CHAPTER - I

INTRODUCTION

1.1 Background

Society consists of households, business units, government etc who need a financial intermediation in their every move of interest because financial sector works as a facilitator for achieving sustained economic growth. Financial activities are important in the economy to mobilize and utilize resources, reduce costs and risk, expand and diversify the opportunities, increase the allocation of efficiency of resources and promote the productivity and economic growth. After initiation to exercise liberalized economy in mid of 1980s, the previous banking system, culture and disciplines have turn to the competitive market instead of traditional banking.

Normally human activities are directed towards the well being to the people. Energy and efforts devoted by people of the society aim at enhancing material benefits to the community. To enable people to enjoy the material benefits is possible only when production base is expanded. In other words this requires economic growth. In order to contribute in the process of economic development of the country banking industry has been established and operating to provide the financial resources to the economic activities.

The Nepalese financial system comprises of commercial banks, development banks, finance companies, co-operative societies, non-government organizations (permitted to perform limited banking activities), insurance companies, Nepal stock exchange, citizen investment trust, employees provident fund and postal saving service. There are 17 commercial banks, 59 finance companies, 22 development banks, 5 rural development banks, 6 micro credit development banks, 20 cooperative societies and 47 NGOs which are authorized by Nepal Rastra Bank; performing banking activities in Nepal till mid-January 2005. (NRB Bulletin)

Bank plays a vital role in developing the economy of any country. The level of overall development of a country i.e. social, cultural, political, technological, or economical is characterized by the level of economic growth and the crux of the economic growth lies in the development of well managed and structured banking system. Hence banks can be considered as backbone of a country's overall development or banks can be regarded as the pioneer to create and mobilize the capital; rendering various financial services. Banks have been contributing commendable efforts to establish and develop the industries, trade and commerce in the country. Though banks refer to create and mobilize the capital/fund; modern banking has specific purposes, it provides an effective payment and credit system, which facilitates the challenging funds economy. Moreover banks also encourage industrial innovations and business expansion through the funds provided by them to the entrepreneurs. Beside this they encounter various functions on behalf of their customer and in turn they are paid for their services. Commercial banks undertake the payment of subscriptions, insurance premium, rent etc and collection of cheques, bills, salaries, pension, dividend, interest etc. Furthermore commercial banks also arrange to remit money from one place to another on behalf of beneficiary. They issue Bank Guarantee, Letter of Credit, which easier to overcome the problems regarding national and international trade. In fact the economic development of a country is not possible without a sound banking intermediation.

1.2 Development of Modern Banking System

The origin of commercial banking can be traceable in the ancient era of Greeks and Mesopotamians as well as Romans, when the practice of storing precious metals and coins at safe places and loaning out money to the people on interest was prevalent. The traces of rudimentary banking are found in the Chaldeanc Egyptian and Phoenician history. The history of banking development, we can't forget the bank of Casa De San Giorgio in Genoa, was established in 1148; Bank of Venice 1401, the bank of Barcelona was established in Barcelona. In fact modern bank started to take rapid speed in forming and functioning from 17th century. During this period, Bank of Milan, Bank of Florence and Bank of St, George were established in Genoa. In 1609 the Bank of Amsterdam was established in Holland, likewise in 1610, Bank of Hamburg was established in Germany and Bank of England was established in England. (Bhandari, 2003)

In spite of establishment of bank of England in 1694, the development of modern commercial banking institution had to wait for another centaury and four decades until the passage of banking act of 1833 which provided the freedom for establishment of joint stock banks. While banking arose far early and rapidly in some countries than in other, it was only 19th century than the modern joint stock commercial banking system developed in leading countries of the world. When colonies were established in North and South America old banking services were transferred to the New World.

In conclusion, we can say that banking is not static but a dynamic concept. It is product of centuries. Development of banking which has taken place is the product of a trial and error and experiences which were made and result that followed relating to the acceptance of money and values as deposits, lending them to different sectors, providing different direct and indirect services to the individual, institutions, state and the world.

1.3 Banking Industry in Nepal

Bank in general means an institution that deals with money. A bank performs several financial monetary and economic activities which are essential for the economic development of a country. It is a monetary institutional vehicle for domestic resource mobilization of the country that accepts deposits from various sources and invests such accumulated resources in the field of agriculture, trade, commerce, industry etc

In Nepal development of banking is relatively a new. The records of banking system in Nepal gives detain account of mixture of slow and steady evolution in the financial and global economy. Involvement of landlords, rich merchants, Shopkeepers and other individual money lenders have acted as fence to institutional credit in the presence of unorganized money market.

Though the establishment of banking industry was very new, Indigenous banking operation was in practice even in ancient times. In the Nepalese chronicle, it was recorded that the new ere known as Nepal Sambat was introduced by Shankadhar, a sudra merchant of Kantipur in 879 or 880AD after having paid all the outstanding debts in the country.(Bhandari, 2003)

It is further believed that money lending business, particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However in the absence of any regulatory measures, the unscrupulous money lenders were known to have charged exorbitant rates of interest and other extra dues in loan advance. During the Rana regime, the Rana Prime minister Ranodhip Singh Rana established a state owned lending institution called Tejarath Adda, which would provide financial assistance in the form of loans to the Government employees against their personal guarantee and deduction of the certain amount of their salary as installment charging 5% interest rate. In the overall development of banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it tendered a good service to the government employees. (Shrestha & Silwal, 2060)

Though Indigenous banking had started very early but the modern banking does not have such long history. Modern banking started after the establishment of Nepal Bank Limited on 30th Kartik, 1994BS (1938AD). Nepal Bank Ltd was established under Nepal Bank act 1938. In the beginning, NBL was given the authority and responsibility of central bank, but with change of time it was necessary to establish the central bank. Nepal Rastra Bank was established in 2013BS, under Nepal Rastra Bank act, 2012. After its establishment it issued the Nepali notes. The first five year plan was introduced in the country. NRB helped to make banking system more systematic and dynamic. The existence of only one commercial bank was not sufficient for the overall economic growth of the country. Hence establishment of Rastriya Banizya Bank had great significant. RBB was established in 2022 under Banizya Bank act 2021, a wholly owned government bank. It added new inputs to the expansion of the banking services in various parts of the country.

To encourage healthy competition in the Nepalese banking sector government introduced financial sector reform policy in 1980. This allowed the entry of foreign banks in the form of joint venture banks. In Nepal Nabil bank was first joint venture bank this bank was established in 2041 under commercial bank act 2031. Than after several joint venture have been established in Nepal. Nepal Rastra Bank has given approval to operate following 25 commercial banks in Nepal till now.

Table 1.1

List of Commercial Banks in Nepal

S.N.	Commercial Banks	Established Date (B.S.)	Operation Date (B.S.)	Head Office
1	Nepal Bank Ltd.	1994/07/30	1 994/07/30	Kathmandu
2	Rstriya Banijya Bank	2022/10/10	2022/10/10	Kathmandu
3	Nepal Arab Bank Ltd.	2041/03/29	2041/03/29	Kathmandu
4	Nepal Indosuez Bank Ltd.	2042/11/16	2042/11/16	Kathmandu
5	Standard Chartered Bank Nepal Ltd.	2043/10/16	2043/10/16	Kathmandu
6	Himalayan Bank Ltd.	2049/10/05	2049/10/05	Kathmandu
7	Nepal SBI Bank Ltd.	2050/03/23	2050/03/23	Kathmandu
8	Nepal Bangladesh Bank Ltd.	2050/02/23	2050/02/23	Kathmandu
9	Everest Bank Ltd.	2051/07/01	2051/07/01	Kathmandu
10	Bank of Kathmandu Ltd.	2051/11/28	2051/11/28	Kathmandu
11	Nepal Credit & Comm. Bank	2053/06/28	2053/06/28	Siddharthanagar
12	Lumbini Bank Ltd.	2055/04/01	2055/04/01	Narayangadh
13	Nepal Ind. & Commercial Bank Ltd.	2055/04/05	2055/04/05	Biratnagar
14	Machhapuchhre Bank Ltd.	2057/06/17	2057/06/17	Pokhara
15	Kumari Bank Ltd.	2056/08/24	2057/12/21	Kathmandu

16	Laxmi Bank Ltd.	2058/06/11	2058/12/21	Birgunj
17	Siddhartha Bank Ltd.	2058/06/12	2059/09/09	Kathmandu

1.4 Nepal Bank Limited

Nepal. Bank Limited, a pioneer commercial bank, oldest bank in the history of modern banking system of Nepal, has a prestigious own history in banking system of Nepal. The bank was established on 30th Kartik, 1994BS in the technical assistance of Imperial Bank of India under 'Nepal Bank Act, 1993.' The establishment of Nepal Bank Limited laid the foundation of modern financial system in the country. The significance of launching of this bank was highlighted in the speech by the Late Prime Minister Juddha Shamser Junga Bahadur Rana on the occasion of its inauguration as 'The 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 His Majesty the King, is a moment of great joy and happiness. The bank's objective to render service to the people whether rich or poor and to contribute to the nation's development will also needs the support and best wishes of all. Which I am confident, will be forthcoming.' (NRB Bulletin) At the establishment NBL had Rs. 0.842M paid up capital. Now this bank has Rs. 1000 M authorized capital with 500M issued capital and 3804M paid up capital. 2985 staffs are working in this organization. It has 106 branches spread in 56 districts of the country. Now the bank has been reducing its no of branches to right size the organization. The new management team governed by ICCMT under the support and assistance of Nepal Rastra bank has been trying to change the existing lengthy culture to core banking, and promptly service rendering culture.

1.5 Focus of the Study

This study 'Budgeting system of Nepal Bank Limited' concentrates on the making profit and reducing costs by providing reliable services competing to joint venture banks according to directives of Nepal Rastra Bank. What and how changes in the banking operations are occurring in competitive banking environment in the present scenario. Profit is the basic goal of the any organization due to this reason without profit any organization cannot survive. Therefore what are the strategies of NBL to get huge profit? Is NBL success to get profit? What are the control areas of operating costs? Are Budgeting and control mechanism of NBL adoptable? The performance of the NBL is evaluated along with the brief analysis of the state of the economy, which provides the opportunities as well as threats to the commercial banks. This study is basically focused on internal system of operating for reducing operating costs and faster services for attracting customers. To get profit and control costs, there should be department wise budget, transparency, internal auditing, ongoing monitoring, evaluation and feedback so focus of the study will be leadership of new management team of the organization to face the organizational culture and strategy in the context of changing banking business.

1.6 Statement of the Problem

The open and liberal economic policy toward the banking sector of Nepal Government initiated many joint venture banks, government banks, finance companies, rural banks and co-operative societies in Nepal. They are being operated in urban and sub-urban region of the country. JVBs seem successful to achieve a remarkable market share in Nepalese financial institutions, which has led a sharp competition among each other. It has threatened the entire banking system. Government & Joint venture Commercial banks have been undertaking the task of financial intermediations as their core function. Collecting deposits from different section of people, the amount otherwise would have remained idle or used at lesser productive purposes, the banks have accomplished twin objectives: first providing return to capita! to depositors and second, providing their resources for productive purposes to entrepreneurs. In addition to above problems, NBL has been facing the following Challenges:

- To give special attention towards loan recovery as the outstanding loan amount is very high falling in bad loans.
- Accumulate the resources from the NPAs to invest for the returns to maximize the shareholders wealth by protecting the assets of the depositors through complying strict directives issued by NRB.
- Competing to the several joint venture banks with their charming policy and strategies to attract the customer, by adopting old traditional manual system is inconsistent.

1.7 Objectives of the Study

The general purpose of this study is to discuss, examine and evaluate the financial information and position to generate profit of NBL. The following objectives have been considered as prime objectives of this study.

1 To examine & evaluate the fund mobilization and lending policy.
2 To examine the new management techniques for recovery of NPLs.
3 To study the impact of new management techniques in making profit.
4 To suggests& recomment on the basis of major findings.

1.8 Signification of the Study

The present study is a conclusion-oriented study it will be beneficial to different parties concerned with NBL as well as other interested parties. This study will be helpful to shareholders regarding the Budgetig System of their banks. The study will create awareness about utilization of its scarce resources and help them to identify the productivity of their fund. It is also helpful to management of NBL to go deep into the matters as why the performance of bank is better or worse than their competitors? The management can identify its weak areas and can correct them. The study also helps to identify effective use of the resources for efficient and profitable operations. Others banks also can take benefit from this study in competitive age in the context of privatization of public banks. In this competitive scenario, public owned bank should compete with private bank due to this reason NBL is focusing to reduce operating costs and increase to its profit by recovery of bad loans, investing to profitable areas adopting new management techniques.

1.9 Limitation of the Study

The study will be bounded by the following limitations:

- Among various banks the study has focus only on NBL with special respect to budgeting system.
- Analysis is mostly base on secondary data except some questions to the concerned authority. Hence, secondary data itself is limiting factor. The findings will be based to the information provided by the bank.
- The study covers the period of five years only i.e. From FY 2001/02 to 2006/07.
- The study concentrates on budgeting and control of the bank for said period and will be analyzed mostly with the help of various financial ratios.
- This study is prepared in limited period of time and is submitted for the partial fulfillment of the MBS degree which cannot be considered as master piece.
- Limitations of the study are based on the availability of reliable secondary data of sufficient literature such as annual report, journals, unpublished as well as published articles and reports from NBL&NRB.
- Some data has been taken from oral conversation with NBL employees.

1.10 Organization of the Study

Writing a thesis is a long project, it will make the job easier if one can conceptualize the whole process before beginning. A major part of writing is a good organization of study. To complete this thesis conveniently and efficiently this is organized into following six major chapters.

i. Introduction:- It is the first part of the thesis. This chapter will concern on the subject matter of the study. It includes general background of the study, significant of the study, statements of problem, objective of the study, methodology and limitation of the study.
ii. Data Analysis of presentation:- It will be the focus statistical tool methods for analysis to collect data and different statistical tool, tabulation chart, graph, diagram to presentation of analysis data.
iii. Summary Conclusion and Recommendation:- This chapter will deal with the summary of the study, relevant suggestion to improve the profitability of the bank.

In the final part of the study indices and bibliographies have presented.

CHAPTER - II

REVIEW OF LITERATURE

2. Introduction

In this chapter the researcher has included available literature to this research. It comprises the conceptual framework about the commercial banks, its activities, budgeting concepts, review of books, previous study. This study is concerned with reviewing, the budgeting of Nepal Bank Limited. In this connection, the researcher has reviewed various literatures in the form of books newspapers, journals, browsing materials from the concerned websites, previous dissertations in the relevant subject matters etc.

2.1 Commercials Banks as a Concept

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

"Oxford Dictionary defines 'Bank' as an establishment for keeping money and valuable safely, the money being paid out on the customer's order (by means of cheques)." (Homby and Cowe, 1992:03)

"The Random House Dictionary of the English Language defines the bank as an institution for receiving money and is some cases, issuing notes and transiting other financial business." (Urdang, 1985:16)

Banks refer to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator or manufacturer of money in the system. Maclead, in this book 'theory of credit' has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit. In the opinion of Sayers, Banks are the institutions whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other people's debt. He has taken the bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the Bank to the extent of his deposit amount.

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

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

- Should be established with a specified objective of co-operative, agricultural, industrial or any of such of specific purpose.
- Should accept customer deposit.
- Should advance loans and make investments.
- Perform commercial transactions.

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

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

2.2 volution of Commercial Bank

According to some authorities, the world 'Bank' is derived from the word 'Banco', 'Bancus' or 'Banque' all meaning to a bench. This refers that early bankers transacted their money lending activities on benches in the marketplace exhibiting the coins of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word 'Banc' meaning joint stock fund (Varshney, 1993:15).

"In its native from, banking is as old as in the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 B.C., the famous temples of Ephesus, Delphi and Olympia were used as depositories for people surplus fund and these temples were the centres for money lending transactions. The pries of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of Venice, founded in 1157 A.D. was the first public banking institutions. Following this, in 14th century, the Bank of Barcelona and the Bank of Genoa were established in 1401 A.D. and 1407 A.D. respectively (Vaish, 1996:20).

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

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

In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the Ramayan and Mahabharata eras, banking had become a full-fledged business activity and during the smiriti period (after the Vedic period), the business of Banking was carried on by the members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Bishyas. The bankers in the Smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave arises and banker to the state and issuing and managing the currency of the country (Vanish, 1992:16).

