent Liabilities

Besides the above mentioned main schedule, NBL balance sheet includes various other schedules like declaration of directors, statement of capital fund, statement of risk weighted assets, principal indicators, principal accounting policies, and various other notes to accounts. (Banking & Financial Statement NBL)

The balance sheet of previous five years has been provided in appendix I for review. When the balance sheet of NBL is analyzed it can be said that the banks position is satisfactory in previous years compared to recent years. There is consistency in most of the items in balance sheet of NBL. Its performance can also be considered efficient but the only problem with NBL is its past losses which appear to be 6388m in the year 2064/2065 which is in decreasing trend. NBL past losses appears to be 9394m in the year 2060/61 which NBL is still covering till today's date. Even though NBL is performing averagely in recent few years due to these past losses the NBL performance looks below average. The conclusion that can be drawn is that if

NBL is able to cover up its past losses it will definitely compete with one of the best banks of Nepal but when is the question, since it has huge amount, as its past losses. The only way for NBL to come as a competing bank and compete with rest of banks in Nepal is to enhance its profit and cover up those losses as soon as possible and when that is achieved, NBL will definitely be one of the leading banking institutions of Nepal.

#### **4.11 Profit and Loss & Profit and Loss Appropriation Analysis**

Profit and loss statement summarizes various revenue generating activities and expenses relating activities for a given period of time usually a fiscal year. Profit and loss statement of NBL helps in calculating net profit/loss for a year. The profit and loss statement of NBL is prepared with combination of various individual schedules which helps in finding out the profit/loss of NBL. The schedules that help in preparing the profit and loss statement of NBL are enlisted below:

- 1) Interest Income
- 2) Interest Expenses
- 3) Commission and Discount
- 4) Other Operating Income
- 5) Exchange Fluctuation Income/Loss
- 6) Staff Expenses
- 7) Other Overhead Expenses
- 8) Various Provisions
- 9) Non-Operating Income/Loss
- 10) Loan Loss Provision Written Back
- 11) Profit/Loss from Extra-Ordinary Activities

Besides these all other items that help in determining the profit and loss of NBL are included in profit and loss accounts which includes items like staff bonus provisions, tax provisions including deferred tax and other items.

The next part of profit and loss account is profit and loss appropriation account which helps in determining the accumulated profit/loss of NBL. It includes items like accumulated profit/loss up to last year, current year profit/loss, various funds viz. exchange equalization fund, institutional development fund, dividend equalization fund, staff related reserve fund, special reserve fund, capital adjustment fund, etc. Various reserve categorized as general reserve, contingent reserve, capital redemption reserve, etc, proposed dividend, proposed issue of bonus shares, etc are also included in profit and loss appropriation account. Thus, profit and loss appropriation account helps in determining total accumulated profit or loss of NBL up to the current year.

The profit and loss statement of previous five years has been provided in appendix II for review. When the profit and loss statement of NBL is analyzed it can be said that the banks position is satisfactory in previous years compared to recent years since it is able to generate profit in all previous year under review of this thesis. There is inconsistency in the amount of profit every year. NBL has managed to earn profit every year and has been able to provide bonus to its staff members. So NBL performance in case of profit can be considered efficient but the only problem with NBL is their past loss which has been discussed in balance sheet analysis too. The past losses appear to be 6388m in the year 2064/2065 which is still a problem for NBL in enhancing its position in the banking sector. But NBL is trying to eliminate these losses every year, this can be said so because its past losses appears to be 9394m in the year 2060/61 which NBL is still covering till today's date and it has reduced to 6388m in the year 2064/65. The conclusion that can be draw from its profit and losses and profit and loss appropriation account is that if NBL will keep on performing as it has done in previous few years, in near future NBL will boost up it place in banking sector of Nepal as being the leading bank in Nepal which is with its mission statement and one of the objective of NBL.

#### **4.12 Cash Flow Analysis**

Cash flow analysis helps in determining the cash and bank balance position of NBL at the end of any fiscal year. It shows the detail of various activities that took place in a year that directly or indirectly affects the cash and bank balance position of NBL. It helps in analyzing the past



performances, future potentiality of business, with the help of cash and bank balance available in NBL. Cash flow statement shows the availability, sources and uses of cash in various activities. The cash flow statement is prepared with the help of three main activities which are detailed below, along with that cash flow statement from 2060/61 to 2064/65 are presented for analysis:

- 1) Cash Flow from Operating Activities
- 2) Cash Flow from Investing Activities
- 3) Cash Flow from Financing Activities

**Table 4.32**  
**Cash Flow Statement of NBL**

S. No.	Particulars	Year end Asadh				
		2060/61	2061/62	2062/63	2063/64	2064/65
<b>A.</b>	<b>Cash Flow From Operating Activities</b>	<b>(470425883)</b>	<b>(839633875)</b>	<b>476528484</b>	<b>162814263</b>	<b>(782091053)</b>
	<b>1. Cash Receipts</b>	<b>2875890811</b>	<b>3769018193</b>	<b>4218259258</b>	<b>2613817989</b>	<b>2638671013</b>
	1.1 Interest Income	1825041421	1987119099	2049029774	1848611557	2094905989
	1.2 Commission and Discount Income	231915624	188420851	177784264	181018733	229723643
	1.3 Income from Foreign Exchange Transaction	71815011	17351238	18399543	22062973	18278728
	1.4 Recovery of loan written-off	645528469	-	-	236094956	179996994

1.5 Other Income	101590286	1576127005	1973045677	326028770	115765659
<b>2. Cash Payments</b>	<b>(3346316694)</b>	<b>(2471110962)</b>	<b>(2480028050)</b>	<b>(2029386326)</b>	<b>(2451159595)</b>
2.1 Interest Expenses	(1025532789)	(748952617)	(774324523)	(772644038)	(772657472)
2.2 Staff Expenses	(1862845817)	(1305249265)	(1067634221)	(723120826)	(1378271816)
2.3 Office Overhead Expenses	(457938088)	(416909080)	(513262359)	(292982456)	(300230307)
2.4 Income Tax Paid	-	-	-	-	-
2.5 Other Expenses	-	-	(124806947)	(240639006)	-
<b>Cash Flow Before Changes in Working Capital</b>	<b>(470425883)</b>	<b>1297907231</b>	<b>1738231208</b>	<b>584431663</b>	<b>187511418</b>
<b>Increase/(Decrease) of Current Assets</b>	<b>-</b>	<b>(2184769686)</b>	<b>(1496465043)</b>	<b>(3781390858)</b>	<b>(3469250321)</b>
1 Increase/(Decrease) in Money at Call and Short Notice	-	201994521	550000000	(200000000)	200000000
2 Increase/(Decrease) in Short-term Investments	-	(3194396853)	(291030684)	(1581932773)	(568575634)
3 Increase/(Decrease) in Loans and Bills Purchased	-	1071112753	(1537253138)	(1315065319)	(2299543370)

