

CHAPTER - ONE

INTRODUCTION

1.1 Background of the Study

Banking sector is so important as far as national prosperity is concerned because this sector not only provides the services to customers but also helps develop the economic position of a country. Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country because it is not possible to develop all the sectors by the investment of funds by the government alone. The highest form of economic freedom provides an absolute right of property ownership, fully realized freedoms of movement for labor, capital, goods, and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintain liberty itself.

The role of money in an economy is very important. Proper and well-planned management of money directs, determines and enhances the wealth and productivity of total financial sector and the performance of financial sector affect the growth of the economy. Hence, money is a subject to manage and banks are the manager thereof.

Nepal Rastra Bank, the central bank of Nepal, to fulfill the ever growing credit requirement has adopted the liberal policies and provided many facilities to the probable bankers of Nepal and abroad through new Commercial Bank Act-1974 A.D. Consequent of the policies provided by Government of Nepal to open commercial banks with foreign joint ventures in 2041 B.S., as of May 2012, 32 Commercial Banks (including Agriculture Development Bank) (www.nrb.org.np) are helping not only in the field of deposit mobilization and lending but also to the areas like different products and service developments and employment generations and infrastructure developments too.

It is said that the banking sector mirrors the large economy. Its linkage to all sectors makes it a proxy for what is happening in the economy as a whole. Indeed, the Nepalese banking sector today has the same sense of excitement and opportunity that is evident in the Nepalese economy. Banks collect funds from the public who has savings and it disperse the fund to the person who are in need of it. Banks can also be defined in terms of "Negotiators of Credit". The activity of the banks as negotiators of credit is characterized by lending of other people's, that is, of borrowed money. In fact, banks borrow money in order to lend it. The difference between the rate of interest that is paid to them and the rates that they pay, less their working expenses, constitutes their profit on this kind of transaction. Banking is a negotiation between granters of credit and grantees of credit.

Commercial banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sectors. It acts as intermediary between the deficit and surplus of financial resources. Financial system contains two components, depository financial institutions and non-depository financial institutions. Commercial banks and finance companies (in Nepalese context) are the examples of depository financial institutions whereas employee provident fund, development banks, insurance companies etc. is directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances. Financial institutions play a major role in the proper functioning of an economy. These institutions act as an intermediary between the individual lender and borrower. These institutions accept deposits and in turn lend it to people who are in need of financial resources. These institutions make the flow of investment easier.

Profit planning and control is an important approach, mainly in profit-oriented enterprises. Profit planning is merely a tool of management; it is not an end of management or substitute of management. It facilitates the managers to accomplish

managerial goals and managerial decisions in a systematic way. The management is efficient if it is able to accomplish the objective of the enterprise. It is effective, when in accomplish the objective with minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course of action in advance.

The fundamental concept of profit planning and control include the underlying activities or tasks that must generally be carried out to attain maximum usefulness from profit planning and control. These fundamentals have never been codified. As a basis for discussion, an outline of the fundamental concepts usually identified with profit planning and control is given below.

- A management process that includes planning, organizing, staffing, leading and controlling,
- A managerial commitment of effectively management participation by all levels in the entity,
- An organization structure that clearly specifies assignment of management authority and responsibility at all organization levels,
- A continuous and consistent coordination of all the management functions,
- Continuous feed forward, feedback, follow up a preplanning through defined,
- Communication channels,
- A strategic long-range profit plan,
- A tactical short-range profit plan,
- A responsibility accounting system,
- A continuous use of the exception principle, and
- A behavioral management program.

The profit planning and control mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing/service, industries/sectors.

However this concept is equally applicable to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving goal.

Every company or institution is established with definite goals and objectives. All the tasks performed by the company should be according to their objectives. Mainly two types of institutions such as profit oriented and service-oriented instructions are established, but most of them are profit oriented because profit is the lifeblood of the business which not only keeps it alive but also assures the future and makes it sustainable. Profit planning is an important tool of the firm to achieve the objectives. Profit do not just happen, profits are managed (Lynch & Williamson, 1989:125). So, to manage the profit, the management should follow various processes of profit planning because the management process and profit planning and control are interrelated to each other. Profit maximization is the basic objectives of a firm and to make it reliable service should render to its customers. Profit is a device to measure efficiency of a firm. Planning is the first essence of a management and all other functions are performed with the framework of planning. Planning means deciding in advanced what is to be done in future. Planning starts from forecasting and predetermination of future events. The main objective of planning in business is to increase the chance of making profit. The budget is the primary planning operation document committed to performance. In this sense budget is also called a profit planning.

Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. The term comprehensive profit planning and control it defined as a systematic and formalized approach for performing significant phase of the management planning and control function (Welsch, 1999:45).

- The development and application of broad and long range objectives of the enterprise,
- The specification of enterprise goals,
- A long range profit plan developed in broad terms,

- A short range profit plan detailed by assigned responsibilities (divisions, product etc.),
- A systematic periodic performance reports detailed by assigned responsibilities and
- Follow-up procedures.

1.2 The Economic Outlook of the Country

According to the recent data published by Nepal Rastra Bank for the fiscal year 2010-11 the details of economic growth are summarized here under

1.2.1 Gross Domestic Product (GDP)

According to the preliminary estimates of the Central Bureau of Statistics (CBS) based on the first three to seven months data of 2010/2011, the real GDP at basic price grew at 3.47 % compared to 3.97 % in the previous year. The real GDP at producers' price was estimated to grow at 3.48 % in the review year compared to 4.55 % last year. The agriculture and non-agriculture sectors were estimated to grow by 4.1 % and 3.1 % respectively in 2010/11. These sectors had grown by 1.3 % and 5.4 % respectively last year. In 2010/11, the production of major crops like paddy and maize were estimated to grow by 10.8 % and 11.4 % respectively. Such a higher production was due mainly to the favorable weather condition and expansion in the area of maize cultivation. The production of these two crops had declined by 11.0 % and 3.9 % respectively in the previous year. In the review period, the production of vegetables, fruits, meat and milk were estimated to grow by 6.7 %, 2.8 %, 10.6 % and 4.0 % respectively.

In 2010/11, the ratio of total consumption to GDP increased marginally to 93.3 % from 92.6 % last year. Consequently, the gross domestic saving remained at only 6.7 % of GDP in the review year. Similarly, the ratio of gross investment to GDP stood at 30.2 % in the review year compared to 35.1 % in the preceding year.

1.2.2 Inflation

The annual average consumer price inflation remained constant at 9.6 % in 2010/11 compared to an increase of 9.6 % in 2009/10. Despite a substantial rise of 14.7 % in the prices of food and beverages group, the annual average consumer price inflation moderate on account of a low increment by 5.4 % in the prices of non-food and services group. The index of food and beverages and non-food and services had increased by 15.1 % and 4.9 % respectively in 2009/10.

In the review year, yearly average price index of vegetables, the item under food and beverages group, increased sharply by 35.0 %; it had increased by 20.5 % in the previous year. Similarly, the annual average price indices of spices, sugar and sweets and fruits went up by 23.2 %, 19.5 % and 19.4 % respectively compared to their respective increments of 27.4 %, 45.3 % and 20.5 % in the previous year.

The annual price index of restaurant and hotel grew by 15.5 % compared to a 20.3 % rise in the previous year. Likewise, the annual price indices of milk products and egg, cereals grains and their products and tobacco products increased by 14.6 %, 13.9 % and 13.5 % respectively compared to their respective increases of 11.9 %, 10.1 % and 12.5 % in the previous year. In 2010/11, the annual average price index of legume varieties declined by 7.6 % as against a rise of 26.0 % in the previous year.

1.2.3 Foreign Trade and Balance of Payment

In 2010/11, the growth rate of exports outpaced the growth of imports for the first time in ten years. While exports rebounded after a slump in the previous year, the growth rate of imports declined markedly, resulting in a significant fall in the growth of trade deficit. Nevertheless, trade concentration with India reached its peak, constituting about two thirds of Nepal's total trade. Export trade, which had declined by 10.2 % in the previous year, recorded a growth of 6.1 % to Rs. 64.56 billion in the review year. Exports had amounted to Rs. 60.82 billion in the previous year. On a monthly basis, the

merchandise imports declined by 2.9 % in June/July of the current fiscal year in comparison to the value of the previous month. Due to the improvement in the export and reduction in the growth of import, total trade deficit went up only by 5.4 % to Rs. 330.34 billion in the review year. Trade deficit had expanded by 44.6 % in the last year.

The overall BOP which had remained in deficit until the ten months of 2010/11 ended with a surplus of Rs. 2.93 billion in contrast to a deficit of Rs. 3.63 billion in the previous year. The BOP registered the highest deficit of Rs. 14.79 billion in the nine months of the review year. The improvement in the BOP was attributed to the significant moderation in the current account deficit coupled with satisfactory increase in the government capital transfers and external loan. The current account deficit shrank to Rs. 11.91 billion from a deficit of Rs. 28.14 billion a year ago. The deceleration in the growth of trade deficit resulting from higher growth in exports than imports coupled with improvement in the service account led to significant contraction in the current account deficit. In the review year, the current account deficit to GDP ratio improved to 0.9 % from 2.4 % a year ago.

1.2.4 Government of Nepal Revenue Mobilization

In 2010/11, revenue mobilization of the GON increased by 11.6 % to Rs.200.79 billion, which is 92.7 % of annual budget estimate of Rs. 216.64 billion. The revenue had risen by 25.4 % to Rs. 179.95 billion in 2009/10. Consequently, the revenue to GDP ratio remained at 14.9 % in 2010/11 as against 15.4 % in 2009/10. The impact of the delay in the announcement of the government budget, revenue mobilization based on previous year's Finance Act during the first four months and slow growth rate of the capital expenditure were responsible for such a low growth rate of revenue mobilization. Likewise, decline in the growth rate of import also affected the growth rate of revenue of the government during the review year.

1.2.5 Deposit Mobilization and Credit Flow of Commercial Banks

The imbalance between deposit mobilization and lending by commercial banks also continued in 2010/11. The deposit mobilization of commercial banks increased by Rs. 59.62 billion whereas the loan and advances increased by Rs. 79.80 billion in the review year. The deposit mobilization and loan and advances had increased by Rs. 69.93 billion and Rs. 76.71 billion respectively in the previous year. Credit to private sector increased by Rs. 57.94 billion during the review year compared to Rs. 65.61 billion in the previous year. Of the total bank credit to private sector, the credit to production sector increased by Rs. 20.13 billion during the review year compared to Rs. 6.84 billion in the previous year. Similarly, banks' credit to wholesale and retail trade, and construction sectors also increased.

1.2.6 Liquidity Situation of commercial banks

The NRB injected net liquidity of Rs. 71.39 billion through secondary market operation in 2010/11. Liquidity of Rs. 21.0 billion was mopped up through outright sale auction of Rs. 2.0 billion and reverse repo auction of Rs. 19.0 billion in the review year. On the other hand, liquidity of Rs. 92.39 billion was injected through repo auction in the review year. Liquidity of Rs. 8.44 billion was mopped up through outright sale auction and reverse repo auction while Rs. 135.06 billion was injected through outright purchase auction and repo auction in the previous year.

The NRB injected net liquidity of Rs. 174.30 billion through the purchase of USD 2.41 billion from foreign exchange market (commercial banks) in 2010/11. A net liquidity of Rs. 118.66 billion was injected through the purchase of USD 1.60 billion from foreign exchange market in the previous year.

The NRB purchased Indian currency equivalent to Rs. 198.15 billion through the sale of USD 2.74 billion in the Indian money market during the review year. INR equivalent to Rs. 163.35 billion was purchased through the sale of USD 2.19 billion in the previous

year. Such a higher amount of INR purchase in the review year has mainly attributed to the widening trade deficit with India on account of sharp increase in the import of petroleum products.

1.3 Major Financial Policies of Nepal

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

1.3.1 Monetary Policy

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

output. So, monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it.

The few main features of monetary policy FY 2011/12 are as follows:

- Primarily focused towards curbing acceleration in the pace of inflation.
- Economic growth targeted at 5.5% on the basis of budget of FY 2010/11.
- Average inflation based on consumer price index estimated to be 7%.
- Maintaining financial sector stability and to increase the financial intermediation.
- Addressing the fluctuation in short-term interest rates and the risks through Open Market operations. Maximum usage of the financial resources by the private sector.

1.3.2 Banking Policy

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

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

1.3.3 Credit Policy

Often monetary policy and credit policy are interpreted in the same way. NRB has also been exercising monetary and credit policies through the same manner. But monetary and credit policies are not exactly the same. Monetary policy is defined as a policy affecting changes in the quantity of money while credit policy is defined as a policy affecting the cost, availability and the allocation of credit. Money differs from credit because money is the liability of the banking system whereas credit is an asset. In the past, NRB has introduced the priority sector lending programme. Under this programme all the banks are required to extend certain percentage of their lending to the prescribed priority sector for example agriculture sector. However, this priority sector-lending requirement is deemed to be ineffective and failed to meet the goal because of the commercial bank's focus in the urban areas. With an objective of minimizing the concentration of the credit risk, the NRB has prescribed the single borrower limit for fund based as well as non-fund based. The maximum amount of fund based as well as non-fund based lending to a single borrower has been linked with the core capital of the institution.

1.3.4 Interest Rate Policy

Interest is paid for the sacrifice made by the income holder by differing consumption for the time being and imparting with liquidity and to reward the income holder for making savings. There exists a wide array of interest rate in the economy. This is either because of wider varieties of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with money supply and credit. In the process of financial system liberalization, initiatives to deregulate interest rate structure in Nepal were taken since Mid-1980. The complete liberalization of the interest rate structure, however, took place in 1989 only whereby the commercial banks were set free to determine the deposit and lending rates. However, the existing number of commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect

market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market. Informal market rate for borrowing are much higher than the formal market rates. One noteworthy situation of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by the Nepal Rastra Bank. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities (Source of Financial policy is: Feasibility study report of purposed Civic Development Bank, 2008:27).

1.4 Meaning and Importance of Financial Institution

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 147,181 Sq. Km. and only about 29.65 percentage of the total land area is under cultivation (World Bank report 2010). Ecologically this country is divided into three regions: i) The Himalayan Region ii) The Mountain Region and iii) The Terai Region, similarly politically divided into five development regions, fourteen zones and seventy-five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is significant. The commercialization of the agricultural activities has not yet taken place. There is a wide gap in the distribution of agricultural land. Most of the farmers are landless and the major portion of the land is in the hands of few landlords. Nepal is one of the least developed countries in the world where 25.20% of the population is below poverty line (CIA World Factbook, 2012). Consequently, living standard of the people is worsening every year, through large amount of money is being spent from government and non-government organization to uplift the living standard of the people. This situation mainly occurs due to the slow growth of domestic product as compared to the rate of inflation. However, the process of economic development of a country is highly a complex phenomenon. It is influenced by political, social and cultural factors. Therefore economic analysis provides only partial explanation of this process.

"Financial Institution" means an institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes an institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazette (NRB Act-2002).

Banking institution is inevitable for resource mobilization and all-round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people (Gryuinskhi, 1993:87). Bank is most important financial intermediaries which accepts the deposits from public and mobilize them in the productive sectors. Banks are the principal source of credit to household: individuals and family business all forms and local units of government. Financial intermediation is advanced to other forms of financing because it fulfills expectations of both savers and users it is the most popular form of moving excessive money from savers to users.

Among all financial intermediaries commercial bank is the most vital one. "A bank is an organization whose major function is concerned with the collection of the provisionally idle money of general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while 'Financial Institutions' are authorized to do limited transactions only" (Dahal & Dahal, 2002:7).

1.5 Development of Banking in Nepal

Banking concept existed even in the ancient period when the Goldsmiths and the rich people used to issue the receipts to the common people against the promise of safe-keeping their valuable items. On the presentation of the receipts, the depositors would get back their gold and valuables after paying a small amount for safe-keeping and saving. The Goldsmiths and the Money Lenders became bankers of those days who

started performing two functions of modern banking-accepting deposits and advancing loans. The stage wise development of banking can be presented as follows:

A) The First Phase of Banking Development

Eight century, king "Gunkamdev" renovated the Kathmandu city by taking loan. At the end of same century merchant named "Shankhadhar" has started the New Year 'Nepal Sambat' after freeing all people of Kathmandu from the debt.

- In the 11th century, during Malla reigns, there was an evidence of professional Money Lender and buyer.
- Tejarath Adda was established in 1877 A.D. which provided loan at very low rate of 5%.

B) The Second Phase of Baking Development

- The modern banking in Nepal has started with established of Nepal Bank Ltd. in 1994 B.S.
- Having felt the need of development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank was set up in 2013 B.S. as the central bank of Nepal.
- In B.S. 2022, Government set up Rastriya Banijya Bank as a fully government owned commercial bank.
- The Agricultural Development Bank was established in 2024 B.S. This bank was established with the objective of increasing the life standard of the people who are involved in agriculture.

C) The Third Phase of Banking Development

The process of development of banking system in Nepal was not satisfactory. Nepal was observing the events that were taking places in the world also. The country can't change it status by using only its own capital in the country without importing the new technology from foreign country and accordingly, law and policy have been enacted by the state to encourage the foreign investment on banking sector. From this, the real

form to the development of the banking system started in Nepal. In order to established and develop other joint venture commercial banks and other financial institution, Nepal adopted liberal economic policy. Accordingly, Nepal is allowed to establish different joint venture banks under the collaboration with foreign banks.

D) The Fourth Phase of Banking Development

From 2041 B.S. GoN (Then His Majesty's the Government of Nepal) established 5 rural development banks. They are as follows:

- Eastern Rural Development Bank
- Central Rural Development Bank
- Western Rural Development Bank
- Mid-Western Rural Development Bank
- Far-Western Rural Development Bank

In order to establish and develop other joint venture commercial banks and other financial institution, Nepal adopted liberal free economic policy. After 2041 B.S., the government gradually liberalized and opened up the financial sector, resulting in the rapid entry of the foreign banks. Later, in 2041 B.S., with the grand opening of NABIL Bank Ltd., other commercial banks started emerging in the private sectors. As a result, now there are altogether 32 commercial banks operating at different parts of the country. At present, the banking sector is more liberalized and there are various types of bank working in modern banking system. This includes central, development and commercial banks. Evolution of the information technology has revolutionized the banking sector is saving lots of time and money by implementing IT. Technology has changed the traditional method of the services of bank. Invention of different software and hardware, which are very essential and available for functioning bank such as Banking Software, ATM, E-Banking, Mobile Banking, Branchless banking and card like Debit Card, Credit Card, Prepaid Card etc. which helps the customer as well as banks to

operate and conduct their activities more efficiently and effectively. This helps bank to generate more customers, goodwill and profit.

Table No. 1

BFIs in Nepalese Financial System

S. No.	Organization	Number
1	Central Bank	1
2	Commercial Bank	32
3	Development Bank	80
4	Finance Companies	79
5	Saving & Credit Co-operatives Limited (Banking Activities)	16
6	Micro Credit Financial Institutions	18
7	NGO's (Financial Intermediaries) licensed by NRB	45
8	Insurance Company	26
9	Employee Provident Fund	1
10	Citizen Investment Trust	1

(Source: www.nrb.org.np)

After Nepal adopted liberal economic policies in the early 1990's the banking sector has seen exponential growth. However domestic bank promoters belong to the business community a loan demanding sector. At present 32 commercial banks, apart from some development banks that have applied for up gradation to class 'A' commercial bank. However, the central bank has temporarily halted licensing commercial banks, claiming that it needs to revise the licensing policy.