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

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

Banking development in Nepal found another break through after establishing of Nepal Rastra Bank, the Central Bank of Nepal in 2013 B.S. (NRB, 2045). This has helped organizing the monetary system in the country before which the duel currency system (Indian and Nepalese currency) was prevailing in the system. Larger sector of economy was non monetized. In the course of organized development of banking sector, second commercial bank, Rastriya Banijya Bank was established in 2022 B.S. at the state ownership (NRB, 2045).

Later on, in FY 2039/40, the policy for allowing establishment of foreign joint venture banks was taken with an aim of having fair competition and skill development in banking sector, which had added a new dimension in development of banking in Nepal. Accordingly, Nepal Arab Bank Ltd. (presently renamed as Nabil Bank) has been established as the first joint venture bank in Nepal in 2041 B.S. (NRB 2045).

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

2.3 Activities of a Commercial Bank

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

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

In the book ’Law of Banking’, Dr. H.L. Hart says "A banker is one who is the ordinary course of his business honours cheques dawn upon him by person from and for whom he receives money in his current amount (Halt, 1931:19).

In the book, Banking Law and Practice, written by Gulshan and Gulshan has quoted H.P. Sheldon’s opinion as, "The functions of receiving money from his customers and repaying it by honouring their cheques as and when required in the function. Above all function, which distinguish a banking business from any other kind of business?

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

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

The primary activities of a commercial bank have been categorized in two olds as below:

- Mobilization of Resources, and
- Deployment of Resource

2.3.1 Mobilization of Resources

Resources of a commercial bank constitutes, like in other business institutions, (i) the owners fund and (ii) the borrowed fund.

A. Owners Fund or Capital Fund

Owner fund of the bank is the Capital fund, which includes paid up capital, reserves, retained earning, share premium, non-redeemable preference share. Apart from the mentioned above other reserves and provision items allocated out of profit of the bank are also considered as the supplementary capital fund. Owner’s fund is the most dependable sources of bank’s liquidity.

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

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

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

B. Customer Deposits

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

The total deposit of a bank is composed of demand and time deposits. The demand deposits are most volatile and can be withdrawn at any time by their depositors subject to the general rules of the banks governing these deposits. Generally to interests are paid into those accounts.

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

The time deposit consists of fixed deposit and partly of saving deposit which can be withdrawn only after expiry of the stipulated period for which these have been made. Banks offer interest on these accounts for the outstanding period at a specified rate. Time deposits are kept generally by individuals, educational institutions, charitable trusts and other having surplus fund for future saving and earning some regular return on it.

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

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

The Commercial Banking Act 2031 defines fixed deposit account as the "Bank account, which is having money in it for a specific period of time."

C. Other Liabilities

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

2.3.2 Development of Resources

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

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

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

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

A. Assets Portfolio Liquidity

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

The central Bank has fixed the mandatory cash reserve ratio (CRR) from time to time. Current CRR fixed by NRB for commercial Bank is as below:

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

(Source: Directives of Nepal Rastra Bank, Banking Operation Department, 2001)

B. Investment

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

C. Loans, Overdrafts and Discount (LDO)

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

"Commercial Banks generally lend for short-term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selecting the borrowers. Generally banks lending is guided by their lending policies. General principles of a sound lending policy of a bank are as follows (Gulshan and Gulshan, 1994:18)."

- Safety: Bank's

Lending should be secured by way of tangible securities and/or personal security (guarantee) of the borrower.

- Liquidity:

As the bulk of fund in the bank are short term fund received as deposits, it is prudent to confine into short term advances which can be repaid quickly.

- Profitability

The major income of a bank comes from the difference in interest earned from the borrower and interest paid to the depositors, which is termed as 'Spread'. The interest rate of lending depends upon the purpose of advances and the risk involved. Greater the risk involved higher will be the rate of interest charged.

- Risk Diversification

The famous saying "don't put all the eggs in one basket" is the fundamental base of the principle of risk diversification. As there is risk in every advance, bank should spread the risk by lending to larger number of borrowers.

Generally banks make their advances in the form of Loans, Overdrafts, Cash Credits and Bills discounting. In a loan account, the entire amount is disbursed to the borrower, which is repayable in installments or in lump sum on the expiry of loans. Interest is charged on the entire loan disbursed to the borrower. The types of loans may be pledge loan, demand loan, Hire purchase, import (transit loans), Export finance (packing credit), loan against fixed deposits, against government securities against shares etc.

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

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

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

Concept of Spread

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

Deployment of resources in income generating assets (loans and investments) is the income yielding activities of the Banks. Higher, the proportion of loan and advances in the asset portfolio, higher will be the yield on fund. As the interest income is the major contributor of income of a Bank, the banker should be careful in realization of interest and enhance the profitability. The difference of interest earned from lending and interest expenses incurred in deposit is called the Spread. In other words spread is the new income of the bank from which banks have to meet their other operational costs and give out the dividends to the shareholders. Therefore Bankers attempt to increases their spread in order to improve their profitability. A banker can attempt to maintain higher spread by minimizing the average cost of deposit and maximizing the average yield on fund. But as per the current regulatory provision of NRB, the interest spread of a Bank can be maximum of 5 percent only (BOD, NRB, 2001).

Loan Loss Provision

The Central Bank (NRB) has made a mandatory provision for the entire bank to classify their outstanding LDO on the basis of aging into four grades viz. pass loan, Substandard, doubtful and Loss (BOD, NRB, 2001). The loans falling under the respective grades are identified on the basis of the overdue position from the date of maturity of the loan and the amount shall have to be allocated from net income in order to provided for against the loan loss at various rates (from 1 percent to 100 percent of loan amount depending on the grade in which a particular loan account falls). Such allocated amount is called Loan Loss Provision amount and is treated as the expenses items. Therefore, in order to improve the profitability, the banker should be more attentive toward timely realization of dues so that the amount of loan loss provision may be maintained at the least possible extent.

Other Income Generating Activities of the Bank

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

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

Concept of Burden

During the establishments and operation of a bank, it has to incur various kinds of expenses besides the expenses incurred for interest payments. Such expenses are employees expenses, administrative expenses, depreciation on fixed assets, other operating expenses, expenses for income tax provisions etc. All such expenses other than interest expenses cumulatively form a burden to profitability. The spread earned by the Bank must be at lest enough to meet the burden in order to Break even. However the other income (income other than interest income) earned by the bank from their other activities besides fund lending contributes to lowering the burden thereby increasing the profitability of the Bank. Therefore the net burden (other expenses less other income) has been termed as Burden.

2.3.3 Role of Commercial Banks in the Development of the Economy

"Commercial Banks play an important role in facilitating the affairs of the economy in various ways. The operations of commercial Banks record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country. Commercial Banks have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and trade in the country. By encouraging thrift among the people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposits thus help bringing the scattered resources into the organized banking sector which can be allocated to the different economic activities. In his way they help in country's capital assets formation. Through their advances, banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds to the public sector, joint sector or private sector for any type of organization. All employment income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance" (Vaish, 1996:36)

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

2.4 General Concept of Budgeting

"Budgeting is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as a basis for measuring the actual performance of managers and their units. A profit plan has a immense value in management, it helps in planning and coordinating if used appropriately, but not a replacement for management. 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." (Fremgen, 1973:144).

"Budgeting is a 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, 1992:521).

"The term comprehensive budgeting it defined as a systematic and formalized approach for performing significant phase of the management planning and control functions. Especially it involves:

- The development and application of broad and long range objectives of the enterprise.
- The specification of enterprises goals.
- A long range profit plan developed in broad terms.
- A short range profit plan detailed by assigned responsibilities (divisions, products, project etc.)
- A systematic periodic performance reports detailed by assigned responsibilities and
- Follow-up procedures" (Welsch, Hilton and Gordon, 1992:5).

"Budgeting is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here, it is not the same as corporate planning of a cost rendition program." (Terry, 1968:21).

Budgeting involves streamlining activities in orders to get employees profit minded and to secure maximum benefit from minimum effort and expenditure. Best results seem to be obtained by assigning a profit planner to investigate all the footers affecting the profit obtained from a single product, the planner is given the right to prove the economics, the organization. The mode of operations, the pricing, the marketing or any fact of making and selling the product that in his judgment affects profit accruing from that product. The concentration of profit efforts upon one product and the fight of the planner to cross traditional functional boundaries of the enterprise of translate needs from one group of another and to obtain concurred profit building efforts among those who can affect profits are the fundamental factors that contribute to the success of profit planning.

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or n prospect of time it is established against which actual accomplishment is regularly compared.

Budgeting through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect up to due to this hanging relationships between volume and cost.

2.4.1 Components of Budgetig System

2.4.1.1 Profit

Profit is the basic elements of profit plan so that the concept of Budgetig System may not be complete and meaningful in absence of the clear and well defined idea of profit. According to Oxford dictionary profit means '(a) financial gain (b) amount of money gained in business especially the difference between the amounts earned and the amount spent (c) advantage or benefits gained from something.' "According to some theories, profits are the factor payment for taking the risk for agreeing to take what is left over after contractual has been made. In the second type of profit theory are viewed as a wage for the service of innovation. Profits in this way are tried to dynamic development. All enterprises activities directly or indirectly revolve to play the significant role for judging the managerial efficiency. In absence of profit nobody can thick about the long term survivability of the enterprises" (Hornby, 1999:122)

2.4.1.2 Short range and long range Budgetig System

Long range and short profit plans mean strategic and tactical profit plans respectively. The two types of profit plans are developed in PPC. "The strategic profit plan is broad and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses on one year time horizon the up coming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and ideally a high level of management participation" (Welsch, 1999:134)

2.4.1.3 Planning

Planning is the basic foundation of PPC. We should be clear in the concept of planning. According to Oxford Dictionary, planning means: (To do something) arrangement for doing or using something, considered or workout in advanced.

'Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which hey are to be accomplished' (Welsch, 1999:153)

Plan is then a projected course of action. All planning involves anticipation of the future course of events and therefore bears an element of uncertainty in respect of its success. Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals. Planning is essential to accomplished goals. It reduces uncertainty and provides direction o the employees by the determining the course of action in advance.

Hence planning is the backbone functions of the management. We can point out the nature of planning as:

- Planning is goal oriented process
- Planning is primary function of management

- Planning pervades all managerial activities
- Planning is an intellectual work
- Planning is directed towards efficiency

2.4.1.4 Long range and short range planning

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

2.4.1.5 Basic assumptions and limitations of Budgeting

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

'In developing and using a Budgetig System program, the following limitations should be kept in mind:

- The profit plan is based on estimates.
- A Budgetig System program must be continually adapted to fit changing circumstances.
- Execution of profit plan will not occur automatically the profit plan is not a substitute for management.' (Welsch, 1999: 197)

"The profit plan should be regarded not as a master but as a servant. It is one of the best tools yet devised for advancing the affairs of an organization and he individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons." (Welsch 1999:203)

2.4.1.6 Implementation of Profit Plan

"A budget programs viewed and administered in a sophisticated way does not hamper or restrict management, instead, it provides definite goals around which day today and mouth to mouth decisions are made. Flexibility in the use and application of both the profit plan and variable budges also should be considered in detail. Flexibility in budge application is essential and it increases the probabilities of achieving or bettering the objectives." (Welsch 1999:237)

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

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

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

2.5 Budgeting or Planning

The basic foundation of Budgeting is essence of management:

"Budgeting or planning is the first essence of management and all other functions are performed within the framework of planning. Budgeting means deciding in advance what is to be done in future. Budgeting starts from forecasting and predetermination of future events. Budgeting is the whole concept of any business organization with proper and effective planning. No from can accomplish its predetermined goals and objectives. Hence it is a life blood of any organization which makes them efficiently run towards the competitive environment. Budgeting is a techniques were by the use pattern of resources is carried out." (Agrawal and Kundom, 1989:348)

A budgeting process includes setting goals, evaluating resources forecasting by different methods and formulating a master plan. Budgeting depend upon the organized objectives. For the budgeting purpose a firm's objectives can distinguish mainly three types, the first is prime, the second is instrumental objectives are aims for accomplishment of more basis aim. For this purpose the company has established divisional departmental and individual job objectives. Specific objectives are those objectives that have been specified as to tome and magnitude which is known as goals. As a result of specifying a time period and a target amount, this goal is capable of giving specific guidance to various senses of management planning. Objective setting of a firm is very difficult. Unfortunately, most top management fails to develop a clear and operational statement of company objectives. More carefulness is necessary for this tedious job. Carefully stated firm's objectives. More carefulness is necessary for this tedious job. Carefully stated firm's objectives would yield at least the following benefits.

- Company objectives provide the ultimate criteria for resolving difficult company decisions and
- Company objectives are the basis for long-range profit planning.

"Budgeting is the process of developing enterprises objectives and selecting future course of action to accomplish them. It includes (Hilton, Gordon and Welsch, 1992:5)."

- Establishing enterprises objectives,

- Developing premises about the environment in which they are to be accomplished,
- Decision making,
- Identifying activities necessary to translate plans in to action, and
- Current re-planning to current deficiencies.

Planning is the conscious recognition of the futurity of present decision. Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition that state of the enterprise that determines its density.

The essence of planning is:

- To accomplish goals
- To reduce uncertainty
- To provide direction by determining the course of action in advance.

Planning is determined course of action for achieving organizational goals or objectives effectively and efficiently at a fluid environment with a certain time frame through the selection of various alternatives. On the other hand it holds accountability and responsibility about result to individual. A full appreciation of the firm task requires distinguishing among three types of company's activities which we call strategic planning, management control and operational control. The strategic planning is a important function of top management. Planning requires the management to setting a future state toward which effort will be directed i.e. objective, assessing the organization's resources, i.e. what the organization is going to work with, assessing the current and future environment with which the organization must connected to achieve its goals and lately determine how and when to allocate resource accomplish the objective. Planning on the other hand is selecting objective and determining a course of action including allocation resources in order to achieve those objectives in a specific time period. Planning states what, when, and how things will be accomplished. An adequate planning is necessary for control of operations.

2.5.1 The Role of Forecasting in Budgeting

Forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives seeks to predict the environmental factors that selects actional that is hopes will result in attainment of goals and objectives. The need for forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment. A good or bad for cast can effect the entire organization. Budgeting is not nearly forecasting although forecasts from the basis of budgeting. Forecasting is the estimate of the future environment with in the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and be held accountable. Forecasting is indispensable in planning. Forecasts are statement of expected future conditions definite statements of what will actually patently impossible. If the assumptions are possible the forecast has a better chance of being useful forecasting assumptions and techniques vary with the kind of planning needed.

The short-term forecasting is needed in budget making. A budget set for the following year will be much useful. It is regarded to sales levels, which will eventuate rather than nearly too current sales level. As budget distributed according to current sales may establish policy as to lines of emphasis, but will obviously required successive adjustment if sales levels changes.

2.5.2 Budgeting Vs Forecasting

Budgeting is clearly district from forecasting. Forecasting one of the essential elements of budgeting is a prediction of what will happen on the basis of certain assumption. Budgeting is an attempt to determine what should happen and then to take steps what will make it likely to happen. A forecast is not a plan, rather it is a statement of and or quantified assessment of future conditions about a particular subject (i.e. sales revenue) based on one of more explicit assumption. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept modify or eject the forecast. In contrast a sales plan incorporates management decision that are based on the forecast, other inputs and management judgment about such related items as sales volume, price, production and sales, effort and financing.

2.6 Purposes of Budgeting

Some purposes for the application of budgeting are:

- To state the firms expectations in clear and facilitate for attainability.
- To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implanted.
- To provide a detail plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
- To coordinate the activities and efforts in such as way the use of resource in maximized.
- To provide a means of measuring the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.

2.7 Budgetary Control

2.7.1 Meaning of Budgeting and Budget

Budgeting is a forward planning and involves the preparation in advance for the quantitative as well as financial statement in indicate the intention of the management in respect of the various aspects of the business. "A budget is a comprehensive and coordinated plan expressed in financial term for the operation and source of an enterprise for some specific period in the future." (Pandey, 1991:36)

"As regard the term 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objectives and goals established by the top-level management in respect of some future period." (Gupta, 1981:37)

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

According to his definition the essential elements of a budget ate:

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

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

2.7.2 Budgeting: As a Device of Budgeting

Budgeting is a forward planning. It serves basically as a device (tool) for management, control; it is rather pivot of any effective scheme of control. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental polices and objectives, it is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them.