	4	-	(263480107)	(218181221)	(684392766)	(801131317)
	Increase/(Decrease) in Other Assets					
	<b>Increase/(Decrease) of Current Liabilities</b>	-	<b>47228580</b>	<b>234762319</b>	<b>3359773458</b>	<b>2499647850</b>
	1	-	199119218	(104398595)	3184439309	2815186704
	Increase/(Decrease) in Deposits					
	2	-	-	-	-	-
	Increase/(Decrease) in Certificate of Deposits					
	3	-	-	-	-	-
	Increase/(Decrease) in Short-term Borrowings					
	4	-	(151890638)	339160914	175334149	(315538854)
	Increase/(Decrease) in Other Liabilities					
<b>B.</b>	<b>Cash Flow From Investing Activities</b>	<b>(3519261166)</b>	<b>24927995</b>	<b>(35123002)</b>	<b>(38662470)</b>	<b>(34558804)</b>
	1	(2342669671)	-	-	-	-
	Increase/(Decrease) in Long-term Investments					

	2	1442879793	14870645	(39467379)	(49308268)	(35710041)
	Increase/(Decrease) in Fixed Assets					
	3 Income Interest from Long-term Investments	194668142	-	-	-	-
	4 Dividend Income	69797546	10057350	4344377	10645798	1151237
	5 Others	(2883936976)	-	-	-	-
<b>C.</b>	<b>Cash Flow From Financing Activities</b>	<b>3583373343</b>	<b>1247065374</b>	<b>470376786</b>	<b>(112573964)</b>	<b>215220671</b>
	1 Increase/(Decrease) in Long-term Borrowings	(52009936)	1247065374	470376786	(112573964)	215220671
	2 Increase/(Decrease) in Share Capital	721042983	-	-	-	-
	3 Increase/(Decrease) in Other Liabilities	(109884722)	-	-	-	-
	4 Increase/(Decrease) in Refinance/facilities received from NRB	3024225018	-	-	-	-

<b>D.</b>	<b>Income/(Loss) from changes in exchange rate in Cash and bank</b>	<b>-</b>	<b>(134092373)</b>	<b>102937817</b>	<b>(68342313)</b>	<b>101128689</b>
<b>E.</b>	<b>Current Year's Cash Flow from All Activities</b>	<b>(406313706)</b>	<b>298267121</b>	<b>1014720085</b>	<b>(56764484)</b>	<b>(500300497)</b>
<b>F.</b>	<b>Opening Balance of Cash and Bank Balances</b>	<b>1416545173</b>	<b>5861070362</b>	<b>6159337483</b>	<b>7174057568</b>	<b>7117293084</b>
<b>G.</b>	<b>Closing Balance of Cash and Bank Balances</b>	<b>1010231467</b>	<b>6159337483</b>	<b>7174057568</b>	<b>7117293084</b>	<b>6616992587</b>

### **Cash flow from Operating Activities**

Operating activities of NBL signifies the items that are mainly related with cash receipts, cash payments and working capital. The various activities that help in generating cash receipts includes interest income, Commission and discount income, foreign exchange income and various other income whereas cash payments includes interest expenses, staff expenses, overhead expenses, income tax, and various other expense. Besides these items cash flow from operating activities also comprises of working capital items that keeps on increasing or decreasing. Working capital here signifies items related with current assets and current liabilities like money at call, short-term investment/borrowings, loans and bills, deposits, etc.

NBL cash flows from operating activities are negative in most of the cases with a maximum negative of Rs. 839633875 in the year 2061/62. Then after NBL tries to improve its performance and was successful in generating positive cash flow from operating activities for next two years. Then after again in the year 2064/65 the cash flow became negative with a

negative figure of Rs. 782091053, which clearly shows the inefficiency in the part of management to keep up with the positive operating cash flow. Thus, it can be said that NBL cash flow from operating activities are at unsatisfactory level.

### **Cash flow from Investing Activities**

Investing activities are those activities which help in generating income for NBL or helps in performing activities in smooth and efficient way. Cash flow from investing activities of NBL comprises most of the items from long-term investment made by the bank. It also includes interest income related with those investments along with any other dividend income if any. Beside these items cash flow from investing activities includes one more items which form the crucial part of investing activities which is termed as fixed assets. It includes any changes made in fixed assets position of NBL.

NBL cash flows from investing activities are negative in most of the cases with a maximum negative of Rs. 3519261166 in the year 2060/61. Then after NBL tries to improve its performance and was successful in generating positive cash flow from investing activities for next year but again then after in all the years under review shows negative cash flow from investing activities. This clearly shows the inefficiency in the part of management to generate positive cash flow from investing activities. Thus, it can be said that NBL cash flow from investing activities are at unsatisfactory level.

### **Cash flow from Financing Activities**

The term financing activities are related with those activities with the help of which the bank generates cash and other incoming money. Cash flow from financing activities comprises various long-term borrowings made by NBL to generate money, position of changes in share capital, changes in the position of other liabilities, along with this it also includes refinance facilities received by NBL. Financing activities is the most important activity for NBL because it shows how cash and other monetary items are generated by NBL to make all the necessary expenses and investments.

NBL cash flows from financing activities are positive in almost all the cases except in the year 2063/64. This shows NBL is trying to improve its performance. There is a fluctuation in cash flow from financing activities in different years. This clearly shows the inefficiency in the part of management to generate consistent cash flow from financing activities. Thus, it can be said that NBL cash flow from financing activities are at minimum satisfactory level and is improving.

Finally if a thorough analysis of overall cash flow statement is made then it can be said that NBL cash flow statement is at unsatisfactory level since its overall cash flow from all activities are in decreasing trend. NBL is successful in generating positive cash flow from all activities only in the year 2061/62 and 2062/63. In the year before and later, the cash flow are at negative figure. The cash flow from all activities showing negative figure in recent two years clearly indicates the inefficiency in the part of management of NBL. The entire activities viz. operating, investing and financing should be reviewed properly by NBL management teams to enhance its cash flow and should try to generate positive cash flow if possible in future years to come. The conclusion that can be drawn from its cash flow statement in overall is that NBL should try to improve its cash flow statement and should try to generate positive cash flow every year to improve its performance in the upcoming future years.