1.5.1 Commercial Banking System in Nepal

Banking in modern sense started with the inception of Nepal Bank Limited (NBL) on B.S. 1994/07/30 with 51% Government equity. NBL had a staggering responsibility of attracting people towards banking sector from predominant Money Lenders net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generation business and preferred opening branches at urban centers.

The Government however had duty of stretching banking services to the nooks and corners of the country and also managing the financial system in a proper way. Thus Nepal Rastra Bank (NRB) was established on B.S. 2013/01/14 with full government

ownership as a Central Bank under NRB Act-2012 B.S. Since then it has been functioning as the Government's Bank and has contributed to the growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institutions. Accordingly, NRB has been trying to change itself and has introduced a host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove itself as an efficient supervisor. NRB really requires strengthening their policy making, supervision, and inspection mechanism.

For the integrated and speedy development of the country, the Government set up Rastriya Banijya Bank (RBB) in B.S. 2022/10/10 as a fully government owned commercial bank. As the name suggests, commercial banks are to carry out commercial transactions only. Nevertheless, commercial banks had to carry out the functions of all types of financial institutions. Hence, Industrial Development Centre (IDC) was set up in 2013 B.S. for industrial development but in 2016 B.S., IDC was converted to Nepal Industrial Development Corporation (NIDC), after that in 2024 B.S. Agricultural Development Bank (ADB) was established to provide finance for agricultural producers so that agricultural productivity could be enhanced by introducing modern agricultural techniques.

In the late 2030's, to meet the need of healthy competition in the financial system, Nepal allowed the entry of foreign banks as joint ventures with up to a maximum of 50% equity participation. Responding to this, Nepal Arab Bank Limited (now changed name as NABIL Bank Ltd.) became the first bank to be established under such policy in the year 2041 B.S.

Table No. 2
Growth of Commercial Banks In Nepal

(Rs. In Millions)

S. No.	Names of Commercial Bank	Operation Date (A.D.)	Head Office	Paid up Capital
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	380.40
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	NABIL Bank Ltd.	1984/07/16	Kathmandu	1449.10
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	2409.10
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	1653.60
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu	1860.30
10	Everest Bank Ltd.	1994/10/18	Kathmandu	1030.50
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	1182.20
12	Nepal Credit & Commerce Bank Ltd.	1996/10/14	Siddharthana gar, Rupandehi	1399.60
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan	1294.50
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar, Morang	1311.50
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski	1479.10
16	Kumari Bank Ltd.	2001/04/03	Kathmandu	1304.90

17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	1613.50
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	1230.00
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1325.10
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1196.00
21	Prime Commercial Bank Ltd.	2007/09/24	Kathmandu	1263.70
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1419.70
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1105.30
24	DCBL Bank Ltd.	2008/05/25	Kathmandu	1740.40
25	NMB Bank Ltd.	2008/06/05	Kathmandu	1430.00
26	Kist Bank Ltd.	2009/05/07	Kathmandu	2000.00
27	Janata Bank Nepal Ltd.	2010/04/05	Kathmandu	1400.00
28	Mega Bank Nepal Ltd.	2010/07/23	Kathmandu	2330.00
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kathmandu	2000.00
30	Civil Bank Nepal, Ltd.	2010/11/26	Kathmandu	2000.00
31	Century Commercial Bank Ltd.	2011/03/10	Kathmandu	2000.00
32	Sanima Bank Ltd.	2012.02.15	Kathmandu	

Source: (www.nrb.org.np)

1.6 Introduction to Global Bank Ltd.

Global Bank Limited (GBL) was established in 2007 as an 'A' class commercial bank in Nepal which provides entire commercial banking services. The bank was established with the largest capital base at the time with a paid up capital of NPR 1.0 billion. The paid up capital of the bank has since been increased to NPR 1601.5 million. The bank's shares are publicly traded as an 'A' category company in the Nepal Stock Exchange.

Pursuant to the liberalized economic policy of the government, majority of the commercial banks have established their head office in the Kathmandu valley. Witnessing the incredible potential the country offers outside the capital, the promoters have established the bank in Birgunj, the commercial hub of the nation. It is in line with the aim of the bank to be “The Bank for All” by giving necessary impetus to the economy through world class banking service.

For the day to day operations, the bank has been using the world renowned FINACLE software that provides real time access to customer database across all branches and corporate locations of the bank. This state of the art customer database has also been linked to a Management Information System that provides easy reach to all possible database information for balanced and informed decision making. A disaster recovery system (DRS) of the Bank has also been established in the Western Region of Nepal (200 kms west of Kathmandu).

The bank has been able to achieve excellent diversification of its assets. A well balanced distribution of exposure in areas of national interest has been possible through long term forecasting and timely strategic planning. The bank has diversified interests in hydro power, manufacturing, textiles, services industry, aviation, exports, trading and microfinance projects, just to mention a few.

The exemplary performance of the bank in these last five years has elevated it to a premier status in the industry. The bank has been handling government transactions and is officially among the only 5 banks in Nepal to do so. The bank has been able to earn the trust and confidence of the public, which is reflected in the large and ever expanding customer base of the bank. Through all this the bank has been able to truly achieve its vision of being “The Bank for All”. Even with all this success, the bank remains internally focused towards manpower development, product innovation and

process innovation etc, to have a strong and solid foundation, which are ongoing and continuous improvement initiatives undertaken by the management and staff alike.

1.6.1 Promoters

GBL has been promoted by a group of prominent indigenous entrepreneurs who have written a history of success in their field of ever growing business. The promoters of the bank include renowned, well established and respected businessmen/industrialists in Nepal from a variety of different sectors that include finance, remittance, trading, export, automotive services, manufacturing, media services and hydropower to name a few. The collective experience of the promoters have been realized to customize the bank's offerings and services to compete with best in the banking industry and instill a culture based on its core values of integrity, business ethics, teamwork, respect, humility, professionalism, loyalty and good governance.

1.6.2 Capital Structure

Authorized Capital: Rs. 3,000 Million

Paid-up Capital: Rs. 1,601.5 Million

1.6.3 Broad Objectives and Goal

GBL has defined its objectives and goals in its mission and vision statement. This states as follows:

1.6.3.1 Vision

The bank shares a common vision of “The Bank for All” amongst its Promoters, Directors, Management Team and Staff in commitment to providing the highest standard of services for customers from all regions and societies.

1.6.3.2 Mission

To win respectable market share through customer focused quality products and services, innovative business solutions and technology driven banking thereby enhancing the growth and profitability of the bank so as to ensure the optimum benefit to all stake holders at all times.

1.6.4 The Management

1.6.4.1 Board Composition

The management team of the bank have been handpicked to include the most seasoned and experienced veterans from the industry who have previously shown the ability to lead and nurture an organization.

The management is led by Mr. Ratna Raj Bajracharya, previously a central banker and a prominent Chartered Accountant, who has been involved in banking for about four decades. His diverse experience/expertise includes, besides central banking, audit and financial consultancy, training and human resource development, project development (particularly banking and financial institutions, besides hydro, etc.) and their establishment, worked as the main local member with a team of expatriates for the management of a World Bank financed project under the Financial Sector Reform Project for the oldest bank of Nepal, Nepal Bank Limited. Thereafter, he led as the CEO of NCC Bank, turning around the bank's balance sheet from a heavy negative net worth to a far better positive growth. Presently he is associated with GBL as its CEO.

Similarly, the Deputy Chief Executive Officer, Mr. Janak Sharma Poudyal, possesses about 25 years of banking experience. His experience includes working in entire gamut of banking activities, worked as the senior most founder member of staff for the establishment and operations of two indigenous commercial banks. Holds an international MBA from London, UK and also carries with him an international banking experience having previously worked for Barclays Bank, London.

The Deputy Chief Executive Officer, Mr. Yogeshwor Sharma Dhakal posses 40 years of experience in banking sector who has proven his metal during his tenure at Agricultural Development Bank and IME Financial Institution Ltd.

Table No.3

Key Management Personnel of GBL

Mr. Ratna Raj Bajracharya	Chief Executive Officer
Mr. Yogeshwor Sharma Dhakal	Deputy Chief Executive Officer
Mr. Janak Sharma Poudyal	General Manager
Mr. Manoj Gyawali	Chief Finance Officer
Mr. Surendra Regmi	Chief Credit Officer - Corporate
Mr. Pravin Raj Pokharel	Chief Operations Officer
Mr. Suresh Raj Maharjan	Chief Marketing
Mr. Bhawani Dhakal	Chief Human Resources

Source: GBL annual report 2010/11

1.6.4.2 Human Resources

Compared to last year's 376 staffs, GBL has reached 386 staffs at present. Global Bank Ltd. is what it is now due to good coordination and effort of bank management and employees. Bank believes that, for the expansion of branch network and to meet the objectives laid by the management, human resources play a vital role. It is because of the staffs' hard work, dedication, team work, commitment and enthusiasm that contribute towards the success of the bank.

On the bank's part, it recognizes it's employees' toil by rewarding them from time to time to encourage them and make them feel acknowledged. It believes that content employees give good output and quality service to the customers. Hence, the bank takes initiatives to further develop the employees' caliber by creating an appropriate and sound environment to provide necessary trainings at national and international

level where they can be cultivated in different areas such as capability, loyalty, teamwork, creativity etc. Trainings will continuously be held to uphold the quality of human resources in the bank. Along with the bank's focus on increasing the Global banking network, the employees have also increased and the bank looks forward to employ and work with high caliber staffs in the future.

1.6.5 Branches and Extension Counters

Ranging from Far-Eastern Dhulabari to Far Western Dadeldhura, the bank has 28 branches at present. Considering the need and demand of banking service in all the various sectors and region, it has a plan to open 6 new branches in the coming year and amongst these, it has got the approval from NRB to open the branch at Surkhet, Baitadi and Dillibazar.

Furthermore, apart from doing feasibility study to open new branches at appropriate and prime locations, it is also doing study in improving and providing mobile banking and extension counter facility accessible in order to further enhance customer relationship.

1.6.6 Correspondent Network

The bank has been maintaining harmonious correspondent relationships with 62 different international banks from various countries to facilitate trade, remittance and other cross border services. Through these correspondents the bank is able to provide services in any major currencies in the world. The bank also maintains its extension offices in India and Middle East to assist in the remittance of funds from overseas Nepalese workers. These services are soon to be expanded to South Korea.

1.6.7 ATM Location

Regarding ATMs, GBL is in a position to serve its customers through an extensive domestic network by representing 35 ATMs running at the moment. Along with the new

branch openings, it is planning to open new ATMs at prime and appropriate locations to make it convenient for the customers.

1.6.8 General Activities

Every business has an objective of profit making likewise commercial banks also has some objective of making profit. GBL as a commercial bank performs various activities to achieve the objective and give sufficient return to stake holders. GBL being commercial bank and also a business concern performs various kinds of profitable business activities.

The bank offers a complete range of banking products in deposits, lending, trade finance and remittances. The bank's deposit product portfolio encompasses customer tailored saving deposits, fixed deposits, call and current deposits. The lending product portfolio includes commercial loan products such as demand loans, cash credits, overdrafts, trust receipts and term loans, whereas a complete portfolio of personal and retail credit products are also provided by the bank. Non-fund based products such as bank guarantees and letters of credit are also available to the bank's customers. SMEs and Global Small Loans has been the focus for the year 2011/12. In continuation of living with its vision "The Bank for All", the bank has launched Agricultural Loan in co-ordination with food processing industries as about 70% of the Nepalese population depend on agriculture for their livelihood. The Bank is one of the five commercial banks which are authorized to perform Government transactions.

In addition to the above, the bank also offers a variety of value added services to its customers. The bank has also been providing Internet/Mobile Banking Services (through its website www.globalbanknepal.com), SMS Banking Services and SMS Notification Services among other such value added proposition to its customers. The bank has also been issuing VISA debit and VISA credit cards to its customers since 2009. GBL is the

pioneer bank to provide SMS alert to its customers on credit transactions and credit card transactions besides other transactions.

1.6.9 Bank's Product and Services

GBL offers a wide range of product and services that are enlisted below;

1.6.9.1 Deposits

A)'Global Savings Deposit Products

GBL's Savings Products facilitate easy and regular withdrawal of funds as and when required and simultaneously earning of income on the balance that is kept in the account. Any person having a savings account is allowed to deposit money and withdraw to the extent of balance freely from his/her account.

Global Super Savings: Global Super Savings is an interest bearing account, designed to provide higher return on savings of general public without having to lock fund. The customer has flexibility to deposit and withdraw any amount of fund.

Global Savings Plus: Global Savings Plus has been designed to provide moderate return to the customer without having to maintain high minimum balance.

Global Shubhalabh Bachat: Global Shubhalabh Bachat is another interest bearing account that provides moderate return to the customer without having to maintain high minimum balance.

Global Nari Bachat: Global Nari Bachat has been designed to encourage saving habits of women. The low minimum balance focuses on enabling any women to open the account whenever they wish.

Global Future Star Deposit: Global Future Star Deposit enables parents to save for secured future of their children by opening the account in their children's name and keeping themselves as patron until the children reach the age of 16.

Global Senior Citizen Account: Global Senior Citizen Account caters the special requirement of the senior citizens of our country.

Global Student Savings Account: Global Student Savings Account, the latest deposit product, has been designed to meet the savings needs of the college students and thus aims at developing banking habits among the college students.

Global Karmachari Bachat: Global Karmachari Bachat has been designed to enable institutions to efficiently distribute salary of their employees through the banking channel.

Global Remitter's Super Savings Account: Global Remitter's Super Savings Account enables Nepalese workers at foreign countries to save their earnings in the bank and also to easily send their earnings to their families back home. "Our Savings Products facilitate easy and regular withdrawal of funds as and when required and simultaneously earning of income on the balance that is kept in the account. ...", says the bank.

Global Normal Savings: This is a general savings product designed to encourage small savings among people.

Foreign Currency Savings Deposit Account: This product enables people having income in foreign currency to maintain deposits in foreign currency.

B) Global Fixed Deposit Products

The fixed deposit product enables a customer to earn higher rate of interest on the funds that the customer is ready to deposit without withdrawing for certain period of time. The products offer higher rate of interest than savings account. Different interest rates are offered on deposits maintained for different tenures.

C) Global FCY Fixed Deposit and Call Deposit Products

Rates are Negotiable in FYC deposit and call deposit accounts.

1.6.9.2 Loan Products

A)'Consumer/ Personal Loan

- Global Home Loan: Helping people realize the dreams.
- Global Auto Loan: Auto Loan with its all-inclusive features is the ultimate solution to customer's financing requirements. With its simple documentation process coupled with speed of delivery and flexibility, one can drive his/her vehicle today itself- be it brand new or used.
- Global Hire Purchase Loan: GBL Hire Purchase loan enables you to purchase commercial vehicles such as heavy and light commercial vehicles especially truck, bus, microbus excavator etc.
- Global Education Loan: Global Education Loan is provided to suffice financing requirement for students to pursue sound academic career. It's education loan aims to provide financing in such a way that the requirements of the students are met without any hassles.
- Global Mortgage Loan: (Personal Loan) Global Mortgage Loan/ Global Personal Loan is provided to suffice people's personal financing/ business requirements such as for financing your long vacation plans, buying home equipments, electronics or any other unexpected needs.
- Loan against FD: Provides the customers flexibility of availing loan on their Deposit.

B) SME Loan

Global Small Business Loan/ Small and Medium Enterprises Loan enable the customers to meet unique business requirements of them.

Purpose

- Financing for small business facilities and commitments
- Working capital financing
- Swapping of loan from other banks and financial institutions
- Financing for capital expenditure (in the form of Fixed Term Loan)
- Financing for trade related facilities like LC/TR and non-funded facilities like bank guarantee etc.

C) Corporate Loan

- Funded Loan: Global Bank offers different Industrial/ Business Loans to suffice financing requirement of different kinds of organizations.
- Non Funded Loan/Trade Services: GBL provides a wide range of trade services covering import services, export services and guarantees. It has an experienced team of trade finance staff, who will work in a very personalized manner, to ensure international trade finance transactions proceed faster, easier and risk-free

1.6.9.3 Global Remit

Global Bank has established remittance business relationship with various foreign banks and foreign exchange companies. Nepalese staying abroad can visit any of these banks and exchange companies and send money through “Global Remit”, the safest and reliable money transfer system of Global Bank Limited, at low charges and high exchange rates to more than 800 remittance payment outlets across Nepal. Customers need not to have account with Global Bank to get the payment through Global Bank Limited.

A)'Domestic Remittances

Global Bank, one of the largest commercial bank of Nepal in terms of capital investment, is providing fastest, most reliable and most secured remittance facilities of domestic remittances through its wide network of more than 200 locations. Nepalese staying in any part of country can send their money more safely to their relatives at other part of country in no time.

B)'Inward Remittances

Nepalese staying in any part of the world can remit their hard earned money to their family members in Nepal through Global Bank Limited.

C)'Outward Remittances

Through the SWIFT transfer mechanism, one can transfer fund to virtually anywhere in the world through Global Bank Limited. Society for Worldwide Interbank Financial Telecommunication System (SWIFT), the most reliable communications network system, provides the customers an opportunity to transfer funds to any of the foreign banks.

D)'IME Remit

Global Bank also works as one of the paying partner of IMEREMIT that has its reach in over 25 countries for bringing remittance to Nepal which means all International payments from IMEREMIT can be collected from Global Bank branches and Global Remit through IME outlets. Global Bank currently has its local remittance service in partnership with IME.

1.6.9.4 Bank Draft

Global Bank has entered into draft drawing arrangement with various banks in India and abroad. Global Bank, thus, can draw demand drafts to its correspondent banks.

A)'Indian Rupee Draft Arrangement

Global Bank can draw the demand drafts to the various branches of Standard Chartered Bank, India, HDFC Bank and Centurion Bank, India.

B)'FCY Draft Arrangement

Global Bank can draw the demand drafts on number of its correspondent banks located various part of the world in various currencies.

C)'Managers Cheques

Managers Cheque is the cheque drawn by Global Bank on itself. Global Bank issues Managers cheque at very less charges which can be deposited in any account with other banks or in customers account at Global Bank itself.

1.6.9.5 Anywhere Branch Banking System

Global Bank has used latest banking software "FINACLE" to provide best services to its valuable customers. With the centralized banking system, all the branches of Global Bank are interconnected. One can either deposit in account or withdraw from it's account through any branches of Global Bank Limited under Anywhere Branch Banking System (ABBS).

1.6.9.6 Cash Management Services (CMS)

Global Bank Limited, in association with Standard Chartered Bank (SCB), India, is also providing cash management services especially to corporate customers to get the payment with less hassles, time and cost. Under this system, Global Bank makes the necessary arrangement to collect the cheques from the Indian counterparts of Nepalese corporate houses through the branches of SCB and credit the account of customers at Global Bank Limited within very short span of time. Similarly, we have cash management arrangement with HDFC Bank, India through their branch network.

1.6.9.7 Global mobile banking

GBL upgraded Global SMS Banking to Global Mobile Banking. Now Global Bank's customers do not need to send SMS to 3456 to do the Banking with us. GIBL customer needs to have Global Mobile Banking application installed in their Mobile Phones and through that application all the banking transactions and enquiry mentioned here below can be performed via mobile phones. Global Mobile Banking continues to support syntax based SMS banking. Mobile phone users who do not have access to Windows based, Android based, Blackberry, or Java enabled mobile can continue using syntax based mobile banking.