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

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

2.7.3 Essentials of an Effective Budgeting

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

- Sound Forecasting

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

- An Adequate and Planned Accounting System

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

- Efficient Organization with Definite Lines of Responsibility

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

- Formation of Budget Committee

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

- Clearly Defined Business Policies

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

- Availability of Statistical Information

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

- Support of Top Management

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

- Good Reporting System

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

- Motivational Approach

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

2.8 Fundamental of Budgeting

Comprehensively budgeting is one of the more important approaches that have been developed to facilitate effective performance of the management process. The concepts and techniques of budgeting have wide application in individual business enterprises, government units, charitable organizations and virtually all groups Endeavour. "The fundamental concepts of budgeting include the underlying activities or tasks that must be carried out to attain maximum usefulness from budgeting. The fundamentals of budgeting are:

- A management process that includes planning organizing, staffing, leading and controlling.
- A managerial commitment to effective management participation by all levels in the entity.
- An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.
- A management planning process.
- A management control process.
- Continuous and consistent co-ordination of all the management functions.
- Continuous feed forward, feedback, follow up, and re-planning through defined communication channels (both downward and upward).
- A strategic (long range) budget.
- A tactical (short range) budget.
- A responsibility accounting system.
- A continuous use of the exception principle.
- A behaviour management program.

2.8.1 Budgeting Process

A budgeting program includes more than the traditional idea of a periodic or master budget. Rather, it encompasses the application of a number of related management concepts through a variety of approaches techniques and sequential steps. These steps are out lined in this study in the following manner.

2.8.2 Identification and Evaluation of External Variables

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

2.8.3 Development for the Board Objectives of the Enterprises

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

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

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

2.8.4 Development of Specific Goals for the Enterprises

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

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

2.8.5 Development and Evaluation of Company Strategy

Companies strategic are the basis thrusts ways and tactics that will be used to attain planned objectives and goals. Some examples of basic strategies;

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

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

2.8.6 Executive Management Planning Instruction

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

2.8.7 Preparation and Evaluation of Budget.

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

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

2.8.8 Development of Strategies and Tactical Budgeting

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

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

2.8.10 Use of Periodic Performance Reports

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

2.8.11 Follow Up

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

Finally, there should be a special follow up of the prior follow up actions. This step should be designed to:

- Determinate the effectiveness of prior corrective action and
- Provide a basis for improving future planning and control procedures.

2.9 Development of Budgeting

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

2.9.1 Resources Mobilization Plan or Budget

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

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

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

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

Budgeted targets for deposit mobilization during a particular year is set in advance with each view of optimizing the cost of deposit and the same are allocated to the different branches of the banks. Such allocations may be regarded as the tactical plan for deposit mobilization of the banks. Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally banks borrows from other banks to meet temporary requirement of liquidity which may occur sometimes during the occurs of banking operation caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other. Such activities are managed from the Head Office with the least possible cost.

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

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

2.9.3 Planning for Non-Funded Business Activities

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

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

2.9.4 Expenditure Budgeting

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

- Interest Expenses
- Personnel Expenses
- Office Operating Expenses
- Expenses meeting the loss in Exchange Fluctuation
- Non-operating expenses
- Expenses for provision for loan loss
- Expenses for provision for staff bonus
- Expenses for provision of income tax

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

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

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

2.9.5 Revenue Budget

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

Revenues of a bank are generated in the following forms:

- Interest income
- Commission and discounts
- Dividend
- Other income
- Foreign exchange income
- Non-operating income

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

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

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

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

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

2.10 Performance Reports

Performance reporting is an important part of a comprehensive budgeting system. Its phase of a comprehensive budgeting program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of budgeting. The control function of management defined as the action necessary to assure the objectives plans, policies and standards are being attended. Performance reports are one of the vital tools of management to exercise its control function effectively.

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

- Features of Performance Reports

In comprehensive budgeting, performance report is very important. The main objective of performance reports is the communication of performance measurement, actual results and the related variances. Performance reports offer management essential insights in to all the facts of operational efficiencies. Performance reports should be:

- Tailored to the organizational structure and focus of controllability (that is by responsibility centres).
- Designed to implement the management by exception principle.
- Repetitive and related to short term period.
- Adapted to the requirements of the primary users.
- Simple understandable and reports only essential information.
- Accurate and designed to pinpoint significant distinctions.
- Prepared and presently promptly.
- Constructive in tone.

- Aspects of Performance Reports

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

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

In the design and preparation of performance reports careful attention must be given that titles and headings should be descriptive; column heading and side caption should clearly identify the data, and the technical jargon should be avoided. Reports should not be too long and complex; tabulations should be avoided. Performance reports should be standardized to a reasonable degree and if should be relevant. Performance reports should be available on a timely basis. To attain a realistic balance between immediate reporting and the costs of detailed reporting, monthly performance reports are widely used in the organization.

2.11 Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratios to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined. The terms ratios refers to the numerical or quantitative relationship between two items/variables.

Types of Ratios

- Liquidity ratios
- Capital structure/leverage ratios
- Profitability ratios
- Activity ratio.
- Liquidity ratios

Liquidity is a prerequisite for the very survival of a form. The short term creditors of the firm are interested in the short-term solvency or liquidity of a firm. Liquidity implies, from the view point of utilization of the funds of the firm that funds are idle or they earn very little. The liquidity ratio measures the ability of a firm to meet its short-term obligations and reflect the short-term financial strength/solvency of a firm. The ratios which indicate the liquidity of firm are: (i) Net working capital, (ii) Current ratios, (iii) Acid test/quick ratio, (iv) Super quick ratios, (v) Turnovers ratio’s and (vi) Defensive interval ratios.

- Capital structure/leverage ratios

The long-term creditors would judge the soundness of a firm on the basis of the long-term financial strength measured in terms of its ability to pay the interest regularly as well as repay the installment of the principle on due dates or in one lump sum at the time of maturity. The long term solvency of a firm can be examined by using leverage or capital structure ratios. The leverage or capital structure ratios may be defined as financial ratios which throw light on the long-range solvency of a firm as reflected in its ability to assure the long-term creditors with regard to: (i) Periodic payment of interest during the period of the loan and (ii) Repayment of principle on maturity or in pre-determined installments at due dates. This ratio comprises: (a) Debt-equity ratio, (b) Debt assets ratio, (c) Equity assets ratio, (d) Interest coverage ratio, (e) Dividend coverage ratio, (f) Total fixed charges coverage ratio cash flow coverage ratio and (g) Debt services coverage ratios.

- Profitability ratios

The profitability of a firm can be measured by its profitability ratios. Profitability ratios can be determined on the basis of either sales or investments. The profitability ratios in relation to sales are: (a) Profit margin (gross and net) and (b) Expenses ratio. Profitability in relation to investments is measured by (a) Returns on assets, (b) Returns on capital employed and (c) Returns on shareholder's equity.

- Activity ratios

Activity ratios are concerned with measuring the efficiency in asset management. These ratios are also called efficiency ratios or asset utilization ratios. The efficiency with which the assets are used would be reflected in the spend and rapidity with which assets are converted into sales. The activity ratios can be inventory turnover ratio, debtors turnover ratio, average collection period, assets turnover ratio.

2.12 Books, Journals and Websites Review

Commercial banks are the major component in the financial system of any country. They work as the intermediary roll between depositors and the lenders and facilitate in overall development of the economy with the major thrust in industries. Meaning and function of commercial banks are described differently by different people.

- Banking is the business of accepting deposits and lending money.
- A bank is a business organization that receives and holds deposits of fund from other makes loans or extends credits and transfer funds written order of deposit.
- Principally, commercial banks accept deposits and provide loan, primarily to business firms, there by facilitating the transfer the fund in economy.
- Banking means the accepting for the purpose of lending and investing the deposit of public, repayable by cheques, drafts and order of otherwise.
- Commercial bank is one which exchange money, deposit money, accepts deposit, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose. (Commercial Bank Act, 1031)

Commercial banks came into the existence mainly with the objectives of collecting the idle funds mobilizing them into productive sector and causing on overall economic development. Any institution accepting deposits subject to withdrawal on the demand and granting loans to the different sector, creation of credit is done by a bank.

To build the conception of overall research and to analyze the data some Accounting, Managerial, Financial, Business and statistical books is applied and for that purpose different books are reviewed. Management accounting by Ratna Man Dangol helps the researcher to apply the tools analyze ratio and funds flow. Statistics for Management by Richard L. Levin and David S. Rubin, Statistical methods in management, by Sunity Shrestha and Dhruba Prasad Silwal help a lot to understand and use the statistical tools in management.

Managerial accounting by Pushkar Bajracharya, Khagendra P. Ojha, Jogindra Goet & Sagar Sharma is helpful to acknowledge the managerial foundation in Nepalese perspective. (Asmita Publishers, 2061, 1st Edition)

Banking and financial statistics published by the Nepal Rastra Bank, NRB's website www.nrb.org.np, NBL's website www.nepalbank.com.np , Newsletter published by Nepal Rastra bank, Newsletters published by Nepal Bank Limited etc are very essence to collect the secondary data and to enhance the frame of the research.

2.13 Review of Previous Research

Many researches had been carried out by student in respect to various aspects of Budgetig System and control of commercial bank. In this section some relevant thesis has been reviewed in order to facilitate the subject matter of this study. –

Uma Devi Karki (2000) has carried out a research in the topic 'A comparative study on Budgetig System of Rastriya Banizya Bank Ltd (RBB) and Himalayan Bank Limited (HBL)'. The time period covered by this research was five years i.e. FY 1993/94 to FY 1998/99. The data and other necessary information were collected by using secondary as well as primary sources. In this research she has carried out some objective, findings and recommendations

Some objectives are:

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

Some findings are:

1. Total revenue & total cost of RBB is higher than HBL but its profits are lower.
2. Government seems less conscious in the present situation of RBB.
3. 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.
4. As the accounting system, of RBB is careless that it has not been audited from the FY1993-94 and it is difficult to take decision about data analysis.
5. No proper planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
6. Interest coverage ratio of both banks is more than 1 except in the FY1995-96 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.

6\. Interest spread is higher in RBB than in HBL.

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

Pramod Dhungana (1993) ‘A Study of Joint Venture Banks Profitability’, this study was conducted with main objectives of assessing the profitability of Joint Venture Bank in Nepal (during the period of five years from 1987/88 to 1991/91).

Other Objectives of the study was:

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

The major findings, he had presented were as follows:

i. Interest income of NIBL (Nepal Investment Bank Limited) was highest.

ii. SCB's commission and discount earnings and foreign exchange income were higher than both of NIBL and Nabil were,

iii. Nabil's other operating income was appeared higher than other banks.

iv. NIBL had paid highest tax per share than other banks and SCB paid the same least.

v. In average, Nabil, NIBL and SCB had highest personnel expenses, interest expenses on Deposits and other operating expenses respectively.

Binod Kumar Sharma (2002) for the purpose of partial fulfillment of the requirement for Master Degree in Business Administration. He has studied the profit planning in commercial banks with a case study of NB Bank. His major objective and findings are:

Objectives are:

- To identify the efficiency of planning of NB Bank Ltd.
- To determine the profitability of NB Bank Ltd.
- To examine the fund mobilization and lending policy.
- To study the impact of now management techniques in making profit.

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.
- Interest income 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.

Khagendra Prasad Ojha (1995): In his study on Budgetig System in public Enterprises in Nepal, a comparative study of Royal Drugs Limited and Herbs Production and processing Industry, he has focused his basic objectives of the study to highlight the current practice of Budgetig System and its effectiveness. Mr. Ojha has followed analytical as well as descriptive approach. The main objective of his study were to highlight the current practice of Budgetig System and its effectiveness in public enterprises arid to analyze the various functional budgets adopted in Nepalese public enterprises and to draw a picture of Budgetig System process adopted in those enterprises. Major findings and conclusions of this research work drawn by Mr. Ojha are mentioned below:

- Royal Drug Limited (RDL) and Herbs production and processing company (HPPC) have not adequately considered controllable and non-controllable variables affecting the company. Furthermore strengths and weakness.
- The objectives of Nepalese public enterprises are not clear. RDL and HPPC both also have no any objective to create and maintain an optimum enterprise environment that maximizes the interest and motivation of all employees.
- RDL and HPPC both have no marketing specialists. So these enterprises are unable to develop the alternative marketing policy for sales expansion and for new supply sources of raw materials. These enterprises are not operated on commercial basis.

The identified conclusions about different aspects of profit plan are presented in more than 50 points in his study including above major findings.

All the above studies were focused on the comparison of the financial position of the NBL with other-commercial banks or financial position analysis of the NBL only or other aspects of the NBL. But this study is quite different from other studies. It has taken a single bank, i.e. the NBL and for the purpose of study, it has been tried to comparatively analyze the financial position of the bank for 1 different periods separately by dividing a period of 10 years into 1 equal parts of 5 years each. The main gap of the above studies was to compare the financial position the bank only on annual basis or to compare the bank's performance between two subsequent years. But this study focuses on the comparison of financial position' of the banks between two periods of five years each.

2.14 Research Gap

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

This study shall be a new study in this field as no study has been made so far in the budgeting of commercial banks This study has tried to indicate the implementation of budgeting system as well as to see how far the banks are practicing. This study has analyzed the financial position of Nepal Bank Limited by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various findings of research and recommendations to Nepal Bank Limited. The above chapter gives detailed study about the conceptual framework of budgeting, various activities of commercial banks and applicability of budgeting in the bank.

CHAPTER – III

RESEARCH METHODOLOGY

The main objective of this study is to examine the major components of the portfolios of the balance sheet and income statement of the NBL as well as to evaluate the Budgeting and control system after attachment of new Management team. To achieve the objective, the study requires several inquiries and appropriate research methodology. It includes research design, sources of data, data gathering procedures, Sample size, data processing procedures and statistical and financial tools and techniques. The questionnaire will be developed for obtain primary data and analysis to them in statistical tools such as mean, percentage, graph, chart, etc.

3. 1 Research Design

Research design is the plan, structure and strategy of investigation conceived sp as to obtain answer to research question. It is an integral system that guides the researcher in formulating, implementing and controlling the study. This study is based on descriptive and analytical research design. It is based on recent historical data which covers five year period. It is related with the comparative earning of NBL. Further it is a strategy specifying which approach will be used for gathering and analyzing the data. 'A good design is often characterized by adjectives like flexible, approximate, efficient, economical and so on. Generally, the design that minimizes bias and maximizes the reliability of the data collected and analyzed is considered a good design.

3.2 Population and Sample

At present there are 25 commercial banks operating in the country. Among them one is fully government owned bank and other are private owned. Rest one is partially owned, which is chosen as sample for the study . 'Sample is only a potion or subset population. Sampling is based on the principle that a sufficiently large number drawn at random from a population will representative of total population. As it is clear that this thesis is about the Budgeting system of NBL.There are many joint venture banks established in Nepal. Taking all those banks for the study will make job tedious to complete, time consuming, report will too large because of all this things may be this report cannot meet the objective of the study. So, to avoid all those problems this study is done by only one bank as research sample that is Nepal Bank Limited, oldest bank in Nepal.

3.3 Data Collection and Analysis

Each research project has its own data needs and data sources. For this research most of the information is collected from secondary sources such as computer data bank, annual audit reports, published data, literature review and other publications. Questionnaires and interview will also be conducted to collect primary data apart from secondary data. Therefore these data are converted into presentable form by using financial as well as statistical tools have also been used.

3.4 Financial Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and sources and uses of fund. In this research various types of financial tools are employed for the analysis financial tools that are used for the analysis as follows.

Ratio Analysis

A popular way to analyze the financial statement is by computing ratios. A ratio is a relationship between two number e.g. ratio A:B=3:1 that means A is 3 times than B. a ratio by itself may have no meaning. Hence, a given ratio is compared to i) ratio of various years- internal trend or ii) ratio of other general firms in the same industry- external trend. Ratios are more of a diagnostic tool that helps us to identify problem areas and opportunities within the organization. In this section we will discuss how to measure and interpret some key ratios. There is no one ways of classifying various ratios so the researcher may find different groupings depending on what text or articles are read.