#### **4.13 Cost Volume Profit (CVP) Analysis**

The inter-relation between cost volume and profit is known as cost volume profit analysis. It is an important tool used for profit planning in the business organization. The three components viz. cost, volume and profit are interconnected and dependent on one another. CVP analysis is great helpful in managerial decision making relating to cost, control and planning.

##### **Cost Volume Profit Analysis of Nepal Bank Limited**

Amount in million

Total Interest Income = Rs. 2094.91

Total Interest Expenses = Rs. 772.66

Total Other Income = Rs. 276.84

Total Other Expenses = Rs. 282.79

Average Yield on fund (AYoF) = 13.29%

Average CD ratio = 37.69%

Net Burden = Total other expenses- Total other income

= Rs. (282.79- 276.84)

= Rs.5.95

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

= Rs. (2094.91- 772.66)

= Rs. 1322.25

a) Moving further we can calculate BEP of NBL in terms of interest income as shown below:-

$$\text{BEP (\%)} = \frac{\text{NetBurden}}{\text{Spread}} | 100\%$$

$$= \frac{5.95}{1322.25} | 100\%$$

$$= 0.45\%$$

Thus, BEP in Rs. = Interest Income \* BEP %

$$= \text{Rs. } 2094.91 * 0.45$$

$$= \text{Rs. } 942.69$$

Therefore, Margin of safety = Total interest income – BEP income

$$= \text{Rs. } (2094.91- 942.69)$$

$$= \text{Rs. } 1152.22$$

b) BEP in terms of volume of LABP of NBL can be calculated as shown below:-

$$\text{BEP LABP} = \frac{\text{BEPInterestIncome}}{\text{AverageYoF}}$$

$$= \text{Rs. } \frac{942.69}{0.1329}$$

$$= \text{Rs. } 7093.23$$



c) BEP of NBL against the amount of deposits can be calculated as shown below:-

$$\begin{aligned}\text{BEP Deposit} &= \frac{\text{BEPLABP}}{\text{AverageCDRatio}} \\ &= \frac{7093.23}{0.36769} \\ &= \text{Rs. } 192914.33\end{aligned}$$

The analysis portrays the bank is in earning trend and will be in the path of increasing its volume of profit, if the bank will increase its revenue and decrease its burden in the future years to come.

#### **4.14 The Impacts of New Management Technique**

NBL management was taken over by NRB so that its performance could be improved in order to make NBL the competing bank in the field of banking sector in Nepal in the year 2062/63. It formed a management team to handle management for policy making and to improve service quality to its customer. The NRB takeover increased the loans floated by NBL along with that it brought various services offer for its customer to enhance the deposit of NBL. Along with that NBL adopted various policies to reduce the overstaffing problem by introducing various schemes like volunteer retirement system and encourage its staff to take retirement to reduce its number of staff. The focus of NRB was also to reduce the high volume of past losses. The responsibility was diversified to various branches along with their potentiality and investing opportunity.

To analyze the NBL budgetary practice it adopted a comprehensive budgetary system for a period of six month, which is termed as half yearly budget and prepared by various branches of NBL and complied by head office. This responsibility was handed over to corporate planning and marketing department in NBL to make further budget and focus on various aspects of budgeting in NBL. The department prepared budget and presented it to committee and board to get approval. When the approval is made by the board it is then handed over to the branches for

performing necessary action along with the budget. Thus it can be said that the budgetary system adopted by NBL is effective since it also monitors the allocated budget every quarterly whether it is according to planned activities or not and whether it has achieved its target according to its budget or not.

Every branch managers is authorized to make plans for their branches to improve its performance. After that proper activity plan is prepared and all the activities are performed according to that plan.

And overall participation is encouraged to improve planning process in NBL in various branches. The overall planning for NBL is done by the various teams and presented to a planning committee and then via. CEO appointed by NRB, it present the planning prepared by committee considering various factors into consideration in the board meeting for its approval to enhance the position of NBL in Nepalese banking sector.

#### **4.15 Analysis of Primary Data**

To collect the primary data related with budgeting practice of NBL, altogether 20 questionnaires were distributed. Out of total questionnaires, 16 were received back. The following are the compilation result from the questionnaires:

- 1) For question no. 1 which was related to does NBL practices PPC or comprehensive budgeting? The option was to answer in yes or no. Every respondent replied with yes.
- 2) For question no. 2 which was related to type of budgeting system introduced by NBL? The options were financial budgeting, programmed budgeting, zero based budgeting or others (specify). Every respondent replied with financial budgeting system.
- 3) For question no. 3 which was related to period covered by budgeting of NBL? The options were one year, six months, three months or others (specify). Every respondent replied with one year time period.
- 4) For question no. 4 which was related to responsibility for budgeting of NBL? The options were chief executive officer, dept. chief, financial chief or branches. Ten

respondents replied with branches and six respondents replied with chief executive officer.

- 5) For question no. 5 which was related to practicing participatory management for budgeting system of NBL? The option was to answer in yes or no. Every respondent replied with yes.
- 6) For question no. 6 which was related to performance controlling of NBL? The options were through inspection, supervision, monitoring through project report submitted by various branches or other (specify). Eight respondents replied with monitoring through project report submitted by various branches, six respondents replied through supervision and two respondents replied through monitoring.
- 7) For question no. 7 which was related to how effective is budgeting and control system of NBL? The options were effective, highly effective, non effective or need change. Nine respondents replied with need change, five replied with effective and two replied with non effective.
- 8) Finally for question no. 8 which was to provide any comments on any aspects of budgeting practice of NBL? None of the respondents wrote any comment regarding the budgeting practice of NBL.

A model of questionnaire is provided in appendix IV for review.

#### **4.16 Major Findings of the Study**

The major findings of this research study on budgetary practice in NBL are as follows:

- 1) The adequate current ratio is 2:1 for a firm but for banks and financial institution 1.3:1 can also be considered adequate since all the deposits are also included in the calculation. NBL has current ratio of 1.43:1 in the year 2064/65 and the trend is also around the banking average of 1.3:1, so it can be said that its liquidity position is consistent. Thus, NBL current ratio is at a satisfactory level.
- 2) The standard fix by NRB for all commercial banks for its cash & bank balance is at least 5% of its total deposit. NBL cash and bank balance is in the range of 16% to 20%

which shows the higher liquidity position maintained by NBL. Since the NBL cash and bank balance is high it shows that it has not made proper investment and had kept lots of ideal cash balances which show inefficiency of NBL in this regard. Thus, NBL cash and bank balance is at unsatisfactory level.