This application supports both GPRS and SMS which is the added benefit to it's customers along with relief from the hassle of traditional SMS Banking where customers are required to memorize the SMS syntax.

Global Mobile Banking application which is required to be installed in mobile phone can be downloaded from the website www.globalbanknepal.com . This setup file can be downloaded from mobile phones with GPRS facility or can be downloaded to any PC and then transferred to mobile phone.

Global Bank offers online payment facility for its account holders as well as non account holders. Customers can easily make payment for many of their needs. It's very quick, convenient and reliable. Customers can make payment for many services such as:

1.6.9.8 Global Card Products

Global Card Products: Global Bank offers various card products to its customers. All of Global Bank's cards are issued under Visa brand. The Bank offers two types of cards, debit card and credit card. Customers who have the Bank's card(s) can use it to purchase goods and services at various merchant locations in Nepal and India. In addition, they can use their cards to withdraw cash from hundreds of Automatic Teller

Machines (ATM) in Nepal and from thousands of ATM machines in India. Debit Card customers can also use ATM machines to recharge prepaid GSM/CDMA (Nepal Telecom) and request cheque book and bank account statement anytime. International Prepaid Cards and Credit Cards are also issued by the Bank and these cards are acceptable wherever Visa is accepted. Global card products are;

- Visa Debit Cards
- Global Travel Card
- Visa Domestic Gold Credit Cards
- Visa Domestic Classic Credit Cards
- Visa International Credit Cards (USD)

1.6.9.9 Mobile Phone Recharge

Global Bank proudly offers prepaid phone recharge facility to Nepal Telecom GSM/CDMA prepaid phone subscribers. The recharge pin can be purchased from any Global Bank ATM location.

1.6.9.10' Other Services

- Foreign Currency Sales / Purchase
- Foreign Currency Deposit Accounts
- Remittance Services
- Locker Service
- Internet Banking
- ATM (Automated Teller Machine) Service
- Anywhere Banking (free of cost)
- Global Plus Lounge
- 365 Days Banking
- Evening Counter
- Draft Facility

1.6.10 Social Responsibilities

Not only is the bank profit oriented, it is also fulfilling its corporate social responsibility. Corporate Social Responsibility is an integral part of GBL's ambition to become the bank for all and is the mainstay of the bank's values. The bank believes in delivering shareholder value in a socially ethically an environmentally responsible manner.

The bank has started providing scholarship to martyr's children up to class ten. It is providing Rs. 100,000.00 every year till 12th grade to Bhaibhav Khatri son of late Bijay Babu Khatri who died on car accident on 10 Mangsir 2068. Mr Khatri at that time was serving for Karobar Daily as financial news editor.

Global Bank had provided Rs. 10,000.00 to tewa for marathon event. This fund will go for empowerment of rural women.

Blood donation program held at Kantipath branch on occasion of bank's 4th anniversary. As a CSR activity bank has been doing blood donation camp every year.

In addition, the bank has been providing loan on deprived sectors in order to reduce poverty in the country. The bank is in process of implementing Global Small Loan and Global Small Farmer Loan that is further going to help in deprived sector.

Henceforth, the bank will, all the more, be seen being engaged in such activities

1.6.11 Customer Relation

There has been a continuous increment in the number of customers of the bank. As at Ashad end, the total number of customers reached 98,496. At present, the number has increased to 104,261. There has been a significant increment in the number of saving accounts as well. Therefore, the saving deposits have also increased and it looks very promising.

The bank, being customer oriented, has always moved ahead by keeping in mind the customer satisfaction. Being able to deliver as per customer's need on deposit and savings, the bank is being recognized as the customer's bank.

The bank's success solely goes to the various customers of the bank and will try to improve its services all the more hence forward.

Getting a lot of cooperation from its clients, its staffs have even started providing door to door service. GBL is strictly following the guidelines of Know its customer (KYC) and Anti-Money Laundering (AML). Bearing all these things in mind, the bank has appointed a senior level staff as Head Compliance and has appointed one compliance officer at every branch and department

1.6.12 Technology

Keeping in mind that technology is very essential and one of the core factors in providing quality banking services, GBL has started focusing in enhancing technological products. Providing technology friendly products has been the main focus of the bank. Till date, it has been providing various facilities such as SMS banking, internet banking, telephone bill payment, e-ticketing, mobile recharge, and mobile utility bill payments to its valued customers. Likewise, it has already started issuing VISA credit card (National and International) which has noticed that the customers take a special interest on.

The bank is proud to be the first bank that provides SMS alert to customers every time they use their credit card. In addition, it has become the second bank to have a DRS (Disaster Recovery Site) outside Kathmandu Valley in Bhairahawa for protection of the data.

1.6.13 Future Planning

The bank is targeting small businesses all over the country. This has brought a scheme of small business loan where it provides loan from Rs 50 thousand to Rs 5 lakhs to clients in an easy and convenient way. Hence, the bank has been able to attract the customers as expected.

Also, considering the fact of accident, death and disability of the customer, to recover the loan amount, the bank has an insurance policy with an insurance company which is a very distinct feature of this product.

As per the directives of NRB, the banks should at least have 20% of the total loan portfolio in productive sector lending. The bank has, therefore, started working on it already to meet the two years' deadline.

Furthermore, it has already proceeded for insurance of deposit as per the NRB Directives. This will help to gain additional trust from the customers.

In view of the fact that the remittance service of the bank has a lot of potential, Global Bank is taking a special interest on it. Taking into account the flow of Nepalese to South Korea, it has already made an agreement with Kookmin Bank for remittance purpose. Also bearing in mind the number of people who work and send money from it's neighboring country India, Global Bank has already started working with a national level bank there for remittance purpose and is hopeful it will get sorted out shortly and as planned. Overall taking into account the scope in remittance sector, Global Bank is trying to get agreements with other banks in foreign countries.

Going forward as per the slogan "The Bank For All" the involved manpower are made more capable by focusing and making priority on the following areas:

Of the deprived sector, Global Bank is focusing more on the small farmers. It is planning on additional lending through small micro finances in order to contribute significantly in this sector. Targeting bank's Saving Deposit and Non Interest Bearing Deposit by execution of required planning and Marketing Continuous endeavor towards quality consumer, increase in business loan and share of Import Export Business. Considering the increment in Credit and Operational Risk, focus is on improvement of internal system and intense training of personnel Initiation of mobile banking in selected places, addition of internet banking and card related services with a view to increase customer services.

Hence the bank aims to attain remarkable achievement in business and income from the above stated programs.

1.6.14 Dividend Bonus Condition

For FY 2010/11, the bank has recommended for approval of 5.35% Cash Dividend and 6.67% Bonus Share for the shareholders from the profit of fiscal year 2010/11, Share Premium and Retained Earnings. Accordingly financial statements have been submitted to Nepal Rastra Bank for approval to distribute Rs. 80,263,158.00 as cash dividend and Rs. 100 Million as bonus share out of retained earnings and profit of current fiscal year

1.6.15 Contribution to National Economy

Bank, as a financial mediatory, is playing a vital role for development of industrial sector, providing employment and making contribution to national revenue in the form of income tax and other taxes. In the FY 2010/11, the bank has made payment of Rs.57.3 million as corporate tax.

1.6.16 Corporate Governance

The Board of Directors and the Management is always committed for good corporate governance. Bank has always complied with good corporate governance guidelines.

Also, the Board of Directors and Employees have complied with the Code of Conduct outlined by Nepal Rastra Bank. The Audit Committee of the bank monitors all the activities and ensures the bank complies with directives of Nepal Rastra Bank. In addition, the committee ensures the adequacy of procedures and processes of the bank. On the whole, bank is always concerned with development of corporate governance through transparent operations.

1.6.17 Function

Commercial banks have different functions like accepting deposits, capital formation, granting loans, remittance and foreign exchange. Various new functions have been introduced by commercial banks like credit card, debit card, ATM, tele-banking, e-banking lockers, SWIFT, L/C etc.

Since its establishment this bank has been giving all commercial banking facilities. It performs almost all kind of commercial banking operations inclusive of the most modern ones. The fund based activities includes short-term as well as long term loans covering purchases like export credit, industrial loan, commercial loan, priority sector credit, working capital loan, lease financing, overdraft, loan etc. against fixed deposit receipts, GoN loan and guarantees including cash credit. With respect to non financing activities, the bank issue guarantees (besides providing forward covering, foreign exchange tractions).

1.6.18 Departmental Structure

There are some departments, which are authorized to do day to day operations of the bank. The departments are:

- Cash Department.
- Deposit Department.
- Accounts Department.
- Credit Department.

- Bills, Clearing and Collection Department.
- System Department.
- Remittance Department.
- Share Department.
- Forex and Treasury Department.
- L/C, GTE Department.
- Research and Development Department.
- Loan Department etc.

1.7 Statement of the Problem

Commercial Banks play vital role in economic growth of a country. As being a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibility and profitable deployment of those resources which generates income. The differential interest income over the interest cost, which is popularly called spread, can be considered as the Contribution Margin in the profit of the bank. The other operational expenses form a burden margin which the bank are attempting to compensate by other income generated out of non fund based business activities of the Bank. The present study has tried to analyze and examine the PPC side of Commercial Bank taking a Case of GBL. Furthermore, the study will try to answer the following research question.

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

1.8 Objectives of the Study

The general objective of the study is to examine GBL particularly for the application of comprehensive PPC system. The specific objectives are;

- To highlight the current profit planning practice adopted and its effectiveness in GBL
- To observe GBL's net profit of each year on the basis of performance variables
- To study the growth of the business of the Bank over the period

1.9 Limitation of the Study

None of the works can be beyond the limitations. This study also isn't exception and will have the following limitations:

- The study is for partial fulfillment of the requirement of Masters in Business Studies, in a short duration of time. Therefore only GBL has been chosen for the study.
- Only the profit planning & control aspect of the bank has been analyzed leaving other areas uncovered. This study, there for limited to summary of major findings and conclusion hence, does not present any recommendations unlike the professional research.
- The study covers the related data of the Bank from FY 2006/07 to 2010/11 only. All other information like macroeconomic situation of the country, number of commercial banks and other financial institution in-country etc are of those 5 year period, hence does not represent the present scenario and changes happened in any aspect thereafter.
- Primary data is collected only from the informal discussion with the personnel of the Bank.
- The accuracy of this study is based on the data available from the management of GBL, the various published documents of the Bank and the response made by the respondent during the informal discussion.

1.10 Scope & Significance of the Study

This research study is concerned with the profit planning in Nepalese commercial Banks that can be generalized by a case study of GBL with the major objectives of examining the proper applicability of profit planning system in the Bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the help of the best utilization of resources.

Accomplishment of objectives in every organization depends upon the application of scarce resources more effectively. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. So, all the organizations running under the commercial principle have to give regard to this most important tool while managing their physical and financial targets. If the planning process of an organization is effective and result oriented, the pace of development naturally steps forward. Profit planning is the heart of management. It tells us that profit is the most important indicator to judge managerial efficiency and do not just happen. For this, every organization has to manage its profit. Various functional budgets are the basic tools for proper planning of profit and control over them.

This research study may be useful for those who want to know the PPC in the GBL and might also be helpful for further researchers as a reference material.

1.11 Organization of the Study

This study has been comprised into five chapters; each devoted to some aspects of profit planning and control practices of commercial banks. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here.

- The first chapter deals with the subject matter consisting introduction, identification of the problem, significance of the study, objectives, limitations and chapter scheme of the study.

- The second chapter concerns with literature review that includes a discussion on the conceptual framework on profit planning and control and review of major-studies relating with profit planning and control decisions.
- The third chapter describes the research methodology adopted in carrying out the present research. It deals with research design, source of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.
- The fourth chapter is concerned with analytical framework. It includes the analysis of financial indicators; analysis of mean; standard deviation; coefficient of variation; correlation coefficient and regression analysis.
- The fifth and the final chapter are concerned with the suggestive framework that consists with the summer of findings, issues and conclusions of the study.
- The bibliography, appendix and glossary have been incorporated at the end of the study.

CHAPTER – TWO

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

In this chapter, attempts have been made to review some of the basic literatures on budgeting theory including review of empirical evidence of previous studies. The researcher has reviewed various literatures in the form of books written by various authors, published newspapers, journals, browsing materials from the concerned web sites, NRB regulation, commercial act, GBL old annual reports in the related subject matters.

2.2 Concept of Commercial Bank

Meaning of 'Bank' in oxford dictionary says' an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheque. According to Commercial Bank Act-2031 "Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose."

The major functions of commercial banks are as follows:

- Accepting various types of deposits,
- Lending money in various sectors,
- Letter of Credit,
- Bank Guarantee,
- Remittance,
- Bills and
- Others

The commercial bank act provided for the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the company act as a limited company only with the recommendations of NRB, the central bank of Nepal. By the various definitions bring to a close that a commercial bank is set up to collect spread funds and employ them to creative sector.

2.3 Evolution of Banking Industry

The evolution of banking industry had started a long time back, during ancient times. There was reference to the activities of moneychangers in the temple of Jerusalem in the New Testamen. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transaction. Indeed the traces of "Rudimentary Banking" were found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Emperor Justinian in 565 A.D. And it was not until the revival of trade and commerce in the middle Ages that the lessons of finance were learnt a new from the beginning. Money lending in the middle ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon Law to indulge in the sinful act of lending money to others on interest. However, as the hold of the Church loosened with the development of trade and commerce about the thirteenth century Christians also look to the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 was the first the public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The Bank of Venice and the Bank of Genoa continued to operate until the eighteenth century. With the expansion of commercial activities in

Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world. In Nepal, modern banking starts from the establishment of Nepal Bank Limited.

2.4 Origin and Growth of Modern Bank

Before 1848 BC the Goldsmith used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of security rather than earning interest. The term bank emerged in USA in 1848 BC. The bank means an institute, which deals with money. A bank performs several financial, monetary and economic activities, which are very essential for economic development of any country.

Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for future and supplies loan to those who are in the position to use it for productive purpose. Basically banks perform various types of services i.e. collection of deposits from the public, supply loans to those investors who want to invest in business, industry and other sectors, overdraft, letter of credit, bills discounting, promissory notes, selling of other shares to general public, agency function of tasks, guarantee against any disable of payment (guarantee services) etc.

2.5 Activities of the Commercial Bank

As per the Commercial Bank Act-2031, a 'Bank' is a commercial bank established under this act 'banking transaction' 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. The functions of receiving money from his customers and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business. The major activities of a commercial bank are essentially accepting deposits and making loans and advances. In the present scenario banking activities are

not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time span like remittance services, land development and housing projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided into two parts are as follows:

1. Collection of Resources
2. Deployment or Mobilization of Resources

2.5.1 Collection of Resources

Sustainable economic growth requires intermediary channels for efficient allocation of resources. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by financial institutions and financial markets in this process is referred to as the activities of commercial banks. Resources in commercial banks collected from two sources internal and external internal means owners fund and external means borrowed fund.

I. Internal Fund or Capital Fund

- II. Internal fund of the bank is capital fund, which consists of paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions. A commercial bank must have paid up capital of Rs. 200 crore in order to establish as a national level commercial bank. NRB has also prescribed the capital adequacy norms to be of at least 12%. Likewise the Commercial Bank Act-2031 has made a mandatory provision for every commercial bank to build the general reserve out of the allocation of at least 20% of net profit amount each year until the amount becomes double the paid up capital. The external fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some part by the short-term fund borrowed from other banks called inter bank loan or central banks.

III. Deposits & Others Liabilities

IV. Deposits are collected from their customers in various types of savings. Customer's deposit is a major source of bank's resources. It is very important for a bank for its liquidity supply that banks are often engaged in competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits. There are various types of deposits like, call deposit, savings deposit, fixed deposit, current deposit etc. As per commercial bank act of Nepal, a current account is the bank account having money, which is subject to repayable whenever demanded. Likewise fixed deposit is time based deposit which is withdrawn only after the expiry of the time period. Banks offer interest on these accounts varying the duration of deposit maturation. The saving deposits are accepted on saving accounts which are defined by Commercial Bank Act-2031 as "the bank account having money which is deposited for the purpose of saving". Resources except customer's deposit and capital fund are called other liabilities of the bank. It consists of short term borrowed fund from other banks and central bank. This types of resources are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity position of the bank. This borrowings rate is directed by the NRB. In other resources also includes, payables in the account of the banks.

2.5.2 Deployment of Resources

The prime purpose of collection of resources is to use it in productive sector this function of commercial bank called deployment of resources. Deployment of resources of the bank means use for the bank's fund in such a way that it ensures liquidity as well as gives some income for meeting its operating expenses and optimum return to shareholder. The overall performance of the banker reflects by such activity. Every financial institution tries to maximize its earning by using its excessive cash by lending it to the sensible borrowers in a manner which in no way impairs its capacity to pay on

demand the acquired funds to their owners. Mobilization of resources in bank is a challenging job. Resources of banks are mobilized basically for two purposes one is for liquidity and another is for profitability. The importance of liquidity and profitability in a bank is dominant. Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Bank maintains liquidity in the form of cash and bank balance, money at call, investment in government security etc. In other hand banks always pays their attention to maximization their profitability. Depositors always expects better interest on their deposit, employees expects better salary, perks and bonus this is to because its shareholders expect a fair rate of return. If the bank cannot satisfy either of these parties, the success of the bank is always questioned. The profit is excess of incomes over expenses. To maximize profit, incomes should be reasonably excess over expenses. The major sources of income of a bank are interest income from loans and investments and fee based income.

A. Resources for Liquidity

Liquidity means portfolio of such assets which are convertible into cash with in very short period of time. As major portion of a bank's resources comprise customer deposit which are subject to repayable on demand. So banks maintain sufficient amount of liquid assets in the form of cash in their vault balance at their account of central bank and interbank.

B. Investment in Securities

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. Such investments can easily be liquidated if required thus they also called liquid assets.

C. Loan and Advances

Granting the loan and advance is a major function of bank. Overall profitability of bank depends on interest margin. Banking business essentially involves lending of loan and advances. In fact the deposits are accepted for loan and advance. Loan and advances dominate the asset side of the balance sheet of any bank. The income statement of bank occupy by interest. Hence, loan is known as risky assets. Risk of non repayment of loan is known as credit risk. 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 should be followed by a bank while taking decision towards the lending such as safety, liquidity, profitability, risk diversifications etc.

The types of loans may be collateral loan, demand loan, hire purchase, educational loan, foreign employment loan, social loan, housing loan, import and export loan, loan against fixed deposit, against securities, overdraft loan etc. There are some approval processes of bank loan. The entire amount is disbursed to the borrower account after completing the approval process which is repayable in terms and conditions of a bank i.e. periodicals installments basis or lump sum on the expiry of loans. Overdrafts are granted in current account of a customer. It is the permission given 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. NRB has made a mandatory provision on loan loss. NRB regulation on classification and provisioning is pass loan (principal overdue up to 3 months) is 1%, substandard loan (principal overdue up to 6 months) 25%, doubtful (principal overdue up to 1 year) 50%, and bad loan (principal overdue above 1 year) is 100%. Pass loan is called 'Performing' assets whereas others are called 'Non-performing' assets. Provision requirement in case of loan given against

personal guarantee only is additional 20% for pass substandard and doubtful loans. Provision for restructured, rescheduled and swapped loan is 12.5% only. The amount of loan loss provision 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 level (Dahal & Dahal, 2002:120).