Use of ratio analysis

- To evaluate performance
- To set benchmarks or standards for performance
- To enable the external parties in assessing the creditworthiness/ profitability of the firm
- To highlight the areas that needs to be improved or highlight the area that offer the most promising further potential

Analyzing Liquidity

These ratios show the short-term solvency of a firm or liquidity position of a firm. To show the liquidity position following ratios can be calculated:

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

2. Cash & Bank Balance to Current deposit = $\frac{\text{Total Cash and bank balance}}{\text{Total Current deposit}}$

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

2. Investment on Government securities to Current Assets

$$= \frac{\text{Investment on Government Securities}}{\text{Total Current Assets}}$$

5. Fixed deposit to total deposit ratio = $\frac{\text{Fixed deposit}}{\text{Total Deposit}}$

6. Saving Deposit to total deposit ratio = $\frac{\text{Saving deposit}}{\text{Total Deposit}}$

Analyzing Activities

The efficiency of a bank depends on the efficiency with which its assets are managed and utilized. These ratios are also known as efficiency ratios. These are concerned with measuring the efficiency of assets and resources management. The following ratios may be calculated and analyzed under this ratio:

a. Loans & advances to total deposit ratio: It shows bank's efficiency in investing its deposit in terms of loan and advances, It is computed as:

$$\frac{\text{Total Loan \& Advances}}{\text{Total Deposit}}$$

b. Investment to total deposit ratio: This ratio is 'calculated to show the relationship between the bank's investment except loans and advances and its total deposit, which is computed as:

$$\frac{\text{Investments}}{\text{Saving deposit}}$$

Fund Flow Analysis

The balance sheet shows the financial position at the given point of time and income statement summarizes of revenue and expenses for a specified period of time of a business. But for evaluating the past performances, future potentiality of business, a separate statement has to be prepared which is known as fund flow statements. Funds flow shows the sources of fund and its uses. Therefore the fund flow is divided into two parts.

Part 1: Sources of fund

Funds collected from different sources is called sources of fund. Sources from which funds are collected are divided into four groups as:

- Capital fund
- Deposit
- Borrowings
- Others

Part 2: Uses of fund

Fund, which is collected from different sources, is to be used; it should not be kept idle. Uses of fund help us to know, where the funds are used. Uses of fund are divided in five groups as:

- Liquid fund
- Investments
- Loan and advances
- Interest occurred
- Assets and others

Analyzing Loan and Advances

These ratios are offered to analyze the portion of loan and advances to different sectors, categories and status. These ratios are the integral part of the organization. To analyze particularly loan and advances we use the following ratios:

a. Sector-wise Loan and advances: This analyzes the loan and advances on the basis of sector.
b. Security-wise Loans and advances analysis: This part analyzes the loan and advances on the basis of security.
c. Priority & Deprived sector lending ratio: Priority & Deprived Sector Loan Total Loan

Analyzing the efforts & achievement to recovery of NPAs

This part analyzes the efforts made by the bank to recover bad loans and the achievement.

NPA ratio: This ratio analyzes what portion of the total loan is bad loan, Non performing assets and computed as: Total Loan and Advances

Analyzing the Improvement of Daily Activities

This part analyzes the daily operational part of the bank. It measures the service quality of the bank towards its customers. A survey made to analyze the service quality of the bank. A questionnaire (Appendix II) produced to NBL's customers at two computerized branches and a non-computerized branch.

Analyzing Cost Control Mechanism

This part analyzes the cost control mechanism adopted by NBL in regard to Interest expenses, Staff expenses, Office operating expenses etc. The flows of cost and their control will be analyzed in this part.

Trend Analysis

In the profit making analysis, the direction of change over the period of years is of crucial importance. Trend analysis of ratios indicates the direction of change. This kind of analysis is particularly of applicable to the items of profit and loss account. It is advisable that trends of sales and net income may be studied in the light of two factors, the rate of fixed expansion or secular trend in the growth of the business and general price level. Trend analysis enables to compare different period of time and draw important conclusion.

CHAPTER – IV
PRESENTATION & ANALYSIS OF DATA

4.1 Introduction

This chapter is the main context of the study. On the backgrounds of various literature reviews in the preceding chapter, it is attempted to study budgeting system of NBL. With the objectives to study the fund mobilization and lending policy, to examine the new management techniques for recovery of NPLs, to know the improvements of bank for daily operating activities, to study the impact of new management techniques in making profit, to study the cost control mechanism followed by the new management. In aggregate the researcher is going to analyze the relative performance on the above. Researcher is going to analyze, interpret and evaluate the data with the help of financial and statistical tools mentioned in the earlier chapter. 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.

4.2 Financial Analysis

It is the process of identifying the financial strengths and weakness of a firm by properly establishing the relationship between the items of balance sheet and profit and loss account. Tools that are used are ratio analysis and cash flow analysis.

4.2.1. Ratio Analysis

An arithmetical relationship between two figures is known as ratio. It is calculated by dividing one item by another. Ratio simply means one number expressed in term of another. Ratio analysis is a technique of analyzing and interpreting the financial statement to evaluate the financial performance of organization. In this study the ratios have been classified into liquidity ratio, debt ratio, profitability ratio, activity ratio etc

4.2.2 Liquidity Ratio

Liquidity ratios measure the firm's ability to meet current obligations. It reflects the short-term financial strength of the business. The failure of company to meet its short-term obligation due to insufficient liquidity will result in poor credit worthiness, loss of shareholders or even in legal suits resulting in the closure of the bank at extreme. Therefore it is necessary to balance the liquidity to maintain right level of profit.

a) Current ratio

Current assets are those assets, which can be converted into cash within a short period of time, normally not exceeding one year. Cash in hand, cash at bank, bills receivable, marketable securities, short term investment, inventory, debtors, prepaid or paid in advance, accrued or outstanding income, loan and advances, account receivable etc are current assets. Current liabilities are such obligations which are payable with in the short period of time, normally not exceeding one year. Creditors, bank overdraft, bills payable, provision for tax, provision for dividend, outstanding expenses, account payable etc are current liabilities.

Higher the current ratio is better is the liquidity position. For many types of business 2:1 is considered to be adequate ratio. If the current ratio of the firm is less than 2:1 the solvency position of the firm is not sound. The cash may not be available to repay the current liabilities. If the ratio is more than 2:1 that means company-may have an excessive investment in current assets or lower achievement of current liabilities that negatively concerns to the profit.

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

Table- 4.1

Current ratio

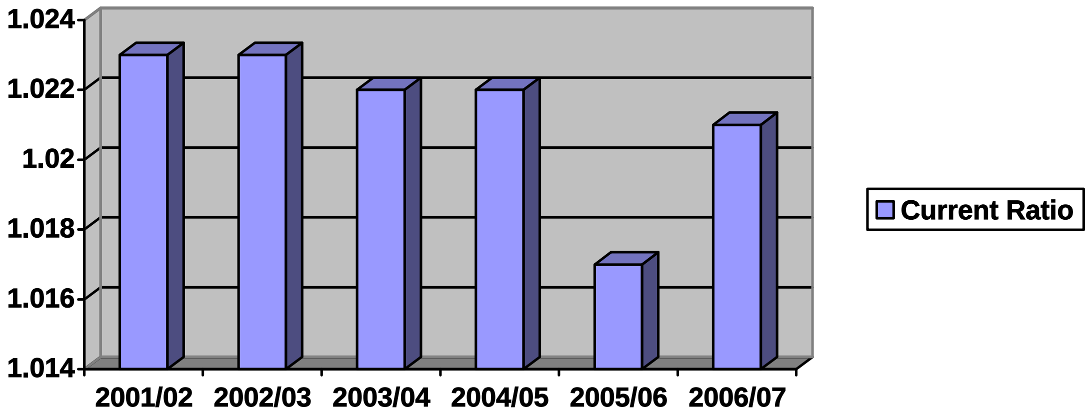
Rs. In million

Fiscal Year	Current Assets	Current Liabilities	Current ratio
2001/02	46120.1	45075.9	1.023
2002/03	50867.7	49742	1.023
2003/04	63816.6	62467.1	1.022
2004/05	66329.5	64880.4	1.022
2005/06	64063.8	62999.5	1.017
2006/07	65259.2	63934	1.021

Source: Banking & Financial Statistics Vol.45

Figure 4.1

Trend Line of Current Ratio



Above table shows the liquidity position of the bank, which is not in sound position i.e. the bank doesn't have the adequate ratio. The current is moving within 1.017 to 1.023. In the FY 2001/02 to 2002/03 the ratio is hanged to 1.023 but in FY 2003/04 & 2004/05 decreased to 1.022 as much it has decreased to 1.017 in the FY 2005/06, However it has uplifted to 1.021 in FY 2006/07. Generally the adequate current ratio is 2:1 to meet the short term obligations for the ordinary organizations, but for the bank all the deposits are also regarded as current liabilities, therefore if it could around 1.3:1 also can be regarded at satisfactory. NBL's current ratio is not in the satisfactory level too.

b) Cash & Bank Balance to Current deposit

Current deposits are the highly liquid for the bank. The depositors may withdraw their deposits any time. NBL's Current deposits do not bear any cost. In this way the depositors don't obtain any interest on their deposits, i.e. they may withdraw without any desire to deposit longer time to earn interest.

This ratio is used to check out the position of NBL to repay the immediate obligation.

$$\text{Cash \& Bank Balance to Current deposit} = \frac{\text{Total Cash and bank balance}}{\text{Total Current deposit}}$$

Table 4.2

Cash & Bank balance to Current deposit ratio

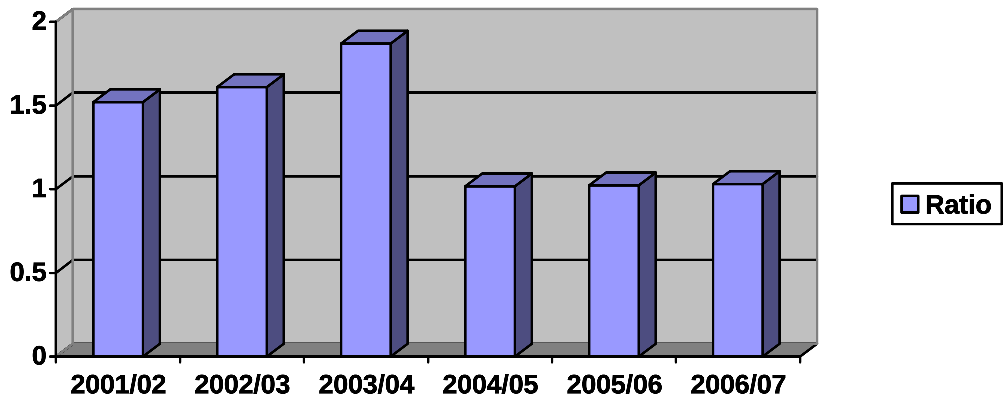
Rs. In Million

Fiscal Year	Cash & Bank Balance	Current Deposit	Ratio
2001/02	7648.6	5033.2	1.5196
2002/03	8050.5	5000.7	1.6099
2003/04	8063.8	4311.7	1.8702
2004/05	4770.6	4689.5	1.0173
2005/06	6444.0	6300.0	1.0225
2006/07	5886.2	5714.4	1.0301

Source: Banking & Financial' Statistics Vol.45

Figure 4.2

Cash & Bank balance to Current Deposit Ratio



NBL's cash & bank balance is sufficient to meet current deposit of its depositors. From the FY 2004/05 the bank has been maintaining cash and bank balance nearly equalizing the current deposits however in previous years cash and bank balance were around double of current deposit which does not give any return to the bank.

c) Cash & Bank balance to total deposit:

This is like quick ratio for the financial institutions. It measures the availability of bank's immediate fund to meet calls on current, saving, calls and other deposit. Bank should keep its certain amount of cash to pay to its depositors. High liquidity is not good for commercial banks, high liquidity means that the bank is not able to invest its deposit properly and the crisis of liquidity too is not good it may hamper the goodwill of bank i.e. if bank is not able to pay its depositor whenever they ask for it. Therefore it should keep just defending the bank from unanticipated calls.

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. Higher liquidity position means that the bank is able to cover its deposit and lower liquidity position means that the bank is not able to cover the deposit. The commercial banks and financial institutions should keep the stock of liquid assets according to the ratio of total deposit fixed by the central bank. NRB has directed commercial banks to maintain at least 2% of the deposit liabilities as cash at vault and 5% cash & cash equivalent.

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

Table 4.3

Cash & Bank balance to Total deposit ratio

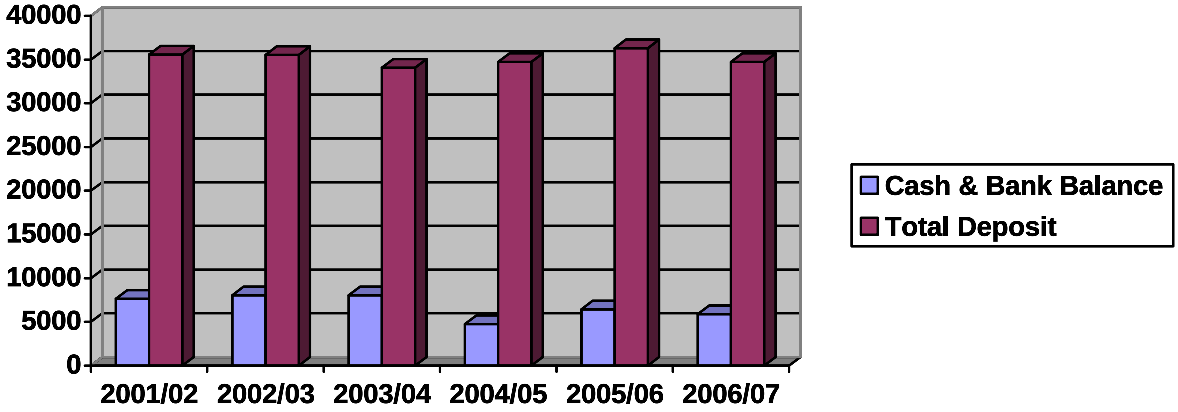
Rs. In Million

Fiscal Year	Cash & Bank Balance	Total Deposit	Ratio
2001/02	7648.6	35578.7	0.2150
2002/03	8050.5	35528.6	0.2466
2003/04	8063.8	34060.1	0.2368
2004/05	4770.6	34737.4	0.1373
2005/06	6444.0	36288.5	0.1776
2006/07	5886.2	34744.2	0.1694

Source: Banking & Financial Statistics Vol.45, NRB

Figure -4.3

Cash & Bank balance to total deposit on Bar graph



As already discussed cash & bank balance should be maintained by a commercial bank to at least 5% of its total deposit. NBL's Cash and bank balance is in the range of 13.73% to 24.28%, which shows the higher liquidity. Liquidity does not add any earning to the bank except the goodwill or faith of depositors. Therefore the liquidity should be maintained in that level which does not loss the opportunity of earning and does not appear the scarce of cash for daily operation. In this regard NBL's Liquidity is high, i.e. it has not been utilizing properly the liquidity to gain the expected profit as much as possible. However the liquidity has been gradually coming to the right track comparing to the FY 2001/02.

d) Investment on Government securities to Current Assets:

The investments made by a bank to Government securities are the quick assets for the bank. The securities can promptly convert to cash. The relation of government securities to current assets is reasonable to check out the quick assets other than cash and bank balance to current assets.