- 3) Since total share capital is considered as equity capital of NBL it shows high efficiency of NBL in its debt collection policy since its debt to equity ratio is around 11% in average. But if analyzed from all the points' consideration for debt to equity ratio, it can be said that NBL has adequate debt to equity ratio.
- 4) Total debt to total assets ratio of NBL is consistent throughout the study period of five years, which is around 12%. It signifies that total debt to total assets ratio of NBL is at satisfactory level.
- 5) NBL interest coverage ratio is dropping down in the recent years as it was in the year 2061/62. The main reason for that is its decreasing amount of net profit before interest and tax and increasing amount of interest expenses. Thus, NBL interest coverage ratio is at unsatisfactory level.
- 6) The profitability ratio of NBL is at the lower side compared to its potentiality. Its ROA is at lower side in recent years compared to what it used to be in previous years. ROE is also in decreasing side along with ROL&A due to decreasing profit.
- 7) NBL net profit to gross income is also at decreasing trend which is not a good sign for NBL. The ratio dropped down from 48.50 % in 2062/63 to 9.20% in 2064/65. Thus, it can be said that NBL net profit to gross income is at unsatisfactory level.
- 8) NBL profit is mainly based on its interest earning since most part of its income is occupied by interest income which is around 80%. NBL EPS is at the lower side due to its past performance and huge amount of past losses. Infact if past losses are considered NBL EPS will be negative. Thus, it can be said that EPS of NBL is at unsatisfactory level.
- 9) The activity ratio which measures the efficiency of its staff/employees forces suggest that its performance is at minimum satisfactory level compared to what it can achieve. Deposits per employees are at increasing trend so do loans and advances. Thus, it can be said that both deposits and loans and advances per employee of NBL are improving.

- 10) NBL has the largest pool of staff with 2885 staff still in the year 2064/65 which is causing a problem of overstaffing for NBL.
- 11) NBL one of the main drawbacks which is not portrait by its financial documents are its lack of co-ordination between departments, head office and branches. During this research study while going to various departments and meeting with various personnel it clearly revealed the lack of coordination in NBL and it was tuff for knowing any information about NBL.
- 12) The statistical analyses suggest that NBL values of various variables are at satisfactory level. The performance between variables can be considered adequate but not up to potentiality which is shown by various number figure in calculations. But still it can be said that NBL performance is improving.
- 13) The deposit of NBL is increasing every year but its percentage increment is not satisfactory. According to its budgeted deposits and actual deposit amount, it can be said that management has underestimated the budgeted figure to show its better performance. Infact NBL management committee has misled the stakeholders by showing their achievements intact with budgeted figure. Thus, it can be said that NBL deposits is at unsatisfactory level and its budgeted deposits are underestimated.
- 14) The deposits composition of NBL is also not satisfactory since its fixed deposits are at decreasing trend.
- 15) NBL performance in advancing loans and advances is in increasing trend but with low percentage. According to its budgeted and actual loans and advances it can be said that management has underestimated the budgeted figure to show its better performance. Infact NBL management committee has misled the stakeholders by showing their efficiency in dispersing loans and advances by achieving more than budgeted figure. Thus, it can be said that NBL loans and advances are at unsatisfactory level and its budgeted loans and advances figure are underestimated.
- 16) NBL loans and advances comprises of industrial sector loans as dominant portion. The bad debts for agricultural sector loan and industrial sector loans are increasing which is not a good sign for NBL performance.
- 17) The expenditure trend of NBL is increasing for all its expenditure items. Interest expenses and other expenses are increasing at lower rate but staff expenses are

increasing at higher rate suggesting NBL inefficiency in controlling its staff expenditure. All the actual expenditure is more than budgeted expenditure showing the inefficiency in planning of NBL. Thus, it can be said that NBL expenditures are at unsatisfactory level.

- 18) The income trends in recent year are also increasing which is good for NBL performance. Its interest income, commission and discount income and other incomes, all are at increasing trend which contributed in increasing volume of profit of NBL. All the actual incomes are more than budgeted income showing inefficiency in planning of income of NBL. Even though increasing income is good for NBL but still it can be said that the planning of income is underestimated by NBL.
- 19) The net profit of NBL is fluctuating most of the time. NBL has huge amount of profit in the year 2061/62 and 2062/63 compared to recent few years. This shows NBL inefficiency in generating profit in recent few years compared to previous years. But still it can be said that NBL net profit is improving in recent few years.
- 20) The capital structure of NBL is mainly based on share capital and borrowings. The share capital composition of NBL is dominated by individual and Nepal Govt. including foreign institution.
- 21) The trend analysis of NBL suggests that deposits of NBL are at increasing trend every year. The loans and advances of NBL are also at increasing trend with more and more investing opportunity for NBL in coming future years. Finally total assets are also at increasing trend. Thus, it can be said that NBL performance on all these aspects are improving.
- 22) The balance sheet analysis of NBL shows that its past losses are very huge and NBL is still trying to eliminate those past losses as soon as possible. Beside that all other items appearing in the balance sheet of NBL is at satisfactory level except the problem of bad loans. NBL has a problem of bad loans which shows inefficiency of NBL in collecting the loan installments.
- 23) The profit and loss analysis shows that the bank is able to generate profit every year under review of this thesis with a maximum of 1730 million rupees of profit in the year 2061/62 but due to its past losses which is still 6388 million rupees NBL is not able to

shows good financial documents. If past losses are kept aside then it can be said that NBL profit and loss statement is at satisfactory level.