D. Other Activities for Mobilization of Resources:

Granting loan and advance is a major functions besides this bank involves other income generating activities such as bank guarantee, issuing letter of credit, cheque collection, remittance services, bills payment services, traveler's cheques etc. In such cases banks do not have to involve their fund and yet they are charging some fee as commission for such services.

2.6 Role of Commercial Banks in Economic Development

A well development banking system is a necessary pre-condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In a modern economy, banks are to be considered not merely as dealers in money but also the leaders in development. They are not only the storehouses of the country's wealth but also utilize the resources necessary for economic development. It is the growth of commercial banking in 18th and 19th centuries that facilitated the occurrence industrial revolution.

The main objective of commercial banks is to mobilize the resources for productive use after collecting them from different places. It brings about greater mobility of resources to meet the emerging necessity of the economy. There are various roles played by a commercial bank for the development of an economy, which are capital formation, encouragement to entrepreneurial innovations, influencing economic activity,

promotion of trade and industry, development of agriculture and other neglected sectors.

Therefore, the fate of the country is greatly determined by the active role of commercial banks. Banks provide facilities to their customers by providing loans, remitting funds, purchase and sale of bills and other market information. These services help to run the business and other economic activities rapidly as well as smoothly which ultimately helps in economic development.

2.7 Impact of National and International Situation on Commercial Banks

Despite the current political instability in the country, the total flow of domestic credit has increased during the year. This is mainly because of substantial growth of credit flow to government and non-financial government corporations like NOC, NAC and National Trading etc. However, the prolonged conflict in the economy has started taking its toll on the private sector. The delay in peace process, the current security condition, and the significant imbalance in the political situation of the country have opened up few doors for new investment opportunities. On the one hand, private sector credit is steadily declining and on the other what little extension there is, is getting riskier. On the positive side, the living standard of Nepalese people has risen due to the direct impact of more and more Nepalese people working abroad. The Nepal Living Standard Survey (NLSS)-II released by the Central Bureau of Statistics (CBS) states that in nominal terms, average household income has grown by more than 80%. This is an important factor which the banks have capitalized on, as is evident from the growing competition amongst the banks to extend consumer loans. Nepal has shown good initiation and commitment in following the rules and regulations laid down by the South Asian Free Trade Agreement (SAFTA), scheduled to become a reality from 1th January 2006, and Bay of Bengal initiative for Multi-Sectarian Technical and Economic Cooperation (BIMSTEC). Nepal's recent entry to SAFTA and BIMSTEC has setup a ladder for possible economic growth in the future. Similarly, Nepal's accession to the World Trade Organization

(WTO) would permit international banks to operate in Nepal, which will require enhancement in our service quality in order to compete with them. In view of these, it is imperative for the bank to have its business plan and strategy accordingly (www.hbl.com.np).

2.8 Concept of Profit

As per Dean (1982), Profit is a motivating factor behind many managerial activities. Profit is financial reward. Economics theories on profit may be put in three broad categories. The first theory looks upon profit as the reward for bearing risks. The second view, profit as the consequence of friction and imperfection in the competitive adjustment of the economy to dynamic changes. Third sees profit as the reward for successful innovation.

A business firm is an organization designed to make profit and profit is the primary measurement of its success. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management.

2.9 Concept of Planning

Planning means deciding in advance what's to do in future. It is a method of thinking out acts and purpose beforehand. Planning is an effective management tool for decision making. It gives direction to the decision makers as well as manager to take the proper decision.

All effective planning involve the same basis elements which may be summarized as follows:

1. A clear definition of objectives.
2. An analysis of the steps required for attaining the objectives.

3. Examination of risk involved and as assent to the allowance necessary to cover uncertainties.
4. Calculation of the total time and cost involved.
5. Consideration of the alternative method of reaching the objectives.
6. Decision on the method to be implemented.
7. Establishment to time schedule for individual part of the agreed plan i.e. relative to calendar time scale.

The term, plan with reference to budgeting has a specific connection. It includes two aspects that have a bearing on the operation of an enterprise.

Planning is a method of a course of action to achieve a desired result and it is a method of thinking out acts and purpose beforehand. Planning starts from forecasting and determining of future events. It is the first functions of management and all other functions are performed with the framework of planning.

“Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives (b) developing premises about the environment in which they are to be accomplished (c) selecting a course of action for accomplishing the objectives (d) initiating activities necessary to translate plans into action and (e) current preplanning to correct current deficiencies” (Welsch, 2006:3).

“Management planning and control system proved the comprehensive framework within which organizing, staffing, leading and controlling process is carried out. Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals” (Lynch, 1984:139).

Planning is the mental process requiring the use of intellectual facilities, imagination, foresight sound judgment etc. whether the manager is of top level, medium level or lower level, s/he can't be separated from the planning task i.e. their commonality is planning differs as the level.

In planning the manager fixes the objectives of the organization as a whole and in the light of this, the goals of the various departments of the organization. Then, s/he proceeds to prepare a kind of blue print mapping out the ways of attaining these objectives naturally then all other functions of the manager depend upon planning. Planning is effective management tool for decision maker as well as manager to take the proper decision.

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

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

“Planning involves selecting mission and objectives and the action to achieve them it requires decision making that is choosing from among alternative future course of action” (Knoetz, 1999:45).

In sum planning is pre-determined course of action for achieving goals or objective effectively at a fluid environment within a certain time frame through the selection of best alternatives among the various alternatives. Planning also states what, where and how things will be accomplished. An adequate planning is necessary for control of operations.

2.9.1 Concept of Strategic and Operational Planning

Strategic planning is considered as a constituent of corporate planning. It is long range on its time perspective and complete in its breath of scope and depth of penetration.

Long range plans are usually from two to five years in length. Sometimes they are detailed and sometimes are not. Very often corporate planning is concerned with long range planning and it is interchangeable used. Corporate planning is concerned with objectives determination and developing means to achieve objectives. It may encompass short range as well as the long range plans depending on the requirement, capabilities of organizations.

Corporate planning means the systematic process of setting corporate objectives and making strategic decision and developing the plans necessary to achieve these objectives. It is one part of profit plan. It was first started in the USA in 1950, and it is however being used in one form or another in many companies there.

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

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

S. Bhattacharya makes a fair difference between corporate planning and tactical planning could be on the basis of following attributes:

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

Table No. 4

Distinction between strategic and tactical planning

Classification	Time	Scope of Entity	Orientation of
Strategic	Long term	Board views of activities	Objectives and Goals
Tactical	Short term	Detail view of activities	Means to Achieve Goals

Generally, strategic planning is viewed as planning beyond one year deals with the broad sub-division of the entity and focus on objectives and goals that extent over the long-term. Planning resets upon the belief that the future state of an entity can be enhanced by continuous management action. Formal planning is certainly better than informal planning. It should be realized that too much over formalization is also dangerous.

2.10 Concept of Control

Control is the process of ensuring that actual activities confirm to plan activities. Control helps in correction. Therefore, planning and controlling are major function of management.

Controlling involves:

- Establishing goals and standards.
- Comparing measured performance against the established goals and standards.
- Reinforcing successes and correcting shortcomings (Welsch, 2006:3).

Control provides timely information that may prompt the revision of goals. The purpose of control is achieved with setting standards comparing predicted and actual results against these standards and taking correctives actions. "Controlling means evaluating the firm's activities against the plan and deciding what should be done if the plan is not being followed" (Lynch & Williamson, 1984:18).

2.11 Meaning and Definition of Profit, Planning and Control

Profit, planning and control are an important approach, mainly in profit oriented enterprises. Profit planning is merely a tool of management, which is used to plan and control business operation and interaction.

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

The term comprehensive profit planning and control may be broadly defined as a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management. Specifically, it involves the development and application of (i) Broad and long range objectives of the enterprise (ii) Specification of enterprise goals (iii) A long range profit plan developed in broad term (iv) A short range profit plan detailed by relevant responsibilities (division, products and projects).

Profit planning and control cannot be through as a separate technique. It cannot be operated in dependently of the total management process. It is integration in different managerial approach and technique such as sales forecasting. Production planning and control, inventory control also focus on performance reporting and evaluation of performance to determine the causes of both high and low performance.

“Profit planning or budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of management in respect of the various aspects of the business. Profit planning, in fact, is a managerial technique and it is a written plan in which all aspects of business operation with respect of definite future period included. It is a formal statement of policy, plan, objectives and goals established by the top management in respect of some future period. Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a tool, which may be used by the management in planning the future course of action and in controlling actual performance” (Gupta S.P., 1992:521).

Profit planning is management's primary tool to accomplish its objectives. Because it:

- Provides a disciplined approach to the solution of business problems.
- Develops throughout the organization and atmosphere of profit mindedness, encouraging an attitude of cost-consciousness and maximum assets utilization.
- Coordinates the operating plan of the diverse segments of the business into a single, comprehensive plan.
- Affords the opportunity to appraise systematically every facet of the business as well as examine and restate periodically its basic policies and guiding principles.
- Aids in directing capital and effort into the most profitable channels.
- Provides yardsticks or standards to measure performance and gauge the managerial judgment and ability of the individual executive.

The international management institutions conference on budgetary control held at Geneva in 1980 has defined profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management (Int'l mgmt institutions Geneva conference Dec, 1980).

“Long range profit planning is systematic and formulized process for purposefully directing and controlling future operations with a view to achieve desired objectives for periods extending beyond one year. The success of each enterprise realizing its optimum profit is determined by the extent, to which it attains its objectives, develops coordinated plans to realize them and exercises control of its entire process constitutes a budgetary planning and control programs” (Kulkarni, 1981:192).

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

- PPC requires major planning decision by management;
- PPC entails pervasive management control activities and;
- PPC recognizes many of the critical behavioral implication throughout the organization (Welsch, 2006:31).

For long range success the stream of managerial decision must generate plans and actions to provide the essential inflows that are necessary to support the planned outflows the enterprise so that reasonable level of profit and returns on investment are earned continuing generation of profit by managerial manipulation of the inflows and outflows provide the substance of profit planning and control. Thus, profit planning is used for development and acceptance of objectives and goals and moving an organization efficiently to achieve those objectives and goals.

2.11.1 Objectives of Profit Planning and Control

The main objectives of the profit planning are as follows:

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

2.11.2 Importance of Profit Planning and Control

The major importance of profit planning is as follows:

- It reduces cost by increasing the span of control because less supervision is needed.
- Profit planning pinpoints efficiency and inefficiency.
- It forces management to give adequate attention to the effect of general business conditions.
- Profit planning rewards high performance and seeks to correct unfavorable performance.
- Profit planning forces management top consider expected future trends and conditions.
- Profit plan compels management to plan for the most economical use of the labor, material and capital.
- Profit plan requires adequate and appropriates historical accounting data.
- It forces a periodic self analysis of the economy.

- It forces recognition and collective actions.
- It promotes understanding among members and management of their coworker's problems (Welsch, 2006:60).

2.11.3 Problems and Limitation of Profit Planning and Control

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

1. Developing management sophistication in its application.
2. Developing a realistic plan, objectives and standards.
3. Adequate communication of the attitude, politics and guidelines by higher level of management.
4. Attaining managerial flexibility in application of the system.
5. Seeking the support and involvement of all levels of management.
6. Maintaining effective follow up procedures and adopting the budgeting system wherever the circumstances change.

Management must consider the following limitation in using the PPC system as a device to solve managerial problems:

1. The profit plan is based on estimation: The strength or weakness of a profit planning program depends to a large degree of accuracy with which the basic estimates are made.
2. A PPC program must be continually adopted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically: Once the profit plans are complete, they will be effective only if all responsible executives exert continuous and aggressive effort toward their accomplishment.
4. The profit plan will not take the place of management and administration: PPC does not take place of management; it is a tool that can aid in performing the management process in relevant ways. (Welsch, 2006:61).

2.11.4 Process of Profit Planning

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

The major processes of profit planning are:

1. **Identification and evaluation of internal variables:** Identification involves separate consideration of variables that are not controllable and those that are controllable. Management planning must focus on how to manipulate the controllable and non-controllable variables.
2. **Development of the broad objective of the enterprises:** It is responsibility of executive management. The statement of broad objective should express the mission, vision and ethical character of the enterprises. Its purpose is to provide enterprises identity continuity of purpose and identification.
3. **Development of specific goal for the enterprises:** The purpose of the goal phase of the profit planning process is to bring the statement of broad objective into sharper focus and to move from the realms of general information to move specific planning information. Executive management should exercise leadership in this planning phase. So that there will be a realistic and clearly articulated framework within which operations will be conducted toward common goal.
4. **Development and evaluation of company strategies:** Company's strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term and long term.
5. **Executive management planning instruction:** This phase involves communication of the substantive plan to middle and lower management levels. It explains the broad objectives, enterprises goals, enterprises strategies and tactical profit plans. It is also called the statement of planning premises of planning guidelines.

6. **Preparation and evaluation of project:** Project plans encompass such items as plan for improvement of present products, new industries exist from products and industries new technology and other major activities that can be separately identified for planning purpose.
7. **Development and approval strategic and tactical profit plan:** When the managers of the various responsibility centers in the enterprises receive the executive management planning instructions and the project plans. They can begin intensive activities to develop their respective strategic and tactical profit plans.
8. **Implementation of profit plan:** Implementation of management that has been developed and improves in the planning process involves the management function of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies and policies should be communicated and understood by subordinates. There are many factors involved in management leadership. However, a comprehensive profit planning program may aid substantially in performing this functions. Plans, policies and strategies developed through significant participation establish the foundation for effective communication.
9. **Use of periodic performance report:** As profit plans are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting departments on a monthly basis.
10. **Use flexible budgets:** The flexible expenses budget is also referred to the variable budgets, sliding scale budgets; expenses control budgets and formula budget. The flexible budget concept applies only to expenses. This is completely separate from the profit plan, but it used to complement. Many companies do not use flexible budget procedure (Welsch, 2006:73).

2.12 Profit Planning and Control in Nepalese Enterprises

Planning compasses the whole fields of deciding what human being accomplish. This involves that careful determination of needs the establishment of objectives and proper arrangement of responsibility to individual or group of individuals. Most of the corporation in Nepal suffer from lack of corporate planning which renders them directionless and aimless and board of directors of the corporation are occupied with the routine work in minor day to day problems. Most of the corporations do not perform their profit planning programmed settled by the short term and long term planning. It is to be seen in many corporate that annual targets were not fired. On the basis of investment and achievement and so there is no relation between target and achievement. Nepalese enterprises are run without well-determined strategies and programmers, in other words without any sound plan of action.

There are many problems in the formulations of planning program in Nepalese PEs in many management, being unknown of enterprises situation. There is no system of describing business saturations formally and properly. And many Nepalese public enterprises management do not developed a long term perspective development plan. Nepalese PEs is not properly using PPC system. All these sort of problems are responsible for incurring losses to most of the PEs so to give thrust top Nepalese PEs, these problems need to be corrected by bringing into effect of the PPC system.

2.13 Review of Research Studies

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

D. R. Shakya (1995)

“Financial Analysis of Joint Venture Banks in Nepal”, this thesis was submitted to CDM, TU, by Mr. Dinesh Raj Shakya (1995) with main objectives of evaluation of financial performance of NABIL and SCBL comparatively.

Findings:

- Loan and advances as well as total deposits of NABIL are increasing each year.
- There exists highly positive correlation between total deposits and loan and advances of NABIL during the study period.
- There exist highly positive correlation between total deposit and loan and advances of SCBL.
- Average cash and bank balance to current deposit ratio of SCBL is higher than that of NABIL.
- NABIL's fixed deposit ratio is in increasing trend but the same of SCBL is in declining trend.
- NRB balance to total deposit ratio is in highly fluctuating trend for the both banks.
- SCBL's liquidity position is comparatively better than of NABIL.
- Investment to total deposit ratio is fluctuating trend for NABIL and increasing trend for SCBL.

U. D. Karki (2002)

Ms. Karki has conducted a research in the topic “A Comparative Study on Profit Planning of Rastriya Banijya Bank Ltd. (RBB) and Himalayan Bank Ltd. (HBL)” This research of Ms. Uma Devi Karki was mainly concerned with examining system of profit planning applied in RBB and HBL.

Findings:

- Total revenue and total cost of RBB is higher than HBL but its profit is lower.
- Volume of loans and advances is increasing every year in both the banks and provision for bad debts are higher in RBB than in HBL.

- Ratio of interest income to total income is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.
- Return on paid up capital is always negative in RBB. Net profit is also negative in RBB.
- Ratio of loans and advances to customers deposit shows that more than 60% of customers deposit in utilized in RBB where as in HBL it is around 50%.
- Interest spread is higher in RBB than in HBL.
- Analysis of profit planning and control is basically an internal affair. It needs to analyze the insight positions. As insight is not flashed out due to the cause of secrecy attempt is made to analyze on the basis of data published.
- Government seems less conscious in the present situations of RBB.

U. K. Tiwari (2003)

Mr. Tiwari is conducted a research entitled “Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Nepal Limited” For this purpose of the study he used the data The major concern of Mr. Uday Kishwor Tiwari is to study the profit planning in commercial bank by taking a case study of GBL.

Findings:

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

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

R. Thapa (2004)

Mr. Thapa has conducted a research entitled "A Study on Profit Planning and Control of Nepal SBI Bank Limited." This research of Mr. Roshan Thapa was mainly concerned with examining system of profit planning applied in Nepal SBI Bank Limited.

Findings:

- Nepal SBI Bank does not prepare long-term strategic profit plan. It only prepares short-term profit plan which is usually referred as budget. Time period of this budget covers one fiscal year.
- The budget is not based on past performance but on target growth, which is very optimistic in both the budgeted years.
- Highly experience expatriate staff at the top level with extensive exposure in international banking environment.
- Hue volume of business origination form successful business man of Indian origin.
- Extensive network of branch/company in India of its parent company State Bank of India.
- Very friendly and cordial ties between Nepal and India in all aspects.
- Increasing Volume in cross border trade between India and Nepal.
- Lack of clear cut mission and goals of the company.
- Inadequate coordination between departments.
- Lack of corporate belongingness.
- The bank has not been able to maintain a minimum level of coordination between the departments and staff.

Y. Gautam (2008)

Mr. Gautam has conducted a research in the topic “A Study on Comprehensive Planning Practice of Himalayan Bank Ltd.” This research of Mr. Yadav Gautam was mainly concerned with examining system of profit planning in HBL.