Investment on Government securities to Current Assets

$$= \frac{\text{Investment on Government Securities}}{\text{Total Current Assets}}$$

Table 4.4

Investment on Government securities to Current Assets

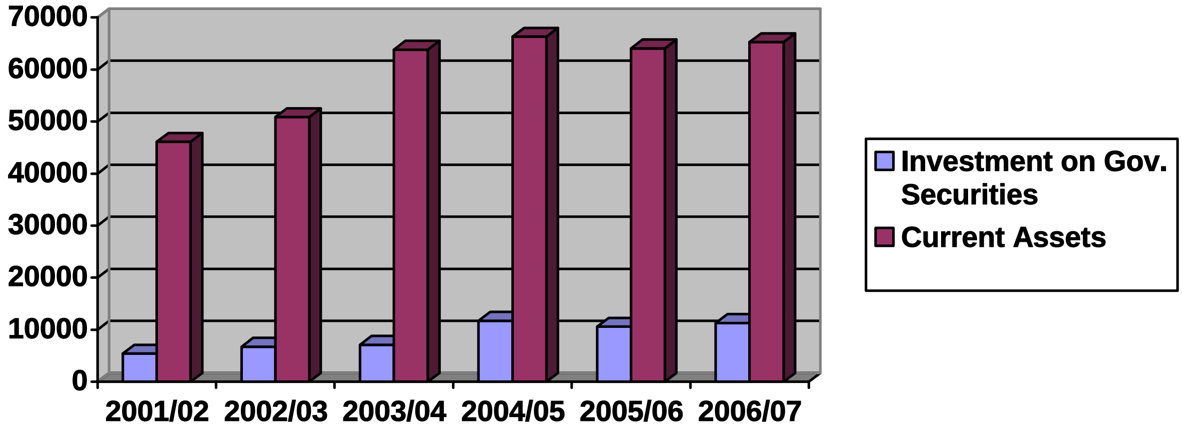
Rs. In Million

Fiscal Year	Investment on Gov. Securities	Current Assets	Ratio
2001/02	5406.1	46120.1	0.1172
2002/03	6720.0	50867.7	0.1321
2003/04	7115.2	63816.6	0.1115
2004/05	11724.8	66329.5	0.1767
2005/06	10593.8	64063.8	0.1654
2006/07	11278.0	65259.2	0.1728

Source: Banking & Financial Statistics Vol.45

Figure 4.4

Investment on government securities to Current Assets



Above Table 4.4 and figure 4.4 show the investment on government securities of NBL comparing to its total current assets. The portfolio of investment on government securities has been gradually increasing. One thing to be noted the investment in government securities is consistently increasing with total current assets. It shows the right management of liquidity made by the bank's treasury department.

e) Fixed deposit to total deposit ratio

Fixed deposits for NBL is highest cost bearing deposit than other deposits. In one hand excessive of fixed deposit means'it has to bear high interest expenses and in other hand these are term deposits, the bank will not be pressured to repay the deposit before the expiration of term which makes a bank to invest the deposit to long term loans. This ratio compares the portion of fixed deposit with total deposit.

$$\text{Fixed deposit to total deposit ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}} \times 100\%$$

Table 4.5

Fixed Deposit to total deposit ratio

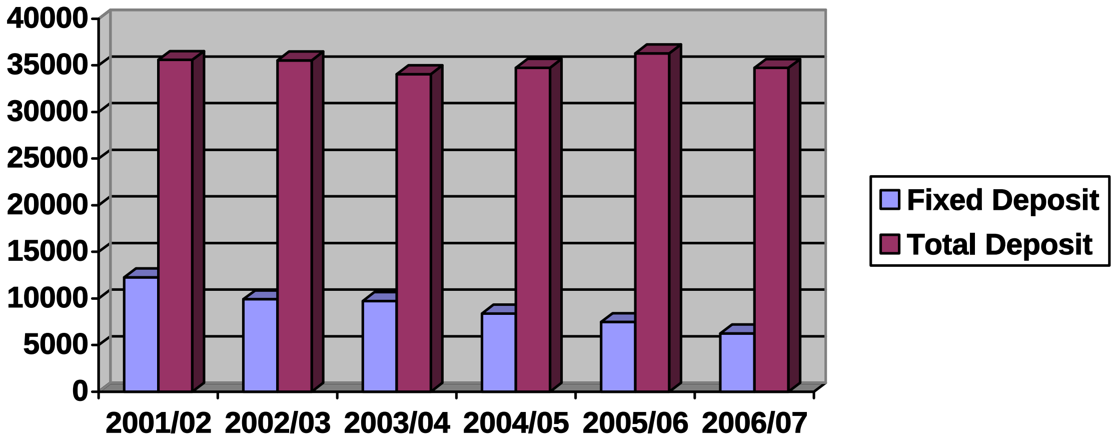
Rs. In Million

Fiscal Year	Fixed Deposit	Total Deposit	Ratio
2001/02	12275.8	35578.7	0.3450
2002/03	9921.8	35528.6	0.2793
2003/04	9731.8	34060.1	0.2857
2004/05	8396.9	34737.4	0.2417
2005/06	7481.0	. 36288.5	0.2062
2006/07	6269.26	34744.2	0.1804

Source: Banking & Financial Statistics Vol.45

Figure 4.5

Fixed Deposit to total deposit



Above table and figure show the relationship of fixed deposit to total deposit of bank. The portion of fixed deposit has been gradually decreasing. It represents the bank has been demoralizing the public for fixed deposit regretting the interest rate on fixed deposit. It is favorable for bank in short term to pay lower interest.

f) Saving deposit to total deposit ratio:

Saving deposits are the moderate type of deposit to a bank. It is interest bearing deposit in one hand and it is revolving too. It is not a term deposit like fixed, and not a cost free deposit like current. But the interest on saving deposit is comparatively lower than faxed deposit. It bears cost, payable at the desire of depositors.

$$\text{Saving Deposit to total deposit ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

Table 4.6

Saving deposit to total deposit ratio

Rs. In Million

Fiscal Year	Saving Deposit	Total Deposit	Ratio
2001/02	17888.4	35578.7	0.5028
2002/03	20281.6	35528.6	0.5709
2003/04	19851.5	34060.1	0.5828
2004/05	21534.5	34737.4	0.6199
2005/06	22063	36288.5	0.6080
2006/07	22671.8	34744,2	0.6525

Source: Banking & Financial Statistics Vol.45

Table 4.6, represent the portion of Saving Deposit to total deposit of NBL. As already discussed saving deposit is the moderate type of deposit for bank, increasing saving deposit is favorable for the bank for profit plan from the view of cost, but it narrows the opportunity to invest in long term loan. At a same figure receiving the deposit mix of NBL of FY 2006/07 can be obtained as follow.

Table 4.7

Analyzing the deposit mix of NBL of FY 2006/07

Rs. In Million

Type of deposit	Amount in Million	Percentage
Current Deposit	5714.43	16.45
Saving Deposit	22671.8	65.25
Fixed Deposit	6269.26	18.04
Call Deposit	. 4.75	0.01
Others	85.97	0.25

Source: Banking & Financial Statistics Vol.45

Figure 4.6

Deposit mix of NBL of FY 2006/07

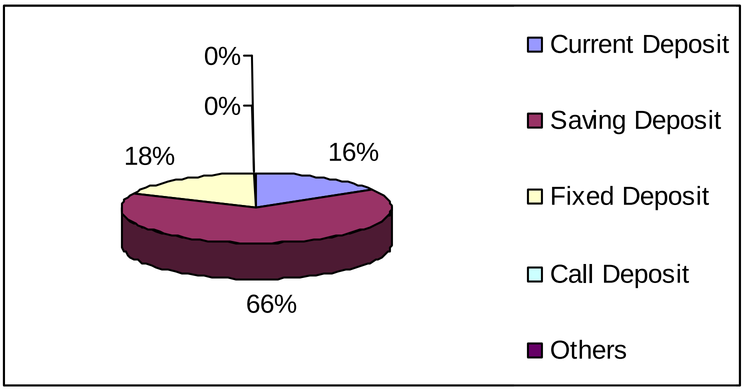


Table 4.7 and figure 4.7 represent the status of deposit mix of NBL of fiscal year 2006/07. The major part of deposit obtained by NBL is saving deposit i.e. 65.25%, call deposit and other deposits are nominal. Fixed deposit is higher than current. Current deposit which is free of cost is just 16.45%. NBL would better to attract the depositors for current deposit performing better service to such depositors.

4.3 Analyzing Activities

The efficiency of a bank depends on the efficiency with which its assets are managed and utilized. These ratios are also known as efficiency ratios. These are concerned with measuring the efficiency of assets and resources management.

a. Loans and Advances to Total Deposit Ratio

Basically, this ratio examines to what extent the bank is able to utilize the depositor's fund to earn profit by providing loan. It indicates haw quickly the deposit is converted into loan and advances. High ratio is excellent for bank. High ratio means that the bank is able to use its deposit. Low ratio means the deposit is remaining idle in the bank; this decreases the profit and even the position of bank. Loan and advances to total deposit is also the major ratio to know the position of bank. It shows bank's efficiency in investing its deposit in terms of loan and advances, it is computed as

$$\frac{\text{Total Loan \& Advances}}{\text{Total Deposit}}$$

Table -4.8

Loan and advances to total deposit

Rs. in million

Fiscal Year	Loan & advances	Total Deposit	Ratio
2001/02	22863.7	35578.7	0.6426
2002/03	22064.3	35528.6	0.6410
2003/04	20997.5	34060.1	0.6165
2004/05	19266.1	34737.4	0.5546
2005/06	19141.7	36288.5	0.5475
2006/07	17456.0	34744.2	0.5024

Source: Banking & Financial Statistics Vol.45

Above table 4.8, reflect the position of bank on loan and advances comparing to total deposit. The deposit of bank has been increasing to some extent except at FY 2001/02 to 2003/04. But the total loan and advances are continuously decreasing since FY 2002/03. If we compare it with percentage in FY 2003/04 the percentage of loan and advances comparing to total deposit was 67.67% whereas it has decreased to 50.24% in FY 2006/07. It shows the bank has not been properly utilizing its deposit fund to the loan and advances. Moreover the decreasing trend has not been stopped yet as shown by figure 4.9; it may be more critical for the bank's performance on loan and advances in the days ahead.

b. Investment to Total Deposit Ratio

It is also the calculation of how much bank is able to mobilize its deposit on investment. Investment include bond of the Government, NRB's bond, bond of foreign government, investment on share of well-established industry and other investment. Investment has low risk and low profit than the loan and advances. As NBL has been decreasing its loan and advances, this ratio tests the investment has been increasing or not for profit making.

Table -4.9

Investments to total deposit ratio

Rs. In million

Fiscal Year	Investments	Total Deposit	Ratio
2001/02	5406.1	35578.7	0.1519
2002/03	6720.0	35528.6	0.1891
2003/04	7115.2	34060.1	0.2089
2004/05	11724.8	34737.4	0.3375
2005/06	10593.8	36288.5	0.2919
2006/07	11278.0	34744.2	0.34.46

Source: Banking & Financial Statistics Vol.45

Table 4.9, show the relation of investments to total deposit. Obviously, the investment of NBL has been increased significantly for FY 2006/07 comparing to FY 2001/02, it has reached to 34.46% in FY 2006/07 form 15.28% as of FY 2001/02 comparing to the total deposit. The fund extracted form loan and advances has been diverted to investments. It is to be mentioned that the investments have lower risks and lower profits than loan and advances. It means NBL doesn't want to take high risk to generate high profit recently; considering the political condition of the bank. But would it be better to escape from market? In the long term what remains its effects? This strategy may downsize the competitive strength on the market, because now there are many financial institutions operating in Nepalese financial market.

Following table and figure show the fund mobilized in different categories in FY 2006/07.

Table 4.10

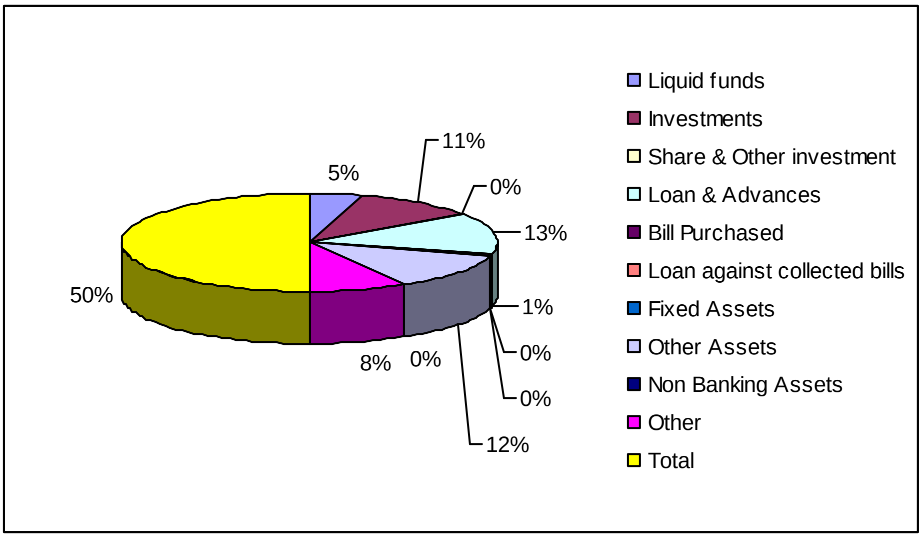
Fund Mobilization for FY 2006/07

Uses of fund	Rs. In million	Percentage
Liquid funds	5886.2	9.020
Investments	13838.6	21.206
Share & Other investment	51.2	0.078
Loan & Advances	17456	26.749
Bill Purchased	1073.3	1.645
Loan against collected bills	1.3	0.002
Fixed Assets	208.9	0.320
Other Assets	15731.5	24.106
Non Banking Assets	169.3	0.259
Other	10844.9	16.615
Total	65259.2	100.000

Source: Banking & Financial Statistics Vol.45

Figure 4.7

Fund Mobilization for FY 2006/07 on Pie Chart



Above table 4.10 & figure 4.12 reflect the fund mobilized position of NBL for FY 2006/07. The profit making uses of fund is 49.68% out of total fund. Highest use is on loan and advances i.e. 26.749%, secondly investments i.e. 21.206%, other uses are vary low which generate profit. Major portion of the fund has been dumped to non-earning fields like assets (fixed, non banking, other assets etc.). If the bank becomes able to mobilize those idle funds to the productive sectors than only it can perform its best profit in days ahead.

4.4 Fund Flow Analysis

The balance sheet shows the financial position at the given point of time and income statement summarizes of revenue and expenses for a specified period of time of a business. But for evaluating the past performances, future potentiality of business, a separate statement has to be prepared which is known as fund flow statements. Funds flow shows the sources of fund and its uses. Therefore the fund flow is divided into two parts. .

Part 1: Sources of fund: Funds collected from different sources is called sources of fund. Sources from which funds are collected are divided into four groups as:

a) Capital fund
b) Deposit
c) Borrowings
d) Others

Part 2: Uses of fund: Fund, which is collected from different sources, is to be used; it should not be kept idle. Uses of fund help us to know, where the funds are used. Uses of fund are divided in five groups as:

a) Liquid fund
b) Investments
c) Loan and advances
d) Interest occurred
e) Assets and others

Table 4.11

Sources and Uses of Funds of NBL

(Rs. In million)