- 24) The cash flow analysis shows that NBL cash flow is at unsatisfactory level. NBL cash flow from operating activities and investing activities are negative in most of the years under review. The financing activities are also not upto the potentiality of NBL. The overall cash flow from all activities is also on the negative side which is not good for NBL performance. Thus, it can be said that NBL cash flow statement shows in efficiency of management of NBL.
- 25) The CVP analysis shows that the bank is in the path of improvement and if NBL increases its revenue and decreases its expenditure, the profit will rise up. Then NBL would make a great impact in the banking sector in Nepal.
- 26) The impact of new management technique is trying to boost up the performance of NBL but still it is unpredictable to say when NBL will rise up and be the competing banks of Nepal to compete with rest of banks in Nepal and be the leading bank of Nepal.
- 27) The primary data reveals NBL practices PPC or comprehensive budgeting with financial budgeting system mostly covering a period of one year. CEO and branches are responsible for budgeting of NBL where participatory management is encouraged. The performances are controlled through supervision and project report submitted by various branches. Finally according to their employee overall budgeting and control system of NBL is effective to some extent but needs change with immediate effect.
- 28) The NBL is trying to satisfy the customers offering various facilities which include services of ABBS, SMS banking, ATM services, online services and etc. NBL has to perform at its utter best to become leading bank of Nepal.
- 29) Finally it can be concluded stating that the overall budgetary system of NBL is effective to some extent but needs change. NBL should improve its budgeting practice in future years to enhance its profit and compete among other banks and become leading bank in the banking sector of Nepal.

## **CHAPTER: 5**

### **SUMMARY, CONCLUSION & RECOMMENDATION**

#### **5.1 Summary**

Banks and financial institution plays an important role in the success and growth of any country. These institutions boost up the economy of any country and can take a country in the path of overall development. Among these institutions the role of commercial banks is very significant for the economic growth of the country. These institutions mobilize the unused, scattered and idle resources hold by various organizations and individuals towards the path of development. They act as a mediator between the lending party and using party of resources. These resources are then utilized in a productive sector for the overall development of the country. Banks act as a facilitator which helps in promoting trade among industries by providing loans to entrepreneur, generating employment opportunity for labor forces of the country to uplift the earning capacity of labor forces, promoting saving among individuals and organizations, which in holistic approach helps in the economic growth of the country. This process helps banks to earn for their survival and growth.

Every organization is established with a motive to earn profit so do banks and financial institutions. A profit making organization can only compete and survive in this competitive world. Profit making organization can better feed their employees, thereby enhancing the morale of the employees and motivate them for better performance towards achieving the objectives of any organizations. Profit almost fulfills all the objectives for any institutions or organizations. It satisfies the shareholders, stakeholders, money lenders, and various other parties related to the organization. Therefore, profit for commercial organizations has been defined as the life-blood for their existence. A commercial bank also, being a commercial institution, has to plan for reasonable profit every year to survive in the competitive world and to lead from the front to be in the path of economic growth of the country. Budgeting practice in short, is the planning of overall activities to be performed by any institutions in such a way that it helps in increasing the income or revenue at a minimum possible cost or at optimum



cost. This study has been performed with the aim of examining the Budgeting practice of NBL to enhance the profit of NBL and to uplift the position of NBL in the Nepalese banking sector and help NBL to compete among other banks in Nepal.

Nepal Bank Limited “The Pioneer Bank of Nepal” is a historical bank established in the year 1994BS. The bank has completed its 72 years of successful operation. NBL taught the meaning of banking in Nepal. NBL acted as central bank of Nepal until the establishment of NRB in the year 2013 BS. NBL was running smoothly but due to various circumstances NRB has to take over the management of NBL mainly because of its inefficiency in its performance and its huge amount of past losses. After that foreign management team was installed in NBL due to which NBL is eliminating all those past losses gradually every year and in near future those all losses will be wiped off and NBL will emerge as one of the leading bank in the banking sector of Nepal.

This research study has tried to cover the various aspects of Budgeting practice in NBL from 2060/61 to 2064/65 for a period of five years. The study is mainly based on secondary data provided by NBL and some primary information collected from the bank wherever necessary. This study has analyzed various aspects of budgeting practice implied by NBL and tried to improve the performance of NBL to run its activities smoothly and efficiently. The research study was organized in to five chapters which include introduction, review of literature, research methodology, presentation and analysis of data, and finally in the last segment summary, conclusion and recommendation. This study is mainly done with a view to uplift the performance of NBL in the path of success. The research work was carried out with an extensive review of various literatures, books, past thesis, journals and internet materials from relevant web sites to make it as practicable as possible. Various discussions were also carried out with various NBL staff to make this thesis reliable. The research work was all done and complied in a systematic way beginning with introduction on related terms in chapter one, followed by conceptual framework and review of past literature in chapter two, followed by research methodology in chapter three, then presenting and analysis of data into various tables and diagrams along with application of research methodology in chapter four and finally summary, conclusion and recommendations are provided in chapter five which is the current

chapter. This chapter also includes views and opinion made by the researcher by the study and analysis of this thesis to improve the performance of NBL, if needed in some areas.

## **5.2 Conclusion**

In the conclusion part it can be concluded that the existing performance of NBL is satisfactory in some aspects and unsatisfactory in many aspects. NBL has not achieved most of its budgeted target set for various activities. If also budgeted target are achieved the main reason behind that is the underestimation of budgeted figure to show management performance. Thus, budgeted activities are at unsatisfactory level for NBL since is not able to perform to its optimum level. But then also NBL is trying to improve its performance and trying to enhance its position in the banking sector of Nepal. Due to various factors NBL is not quite been able to stand up to its potentiality, still NBL is trying to live up to its standard and trying to improve its performance every now and then. NBL by adopting all the modern tools and technique is trying to become the leading bank in the banking sector of Nepal. Its overall performance is also improving in recent years due to these tools and techniques. Many aspects are still lacking in NBL to improve its position in the banking sector of Nepal, which can be enlisted below:

- Managing its various ratios
- Improving customer services
- Analyzing profit aspects
- Recouping its past losses
- Proper marketing of NBL
- Overstaffing solutions, and
- Proper trend analysis and projection

### 5.3 Recommendations

From the above analysis and research work carried out on Budgeting Practice of NBL researcher suggest the following suggestions and recommendations for the purpose of increasing profit and enhancing the position of NBL in the Nepalese banking sector.

- 1) The ratio analysis should be carried out properly and a reasonable standard should be maintained. Liquidity ratio, capital structure ratio, should be maintained at a minimum level by investing the ideal cash retained by NBL. Profitability ratio and activity ratio should be enhanced by generating more profit. NBL should try to achieve set standard and if possible review the set standard of ratio for all the ratios like liquidity ratio, capital structure ratio, profitability ratio and activity ratio for improving the performance.
- 2) The relations between variables computed in statistical analysis should also be increased by increasing the values of various variables wherever necessary and try to make every correlation coefficient between variable positive, if possible. This will inturn help NBL to improve its overall performance.
- 3) The budgeted figure of deposit should be reviewed. Management should set a reasonable budget for deposit and focus on achieving those set standard rather than setting low standard and showing their performance by achieving the set standard. It is recommended that whole deposits should be reviewed with immediate effect to improve the performance of NBL. NBL should also seek the ways of increasing fixed deposits by introducing various schemes to attract the potential customers.
- 4) The volume of loans and advances dispersed by NBL should also be increased to increase its revenue. The budgeted figure for loans and advances should be reviewed and a reasonable standard should be set. Management should focus on enhancing the performance rather than showing their efficiency by setting lower standard for loans and advances.
- 5) Various techniques should be adopted by NBL to collect bad debts. NBL bad debts are mounting huge so with immediate effect NBL should adopt various techniques to collect those bad debts as soon as possible.