Findings:

- HBL has three types of core planning team to make plan, policy, program and budget.
- HBL has adopted two types of planning formulation methodology. One is seminar at head office and other is seminar at regional level of offices.
- The main objective of profit plan of HBL is to achieve 4% profit on outstanding.
- Major concentration of resource mobilization of bank was at deposit mobilization. In FY 2058/059, it was 87.35% and in FY 2062/063, it was 86.63% of total resource mobilization.
- Budget achievement of deposit collection in FY 2062/063 was 104.33%.
- Budget and actual deposit collections from FY 2059/060 to 2062/063 were overlapping in amount.
- The estimate target set for deposit mobilization by the bank is found to be considerably maintaining every year.
- From the data analysis of deposit budget and actual achievements by coefficient of variance, it was found that the actual deposits were variable than budgeted one.
- Resource mobilization other than deposit collection amounted to 13.37% of total resource in average.
- The estimated targets for deployment towards LABP have been well met in average. It did not meet the target in FY 2058/059 and FY 2060/061 with negative figures of achievements.
- From the analysis of budgeted and actual LABP with the help of co-efficient of variance, it is found that the actual LABP is more variable than the budgeted one.
- Likewise, deployment in investment also did not meet the achievement in FY 2058/059 and FY 2060/061 than the budgeted figure. From analysis of budgeted and

- actual investments with the help of co-efficient of variance, it is also shows that the management is not planning their investment with considering other variables.
- The data analysis of LABP and deposit with the help of correlation coefficient shows that the deposit and LABP are perfectly correlated. It also shows that LABP is more variable than the deposit.
 - Interest expenses amount is the highest among total expenses items of the bank every year. In FY 2062/063, it was 39.48% of total expenses.
 - Yield on LABP (ratio of interest income on total LABP expressed in percentage) was the lowest level of 10.31% in FY 2060/061 and at the highest level of 12.62% in FY 2058/059. Yield on LABP in FY 2062/063 is 10.69%.
 - Other income of the bank is also in increasing trend.
 - The interest spread or the amount of interest margin is found to be increasing each year.
 - Net burden of the bank is in fluctuating trend. In FY 2062/063, it was growth was negative 9.73%.
 - The net profit of the bank is constantly in increasing trend.
 - The average current ratio of the bank has found to be always lower than standard ratio 2:1, which shows dissatisfactory liquidity position of the bank but then bank has its working capital level is satisfactory.
 - EPS, MPS and P/E ratio are in increasing trend. It has 59.26 per share income in FY 2062/063 and P/E ratio of 18.57 times.
 - Cash flow analysis of the bank shows the sources of cash flow are adequately met by the bank for the cash outflow.

L. Maharjan (2009)

Ms. Maharjan conducted a study on the topic "Profit Planning in a Commercial Bank: A Case Study of Standard Chartered Bank Nepal Limited." This research of Ms. Luna Maharjan was mainly concerned with examining system of profit planning in GBL.

Findings:

- The decision making process is highly centralized however, management takes the feed forwards for annual planning and strategy building through manager conferences and strategy building through manager conferences and strategic meeting organized twice in every year at the head office.
- Interest expenses amount is the highest among total expense items of the bank every year.
- The total deposit of the bank is found increasing every year corresponding to the increase in interest expenses the total deposit is perfectly and positively correlated with total interest expenses.
- The profitability ratio shows that it is a useful measurement for all financial researchers invested in the assets. As return on assets is high during FY 2005/06 with 2.55% and return on equity is high in same fiscal year with 37.55%. This shows that overall efficiency of the SC Bank and better utilization of total resources available is higher and strong.

H. P. Timilsena (2010)

Mr. Timilsena conducted a study on the topic "Profit Planning in a Commercial Bank (With reference to Standard Chartered Bank Nepal Limited." This research of Mr. Hiranya Prasad Timilsena was mainly concerned with current profit planning system and its effectiveness of SCBL.

Findings:

- Major concentration of resources mobilization of SCBL is at deposit mobilization. Therefore they are incurring higher cost toward deposit mobilizations.
- From the data analysis of deposit budget and actual achievements, by coefficient of variance, it was found that, the actual deposit is more variable than the budgeted one.
- The targets set for deposit mobilization by the bank were being well met every year.
- LABP of the bank has found to be with an average growth was over the period of last five years was as high as 30.62%

- From the analysis of Budgeted and Actual LABP with the help of co-efficient of variance, it was found that, the actual LABP was more variable than the budgeted one.
- From the regression analysis of budgeted and actual deposit, remaining the trend same as before, the estimated LABP by the end of FY 2009/10 shall be of Rs.15753035
- Bank's resources deployment for non-yielding liquid assets (cash and bank balance) increased every year. Thus making supportive to meeting liquidity requirements of the banks.
- CD Ratio (credit to deposit ratio, ratio of LABP on total deposit expressed in percent term) of the bank is high. The average CD ratio of the bank for the period of last five years was as high as 41.58%.
- The data analysis of LABP and deposit, with the help of Karl Person's co-efficient of correlation shows that, the deposit and the LABP are positive perfectly correlated.
- The data analysis of deposit and LABP with the help of coefficient of variation shows that LABP was more variable than the deposit.
- Outstanding letter of credit liability of the bank shows the growth which was non-constant.
- Outstanding guarantee liability of the bank was increasing trend every year.
- Interest expenses amount was the highest among total expenses items of the bank every year.
- The total deposit of the bank is found increasing each year corresponding to the increase in interest expenses the total deposit is perfectly and positively correlated with total interest expenses.
- The interest holds highest percentage of expenses amount as deposit was the major resources of the bank. The COD of SCBL was in the range of 1.13% to 1.65%. The average COD over the period has been found to be at 1.472%.
- Interest income amount of the bank was highest among other income items in the total revenue.

2.14 Research Gap

All the above-mentioned research studies are related to profit planning of public enterprises and to the commercial banks. The study have pointed out that there is no proper profit planning system in these organizations. Decision making, policy formation and strategy formulation are made by executive directors. Participation of lower level managers is not allowed. Also, found that actual achievements are lower than budgeted. So, the researchers have suggested and recommended to implement effective and appropriate profit planning system. This may help this organization to achieve their goal and objectives. And, also help to reduce the variance between actual and budgeted data.

But this study as well, is not very different from the previous studies; however the study has tried to pick up the case of a relatively new bank which was established in 2007. Profit is function of risk and investment. Newer bank faces both variables because they need to invest much money to meet the cot-throat competition with relatively well set existing banks and that result into risk as well. This study with accessing the profit system of GBL tried to indicate the role of profit planning to increase its profit. This study attempts to analyze the financial position of the bank by using various statistical and financial tools. It also concludes the various findings of the research and recommendation for immediate and long term improvement and corrections.

CHAPTER – THREE

RESEARCH METHODOLOGY

3.1 Introduction

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

This study has intense relation with the application of planning and control in a commercial bank with a specific reference to Global Bank Limited regarding the objectives to analyze, examine and interpret the application of profit planning in the bank. The research methodology includes, research design, data collection procedures and research variable and tools used.

3.2 Research Design

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

3.3 Population & Sampling

Population is the entire aggregation of items from which samples can be drawn, "it is an estimate of the mean of the population" and Sampling is the process of choosing a

representing sample from a population and collecting data from that sample in order to understand something about the population as a whole.

As this report aims at studying the profit planning aspect of a commercial bank taking the case study of a single bank i.e. GBL and data has been analyzed for the initial five years of its operations, the population and sample term is not relevant for this study.

3.4 Data Collection Procedures and Sources of Data

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

3.5 Research Variables

Loans/advances Overdrafts and Bills Discounted (LABP), Customer deposits, total resources, and total deployment, outstanding balance of letter of credit and Bank Guarantees, Interest Expenses, Other Expenses, Interest Income, Other Income etc of GBL are the research variables of this study.

3.6 Tools and Techniques

This study is confined to examine the profit planning of GBL. Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools have been employed to analyze the presented data. The processing of information has been done in a computer.

CHAPTER - FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data and information of planning system and budgeting procedure in a commercial bank with special reference of GBL. For that, various functional budget analysis and related data are presented in systematic way in tabular forms and graphs charts. And data are analyzed using statistical tools such as mean, standard deviation, coefficient of variance, correlation of coefficient and regression methods and budgetary tools such as ratio analysis. For this purpose, data of 5 years period from FY 2006/07 to FY 2010/11 of GBL is used.

4.2 Strategic Profit Plan

The strategic profit plan of GBL is reflected in its business budget. The business budget is a estimation of business activities to be achieved by the bank within a particular fiscal year for which the budget is prepared. For resources mobilization and deployments, the branch offices and units like remittance and card departments are considered as a separate profit centers and the business targets are allocated to them. The resources mobilization activities are generally the cost bearing activities where the revenues and expenditure involved is the net income. Therefore, the strategic profit plan of GBL consist the following plans:

- Plan for Resources Mobilization
- Plan for Deployment of the Resources
- Plan for Non-Funded Business Activities
- Revenue Plan
- Expenditure Plan

4.3 Resources Mobilization Plan

GBL has accounting year of 12 months beginning from 1st of Shrawan to the end of Ashad of the next year. The resource means required fund for the bank operation. Banks prepares the business budget for every year, which includes the revenue, expenditure and profit plan for the year. The strategic profit plan reflected in its business budget that shows the resource mobilization plan of bank. Here, the term resources have been used for the fund required by the bank for its activities. Banks mobilizes its resources from the following sources:

- Deposit Collection (deposit from customers or other deposits)
- Loans and Borrowing
- Share Capital

Among the above three sources the deposit accounts/collection is the major source of resources mobilization, which is in fact, one of the most important activities of every commercial bank. Loans and borrowing are obtained from local banks, foreign banks, central bank and other financial institutions, generally for a short period of time. The capital fund is raised from shareholder's equity. It reflects the net-worth of the bank. Commercial bank's capital fund has been divided into two categories viz. core capital and supplementary capital.

Table No. 5
Status of Resources Mobilization

(Amount in Rs. '000')

Fiscal Year	Deposit		Borrowing		Capital Fund		Other Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2006/07	3,023,616	85.54	30,000	0.85	471,388	13.34	9,815	0.28	3,534,819
2007/08	7,319,702	88.55	100,000	1.21	722,622	8.74	123,392	1.49	8,265,716
2008/09	10,930,397	86.57	499,460	3.96	1,048,927	8.31	147,689	1.17	12,626,473
2009/10	15,031,548	87.39	339,160	1.97	1,521,022	8.84	309,685	1.80	17,201,415
2010/11	15,066,490	85.98	401,789	2.29	1,708,027	9.75	346,402	1.98	17,522,708
Mean	10,274,351	86.81	274,082	2.06	1,094,397	9.80	187,397	1.34	11,830,226
SD	4,633,120	-	179,566	-	466,256	-	124,455	-	5,355,512
CV	-	45.09	-	65.52	-	42.60	-	66.41	45.27
Growth Rate	-	57.29	-	154.79	-	38.94	-	324.60	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

From the above table, it is clear that the customer deposit collection constitutes the major share in resources mobilization. During FY 2008/09 and FY 2010/11 the percentage of deposit is decreased and other resource is increased, this might be because of the credit crunch at that period. Capital fund, borrowing, other liabilities seems to be fluctuating but increased in period 2010/11.

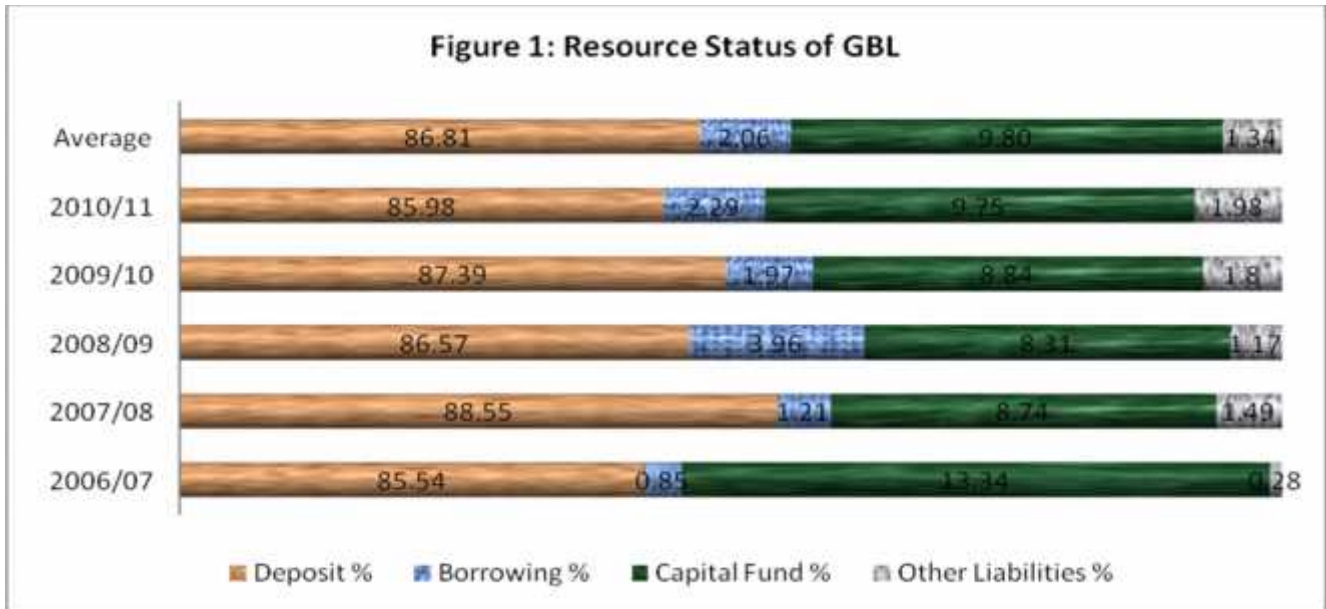


Figure 1 shows the share of major resource in the GBL resource basket for each year covered by the study. The average portion of deposits, borrowings, capital fund and other liability to total resource mobilization for the given period is 86.81%, 2.06%, 9.80% and 1.34% respectively. Customer deposit collection constitutes the major share in resource mobilization. All the resources are in growing trend but deposit growth slowed down in 2010/11 and borrowing decreased by significant percentage in 2009/10.

4.3.1 Deposit Collection

Customer deposit is the major source of resource mobilization of the bank. The contribution of customer deposit to total resources is high. Deposit is collected from various sectors such as the general public, business entities, non-government organizations, schools, trust and other individuals and institutions, which qualify to open an account in the bank.

Deposits are collected on customer's account, which are opened as per the bank's policy. The customer's deposits accounts are of two types.

1. Interest Free Deposit Accounts.

a) Current Deposit A/C

b) Margin Deposit A/C

c) Other Deposit A/C

2. Interest Bearing Deposit Accounts.

a) Saving Deposit A/C

b) Call Deposit A/C

c) Fixed Deposit A/C

Table No. 6
Growth of Deposits

(Amount in Rs. '000')

Fiscal Year	Deposits	Growth	Growth %
2006/07	3,023,616	0	0
2007/08	7,319,702	4,296,086	142.08
2008/09	10,930,397	3,610,695	49.33
2009/10	15,031,548	4,101,151	37.52
2010/11	15,066,490	34,942	0.23
Mean	10,274,351	3,010,719	57.29
SD	4,633,120	-	-
CV	45.09	-	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

The above table shows the growth trend of deposits collection of GBL FY 2006/07 is base year for the growth calculation. In FY 2007/08 the deposits collection is increased by the 142.08%. From FY 2007/08 onwards, the deposit growth is in declining trend and reached 0.23% in 2010/11. The reason behind the increased deposit collection is the faith of customer toward bank because of its investment on highly performance assets in deposit collection sector, increasing the bank customer, increasing the business activities, increasing in income generation activities etc. And reason behind the decreased deposit collection might be the volatile political situation coupled with low

economic growth, widening trade deficit, high inflation and liquidity crunch in the banking system which is the effect of global recession. Liquidity crunch is mainly attributed to the slowdown in remittances, funds getting locked up in non productive real state and construction sector and weakening of confidence resulting in lower deposit collection/mobilization. The main cause of this situation might be the irregular/untimely fiscal policy (budget speech) of GoN , the cash is stored in government fund and idle for long time so banks are unable to collect the targeted deposits.

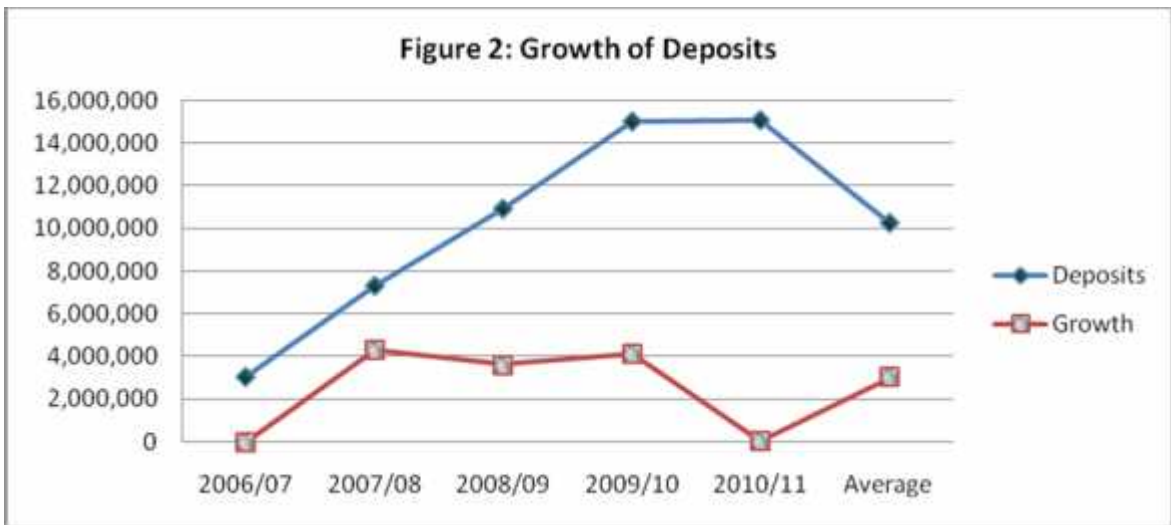


Figure 2 presents the status of growing deposit of GBL. The deposit amount is in increasing trend, the growth rate, however is declining and near to zero in 2010/11. The banking sector witnessed a deposit crunch in this year and GBL also struggled hard.

4.3.2 Resources Deployment Plan

Allocation of available resources into different sector is called deployment of resources plan. Deployment of the resources refers to the reasonable allocation of the resources is required comfortable liquidity for investment as well as in income generating activities. Besides these, some investments have to be made in fixed assets and other operating

assets for the bank. The deployment of available resources can be objectively categorized as below:

- A. Investment in TBs/ Development Bonds/ securities for Liquidity.
- B. Deployment for Income Generating Activities in loan and advances
- C. Deployment for Fixed Assets and Other Assets

A. Deployment for Liquidity

Liquidity need to be maintained for the purpose of payment of withdrawal from deposits amount and payment for other liabilities and expenses. The resources for this purpose can be maintained in terms of cash in vault and balance in bank etc. Generally, there is no yield on this type of fund with an exception of money placed in interest bearing accounts. The central bank of Nepal (NRB) has instructed commercial bank to mandatory maintain approximately 5% of their total customer deposit liability form (in NRB accounts). Statutory liquidity Ratio has to be maintaining @ 15%. Overall liquidity has to be maintained @ 20%. The liquidity position should be maintained as required higher the liquidity can't give effective return and lower liquidity became failure to repay the deposit therefore cash and bank balance is grouped in one portfolio investment.

B. Deployment for Income Generating Activities

The major function of a commercial bank is to collection of deposit and invests them in different sectors. Banks deploys the major portion of the resources is deployed for income generating activities popularly called as fund based exposure. Fund based exposure are made by the bank in following two portfolios;

- a) Deployment in LABP (LABP)
- b) Deployment in other sector than LABP (NLABP)

LABP includes all loans, advances, overdrafts, bills purchased/discounted, provisioning and other types of loans available to the borrowers of the bank in return of which the

bank earns interest incomes. Others investments include investment in shares, Treasury Bill (TB), placement of fund on call market etc.

C. Deployment for Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. This asset can't give returns directly but without these other activities can't be run smoothly. Fixed assets are written off at certain period of time as expenses. Deployment includes resources towards the non yielding assets such as fixed assets along with other capital expenditure, subject to write off in future, income receivables; advance payments, sundry debtors etc.