	Mid July						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1. Capital fund	1015.4	1044.2	1125.7	1349.5	1449.1	1064.3	-10347.5
a. Paid up capital	380.3	380.4	380.4	380.4	380.4	380.4	380.4
b. General Reserve	467.2	544.6	544.6	557.2	557.2	557.2	699.3
c. Share premium							0
d. Retained earning							-11674.7
e. Other reserves	167.9	119.2	200.7	424.6	511.5	126.7	245.5
4. Borrowings	284.3	235.5	266.2	215.0	54.4	0.0	1124.85
a. NRB	284.9	234.2	264.8	213.7	54.4	0.0	1124.46
b. Commercial banks	1.4	1.4	1.4	1.4	0.0	0.0	0.34
c.Foren. bank& fin ins.	0.0	0.0	0.0	0.0	0.0	0.0	0
d. Other financial ins							0.05
3. Deposits	33094.7	35578.7	35528.6	34060.1	34737.4	36288.5	34744.2
a. Current	4386.5	5033.2	5000.7	4311.7	4689.5	6300.0	5714.43
b. Saving	14214.8	17888.4	20281.6	19851.5	21534.5	22063.0	22671.8
c. Fixed	14154.7	12275.8	9921.8	9731.8	8396.9	7481.0	6269.26
d. Call deposit	0.0	0.0	0.0	7.8	14.4	270.0	4.75
e. Others	336.7	381.2	324.5	157.4	104.1	174.5	85.97
4. Bills payable							169.2
5. Contra Account							0
6. Other liabilities	9955.4	9261.7	13947.3	28191.9	30090.6	26711.0	36401.0
a. Sundry creditors							814.477
b. Loan loss provision							9249.89
c. Interest suspense							13629.7
d. Others	9955.4	9261.7	13947.3	28191.9	30090.6	26711.0	12707.0
7. Reconciliation A/C							1767.96
8. Profit & Loss A/C							1399.5
Sources of Funds	44347.8	46120.1	50867.7	63816.6	66329.5	64063.8	65259.2
1. Liquid funds	8035.2	7648.6	8050.5	8063.8	4770.6	6444.0	5886.2

a. Cash Balance	1659.8	1614.1	1784.8	1648.9	1420.9	969.4	1020.7
b. Bank Balance	4105.0	6034.5	6265.7	6410.9	3349.7	4454.6	4315.5
c. Money at call	2270.4	0.0	0.0	4.1	0.0	1024.0	550.0
4. Investments	5058.2	5406.1	6720.0	7115.2	11724.8	10593.8	13838.6
a. Govt. Securities	5058.2	5406.1	6720.0	7115.2	11724.8	10593.8	11278
b. NRB Bonds							0
c. Non residents							2560.6
3. Share & Other Inv.	61.2	56.3	56.3	37.6	59.8	429.9	51.2
4. Loan & Advances	22394.6	22863.7	22064.3 ‘	20997.5	19266.1	19141.7	17456
a. Govt. Entp.	765.4	906.5	597.8	654.2	743.0	491. .3	572
i. Financial	0.0	0.0	0.0	0.0	64.5	104.5	168.9
ii. Non financial	765.4	906.5	597.8	654.2	680.5	388.8	403
b. Private Sector	21213.7	21656.1	21131.0	20103.4	18335.1	18616.7	16884
c. For Bills P. & D.	290.8	177.1	234.2	139.2	88.4	33.7	
d. Foreign A.B.C.	124.7	124.0	99.3	104.7	99.6	0.0	
5. Bill Purchased							1073.3
a. Domestic Bills							24.6
b. Foreign Bills							21.2
c. Import Bills & Imp.							1029.5
6. Loan Against Bills			‘				1.3
7. Fixed Assets							208.9
8. Other Assets	8798.6	10145.5	13978.6	27604.5	30510.2	27454.4	15731.5
a. Accrued Interest	4287.5	5327.4	6958.2 ‘	8793.0	9774.9	11498.8	12950.6
i. Govt. Entp.	90.4	298.8	101.9	134.1	195.1	141.0	161.9
ii. Private Sector	4197.1	5028.6	6856.3	8660.9	9577.8	11357.8	12788.7
b. Sundry Debtors							324.4
c. Cash In Transit							147.1
d. Others	4511.1	4818.0	7020.4	18809.5	20737.3	15955.6	2311.4
9. Exp. Not written off							124.3
10-Nonbanking Asst							169.3
11. Reconciliation							388.4
14. Profit & Loss a/c							10334.2
Uses of Funds	44347.8	46120.1	50867.7	63816.6	66329.5	64063.8	65259.2

Source of Fund

a) Capital Fund: Capital fund is the total amount of paid up capital, statutory reserve and other reserves retain earnings. Paid up capital during the years has not been changed, it is static at 380.4 million. Net worth of the bank is till yet negative. However it has been reducing it significantly.

b) Borrowings: Borrowing is one of the short-term sources of fund for the bank. Borrowing mean fund borrowed from NRB, inter bank, foreign bank and other financial institution. Borrowing covers very nominal portion of source in NBL. Borrowing in the year 2005/06 was nil and the highest borrowing 1124.85 M at mid July, 2006/07. The fluctuation of borrowing can be regarded as the supplementary fund of NBL is flexible.

c) Deposit: Deposit is the major source of fund for the banks. Maximum funds are collected from different types of deposit accounts. Different accounts from which the deposits are collected are current, saving, call and other. While observing this source it is found that the deposit of NBL is similar size during the 7 years. Moreover it has been decreased in 2006/07 comparing to 2005/06.

d) Other Source: It includes other liabilities that make the funds available to bank such as loan loss provision, interest suspense etc. It is the source of short term fund because when the loans are repaid loan loss provision will be released, and the interest suspense will be recovered. NBL's this source is being increased rapidly.

Uses of Fund

a) Liquid fund: Liquid fund include cash in hand, foreign currency in hand, balance with NRB, balance with domestic banks, balance with other financial institutions and call money. Banks have to maintain its liquidity to follow the directives of NRB. NRB has directed banks to maintain at least 2% of liquidity whenever they ask for it. But NBL has liquidity problem. It is not able to issue the loan and advances and to invest to the earning field.

b) Investment: Investment includes government securities, share and debenture and NRB band. Use of fund in investment can be regarded a lower risky investment than loan and investment. NBL has been deploying its fund in investment at a good level. Investment is being increased every year.

c) Loan and advances: Loan and advances are the major earning factor for the banks. Obviously these are the assets of bank, but these may be the harmful factor when they become bad. Moreover the bank must produce the loan loss provision for every loan ranging from 1% to 100%. Loan and advance include funding in government enterprise, private sector, for bills purchase and discount and foreign bills collection loan and advance. It is highly yielding but riskier sector of funding. High funding in this sector will generate high profit but because of its risk factor banks should be very conscious while funding. Use of fund in loan and advance by NBL is decreasing. Due to previous high funding in loan and advances without acknowledging the borrower, the bad portion of loan is high. Therefore the bank has been downsizing the loan and advances to drag it to right level. The total funding in 1999 was 22394.6M which is only 17456 Min FY2006/07.

d) Other Assets: It includes interest accrued and other non earning assets. The interest accrued is rapidly increasing. It was 4284.5M in FY 2001 and it has reached to 12950.6M in FY 2006/07. Such increment may occur by two reasons first increment in loan and investment which generates more interest, second low attention to recover interests. For NBL second reason matches because its loan and advances are decreasing therefore NBL is not able to recover the interests promptly.

4.5 Loan and Advances Analysis

Loan and advances are the major earning port in the banking business. It denotes the funding in the different fields by bank. We analyze here the quality and quantity of loan and advances occurred by NBL. Mainly in which sectors the loan of NBL is diversified, what is the position of security undertaken by the bank for the backup of loan are analyzed. Some ratios are offered to analyze the portion of loan and advances to different sectors, categories and status. These ratios are the integral part of the organization.

Sector-wise Loan and advances

This analyzes the loan and advances on the basis of sector. In what sector the loan is offered and how is the condition of loan offered sector. The following table reflects the figures of loan and advances offered to different sectors as on mid July 2006/07.

Table 4.12

Sector-wise loan and advances as on mid July 2006/07

Sectors	Amount In Million	Percentage
Agriculture	831.1	4.84
Mining	11.9	0.07
Production	6137.9	35.80
Construction	334.4	1.94
Metal Productions, Machinery, & Electrical tools & Fittings	316.3	1.85
Transportation equipment production & fitting	73.1	0.43
Transportation, communication & public services	301.7	1.76
Wholesaler & Retailers	3817.7	22.27
Finance, Insurance & Fixed assets	788.4	4.59
Service industries	1854.3	10.82
Consumable loan	1871.2	10.91
Local government	0.0	0.00
Others	809.9	4.72
Total	17143.9	100

Source: Banking and financial statistic, published by NRB

The investment sectors of NBL are shared to different sectors. The major portfolio of loan and advances is production sector. Wholesaler and retailer vary after production sector. The sector-wise allocation of loan and advances of NBL seems just opposite of national economy because Nepalese economy mainly oriented to agricultural sector, however the loan and advances of NBL to this sector is not significant. Security-wise Loans and advances analysis: This part analyzes the loan and advances on the basis of security. Security means the collateral undertaken bay bank before disbursement of loan and advances. Our Nepalese funding requires the collateral security as the backup to repay loan and advances. Following table shows the statistic of loan and advances of NBL on the basis of security as on mid July 2006/07.

Table 4.13

Security-wise loan and advances as on mid July 2006/07

Sectors	Amount In Million	Percentage
Gold & Silver	718.0	4.18
Government securities	989.6	5.77
Fixed A/C Receipt	163.6	0.95
Land & Building	3054.1	17.81
Machinery & tools	534.7	3.12
Furniture & Fixture	247.9	1.45
Vehicles	197.5	1.15
Other fixed assets	461.9	2.69
Agricultural products	1056.3	6.16
Other non agricultural products	3785.1	22.08
Bills guarantee	1187.2	6.92
Guarantees (Govt, group, personal, instructional & other)	1131.9	6.60
Earthquake victim loan	40.4	0.24
Others	3579.7	20.88
Total	17143.9	100

Source: Banking and financial statistics

Above table shows the loan and advances of NBL on the basis of security. The security gold and silver, Government securities, fixed A/C Receipts are much secured from the view of security. Land and building also secures the loan in long term but the fluctuation on its market value may be critical for security. Guarantees are average for the security. In this way the status of loan and advances of NBL from the view of security can be regarded as average.

Priority & Deprived sector lending ratio: These loans are comparatively smaller in the volume. These loans are provided to priority and deprived sectors in different categories as per their uses. They are:

- Agriculture
- Domestic Industries
- Services
- Power Sector etc

The main purposes of these loans are to support the national economy providing loans to priority and deprived sector as per their need. In the prospect of NBL generally the loan amount up to 30 thousand is deprived sector loan, these loans may or may not be secured by the collateral security, if the loan is not secured to collateral security; it requires group guarantee or personal guarantee. Priority sector loans are generally that amount of loan which is more than 30 thousand but that has to attempt the priority sector to support agriculture, domestic industries, services or power sector. The level of priority and deprived sector loan of NBL as on mid-July 2006/07 is as follow:

Table 4.14

Priority and deprived sector loans as on mid July 2006/07

Sectors		Amount In Million
Priority Sector	1. Direct Investment	1723.5
	Agriculture	326.6
	Domestic Industries	1188.9
	Services	203.3
	Power sector	4.7
	4. Indirect Investment	195.2
	Total (1+2)	1918.7
Deprived Sector	1. Direct investment	335
	Agriculture	207
	Domestic industries	17.7
	Services	110.3
	4. Indirect investment	195.2
	Total (1+2)	530.2

Source: Banking & Financial statistics

The above table summarizes the priority and deprived sector loan of NBL as on mid-July 2006/07. Total priority and deprived sector loan is [1918.7+530.2] =2448.9 million.

$$\text{Priority and deprived sector loan ratio} = \frac{\text{Priority and Deprived Sector Loan}}{\text{Loan}}$$

$$= \frac{2448.9}{17456} = 0.14. \text{ i.e. } 14\%.$$

This portfolio Total of loan and advances is directly related to the general public whose income is comparatively lower, i.e. it does not falls to the business houses. It is a kind contribution to the general public, deprive sector to uplift their level of income. The lending rate to this portfolio seems reasonable comparing to total loan and advances of NBL. And it is within the NRB's directive to lend a least 12% loan o priority and deprived sector.

4.6 Lending policy Analysis:

It analyzes major lending policy, practice & procedure of the bank. This analysis is based upon the discussion with NBL staffs. Lending denotes the disbursement of loans to the borrowers. Various analysis and discussions are needed to make the loan secure. Basically two lending practices have been found, first short term lending and second long term lending. They have to be justified by the lending policy of bank, directions of NRB and need of the borrowers.

Various types of loans are given by NBL. Major loan types are as follow:

a) Funded Loans

These loans are directly related to the fund of bank. The borrowers enjoy the facility at the mode of cash utilization from the bank. These loans bear interest charged by the bank, as per NBL rule and NRB's directives. Some of them are revolving and some of them are fixed term based.

i) Commercial lending: These are related to commercial purpose. Business houses, firms, organizations or persons can utilize such loan. The types of loan which comes under his category are as follows:

- Hypothecation loan
- Working capital loan
- Overdraft
- Pledge loan
- Hire purchase loan
- Term loan
- Project loan
- Demand Loan
- Contract loan etc

ii) Consumer lending: By nature these loans are non commercial. These are a kind of consumption loans. Except gold and silver loan other types of loan are named by heir specific purpose to utilization.

- Gold & silver loan
- Auto loan
- Home loan
- Personal loan (including the loans against liquid assets)
- Education loan etc

iii) Priority & Deprived sector loan: This loan consist the loan which is needed to be given deprived and poor sector of population as per NRB directive. The priority sector and deprived sector needs at a small volume of money for agriculture, small cottage industries, small trades and services. Hence this loan is useful for the poorer level of population.

b) Non funded loan

These loans do not involve any cash from the vault of bank. The bank accepts certain kind of guarantee behalf of customer to perform transaction. For such loans bank perceives collateral security from customer and grants the guarantee to pay the mentioned sum of money at the disability to pay the sum by customer itself. These types of losns at NBL are as follow:

- Performance bond/ Bid bond/ Bank guarantee
- Letter of credit etc.
- Sight
- Red Clause
- Confirmed LC
- Back to Back
- Revolving LC

As per the NBL staffs working at Lending Unit NBL's lending policy has been changed a lot comparing to past practices. Different analytical aspects are to be analyzed before issuing the loan. Likewise the bank has launched several new types of loan to uplift the volume of loan and advances. The bank has emerged the new loans as follows from 2061-11-24 BS.

- Margin Lending
- Auto Loan
- Home Loan

These loans commendably add the portfolio to enhance loan and advances of Bank. The bank has succeeded to add Rs. 2018502 thousands till Jestha 12, 2064. The authority has permitted 22 branches for these loans. The branches and present position of consumer lending as on Jestha 12, 2064 is as follow:

Table 4.15

Position of Consumer Lending As on Jestha 12, 2064

Rs. In Thousand

Branches	Margin Lending	Auto Loan	Home Loan	Total
Banepa Branch	-	26057	4956	31013
Bhaktapur Branch	2819	8222	9396	20437
Biratnagar City Office	1100	6765	2225	10090
Birgunj City Office	1420	3838	2200	7458
Dhangadi Branch	-	15405	3358	18763
Dharan City Office	16750	800	-	17550
Hetauda City Office	-	3580	1000	4580
Itahari Branch	260	. 1000	1201	2461
Janakpur City Office	2420	6700	3750	12870
Kalimati Branch	96624	-	-	96624
KBO	1061671	194608	87148	1343427
Khasyauli Branch	-	14898	8150	. 23048
Kopundol Branch	237565	-	-	237565
Lalitpur Branch	8250	12553	20624	41427
Narayangadh City Office	1000	8226	5929	15155
Nepalgunj City Office	-	26730	5725	32455
Pokhara City Office	7419	66804	5644	79868
Prithvichock Branch	504	-	-	504
Siddharthanagar	-	-	2600	2600
Teku Branch	12205	-	-	12205
Bhedasingh	-	-	6900	6900
Ratnanagar	-	1500	-	1500
Total	1450007	397687	170807	2018502

Source: NBL, Consumer lending Unit

Above table shows the intensive lending thought of banks management to grab the current business opportunities. The bank has achieved comparative success on margin lending. The following chart shows the performance at consumer lending as on Jestha 12, 2064.

Above table shows the status of sector-wise lending to Margin, Auto and home loans. Comparatively margin lending is leading at consumer lending portfolio of NBL. The security of margin lending is the share/stock certificates of different companies listed at Nepal Stock Exchange. The process for this loan is comparatively simple and fast. That's way the volume of loans is duly increased in the short duration. Likewise the vehicles financed by bank secure auto loan. The vehicles are being financed for private and commercial use. Home loan secures by the collateral security land and building. Auto loan and home loan primarily requires the sufficient income level of borrower to repay the loans. Hence NBL's policy for consumer lending seems convenience to add overall profit of organization.

4.7 Analyzing the Efforts and Achievement to Recovery of NPAs

As per the NRB's report NBL's bad loan was around 62% in 2057BS. The weak performance to recovery of NPL of Nepal Bank Limited became a great problem to the national economy. This required changing the existing management at that time. NRB took over the management of NBL and deployed new management team leaded by ICCMT group of Ireland on 2058BS. Main responsibility of the team was to recover chronic NPLs. The following tables perform the result of recovering NPL.