- 6) Expenditure of NBL is always beyond budgeted figure, so NBL should try to cut down its expenditure with best possible way. NBL expenditure is huge so with immediate effect expenditure should be reduced.
- 7) Revenue generating items for NBL should be increased to enhance the volume of profit. Since revenue is always beyond the budgeted figure it shows that NBL has made very optimistic budget in revenue to show its better performance. Therefore its budgeted figure for revenue should be reviewed and a realistic and calculative revenue budget should be made. Revenue generating activities should be increase to increase the total income of NBL.
- 8) The volume of net profit should be increased by focusing on above mentioned items. Income generating ways should be looked for along with ways of reducing expenditure for NBL to enhance the profit.
- 9) NBL should try to increase its borrowing capital to some extent if possible since its borrowing capital expenses are at lower side compared to its deposit capital expenses.
- 10) With immediate effects the ways of providing benefits for customers to increase the deposits should be adopted by NBL. Along with that the technique to float loans and advances in the market at a reasonable rate should also be adopted to enhance the investing opportunity for the bank. This will in turn help profit to increase. The overall effect will be increase in the efficiency of NBL.
- 11) NBL should adopt a proper practice of writing of its past losses since its past losses are huge in volume. It can either use fixed installment method or proportion of profit method to write off its past losses rather than writing it off haphazardly. This will help in making its financial document strong and also shows the effectiveness of management committee of NBL.
- 12) The balance sheet items along with profit and loss statement items should be analyzed properly. Unnecessary or fluctuating items should be reviewed and eliminated if possible.
- 13) NBL should focus on cash generating activities more and try to eliminate cash outflow activities to minimum level possible. This will help its cash flow statement to be positive and also shows effectiveness of management committee in generating cash flows.

- 14) NBL should increase its CVP to become the leading bank in the banking sector of Nepal. It should reduce its cost and focus on increasing the volume of profit.
- 15) New management technique should focus mainly on aspects like eliminating past losses of NBL. Along with that it should focus on increasing revenue generating items and decreasing expenditure items to improve its goodwill in the market and enhancing its position in the banking sector of Nepal.
- 16) NBL should follow various collective procedure and proper mathematical calculation for the purpose of formulation of strategic plan so that it can follow those plans into action for its overall development, with immediate effect
- 17) According to NRB directives all the commercial banks should increase the share capital up to 2000m rupees by the year 2070 BS, so NBL has to increase its capital by declaration of right share or issue of bonus share or issue of new share which might be a good source of amount for the bank to make further investment in profit generating activities.
- 18) NBL should also adopt more customer services facilities to its customers and should try to satisfy its customer to the best possible way to increase overall activities. This in turn will attract more customers for NBL.
- 19) With immediate effect NBL should try to reduce the number of staff to an optimum number according to its need through review. It is clear from the above analysis that the bank has a problem of overstaffing. If this is controlled NBL profit will be enhanced and efficiency in work would be achieved.
- 20) Then after those labor forces (employees) of NBL should be developed by conducting various skill development programmes to enhance the employee's productivity. Performance based evaluation system should be enforced to encourage its labor forces to uplift their potentialities.
- 21) NBL bad loans are a major problem, so aggressive policy should be adopted to recover those bad loans.
- 22) One of the main problems of NBL is lack of co-ordination between departments, head office and branches of NBL, so NBL with immediate effect should adopt a proper technique to coordinate between various departments, head office and branches.

- 23) In the prime market areas where the customers flow is more, NBL should provide 365 days banking services with uninterrupted ATM services, which will add to the goodwill of the bank along with some profit for the bank. This will also help in increasing the number of customers for NBL.
- 24) Various decisions of management are biased in NBL. Management is provided with undue pressure from various internal and external forces in making various decisions for the overall performance enhancement of NBL. With immediate effect this should be eliminated and independent decision making power should be bestowed to NBL management committee to increase the efficiency and performance of NBL.
- 25) Finally, Nepal accession to WTO, political uncertainty, the global economic crisis may affect banking sector of Nepal, so with immediate effect NBL should make some policies to be safe from these factors. NBL along with that should try to compete successfully if these factors affect the banking sector to emerge out as a successful bank in the banking sector of Nepal.

With the above mentioned summary, conclusion and recommendations the research study is concluded.

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**APPENDIX- I**  
**Balance Sheet of NBL**

**Year end Asadh**

		<b>2060/61</b>	<b>2061/62</b>	<b>2062/63</b>	<b>2063/64</b>	<b>2064/65</b>
<b>S. No.</b>	<b>Capital and Liabilities</b>					
1	Share Capital	380382600	380382600	380382600	380382600	380382600
2	Reserve and Fund	(9394908491)	(7805928489)	(6681838285)	(6627898343)	(6388684333)
3	Debentures and Bonds	-	-	-	-	-
4	Borrowings	-	1247065374	1717442160	1604868196	1820088867
5	Deposits	35735044427	35934163645	35829765050	39014204359	41829391063
6	Bills Payables	31426635	417787856	100984226	60726059	52342562
7	Proposed and Dividend Payable	-	-	1115686	2083097	2067637
8	Income Tax Liabilities	-	-	-	-	-
9	Other Liabilities	17409934863	16871683005	4571053671	4824427537	4357855914
	<b>Total Capital and Liabilities</b>	<b>44161880034</b>	<b>47045153991</b>	<b>35918905108</b>	<b>39258793505</b>	<b>42053444310</b>
<b>S. No.</b>	<b>Assets</b>					
1	Cash Balance	1010231467	1069613535	1110953183	1086066645	1181792413
2	Balance with NRB	4850838895	5089723948	5353964032	5224859643	4430641018
3	Balance with	-	-	709140353	806366796	1004559156