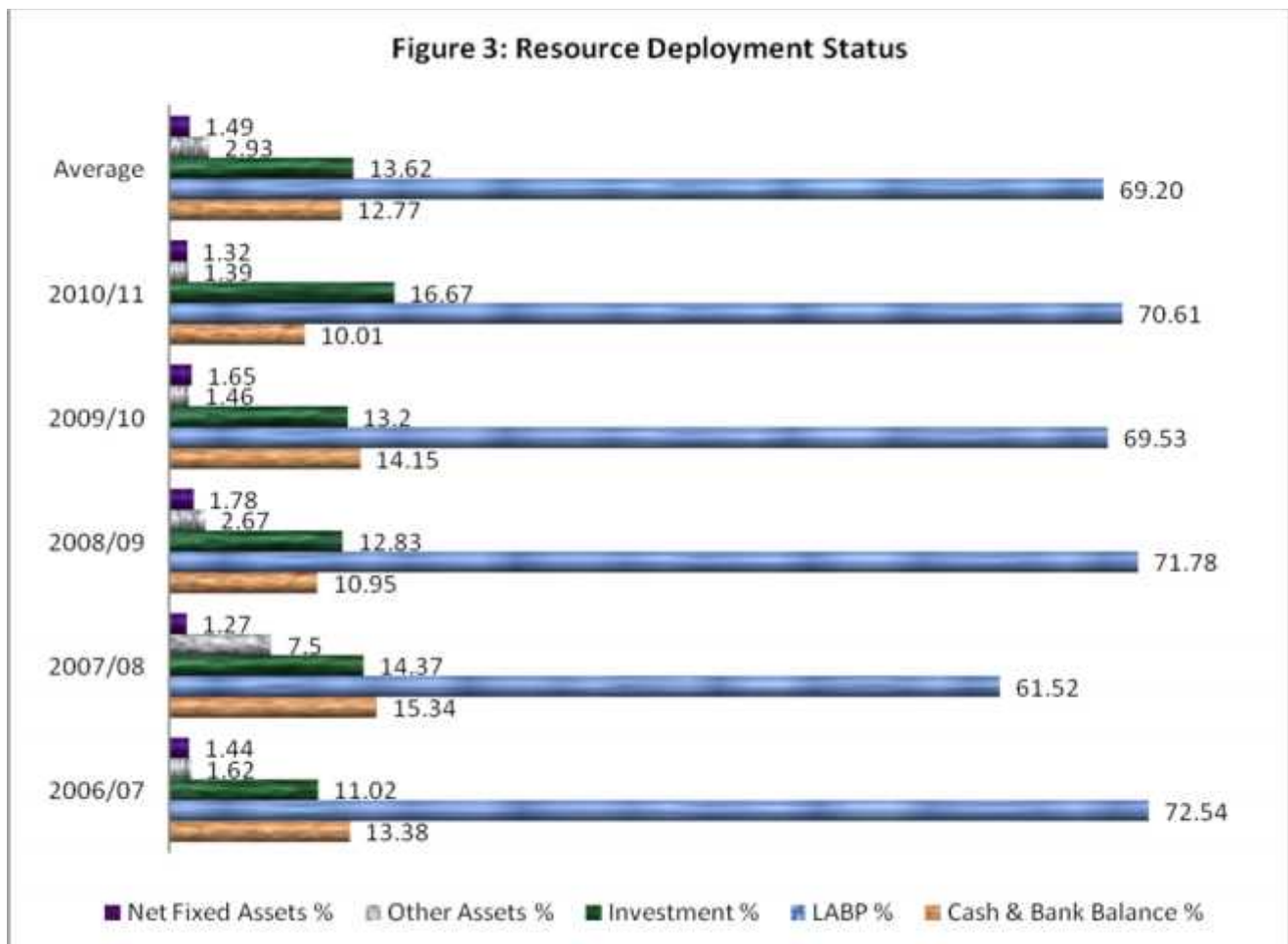
Table No. 7
Status of Resources Deployment

(Amount in Rs. '000')

Fiscal Year	Cash & Bank Balance		LABP		Investment		Other Assets		Net Fixed Assets		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2006/07	473,040	13.38	2,564,140	72.54	389,480	11.02	57,342	1.62	50,817	1.44	3,534,819
2007/08	1,267,983	15.34	5,084,729	61.52	1,187,415	14.37	620,202	7.50	105,386	1.27	8,265,716
2008/09	1,382,142	10.95	9,063,092	71.78	1,620,121	12.83	336,767	2.67	224,351	1.78	12,626,473
2009/10	2,434,338	14.15	11,960,453	69.53	2,270,487	13.20	251,738	1.46	284,400	1.65	17,201,415
2010/11	1,754,446	10.01	12,372,423	70.61	2,920,247	16.67	244,012	1.39	231,580	1.32	17,522,708
Mean	1,462,390	12.77	8,208,967	69.20	1,677,550	13.62	302,012	2.93	179,307	1.49	11,830,226
SD	640,785		3,840,898		871,610		183,416		86,925		5,355,512
CV	-	43.82	-	46.79	-	51.96	-	60.73	-	48.48	-
Growth Rate	-	56.31	-	52.99	-	77.52	-	226.89	-	57.12	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the deployment of available resources of the bank. Portfolios, LABP and investment hold the biggest outlet of resources deployment. The proportion of cash and bank balance is in fluctuating trend. It is 13.38 %, 15.34%, 10.95%, 14.15% and 10.01% in FY 2006/07 to FY 2010/11 respectively. It means that the bank uses its fund to maintain liquidity position 10.01% to 15.34% out of total resource deployment which is quite high as compared to the minimum liquidity position prescribed by the central bank. The use of resources in the LABP is in the highest proportion of total resources deployment. The trend of LABP is fluctuating on the period covered by the study. It is 72.54%, 61.52%, 71.78%, 69.53%, and 70.61% in FY 2006/07 to 2010/11 respectively. The trend of fluctuating trend of LABP is political situation and business environment of the country. Likewise the bank uses highest proportion of their fund in investment. The trend of investment is also fluctuating. It is 11.02%, 14.37%, 12.83%, 13.20% and 16.67% in FY 2006/07 to FY 2010/11 respectively. Investment is the major area of deployment of the resource of the bank. Increased investment will result into increased net return so bank should try to invest in secured sector. GBL uses the resources in other assets and net fixed assets in nominal percentage out of total deployment. The range of other assets is 1.39% to 7.50% and a net fixed asset is 1.27% to 1.78% out of total deployment during the study period. The aforementioned information is also captured in Figure 3.



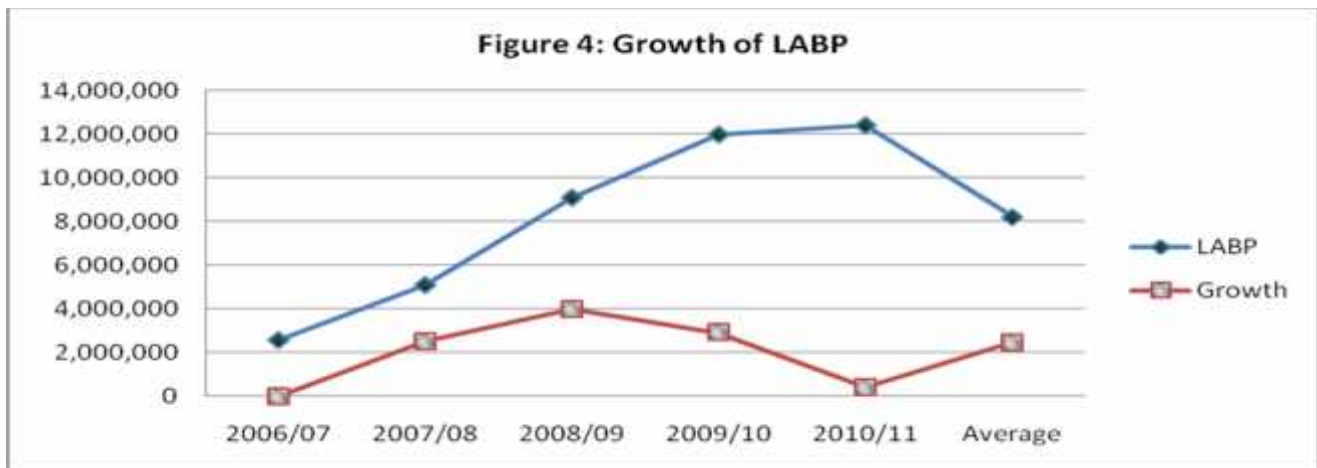
4.3.2.1 Deployment in LABP (LABP)

**Table No. 8
Growth of LABP**

Fiscal Year	LABP	Growth	(Amount in Rs. '000')
			Growth %
2006/07	2,564,140	0	0
2007/08	5,084,729	2,520,589	98.30
2008/09	9,063,092	3,978,363	78.24
2009/10	11,960,453	2,897,361	31.97
2010/11	12,372,423	411,970	3.44
Mean	8,208,967	2,452,071	52.99
SD	3,840,898		
CV	46.79		

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

The above table shows the growth trend of LABP collection of GBL FY 2006/07 is base year for the growth calculation. The increment rate is 98.30% in FY 2007/08 in comparison with FY 2006/07. The rate of growth is decreased year by year and it was 3.44% in 2010/11. Average growth rate during the study period is 52.99%. The fluctuating trend of LABP is due to the volatile business environment of the country. This information is also highlighted in figure 4.



4.3.2.2 Resources Deployment in Other Portfolio than LABP (NLABP)

Deployment in other portfolio than LABP includes cash & bank balance, investment, fixed assets and other assets.

Table No. 9

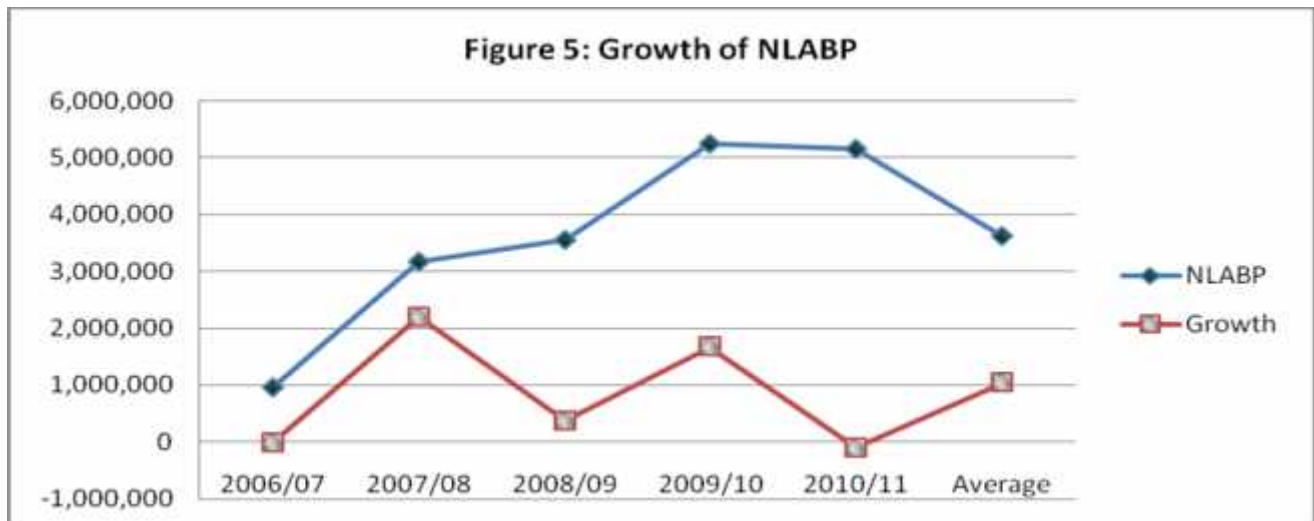
Growth of NLABP

(Amount in Rs. '000')

Fiscal Year	NLABP	Growth	Growth %
2006/07	970,679	0	0
2007/08	3,180,987	2,210,307	2.28
2008/09	3,563,381	382,394	0.12
2009/10	5,240,963	1,677,582	0.47
2010/11	5,150,285	-90,678	-0.02
Mean	3,621,259	1,044,901	0.71
SD	1,561,033		
CV	43.11		

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

The above table and diagram shows the movement of GBL. The base year to calculate the growth rate is FY 2006/07. The increment rate is 2.28% in FY 2007/08 in comparison with FY 2006/07. The rate of growth was declined in FY 2008/09 to 0.12%. The growth rate slightly increased in 2009/10 and further declined to negative percent, i.e. -0.02% in 2010/11. The average growth rate, however is 0.71%. The trend of fluctuation of NLABP is cause by political instability and lack of security causing adverse business environment of the country. Figure 5 below highlights the growth pattern of NLABP.



4.3.2.3 Actual Deposit Collected Vs. Actual LABP

The major source of resources mobilization of GBL is the customer deposit and similarly the major outlet for deployment portfolio is for loan and bills purchased (LABP). It is desirable to analyze the comparative status of these two for the study period.

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

Table No. 10
Status of LABP Verses Actual Deposits

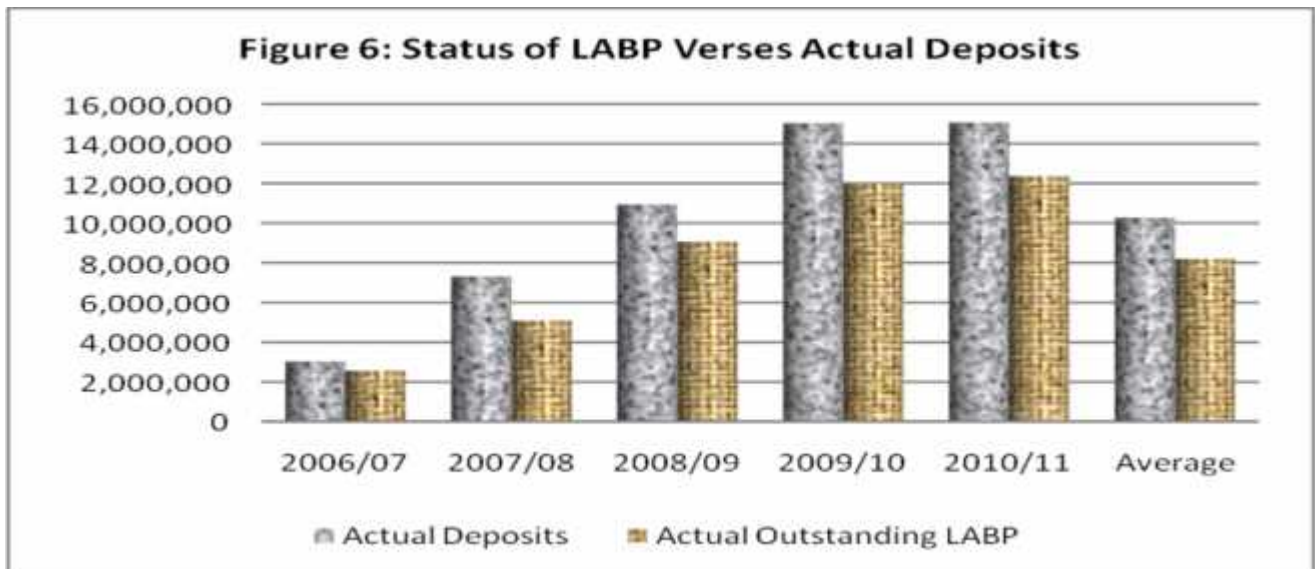
(Amount in Rs. '000')

Fiscal Year	Actual Deposits	Actual Outstanding LABP	LABP to Deposit ratio (CD ratio)
2006/07	3,023,616	2,564,140	84.8
2007/08	7,319,702	5,084,729	69.47
2008/09	10,930,397	9,063,092	82.92
2009/10	15,031,548	11,960,453	79.57
2010/11	15,066,490	12,372,423	82.12
Mean	10,274,351	8,208,967	
SD	4,633,120	3,840,898	
CV	45.09	46.79	
Growth	57.29	52.99	

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the status of actual deposit balance and actual outstanding LABP. It is relevant to analyze the relationship between deposits and outstanding LABP. The actual deposit and actual outstanding LABP both are in fluctuating trend through the study period. The average CD ratio over the study period is 79.77%. The utilization of deposit collection in terms of LABP is in fluctuating trend. The LABP to deposit ratio ranges from 69.47% to 84.80%. Fluctuation trend has been observed due to the variation in deposit collection and credit flow of different period. They have been affected due to the different factors of political instability, NRB directives, income tax rate variation etc. Above shows the LABP cover more than 80% of customer deposits. Deposits are deployed in major two sectors one is LABP and another is investment.

There is inverse relationship between LABP and investment, if deployment in LABP increases, deployment in investment decreased and vice-versa. The main reason of fluctuation is deployment policy of the bank. It could be said that the bank was succeed in real banking business. Bank was able to use average 79.77% only of its resources collection from customers during the 5 year period. The bank should focus on utilization of collected resources in income generating activities. For the analysis purpose the figure of actual LABP and actual deposit is presented in figure 6 below.



The above figure shows the position of actual deposit collection and actual outstanding balance of LABP. The position of actual deposit was higher than the actual LABP. Both are in fluctuating trend throughout the period covered by the study. But nevertheless, it is satisfactory for the bank. To analyze and find the variability of deposit and outstanding LABP using some statistical tools to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error. The details calculation was made in appendix 1 which is presented on Table 11.

Table No. 11
Summary Showing Actual Deposits and Actual Outstanding LABP

Statistical tools	Actual Deposit (X)	Actual Outstanding LABP (Y)
Mean (\bar{X})	10,274,351	8,208,967
Standard Deviation (σ)	4,633,120	3,840,898
Coefficient Variation (C.V.)	45.09	46.79
Correlation of Coefficient (r)	0.994855	
Probable Error (PE)	0.001385	

(Source: Appendix: 1)

Above results show that actual LABP was more variable than actual deposit. Hence the coefficient of variation of actual deposits was lower than that of actual outstanding LABP. The relationship between actual outstanding deposits and actual outstanding LABP can be measured by correlation of coefficient between them.

By help of Karl person's coefficient of correlation and it is denoted by 'r' to examine whether there was positive correlation between actual deposits and actual outstanding LABP or not.

For this purpose, actual deposit (X) was assumed to be independent variable and actual LABP (Y) was assumed to be dependent variable. So that increases in actual deposits will support to increase in LABP and vice versa.

After this significance of 'r' was tested with probable error of 'r' the detail calculation of 'r' and probable error of 'r' was made in appendix 1. From this appendix, the calculate value of 'r' and P.E. are 0.9948552 and 0.0013845 respectively. Since $r > 6 \times P.E.$, the value 'r' was significant; there was perfect correlation between actual deposits and actual LABP.

4.3.3 Plan for Non-Funded Business Activities

Apart from the activities like advancing loans, overdrafts, bills discounting and investments, where funds are involved for income generation, there are other business

activities too preformed by the bank which do not involve fund yet are income generative. Such transactions are called non funded business of the bank. In such transactions, the bank has to take contingents liabilities on behalf of their customers for a fee and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expense burden of the bank. Generally income generating non-funded business of the bank is of following two types.

(a) Letter of Credit Business

(b) Bank Guarantee Business

Since, these are the contingent liabilities; such as L/C, Bank Guarantee, Foreign Exchange and Other. It appears down the line of balance sheet of the bank.