Table 4.16

Status of Total Credit as on Mid July 2006/07

Classification	Principal	Interest	Total Debt	%Of Principal
Good (Pass)	8239	792	9033	47.20
Sub-standard	203	20	223	1.16
Doubtful	649	283	932	3.72
Bad (Loss)	8365	11612	19977	47.92
Total NPLs	9217	11913	21130	54.80
Total Credit	17456	12707	30165	100.00

Source: NBL, Risk Management Division

Above table show the status of loan and advances as on mid July 2006/07, the loan other than pass are bad loans. Pass loan includes the regular loans which are being updated and the installments, interests etc are being duly collected. Bad loans include substandard, doubtful and loss loans, hence the percentage of bad loan seems 54.80. i.e. more than 50% loans are bad loans. However the rate of NPL has been reduced around by 10% comparing to the rate as of mid July 2005/06. The bank management's concentration to reduce NPL seems not effective yet. However the management has created a separate unit to look after non performing loans named Risk Management Division. But the latest information given by Risk Management Division of NBL regarding the status of loan is as follow:

Table 4.17

Gross Recovery Up to end of May, 2006/07

Rs. In Million

Recovery Types	Principal	Interest	Total	A/Cs Settled	A/Cs Part Payment
Cash Recovery	633	441	1074	620	2113
Restructuring	83	7	90	2	
Workouts	175	72	247	27	-
Collateral Assumed	188	131	319	79	
DRT filed	180	277	457	64	
Total	1259	928	2187	2905	

Source: NBL's Fourth management conference report, 2007

Above table performs the net recovery in mid July 2006/07, the bank's focus is to cash recover the bad loans, because it directly affects the profit of the bank. Restructured loans are not the recovery in real sense, however if the defaulter comes to bank for negotiating to repay the loans with condition, at that time bank permits to repay the loan in certain installment or if the borrower is genuine bank renews the loan/facility. If the borrower ignores the bank's follow-up, bank assumes the collateral security; this type of recovery is also not fruitful for bank, because the bank has to again to be able to sell the assumed collateral. Debt Recovery Tribunal (DRT), is the court of bank to appeal the case for the defaulters, bank has started to file the case at DRT.

Table 4.18

Year wise Gross Recovery

Rs. In Million

Year	2061/62		2062/63		2063/64*	
Recovery Types	A/Cs	Rs.	A/Cs	Rs.	A/Cs	Rs
Cash Recovery	4914	2376	4070	1787	2733	1074
Restructuring	9	1556	15	1038	2	90
Workouts	0	0	75	413	27	247
Collateral Assumed	0	0	50	1062	79	319
DRT	0	0	24	260	64	457
Total	4953	3932	4234	4560	2905	2187

Source: NBL's Fourth management conference report 2007

Above table 4.20 shows the level of NPL recovery. The recovery for FY 2062/63 is comparative highest among three years. But the recovery for FY 2063/64 is around of 10.5 months; still achieved recovery doesn't show the trend to exceed the recovery of immediate last year. It shows the bank has to pay its concentration to recover loan aggressively, when the bank could not succeed to recover bad loans the mission of ICCMT becomes inefficient.

4.8 The Efforts to Recover NPLs

The recovery strategies adopted by the bank found as follows:

1. Negotiation

- Cash Settlement (One time settlement and Partial collateral release)
- Workout Agreement
- Rescheduling/ Restructuring

4. Administrative/ Legal Action

- Assuming Collateral
- Filing case with DRT

Among above strategies the bank mainly focuses to cash settle the NPLs, because the bank feels the following importance of cash settlement.

- Time value of money
- Provision write back

- Interest income
- Reducing number of NPL accounts

Apart the above strategies the bank has been offering certain level of interest waiver to recover bad loans. Bank publicly announced an interest waiver notice, which comprises to waive the interest other than 50% of principal for small borrowers whose principal is up to 50 thousands. Likewise waive the interest other than 100% of the principal for the borrowers whose principal is 50 thousands to 500 thousands. It means the bank is trying to recover the small bad loans. But the problem rises here for big borrowers, the bank has no plan to recover such willful defaulters how to drag them to repay their bad loans. A recent report regarding loans of NBL is presented below:

Table 4.19

Comparison of Total Credit

Classification /Year	2063 Ashad	Increase/ Decrease in principal	2063 Poush	Increase/ Decrease in principal	2064 Ashad	Increase/ Decrease in principal	Increase/Decrease between 2063 Ashad & 2064 Ashad
Good A	8087	4.10	8187	1.23	9547	16.61	35.20
Good B	89	(47.07)	143	59.78	632	341.13	496.46
Total Good	8177	3.00	8330	1.87	10179	24.20	44.02
Substandard	128	(36.82)	77	(39.86)	47	(39.31)	(96.38)
Doubtful	250	(61.49)	243	(4.84)	88	(63.78)	(97.07)
Bad	8311	(0.64)	7735	(6.94)	1835	(76.28)	(74.49)
Total NPL	8689	(5.72)	8054	(7.31)	1969	(75.55)	(84.03)
Total Credit	16866	(1.68)	16385	(4.86)	12149	(25.85)	(34.98)

Source: NBL, RMD

Above table and figure show the recent achievement of NBL in the context of NPL recovery and good loan expansion. It shows the bank has got a commendable success in the FY 2063/64 to recover NPL but the level of total loan has decreased a lot. In the long term this type of conservative recovery may hamper the total profitability of bank. To retain the profitability index of bank, it has to be able to issue the loan adequately comprising to the recovery. Only recovery may feed the instant profit but lending loans feeds long term profit. Therefore the bank has to think for long term profit too, otherwise bank will not be able to maintain the interest and office expenses in the long term.

4.9 Analysis to the Improvement of Daily Activities, Based on Primary Data.

This part analyzes the daily operational part of the bank. It measures the service quality of the bank towards its customers. A survey made to analyze the service quality of the bank at Kathmandu Banking Office (a computerized and restructured banking office of NBL), Baglung Branch (a computerized branch), Bagar Branch, Pokhara (non computerized branch). Mainly the questionnaire was prepared to know the service aspect at operational level of branches. The questionnaire was produced to 300 customers 100 each for every branch. Around 200 customers filled the questionnaire completely, the customers of Bagar branch filled only 50 questionnaires, therefore only 50 questionnaires from each branch is taken for the analysis aspect. The summary of the survey is tabulated as follow:

Table 4.20

Tabulation of Survey At NBL, Kathmandu Banking office, Baglung Branch and Bagar Branch As on 29 Oct 2 Nov & 6 Nov 2006/07 respectively

Question No.	Selected option				Total
	A	B	C	D	
1	22	62	50	16	150
2	13	48	65	24	150
3	95	26	23	6	150
4	8	78	12	2	100
5	8	95	41	6	150
6	18	94	26	12	150
7	8	94	43	5	150
8	13	35	65	37	150
9	9	81	56	4	150
10	14	91	31	14	150

The questions and their outcomes are as follow:

1. How long have you been attached with NBL?

   a. 1 year b. 1-5 years

   c. 5-10 years d. more than 10 years

Options	A	B	C	D	Total
Result obtained	22	62	50	16	150
Percentage	14.67	41.33	33.33	10.67	100

4. Normally how many times do you visit bank in a month?

a. 1-2 b. 2-5

c. 5-10 d. more than 10

Options	A	B	C	D	Total
Result obtained	13	48	65	24	150
Percentage	8.67	34.00	43.33	16.00	100

3. Mostly why do you come to the bank?

a. Deposit & Withdraw b. Remittance

c. Loan & Advance d. Others

Options	A	B	C	D	Total
Result obtained	95	26	23	6	150
Percentage	63.33	17.33	15.33	4.00	100

4. How have you perceived the change in the bank after computerization? (Only for computerized branch)

a. Better than average b. Average

c. No change d. Negative change

Options	A	B	C	D	Total
Result obtained	8	78	12	2	100
Percentage	8.00	78.00	14.00	4.00	100

5. How is the behavior of bank staffs to the customer?

a. Excellent b. Good

c. Average d. Poor

Options	A	B	C	D	Total
Result obtained	8	95	41	6	150
Percentage	5.33	63.33	27.33	4.00	100

6. How have you found the service delivery of bank?

a. Better than average b. Average

c. Poor d. Very Poor

Options	A	B	C	D	Total
Result obtained	18	94	26	12	150
Percentage	14.00	64.67	17.33	8.00	100

7. How is response of bank staffs to your task at bank?

a. Prompt b. Satisfactory

c. Average d. Ignorance

Options	A	B	C	D	Total
Result obtained	8	94	43	5	150
Percentage	5.33	64.67	28.67	3.33	100

8. How is the logistic support for your convenience at bank?

a. Excellent b. Good

c. Average d. Poor

Options	A	B	C	D	Total
Result obtained	13	35	65	37	150
Percentage	8.67	23.33	43.33	24.67	100

9. How is your suggestions (feedback) are being responded by the bank?

a. Prompt b. Satisfactory

c. Average d. Ignorance

Options	A	B	C	D	Total
Result obtained	9	81	56	4	150
Percentage	6.00	54.00	37.33	2,67	100

10. How you have felt the competitive status of bank in modern banking?

a. Competent b. Average

c. Weak d. Very weak

Options	A	B	C	D	Total
Result obtained	14	91	31	14	150
Percentage	9.33	60.67	20.67	9.33	100

Above table 4.22 and its sub-tables show the result of survey in the different options. The customers of NBL found loyal comparing to the new entrants. The number of new entrants is comparatively fewer than the old customers. Likewise the regular customers use to visit the bank 5-10 times in average. The customers use to visit bank especially for the deposit and withdrawal purpose. 78% of the customers have marked the average change after computerization in the computerized branches. 63.33 % of the customers perceive good behavior of the NBL staffs to them. 64.67% of the customers said the average service quality of bank. In the same level the staffs use to respond to the customer for their tasks at bank. Logistic support at the bank is average according to the major portion of customers however near about customer comment the poor logistic support to them. The suggestions of customers found satisfactorily responded by the bank. As per the customers the banks competitiveness is still average said by 60.67% of customers around 30% mark weak and very weak competitive strength of NBL.

The banks focus to satisfy the customers still comparatively weak to compete with joint venture banks. Obviously, only the service quality can attract the new customers as well retain the old customers. But the service quality as per the survey is not still satisfactory. Customers are not delighted from the service quality of bank from the service performed by the bank. Bank has to perform at measurable level of service quality to retain back the faith and goodwill of bank.

4.10 The Impacts of New Management Technique in PROFIT PLAN

After the take over NBL's management by NRB, It formed a management team to handle management for policy making and to improve service quality. The bank had been bearing high volume of loss in the past years. To cope overall managerial problems of the bank the management team consists banking experts and accounting experts. A questionnaire (Appendix III) presented to 15 manager level staffs of

NBL, out of them no single person answered the entire questions. Therefore the common answers of the questionnaire are taken to analyze. The questions and their common answer from NBL's manager level staffs are as follows:

- Does your bank practice PPC or comprehensive budgeting?
  a. Yes
- What type of Budgeting system you have introduced?
  a. Financial Budgeting
- Budgeting period covers?
  c. Three months
- Who is responsible for budgeting?
  d. Branches
- Whether you have the practice of participatory management?
  a. Yes
- How are the performance controlled?
  a. Through Inspection
- How effective is budgeting and control system in your bank?
  a. Effective
- Who is responsible for credit management?
  b. Credit Chief
- Who prepares credit policy?
  Board meeting
- What methodology do you use for credit forecast or plan?
  d. Estimation supplied by branch
- How far the present loan policy is effective?
  a. Effective

NBL has been practicing comprehensive budgetary system, mainly using financial Budgetary, which covers three month's period generally, which is also known as quarterly budget, these budgets primarily prepared by the branches and compiled by the head office. NBL has been practicing participatory management system to achieve the targeted budget. The performance is controlled thorough regular inspection upon the target and achievement throughout the period. The existing budgetary system is effective for NBL.

Credit Chief is responsible for tactical plans and policies regarding credit administration. But the board meeting use to prepare credit policy. The branches use to supply credit plan to the head office and Relationship Management Division compiles them and prepares the overall credit plan. This system for the bank is effective because all the branches are participated in the preparation of overall credit plan.

Different units within organization are formed for different functions to simplify the different activities to be performed by the bank. The divisions and their functions are as follows.

Divisions	Functions
Management Service Division	This division manages the necessary logistic supports to the offices.
Account Department	This department is responsible for overall account keeping of the bank.
Relationship management Division	This division is responsible for approving the loan and advances.
Risk Management Division	This division is related to recovery of loans.
Credit Administration Division	This division administrates overall credit of the bank.
Branch Management Division	This division overall manages the problems of branches.
Corporate Planning Division	This division is related to averall planning and reporting to concerned authority and stakeholders.
Information & Technology	This department looks after the

Source: NBL staffs

These are the major divisions with their functions in NBL. Divisions have different units. In this way the new management has assigned the modern management technique to allocate the different tasks to different units. This concept has been significantly helping for the bank for modern banking and profit making, which is reflected as its decreased negative net worth.

As per the discussions with NBL staffs, analyzing different management conference reports, the management's focus for profit making found in the following aspects:

- Managing NPAs
- Managing Customer Service
- Target Market and Loan Generation
- Managing People (Staffs)
- Managing Profit etc

The applied techniques for overall management of bank, hence is effective. Some general efforts are still left to introduce like human resource plan, overhead budgetary etc.

4.11 Major Findings of the Study

The major findings of this study on Budgetig System in commercial bank, a case study of Nepal Bank Limited are as follows:

Foindings from Secondary Data

1. The liquidity position of the bank is not consistent only it is critical because of lower achievement of current assets compared with current liabilities. Generally the adequate current ratio is 2:1 to meet the short term obligations for the ordinary organizations, but for the bank all the deposits are also regarded as current liabilities, therefore if it could around 1.3:1 also can be regarded at satisfactory. NBL's current ratio is not in the satisfactory level too.
2. Cash & bank balance should be maintained by a commercial bank to at least 5% of its total deposit. NBL's Cash and bank balance is in the range of 13.73% to 24.28%, which shows the higher liquidity. Liquidity does not add any earning to the bank except the goodwill or faith of depositors. Therefore the liquidity should be maintained in that level which does not loss the opportunity of earning and does not appear the scarce of cash for daily operation. In this regard NBL's Liquidity is high, i.e. it has not been utilizing properly the liquidity to gain the expected profit as much as possible. However the liquidity has been gradually coming to the right track comparing to the FY 2001/2002.
3. The portfolio of investment on government securities has been gradually increasing. One thing to be noted the investment in government securities is consistently increasing with total current assets. It shows the right management of liquidity made by the bank's treasury department.
4. The major part of deposit obtained by NBL is saving deposit i.e. 65.25%, call deposit and other deposits are nominal. Fixed deposit is higher than current. Current deposit which is free of cost is just 16.45%. NBL would better to attract the depositors for current deposit performing better service to such depositors.
5. The deposit of bank has been increasing to some extent except at FY 2001/02 to 2004/05. But the total loan and advances are continuously decreasing since FY 2003/04. If we compare it with percentage in FY 2001/2002 the percentage of loan and advances comparing to total deposit was 67.67% whereas it has decreased to 50.24% in FY 2006/07. It shows the bank has not been properly utilizing its deposit fund to the loan and advances. Moreover the decreasing trend of loan & advances has not been stopped yet; it may be more critical for the bank's performance on loan and advances in the days ahead.

6. The fund extracted form loan and advances has been diverted to investments. It is to be mentioned that the investments have lower risks and lower profits than loan and advances. It means NBL doesn't want to take high risk to generate high profit recently; considering the political condition of the bank. But would it be better to escape from market? In the long term what remains its effects? This strategy may downsize the competitive strength on the market, because now there are many financial institutions operating in Nepalese financial market.
7. Major portion of the fund has been dumped to non-earning fields like assets (fixed, non banking, other assets etc.). If the bank becomes able to mobilize those idle funds to the productive sectors than only it can perform its best profit in days ahead.
8. The interest accrued is rapidly increasing. It was 4284.5M in FY 2001/02 and it has reached to 12950.6M in FY 2006/07. Such increment may occur by two reasons first increment in loan and investment which generates more interest, second low attention to recover interests. For NBL second reason matches because its loan and advances are decreasing therefore NBL is not able to recover the interests promptly.
9. The sector-wise allocation of loan and advances of NBL seems just opposite of national economy because Nepalese economy mainly oriented to agricultural sector, however the loan and advances of NBL to this sector is not significant:
10. The security gold and silver, Government securities, fixed A/C Receipts are much secured from the view of security. Land and building also secures the loan in long term but the fluctuation on its market value may be critical for security. Guarantees are average for the security. In this way the status of loan and advances of NBL from the view of security can be regarded as average.
11. The security of margin lending is the share/stock certificates of different companies listed at Nepal Stock Exchange. The process for this loan is comparatively simple and fast. That's way the volume of loans is duly increased in the short duration. Likewise the vehicles financed by bank secure auto loan. The vehicles are being financed for private and commercial use. Home loan secures by the collateral security land and building. Auto loan and home loan primarily requires the sufficient income level of borrower to repay the loans. Hence NBL's policy for consumer lending seems convenience to add overall profit of organization.
12. The percentage of bad loan seems 54.80. i.e. more than 50% loans are bad loans. However the rate of NPL has been reduced around by 10% comparing to the rate as of mid July 2006/07. The bank management's concentration to reduce NPL seems not effective yet. However the management has created a separate unit to look after non performing loans named Risk Management Division.