	Banks/Financial Institution					
4	Money at Call and Short Notice	751994521	550000000	-	200000000	-
5	Investment	11004819571	14199216424	14490247108	16072179882	16570755516
6	Loans Advances and Bills Purchase	8881823323	8218909609	9756162747	11058477657	13251962768
7	Fixed Assets	195046508	187084618	191705831	205768252	207527502
8	Non-Banking Assets	-	-	-	-	-
9	Other Assets	17467125749	17730605857	4306731854	4605074620	5406205937
<b>Total Assets</b>		<b>44161880034</b>	<b>47045153991</b>	<b>35918905108</b>	<b>39258793505</b>	<b>42053444310</b>

## APPENDIX- II

### Profit and loss account of NBL

Year end Asadh

		2060/61	2061/62	2062/63	2063/64	2064/65
S. No.	Particulars					
1	Interest Income	1825041421	1987119099	2049029774	1848611557	2094905989
2	Interest Expenses	1025532789	748952617	774324523	772644038	772657472
	<b>Net Interest Income</b>	<b>799508632</b>	<b>1238166482</b>	<b>1274705251</b>	<b>1075967519</b>	<b>1322248517</b>
3	Commission and Discount	231915624	188420851	177784264	181019733	229723643
4	Other Operating Income	1206984253	542924170	140842495	287647712	157431924
5	Exchange Fluctuating Income	71815011	1368797	121337360	-	119407417
	<b>Total Operating Income</b>	<b>2310223520</b>	<b>1970880300</b>	<b>1714669370</b>	<b>1544634964</b>	<b>1828811501</b>
6	Staff Expenses	1848845817	1305249265	1067634221	1125224496	1346823561
7	Other Overhead Expenses	317581905	382710559	548108525	329590763	259785526
8	Exchange Fluctuation Loss	-	-	-	46279340	-
	<b>Operating Profit Before Provision For Possible Loss</b>	<b>143795798</b>	<b>282920476</b>	<b>98926624</b>	<b>43540365</b>	<b>222202414</b>
9	Provision For Possible Loss	500	4250000	607482837	80376445	258572259
	<b>Operating Profit</b>	<b>143795298</b>	<b>278670476</b>	<b>(508556213)</b>	<b>(36836080)</b>	<b>(36369845)</b>
10	Non-Operating Income/Loss	645528469	1451459224	22905189	50389326	67941907
11	Loan Loss Provision Written Back	-	-	1813642370	-	134361753
	<b>Profit from Regular activities</b>	<b>789323767</b>	<b>1730129700</b>	<b>1327991346</b>	<b>13553246</b>	<b>165933815</b>
12	Profit/Loss from Extra-	-	-	-	236094956	179996994

	Ordinary Activities					
<b>Net Profit after Considering all Activities</b>		<b>789323767</b>	<b>1730129700</b>	<b>1327991346</b>	<b>249648202</b>	<b>345930809</b>
13	Staff Bonus Provision	78932377	-	120726486	22695291	31448255
14	Tax Provision (Including Deferred Tax)	-	-	-	-	75268544
<b>Net Profit/Loss</b>		<b>710391390</b>	<b>1730129700</b>	<b>1207264860</b>	<b>226952911</b>	<b>239214010</b>

## APPENDIX- III

### Calculations

Calculation of Mean, Std. deviation, CV, Correlation (r), P.E. and trend of variables.

Rs. In million

<b>Fiscal Year</b>	<b>Deposits(A)</b>	<b>Profit(B)</b>	<b>Investment(C)</b>	<b>Loans and Advances (D)</b>	<b>Total Investment (E)</b>
2060/61	35735.05	710.39	11004.82	8881.82	19886.64
2061/62	35934.16	1730.13	14199.22	8218.91	22418.13
2062/63	35829.77	1207.26	14490.25	9756.16	24246.41
2063/64	39014.2	226.95	16072.18	11058.48	27130.66
2064/65	41829.39	239.21	16570.76	13251.96	29822.72
<b>Total</b>	<b>A=188342.6</b>	<b>B=4113.94</b>	<b>C=72337.23</b>	<b>D=51167.33</b>	<b>E= 123504.6</b>

Rs. In million

<b>Fiscal Year</b>	<b>A<sup>2</sup></b>	<b>B<sup>2</sup></b>	<b>C<sup>2</sup></b>	<b>D<sup>2</sup></b>	<b>E<sup>2</sup></b>
2060/61	1276993799	504654	121106063	78886727	395478450
2061/62	1291263855	2993350	201617849	67550482	502572553
2062/63	1283772418	1457477	209967345	95182658	587888398
2063/64	1522107802	51506.3	258314970	122289980	736072712
2064/65	1749697868	57221.42	274590087	175614444	889394628
<b>Total</b>	<b>A<sup>2</sup>=7123835741</b>	<b>B<sup>2</sup>=5064208</b>	<b>C<sup>2</sup>=1065596314</b>	<b>D<sup>2</sup>=539524290</b>	<b>E<sup>2</sup>=3111406741</b>



Rs. In million

<b>Fiscal Year</b>	<b>AB</b>	<b>AC</b>	<b>BD</b>	<b>BE</b>
2060/61	25385822.17	393257793	6309556.1	14127270
2061/62	62170768.24	510237043	14219783	38786279
2062/63	43255848.13	519182325	11778222	29271721
2063/64	8854272.69	627043245	2509722	6157303
2064/65	10006008.38	693144783	3170001.4	7133893
<b>Total</b>	<b>AB=149672719.6</b>	<b>AC=2742865189</b>	<b>BD=37987284</b>	<b>BE=95476467</b>

Rs. In million

<b>Fiscal Year (f/y)</b>	<b>Z=f/y- 2062/63</b>	<b>Z<sup>2</sup></b>	<b>ZA</b>	<b>ZD</b>	<b>Total Assets( K)</b>	<b>ZK</b>
2060/61	-2	4	-71470.1	-17763.64	-	-
2061/62	-1	1	-35934.16	-8218.91	-	-
2062/63	0	0	0	0	35918.91	-35918.91
2063/64	1	1	39014.2	11058.48	39258.79	0
2064/65	2	4	83658.78	26503.92	42053.44	42053.44
<b>Total</b>	<b>Z=0</b>	<b>Z<sup>2</sup>=10</b>	<b>ZA=1526.872</b>	<b>ZD=11579.85</b>	<b>K=117231.14</b>	<b>ZK= 6134.53</b>