4.3.3.1 Letter of Credit

Letter of credit is a kind of facility provided by the bank of their customers, by way of which the customers can import the goods from foreign buyer for which the bank undertake the guarantee for payment provided the terms and condition of the L/C is complied with. Following table shows the letter of credit business statues of the bank as of the closing of the respective fiscal year and its growth over the period of this study.

Table No. 12
Growth of Letter of Credit Business

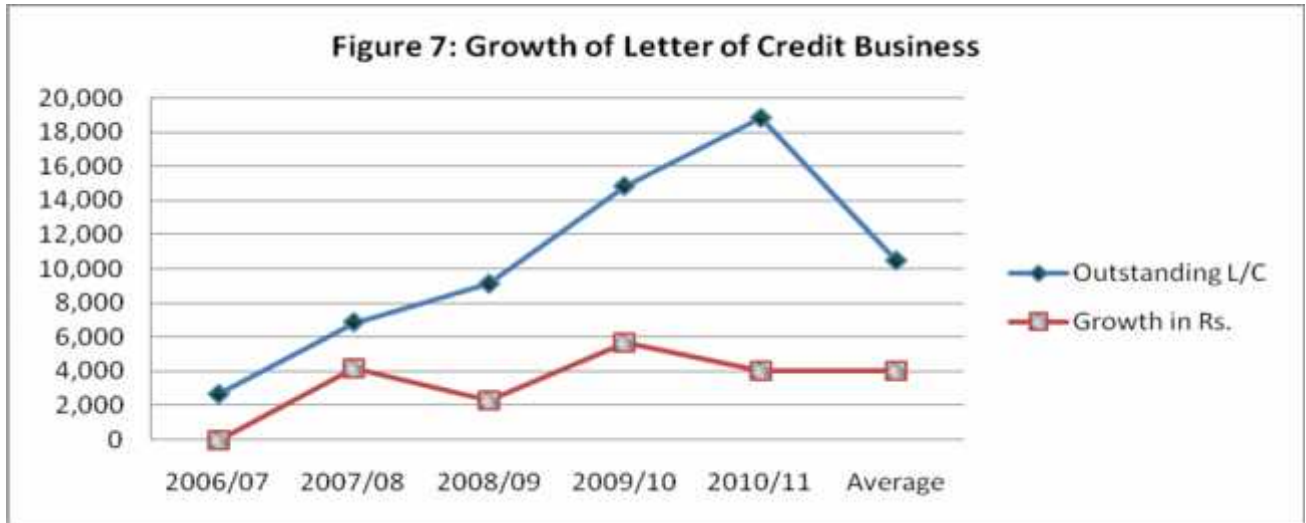
(Amount in Rs. '000')

Fiscal Year	Outstanding L/C	Growth in Rs.	Growth %
2006/07	2,687	0	0
2007/08	6,852	4,165	155.01
2008/09	9,158	2,306	33.66
2009/10	14,835	5,677	61.99
2010/11	18,842	4,006	27.01
Mean	10,475	4,039	69.42
SD	5,736		
CV	54.76		

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the movement of letter of credit of GBL. The trend of such business is very fluctuating. The base year to calculate the growth rate is FY 2006/07. It has a record growth of 155.01% in the FY 2007/08. Fluctuation in L/C has been recorded from

the study and the growth rate slowed down significantly in 2010/11 by 27.01%. L/C being the facility provided by bank can be influenced by bank policy and strategies, NRB direction, economic policy, current political and economic situation of the country, current fluctuation on foreign exchanges rate etc. Diagramed analysis is presented the L/C business in Figure 7 below which shows the ups and downs of growth of L/C Business.



4.3.3.2 Bank Guarantees

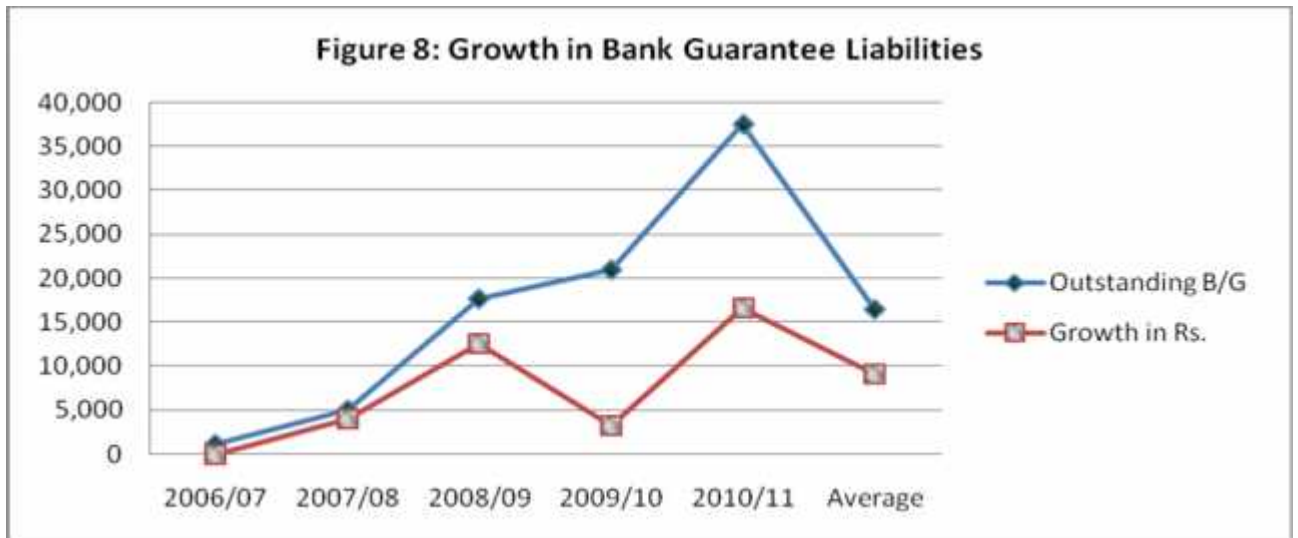
Bank issue the bank guarantee of behalf of their customers for bidding and or performing any activities by the letter in favor of the employer of the activities. It is a guarantee letter by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity. Following table shows the outstanding bank guarantee liability as of the end of fiscal year of our study and change in subsequent year.

Table No. 13**Yearly Growth in Bank Guarantee Liabilities****(Amount in Rs. '000')**

Fiscal Year	Outstanding B/G	Growth in Rs.	Growth %
2006/07	1,134	0	0.00
2007/08	5,112	3,978	350.76
2008/09	17,685	12,573	245.94
2009/10	20,925	3,241	18.33
2010/11	37,515	16,590	79.28
Mean	16,474	9,096	173.58
SD	9,618		
CV	58.38		

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows that the bank guarantee was in fluctuating trend. The base year growth rate is FY 2006/07. Maximum growth rate of banks guarantee is 350.76% in FY 2007/08. The rate of growth bank guarantee business in FY 2008/09, FY 2009/10 and FY 2010/11 are 245.94%, 18.33% and 79.28%. The growth rate of FY 2009/10 had a dramatic decline to 18.33%. Presently living in an increasingly dynamic economic environment, apart from being the witness of upheavals of past couple of years, the year 2009/10 has also experienced an isolated Greek crisis metamorphosed into a pan-euro zone crisis – which resulted in the financial sector across the globe, questioning the sovereign debt fundamentals. The timely intervention & prudent approach of regulators seems to be a step in the right direction. Extraordinary liquidity provision, combined with guarantees for bank liabilities, had addressed fears about banks' survival. The global financial crisis made it conspicuous that the financial world is extraordinarily interconnected and interdependent. These results are presented in figure 8 below that shows fluctuating growth of B/G business of the bank.



4.3.4 Expenditure planning

Planning for expenses is most essential to maintain reasonable levels to support the objectives & planned programs of the bank. Expenses planning focus on the relationship between expenditure & the benefits derived from these expenditures. GBL has started preparing expenditure and revenue budget. The following table shows the status of expenditure incurred by the bank for the study period.

Table No. 14
Yearly Cost Structure

(Amount in Rs. '000')

Year Expenses	2006/07		2007/08		2008/09		2009/10		2010/11		Total	Mean
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
Interest Expenses	40,325	50.58	218,947	66.78	459,784	69.15	962,010	74.77	1,288,051	75.48	2,969,116	593,823
Employee Expenses	12,706	15.94	41,962	12.80	66,322	9.97	100,257	7.79	155,004	9.08	376,250	75,250
Office Operating Expenses	26,691	33.48	60,107	18.33	132,894	19.99	209,346	16.27	237,364	13.91	666,402	133,280
Non-Operating Expenses	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0
Provision for Staff Bonus	0	0.00	6,835	2.08	5,890	0.89	14,928	1.16	26,029	1.53	53,681	10,736
Loan Provision	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0
Total Expenses	79,721	100	327,850	100	664,889	100	1,286,541	100	1,706,448	100	4,065,449	

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

The above table shows the trend of all expenses amounts are increasing but the percentage of the all expenses is in fluctuating trend. The major expenses of bank are interest expenses out of total expenses. Interest expenses covered 50.58%, 66.78%,

69.15%, 74.77% and 75.48% in FY 2006/07 to FY 2010/11 respectively. The increase and decrease in interest expenses would be affected in accordance with the deposit collection amount during the year. Interest expenses fully depends upon the customer deposits so higher the customer deposit, it should be higher the interest expenses as well.

Similarly, employee expenses proportion to total expenses is 15.94%, 12.80%, 9.97%, 7.79% and 9/08% in FY 2006/07 to FY 2010/11 respectively. The increase in cost of staff is mainly due to company's policy to regular increase in salary every year to existing staff with certain percentage and additional new staff on expansion. The bank has created provident fund as per the Income Tax Act-2058 as a separate entity. The bank has been provided bonus to staff of the net profit before tax as per Bonus Act-2030. This showed that the bank has motivated those employees who are the key to success of the bank.

The proportion of office operating expenses to total expenses is 33.48%, 18.33%, 19.99%, 16.27% and 13.91% in FY 2006/07 to FY 2010/11 respectively. The increment in office operating expense is, mainly, due to expansion and lunch of new branches.

The proportion of provision for staff bonus to total expenses is 0.00%, 2.08%, 0.89%, 1.16% and 1.53% in FY 2006/07 to FY 2010/11 respectively. The staff bonus is based on net profit of the bank therefore, if bank earns more profit, staff bonus is increased subsequently.

The bank's non-operating expenses and loss provisions are nil in the study period. Loan provisions are made as per NRB directive to cover the risk inherent in bank's loan provision. It showed the efficient management of loans. The bank is providing loans to secure sectors only.

Total expenditure can be objectively segregated into two categories.

- 1) Interest Expenses
- 2) Expenses other than Interest (Other Expenses)

4.3.4.1 Interest Expenses

Interest expenses are the expenditure incurred for making payment of interest to the deposit mobilized by the bank. As the customer deposit holds a major share on total resources of the bank, interest expenses was also highest among other in total expenses of the bank. The banks may have different interest rate in different type of account. Now, analyze the interest expenses to total deposit mobilization by the bank in following table.

Table No. 15
Yearly Status of Interest Expenses to Total Deposits (Cost of Deposit)

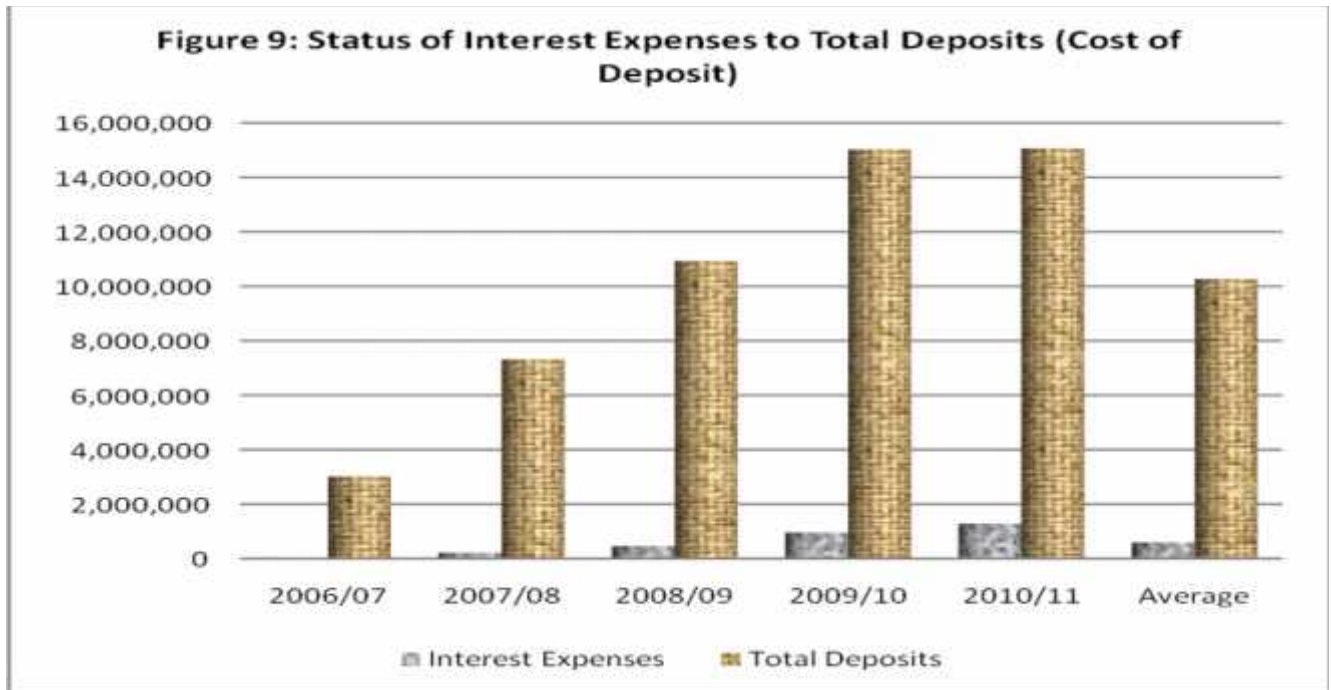
(Amount in Rs. '000')

Fiscal Year	Interest Expenses	Total Deposits	Ratio for Cost of Deposits
2006/07	40,325	3,023,616	1.33
2007/08	218,947	7,319,702	2.99
2008/09	459,784	10,930,397	4.21
2009/10	962,010	15,031,548	6.40
2010/11	1,288,051	15,066,490	8.55

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

The above table shows the total deposit and interest expenses of respective years. It was observed that cost of deposit (COD) is in fluctuating trend. It is 1.33%, 2.99%, 4.21%, 6.40%, and 8.55% in FY 2006/07 to FY 2010/11 respectively. The deposit amount is fluctuating trend and an interest expense is increasing trend. The customer deposit was one of the major sources for resources mobilization by the bank. For the deposit taken by the bank it has to pay interest. There are various kinds of deposit account from interest free deposit to varying interest deposit accounts. The bank has maintained less minimum cost of deposit. The reason for minimum cost of deposit is due to the bank policy to collect the deposit with low interest rate. The average COD for the period of the study is 4.70%. It indicates that the profitability position of the bank because of

lower COD refer to in better position. The status of total deposit and the COD shown in the bar diagram as below.



The above figure shows the status of interest expenses and total deposit amount in the respective year. The amount of total deposit is fluctuating trend likewise and interest expenses are in increasing trend. In order to find the variability of total deposits and actual interest expenses of different years the arithmetic mean, standard deviation and coefficient of variation and correlation of coefficient were calculated. The detail calculation of statistical tools was made in appendix 2.

Table No. 16
Summary Showing Total Deposits and Interest Expenses

Statistical tools	(Amount in Rs. '000')	
	Total Deposits (X)	Interest Expenses (Y)
Mean (\bar{x})	10,274,351	593,823
Standard Deviation (σ)	4,633,120	465,268
Coefficient Variation (C.V.)	45.09	78.35
Growth Rate	57.29	174.02
Correlation of Coefficient (r)	0.938127	
Probable Error (PE)	0.016177	

(Source: Appendix: 2)

Above table shows that interest expenses was more variable than total deposit. Hence the coefficient of variations of total deposits was lower than that of interest expenses. The relationship between total deposit and interest expenses can be measured by correlation of coefficient between them. There should be positive correlation between total deposit and interest expenses.

By help of Karl Person's Coefficient of correlation between total deposits and interest expenses, Karl Person's Coefficient of correlation is denoted (r). By calculation (r) correlation between total deposit and interest expenses can be examine. The interest expenses will change in the same direction as the total deposits. For these purpose total deposits assumed to be independent variable was assigned 'X' and interest expenses assumed to be dependent variable was assigned 'Y' upon total deposits.

The detail calculation of 'r' and probable error 'PE' was made in appendix 5. From that appendix the calculated value of 'r' and 'PE' are 0.9381267 and 0.016177 respectively. The figure of 'r' shows that is positively perfect correlation between total deposits and interest expenses incurred.

Since r was greater than six times of probable error, the value of 'r' was more significant interest expenses will not go the same direction that at total deposit.

Now, the coefficient of determination, which explains the change in y variable i.e. interest expenses by x variable i.e., total deposit can be calculated as r^2 therefore, the co-efficient of determination $(r)^2 = (0.9382)^2 = 0.8802$

4.3.4.2 Expenses Other than Interest Expenses (Other Expenses)

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

- (i) Expenses for Employees,
- (ii) Operational Expenses,

- (iii) Non-Operating Expenses,
- (iv) Loan Loss Provision

4.3.5 Revenue Planning

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

- A. Income From Commission & Discounts
- B. Income From Interest Earnings
- C. Income From Exchange Transaction
- D. Other Operating Income
- E. Other Non-Operating Income

Table No. 17
Yearly Income Structure
(Amount in Rs. '000')

Year Income	2006/07		2007/08		2008/09		2009/10		2010/11		Total	Mean
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
Interest Income	65,103	83.86	357,911	86.64	683,933	86.14	1,464,978	89.83	1,963,604	91.46	4,535,529	907,106
Commission and Discount	3,969	5.11	18,991	4.60	46,019	5.80	54,618	3.35	67,518	3.14	191,116	38,223
Exchange Earning	6,479	8.35	26,541	6.42	30,210	3.80	35,363	2.17	30,936	1.44	129,530	25,906
Other Operating Income	2,085	2.69	9,670	2.34	33,841	4.26	75,488	4.63	84,979	3.96	206,064	41,213
Other Non-Operating Income	0	0.00	0	0.00	0	0.00	440	0.03	-133	-0.01	308	62
Total Revenue	77,637	100	413,114	100	794,003	100	1,630,888	100	2,146,905	100	5,062,546	

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

The above table shows that the revenue is increasing every year. Income from interest is the highest among the others in total revenue for each year. The average proportion of interest is 87.58% of total revenue.

The proportion of interest income was 83.86%, 86.64%, 86.14%, 89.83% and 91.46% in FY 2006/07 to FY 2010/11 respectively. It seems every year share of income from interest amount is increasing for the bank. Overall, generation of interest income of GBL is satisfactory. The interest income is based on the amount of LABP account. GBL gives loan, advance and bill purchase in higher rate of interest and gives lower rate of interest to its depositors.

The proportion of commission & discount is 5.11%, 4.60%, 5.80%, 3.35% and 3.14% in FY 2006/07 to FY 2010/11 respectively. The above table shows that commission & discount is in fluctuating trend but it is nominal fluctuation.