13. The latest information given by Risk Management Division of NBL regarding the status of loan is on mid July 2006/07 is 25.5%, and in the 2006/07 the bank has assumed the collateral security in the huge volume in the bank's name. It means the bank has written off the NPLs from its balance sheet. Still the bank has no any planning to sell the assumed collateral security. It will be a border for the bank in the future because the assumed collateral doesn't add any profit to the bank.
14. The main portion of NPL falls in the loan more than 10M, there are only 184 accounts but this part of NPL covers 58.70% of total bank's NPL. It denotes the main focus of bank should be for recovery of these big loans which have been disbursed to certain defaulters.
15. Perhaps these borrowers seem willful defaulters, because as per the bank's bad loan unit RMD they are not being responding to the bank's follow-up. Hence the bank has to initiate an aggressive policy to recover such defaulters.
16. The bank has got a commendable success in the FY 2063/64 to recover NPL but the level of total loan has decreased a lot. In the long term this type of conservative recovery may hamper the total profitability of bank. To retain the profitability index of bank, it has to be able to rend the loan adequately comprising to the recovery. Only recovery may feed the instant profit but lending loans feeds long term profit. Therefore the bank has to think for long term profit too, otherwise bank will not be able to maintain the interest and office expenses in the long term.

Findings from Primary Data

1. The banks focus to satisfy the customers from its service, still comparatively weak to compete with joint venture banks. Obviously, only the service quality can attract the new customers as well retain the existing customers. But the service quality as per the survey is not still satisfactory. Customers are not delighted from the service quality of bank from the service performed by the bank. Bank has to perform at measurable level of service quality to retain back the faith and goodwill of bank.
2. NBL has been practicing comprehensive budgetary system, mainly using financial Budgetary, which covers three month's period generally, which is also known as quarterly budget, these budgets primarily prepared by the branches and compiled by the head office. NBL has been practicing participatory management system to achieve the targeted budget. The performance is controlled thorough regular inspection upon the target and achievement throughout the period. The existing budgetary system is effective for NBL.
3. Credit Chief is responsible for tactical plans and policies regarding credit administration. But the board meeting use to prepare credit policy. The branches use to supply credit plan to the

head office and Relationship Management Division compiles them and prepares the overall credit plan. This system for the bank is effective because all the branches are participated in the preparation of overall credit plan.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

The economic growth of the country can only be assured to overall development of the country. The role of commercial banks to the economic growth of the country can be fairly estimated to be very prominent. The mobilization of the scattered idle resources of the savers is main task of commercial banks. Commercial banks pool the fund in a sizable volume in order to feed to the fund requirement of the productive sector of the economy. Such investments in the productive sector promote trade and industrialization on the country, which rises the employment opportunities and earning to the laboures and material and service producers to such industries and trades, which as a chain effect, promotes saving into banks and more saving drags more funds available in the bank for further investment. Hence as the chain moves rolling on, the economy of the nation also grows. This chain in the other way directly affects the profitability of the bank. Bank earns profit from two aspects major income from interest, and other from other services.

A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate them for better performance. Profit satisfies the shareholders and other stakeholders of any organization. Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution, has to plan for reasonable profit earnings. Budgetig System, in short, is the planning of activities in such a way that it helps in increasing the income at a minimum possible cost or at optimum cost. This study aims at examining the applications of Budgetig System in a commercial bank, with a specific case study of Nepal Bank Limited (first modern bank in Nepal).

Nepal Bank Limited is a historical bank in Nepal established in the year 1994BS. The bank has completed its 69 years of operation; it has challenged many circumstances in the field of banking. NBL taught the meaning of banking in Nepal. Not only that NBL worked as the center bank of Nepal till 2013BS (establishment of NRB) since its establishment. The bank was earning good profit till the decade of 2050s. But after 2050BS the bank was gradually falling to the negative profit and at 2058 BS the bank's negative net worth was around Rs.11 Arabs. NRB took over the management of NBL because of high negative net worth on 2002AD. After the taken over of management of NRB, with help of the foreign management team ICCMT, and some Nepalese experts the bank's management is being handled yet.

This study has tried to cover the various aspects of Budgetig System in the bank from the time of its inception. This study relates to the past data (from 2000/01 to 2006/07) and the recent data of 2006/07 to complete this study conveniently and efficiently. Likewise a survey to examine the service quality of the bank toward its customers reveals with this study. The study was organized to five chapters. They are Introduction, review of literature, research methodology, analysis and presentation and summary, conclusion and recommendation.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and Internet materials from relevant web sites were also consulted. The works were compiled into the chapter second titled 'Review of Literature' of this study report. Research methodologies followed for this research works are mentioned in the chapter third titled 'Research Methodology'.

Data relating various activities of the bank has been collected, presented in tabular and various diagram form and are tried to interpret in the study report in logistical ways. Data are then analyzed applying various financial, mathematical and statistical tools have been listed in a systematic manner. All these works are compiled in the forth chapter titled 'Data Presentation and Analysis'.

Finally, the summary, conclusion and the recommendation made by the researcher by this study are hereby being presented in this current chapter, chapter fifth titled as 'Summary, conclusion and Recommendation'.

5.2 Conclusion

It is to conclude that the existing performance of NBL is somehow improved comparing to past performance but to compete with JVBs and other financial institutions, many aspects are lacking to improve within the bank in the following fields:

- Managing NPAs
- Managing customer service
- Bank marketing
- Managing profit

- the liquidity should be maintained in that level which does not loss the opportunity of earning and does not appear the scarce of cash for daily operation. In this regard NBL's Liquidity is high, i.e. it has not been utilizing properly the liquidity to gain the expected profit as much as possible.
- NBL would better to attract the depositors for current deposit performing better service to such depositors.
- The portfolio of investment on government securities has been gradually increasing. One thing to be noted the investment in government securities is consistently increasing with total current assets. It shows the right management of liquidity made by the bank's treasury department.
- NBL would better to attract the depositors for current deposit performing better service to such depositors.
- the bank has not been properly utilizing its deposit fund to the loan and advances. Moreover the decreasing trend of loan & advances has not been stopped yet; it may be more critical for the bank's performance on loan and advances in the days ahead.
- The fund extracted form loan and advances has been diverted to investments. It is to be mentioned that the investments have lower risks and lower profits than loan and advances. It means NBL doesn't want to take high risk to generate high profit recently; considering the political condition of the bank. But would it be better to escape from market? In the long term what remains its effects? This strategy may downsize the competitive strength on the market, because now there are many financial institutions operating in Nepalese financial market.
- the fund has been dumped to non-earning fields like assets (fixed, non banking, other assets etc.). If the bank becomes able to mobilize those idle funds to the productive sectors than only it can perform its best profit in days ahead.
- The interest accrued is rapidly increasing. Such increment may occur by two reasons first increment in loan and investment which generates more interest, second low attention to recover interests. For NBL second reason matches because its loan and advances are decreasing therefore NBL is not able to recover the interests promptly.
- The sector-wise allocation of loan and advances of NBL seems just opposite of national economy because Nepalese economy mainly oriented to agricultural sector, however the loan and advances of NBL to this sector is not significant:
- The security gold and silver, Government securities, fixed A/C Receipts are much secured from the view of security. Land and building also secures the loan in long term but the fluctuation on its market value may be critical for security. Guarantees are average for the security. In this way the status of loan and advances of NBL from the view of security can be regarded as average.

- The security of margin lending is the share/stock certificates of different companies listed at Nepal Stock Exchange. The process for this loan is comparatively simple and fast. That's way the volume of loans is duly increased in the short duration. Likewise the vehicles financed by bank secure auto loan. The vehicles are being financed for private and commercial use. Home loan secures by the collateral security land and building. Auto loan and home loan primarily requires the sufficient income level of borrower to repay the loans. Hence NBL's policy for consumer lending seems convenience to add overall profit of organization.
- the bank has assumed the collateral security in the huge volume in the bank's name. It means the bank has written off the NPLs from its balance sheet. Still the bank has no any planning to sell the assumed collateral security. It will be a border for the bank in the future because the assumed collateral doesn't add any profit to the bank.
- the main focus of bank should be for recovery of these big loans which have been disbursed to certain defaulters.the bank's bad loan unit RMD they are not being responding to the bank's follow-up. Hence the bank has to initiate an aggressive policy to recover such defaulters.
- The bank has got a commendable success to recover NPL but the level of total loan has decreased a lot. In the long term this type of conservative recovery may hamper the total profitability of bank. To retain the profitability index of bank, it has to be able to rend the loan adequately comprising to the recovery. Only recovery may feed the instant profit but lending loans feeds long term profit. Therefore the bank has to think for long term profit too, otherwise bank will not be able to maintain the interest and office expenses in the long term.
- The banks focus to satisfy the customers from its service, still comparatively weak to compete with joint venture banks. Obviously, only the service quality can attract the new customers as well retain the existing customers. But the service quality as per the survey is not still satisfactory. Customers are not delighted from the service quality of bank from the service performed by the bank. Bank has to perform at measurable level of service quality to retain back the faith and goodwill of bank.
- NBL has been practicing comprehensive budgetary system, mainly using financial Budgetary, which covers three month's period generally, which is also known as quarterly budget, these budgets primarily prepared by the branches and compiled by the head office. NBL has been practicing participatory management system to achieve the targeted budget. The performance is controlled thorough regular inspection upon the target and achievement throughout the period. The existing budgetary system is effective for NBL.

- Credit Chief is responsible for tactical plans and policies regarding credit administration. But the board meeting use to prepare credit policy. The branches use to supply credit plan to the head office and Relationship Management Division compiles them and prepares the overall credit plan. This system for the bank is effective because all the branches are participated in the preparation of overall credit plan.

5.3 Recommendations

On the basis of Budgetig System of Nepal Bank Limited, the following suggestions are recommended to improve the profit earning of bank.

Managing NPAs

The recovery a basic policy to be adopted for existing bad loans considering the following facts:

- Chronic loans (which can not be recovered from the simple efforts, the condition of the borrower is not in favor to repay loan and the collateral security does not covers the loan amount)
- Moderate (If time and facility provided, can be recovered)
- Willful defaulter (Can be recovered only from Auction or legal actions)

The bank has to visit for collecting the achievable category loans first, recover them as far as possible, in the second phase call the borrowers whose collateral are not strong, waive their interest considering the fact they are not able to repay interests with principal. For willful defaulters take legal actions.

Managing Customer Service

Improving customer service can attract and satisfy the customers. It adds the business for bank, and business adds the profit. Some facts are recommended to NBL to manage the customer service are as follows:

- Computerize all the branches as far as possible
- The staffs at front desk to be encouraged for prompt service
- To enhance the logistic support of the branches
- The concept of 365 days banking and evening counters etc to be introduced.
- Discussions with major parties to enhance mutual business,
- Lengthy tasks to be simplified.

Credit Marketing

The major portion of bad loans falls to the big borrowers. Bank should think this constraint, only the big borrowers are not feeding earning to the bank. Therefore the bank has to attain the proper portfolio of loans to minimize risks.

- Focus the lending to middle borrower rather than big borrowers; because the main part of past defaulters is from big borrower, it minimizes risk too.
- Enhance market research and promotion
- Every branch should form a marketing unit within branch to compete with Joint Venture banks.

Managing People

- Skill development programs to be conducted to update the staffs.
- Human resource budget system should be introduced for easy, simplified and automated transfer system,
- Performance based evaluation is to be enforced.

Managing Profit

- Bank's Liquidity is too high, i.e. higher level of deposit and lower level of loan and advances; therefore bank should pay concentration to uplift the investment on loan and advances,
- Bad loan is major problem for bank, therefore an aggressive policy to recover bad loans to be introduced,
- Possible sectors to lend to be traced out and marketing culture to be initiated for the secured lending, i.e. bank has to seek its market itself, market self does not come to the bank's door,
- Bank's Non Banking Assets are increasing, therefore a flexible policy to sell Non-banking Assets,
- In the prime market areas of different cities 365 days banking, 24 hours banking, ATM service etc should be launched, which helps to add profit,
- Increase current deposits (free of cost) rather than cost bearing saving and fixed deposits.

With the above mentioned recommendations suggested, this report is concluded.

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Appendix I

Questionnaire

1. How long have you been attached with NBL?

   a. 1 year b. 1-5 years

   c. 5-10 years d. more than 10 years

Options	A	B	C	D	Total
Result obtained	22	62	50	16	150
Percentage	14.67	41.33	33.33	10.67	100

2. Normally how many times do you visit bank in a month?

   a. 1-2 b. 2-5

   c. 5-10 d. more than 10

Options	A	B	C	D	Total
Result obtained	13	48	65	24	150
Percentage	8.67	34.00	43.33	16.00	100

3. Mostly why do you come to the bank?

   a. Deposit & Withdraw b. Remittance

   c. Loan & Advance d. Others

Options	A	B	C	D	Total
Result obtained	95	26	23	6	150

Percentage	63.33	17.33	15.33	4.00	100

4. How have you perceived the change in the bank after computerization? (Only for computerized branch)

a. Better than average b. Average

c. No change d. Negative change

Options	A	B	C	D	Total
Result obtained	8	78	12	2	100
Percentage	8.00	78.00	14.00	4.00	100

5. How is the behavior of bank staffs to the customer?

a. Excellent b. Good

c. Average d. Poor

6. How have you found the service delivery of bank?

a. Better than average b. Average

c. Poor d. Very Poor

7. How is response of bank staffs to your task at bank?

a. Prompt b. Satisfactory

c. Average d. Ignorance

Options	A	B	C	D	Total
Result obtained	8	94	43	5	150
Percentage	5.33	64.67	28.67	3.33	100

8. How is the logistic support for your convenience at bank?

a. Excellent b. Good

c. Average d. Poor

Options	A	B	C	D	Total
Result obtained	13	35	65	37	150
Percentage	8.67	23.33	43.33	24.67	100

9. How is your suggestions (feedback) are being responded by the bank?

a. Prompt b. Satisfactory

c. Average d. Ignorance

Options	A	B	C	D	Total
Result obtained	9	81	56	4	150
Percentage	6.00	54.00	37.33	2,67	100

10. How you have felt the competitive status of bank in modern banking?
    a. Competent b. Average
    c. Weak d. Very weak

1. How long have you been attached with NBL?
   a. 1 year b. 1-5 years
   c. 5-10 years d. more than 10 years
2. Normally how many times do you visit bank in a month?
   a. 1-2 b. 2-5
   c. 5-10 d. more than 10
3. Mostly why do you come to the bank?
   a. Deposit & Withdraw b. Remittance
   c. Loan & Advance d. Others
4. How have you perceived the change in the bank after computerization? (Only for computerized branch)
   a. Better than average b. Average
   c. No change d. Negative change
5. How is the behavior of bank staffs to the customer?
   a. Excellent b. Good
   c. Average d. Poor
6. How have you found the service delivery of bank?
   a. Better than average b. Average
   c. Poor d. Very Poor

7. How is response of bank staffs to your task at bank?
   a. Prompt b. Satisfactory
   c. Average d. Ignorance

   How is the logistic support for your convenience at bank?

a. Excellent b. Good

c. Average d. Poor

9. How is your suggestions (feedback) are being responded by the bank?

a. Prompt b. Satisfactory

c. Average d. Ignorance

10. How you have felt the competitive status of bank in modern banking?

a. Competent b. Average

11 Does your bank practice PPC or comprehensive budgeting?

a. Yes

12 What type of Budgeting system you have introduced?

a. Financial Budgeting

13 Budgeting period covers?

c. Three months

14 Who is responsible for budgeting?

d. Branches

15 Whether you have the practice of participatory management?

a. Yes

16 How are the performance controlled?

a. Through Inspection

17 How effective is budgeting and control system in your bank?

a. Effective

18 Who is responsible for credit management?

b. Credit Chief

19 Who prepares credit policy?

a. Board meeting

20 What methodology do you use for credit forecast or plan?

a. Estimation supplied by branch

21 How far the present loan policy is effective?

a. Effective