### **Calculation of Mean (Rs. In million)**

Mean =  $\frac{\text{Respective Total}}{n}$

n

Here, n = 5

Mean of A =  $\frac{188342.6}{5}$

5

Mean of A = 37668.52

Mean of B = 822.79

Mean of C = 14467.45

Mean of D = 10233.47

Mean of K = 39077.05

### **Calculation of Std. Deviation (Rs. In million)**

Std. Deviation =  $\frac{\sqrt{\text{Respective values}^2 \text{ total}}}{n}$

n

Std. Deviation A = 37746.11

Std. Deviation B = 1006.40

Std. Deviation C = 14598.60

Std. Deviation D = 10387.73

### **Calculation of CV**

CV =  $\frac{\text{Std. deviation of Respective Values}}{\text{Mean of Respective Values}} \times 100$

Mean of Respective Values

CV of A =  $\frac{37746.11}{37668.52} \times 100$

37668.52

CV of A = 100.21%

CV of B = 122.32%

CV of C = 100.91%

CV of D = 101.51%

### **Calculation of Correlation (r)**

Correlation(r) = between two variables into consideration multiplied with each other  
n Std. Deviation of two variables separately

$$r \text{ (Between deposits and profit)} = \frac{149672719.6}{5 \times 37746.11 \times 1006.40}$$

$$r \text{ (Between deposits and profit)} = 0.7880$$

$$r \text{ (Between deposits and investment)} = 0.9955$$

$$r \text{ (Between profit and loans and advances)} = 0.7267$$

$$r \text{ (Between profit and total investment)} = 0.7606$$

### **Calculation of Probable Error (P.E)**

$$P.E = \frac{1 - r^2}{n} \times 0.6745$$

$$P.E. \text{ (Between deposits and profit)} = \frac{1 - 0.7880^2}{5} \times 0.6745$$

$$P.E. \text{ (Between deposits and profit)} = 0.1140$$

$$P.E. \text{ (Between deposits and investment)} = 0.0003$$

$$P.E. \text{ (Between profit and total investment)} = 0.1423$$

$$P.E. \text{ (Between profit and total investment)} = 0.1271$$

### Calculation of Trend (Rs. In million)

$$Y = a + bz$$

Here, Y= dependent variables taken into consideration

a = Fixed value, normally mean value of variables into consideration

$$b = \text{Calculated value} = \frac{\text{of variables multiplied with } Z}{\sum Z^2}$$

z = year to be predicted – 2062/63

Trend line of Deposits,  $Y = 37668.52 + 152.687 \times Z$

Trend line of Loans and Advances,  $Y = 10233.47 + 1157.985 \times Z$

Trend line of Total Assets,  $Y = 39077.05 + 3067.27 \times Z$

## **APPENDIX- IV**

### **Questionnaire**

#### **[Presented to NBL Staffs]**

This Questionnaire is designed to avail the information relating to budgeting practice of NBL dissertation required to the MBS course to be submitted to Tribhuvan University. The information provided here will be kept secret. I would be very much grateful for your kind co-operation for the said matters.

1. Does NBL practice PPC or comprehensive budgeting?
  - a. Yes
  - b. No
  
2. What type of Budgeting system NBL have introduced?
  - a. Financial Budgeting
  - b. Programmed Budgeting
  - c. Zero Based Budgeting
  - d. Others (Specify)
  
3. Budgeting period of NBL covers?
  - a. One year
  - b. Six Months
  - c. Three months
  - d. Others (Specify)
  
4. Who is responsible for budgeting for NBL?
  - a. Chief Executive Officer
  - b. Dept Chief

- c. Financial Chief
  - d. Branches
5. Whether NBL have the practice of participatory management for budgeting system?
- a. Yes
  - b. No
6. How are the performance controlled of NBL?
- a. Through Inspection
  - b. Supervision
  - c. Monitory through project report submitted by various branches
  - d. Others (specify)
7. How effective is budgeting and control system of NBL?
- a. Effective
  - b. Highly effective
  - c. Non effective
  - d. Need Change
8. Please give your comment on any aspect of budgeting practice of NBL, if any?

Name:

Designation:

Thank you very much for cooperation.

## RESUME

**PRASHANT BALLAV PANT**

Masters in Business Studies

<p><b>E-Mail</b></p> <p><a href="mailto:Prashantpant2007@gmail.com">Prashantpant2007@gmail.com</a>  <a href="mailto:Prashant_pant2006@hotmail.com">Prashant_pant2006@hotmail.com</a></p> <p><b>Contact No: 01-4410813</b></p> <p>Mobile: +9771 9841734871</p> <p><b>1.1.1.1.1.1</b></p> <p><b>1.1.1.1.1.2 Address for Communication</b></p> <p><b>House No:-409/51, Ward No:-33</b></p> <p><b>Dillibazar, Kathmandu, Nepal</b></p>	<p><b>Objective</b></p> <p>To give my best in any task assigned to me for growth of the organization.</p>
<p><b>Personal Profile</b></p> <p>Date of Birth 6th June 1984</p> <p>Sex Male</p> <p>Nationality Nepali</p> <p>Marital Status Single</p> <p><b>1.1.1.1.1.2.1 Linguistics Abilities</b></p> <p>To speak, Read, Write – English, Hindi, Nepali, &amp; some Japanese</p> <p><b>Hobbies</b></p> <p>Playing Basketball, Badminton, cricket, table tennis, and other sports</p> <p>Listening to music.</p>	<p><b>Experience Summary</b></p> <p>) Worked as a teacher in Brihaspati Vidyasadan School for one year.</p>



**Academic Chronicle:**

Exams	MBS Tribhuwan University	BBS Tribhuwan University	+2 Nepal Board	SLC Nepal Board
Marks Obtained in Percentage	82.22% with thesis still to be submitted	69.93%	65%	72.875%

**Technical Skills**

Operating Systems

MS-DOS, Windows9X/2007/NT/XP

**Other Achievements:**

- ) College topper in BBS as well as MBS including TU Topper in BBS 3<sup>rd</sup> year and Masters Level.
- ) Participated & Won prizes in cricket, table tennis, badminton, and basketball at college level.
- ) College cricket and basketball player.
- ) Part of various programmed organized by college and school.

**References:**

- ) Mr. Kamal Deep Dhakal, Campus Chief – Shanker dev campus, Putalisadak, Kathmandu, Nepal.
- ) Mr. Indra Bahadur Malla , Principal – National Integrated college, Dillibazar, Kathmandu, Nepal

**Declaration:**

I hereby declare that all statements mentioned above are true to best of my knowledge.

**Date:**

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**(Prashant Ballav Pant)**