Exchange earning is also major part of total revenue collection. The proportion of exchange earning is 8.35%, 6.42%, 3.80%, 2.17% and 1.44% in FY 2006/07 to FY 2010/11 respectively. The proportion of exchange earning is in decreasing trend but the amount of exchange earning is in increasing trend, however FY 2010/11 witnessed decline in the amount of exchange earning as compared to the previous year. The reason of increase or decrease in foreign exchange income is due to decrease or increase in USD rate.

Other operating income and other non-operating income contributes to total income are very negligible proportion. Proportion of other operating income is 2.69%, 2.34%, 4.26%, 4.63% and 3.96% in FY 2006/07 to FY 2010/11 respectively. Similarly other non-operating income is nil in initial three years of operations, 0.03% and -0.01% in FY 2009/10 to FY 2010/11 respectively out of the total revenue over the study period. It was negligible proportion in total income.

4.3.5.1 Interest Income

An interest income contributes the major portion to total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore this is popularly called yield on fund (YOF). Bills discounting is also one form of advances

therefore, of this study purpose grouped the outstanding loan, advances, overdraft and the bills discounted together call LABP and included the bills discounting commission too into the interest income amount (YOF). First let's see the growth rate of interest income during the study period from FY 2006/07 to FY 2010/11.

Table No. 18
Yearly Growth in Interest Income

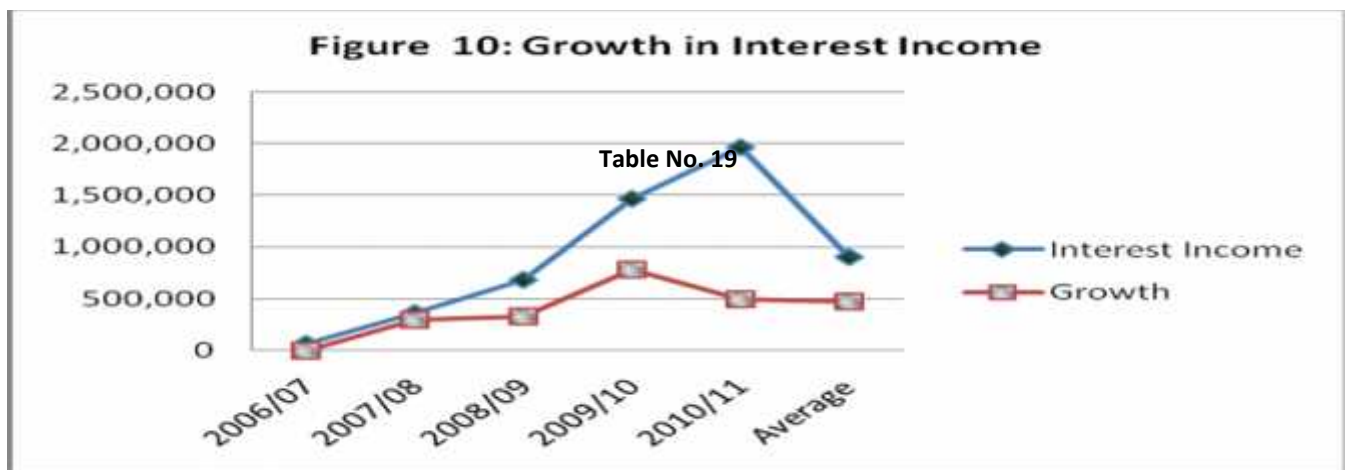
(Amount in Rs. '000')

Fiscal Year	Interest Income	Growth	Growth %
2006/07	65,103	0	0
2007/08	357,911	292,808	449.76
2008/09	683,933	326,022	91.09
2009/10	1,464,978	781,044	114.20
2010/11	1,963,604	498,626	34.04

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the status of interest income amount was increasing whereas the growth rate was fluctuating in trend. The base year to the calculation of growth rate was FY 2006/07. The range of interest income growth was 24.04% to 449.76% which is quite unusual. The Bank has recorded fluctuating growth rate percentage of interest income in different F/Y. It can be influenced by the bank policy, volatility of interest rates, government policies and failed investment funds for reputation etc. For analysis purpose we have plotted the data in scatter diagram.

Above figure clearly shows that the interest income of different FY of the study period has mostly been in increasing trend.



Status of Interest Income to Total LABP

(Amount in Rs. '000')

Fiscal Year	Interest Income	Total LABP	Average Yield on LABP
2006/07	65,103	2,564,140	2.54
2007/08	357,911	5,084,729	7.04
2008/09	683,933	9,063,092	7.55
2009/10	1,464,978	11,960,453	12.25
2010/11	1,963,604	12,372,423	15.87

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the comparative status of interest with the total LABP and average yield on LABP. The interest income, LABP and YOL all are in increasing trend over the period. It is 2.54%, 7.04%, 7.55%, 12.25% and 15.87% in FY 2006/07 to FY 2010/11 respectively. The average YOL for the period of study is 9.05%. The increased or decreased in yield is mainly due to increased or decreased in interest rate. Due to poor market system, political situation and other instability the bank has increased or decreased its interest rate to mobilize its deposits.

It was significant to analyze the relationship between total LABP and interest income (YOF). In order find out the virility of total LABP and interest income of different years to calculate arithmetic mean, standard deviation, coefficient of variation technique and correlation of coefficient. The detail calculation of these statistical tools was made in appendix 6. Now, presenting the summarize results of appendix 6.

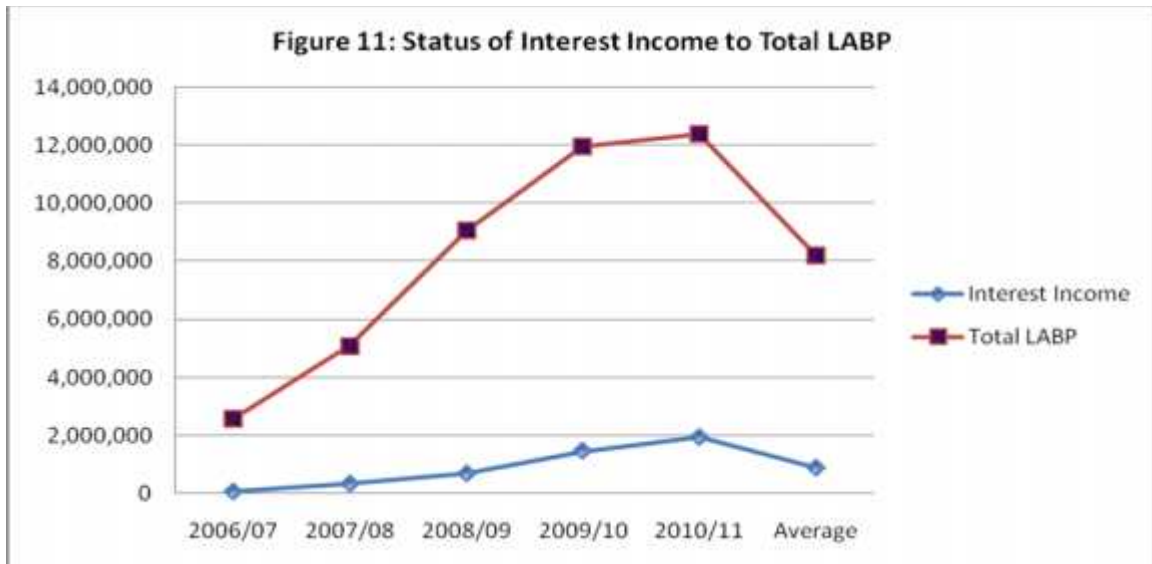
Table No. 20
Summary Showing Total LABP and Interest Income

(Amount in Rs. '000')

Statistical tools	Total LABP (X)	Interest Income (Y)
Mean (\bar{x})	8,208,967	907,106
Standard Deviation (σ)	3,840,898	705,379
Coefficient Variation (C.V.)	46.79	77.76
Growth Rate	52.99	172.27
Correlation of Coefficient (r)	0.942660	
Probable Error (PE)	0.015027	

(Source: Appendix: 6)

Above results shows that total LABP was less variable than interest income. Hence the coefficient of variation of total LABP was lower than of interest income. There should be



positive correlation between total LABP and interest income. In other words the interest income increased as the total LABP increased or vice versa. To find out the relationship between interest income and total LABP take help of Karl Pearson's coefficient correlation and it is denoted by 'r' examine whether positive correlation between interest income and actual outstanding LABP or not.

For this purpose actual LABP (X) was assumed to be independent variable and interest income (Y) was assumed to be dependent variable. So that, increase in LABP will support to increase interest income and vice versa.

After this significance of 'r' was tested with probable error of 'r' detail calculation of 'r' and probable error of 'r' was made in appendix 6. From this appendix the calculated value of 'r' and P.E. are 0.9426598 and 0.0150269 respectively. Since, $r > 6 \times P.E.$ the value of 'r' was significant, hence there was perfect correlation between actual LABP and actual interest income. Now coefficient of determination $(r)^2 = (0.9426598)^2 = 0.888607479$

The data of actual LABP and interest income incurred presented in figure 11.

4.3.5.2 Income Other than Interest Income

Incomes earn by the bank other than interest income is called other income. Most part of such income are earned from non-fund based activities in the form of commissions,

profit from foreign exchange sale, revaluation gain, commitment charge, remittance fees, service charges and other fees, charges etc.

4.3.6 Net Interest Income

Net interest income refers to the difference amount obtained by subtracting total interest expenses amount and total interest income. In other words, it is the margin on interest or net interest income of the bank. It can be shown in formula.

Net Interest Income = Interest Income – Income Expenses

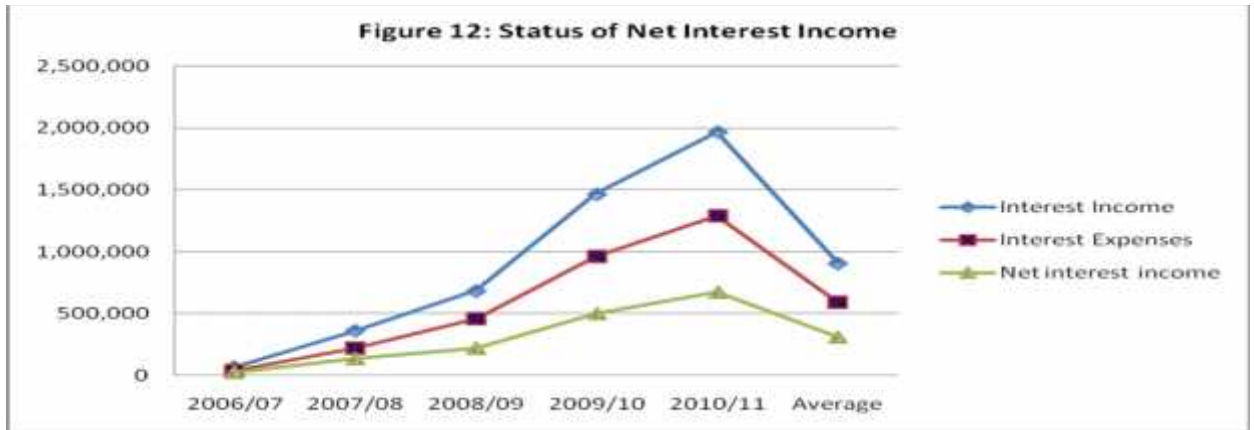
Table No. 21
Yearly Net interest Income

Fiscal Year	Interest Income	Interest Expenses	Net interest income	(Amount in Rs.)
				% of Interest Spread
2006/07	65,103	40,325	24,778	0.00
2007/08	357,911	218,947	138,964	460.83
2008/09	683,933	459,784	224,150	61.30
2009/10	1,464,978	962,010	502,968	124.39
2010/11	1,963,604	1,288,051	675,553	34.31
Mean	907,106	593,823	313,283	170.21
SD	705,379	465,268	240,328	-
CV	77.76	78.35	76.71	-
Growth Rate	158.82	160.55	156.80	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

$$\% \text{ of Interest Spread} = \frac{\text{Current Year Net Interest Income} - \text{Last Year Net Interest Income}}{\text{Last Year Net Interest Income}}$$

The above table shows that the status of interest income, interest expenditure and net interest income of the bank for the study period. The base year for calculate the growth rate is FY 2006/07. The increment rate is 460.83%, 61.30%, 124.39% and 34.31% in FY 2006/07 to FY 2010/11 respectively. The above table indicates that the amount of interest income, interest expenses and net interest income are increasing trend. But growth rate of interest spread is fluctuating it is mainly due to political situation, bank interest rate, NRB direction and current situation of the country. The reason for a huge growth in 2007/08 is the aggressive promotion from the bank in the initial year of commencement.



From the above table and diagram the trend of interest income is much higher than the increment of interest expenses due to which net interest income in increasing trend every year.

4.3.6.1 Burden

Burden is the overall expenses of the bank excepting interest expenses incurred for the payment at deposit interest. That is, the operating cost of the bank excepting cost of the bank. Accepting interest cost is called net burden. The net burden is net amount of burden cost obtained which is difference between other expenses and other income. The nature of this cost is semi fixed where as interest cost is variable cost the following table shows the status of net burden in the bank the period of the study.

Table No. 22
Status Showing Net Burden

(Amount in Rs. '000')

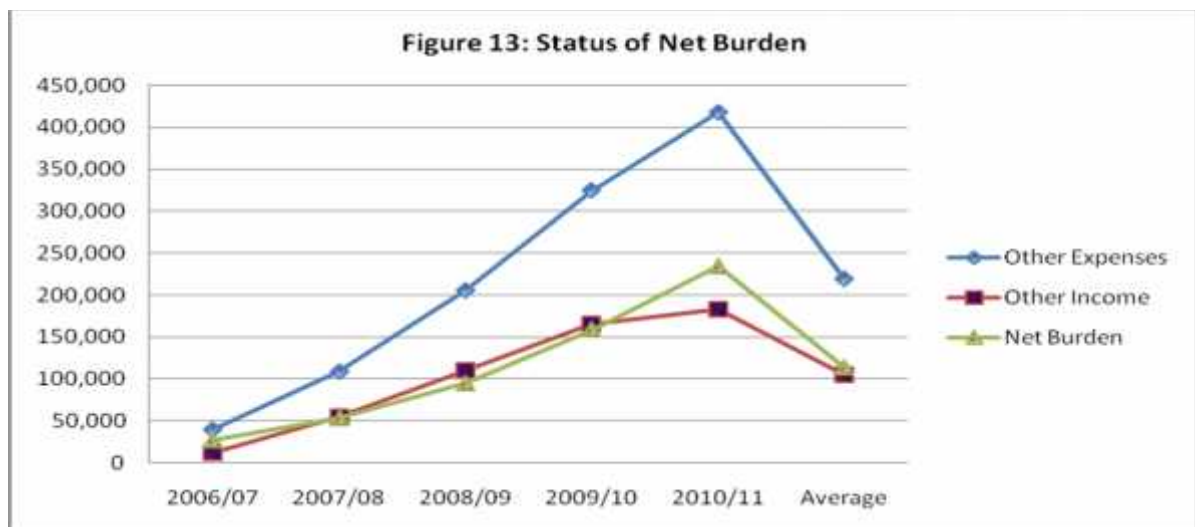
Fiscal Year	Other Expenses	Other Income	Net Burden	% of Net Burden
2006/07	39,397	12,534	26,863	0
2007/08	108,904	55,203	53,701	99.91
2008/09	205,106	110,070	95,035	76.97
2009/10	324,531	165,910	158,621	66.91
2010/11	418,397	183,301	235,096	48.21
Mean	219,267	105,404	113,863	73.00
SD	138,179	64,646	75,158	-
CV	63.02	61.33	66.01	-
Growth Rate	76.08	114.63	60.11	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

$$\% \text{ of Net Burden} = \frac{\text{Current year Burden} - \text{Last year Burden}}{\text{Last year Burden}}$$

Above table shows the other expenses and other income of the bank during the study period. The figure of net burden is increasing trend. The base year to calculate the net burden is FY 2006/07. Percentage change in net burden in compare last year for every year is in decreasing trend that means the bank is having positive growth in other income as compared to other expenses. It is 99.91%, 76.97%, 66.91% and 48.21% in FY 2006/07 to FY 2010/11 respectively. The major objective of this study is to find out whether other resources of income are maintaining the other expenses part or not. It is observed that the net burden of the bank is positive.

The indication of the study showed that the other income are increasing or decreasing in respect to other expenses. The net burden of the bank is not so high so the bank could manage its fund to collect other source of income. The position of other income, other expenses and net burden are presenting in the bar diagram and scatter diagram below.



The above figure indicates that bank's other expenses is much more higher than the other income due to which net burden for the bank is increasing every year which is also adversely affecting the net profit of the bank.

4.3.7 Net Profit

Profit is excess of income over expenses and loss is excess of expenses over the income. In this context, this study has calculated the net profit being the excess net interest income over the burden. The net interest income (excess interest income over the interest expenses), and the net burden is the difference amount from other expenses and other income. Following table shows the status of net interest income, net burden and net profit of various year of the study.

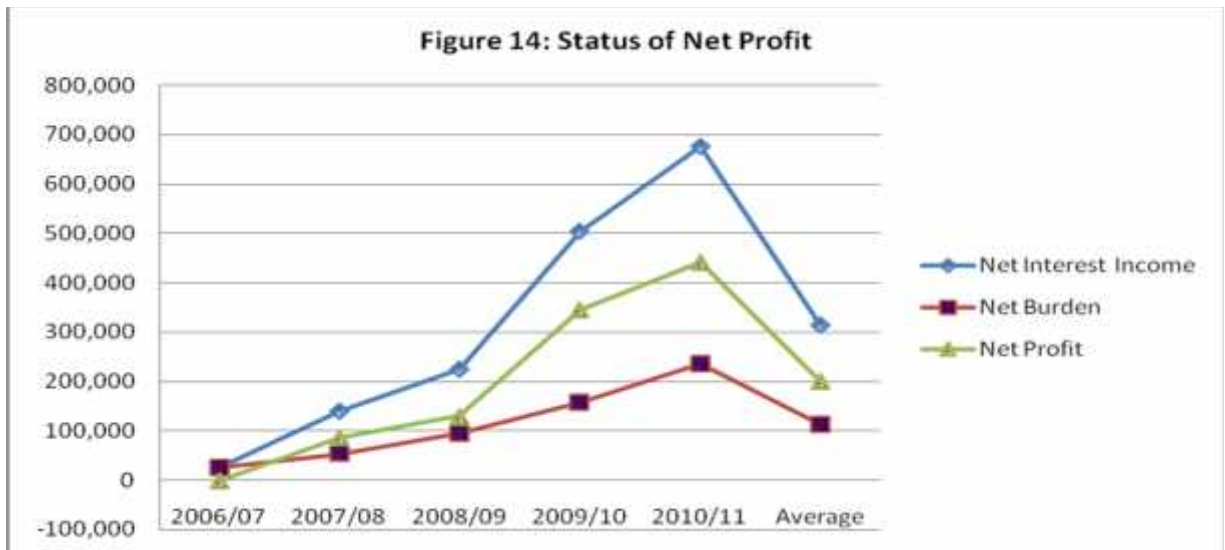
Table No. 23
Status Showing Net Profit

(Amount in Rs. '000')

Fiscal Year	Net Interest Income	Net Burden	Net Profit	% of Net profit
2006/07	24,778	26,863	-2,084	0
2007/08	138,964	53,701	85,263	3990.82
2008/09	224,150	95,035	129,114	51.43
2009/10	502,968	158,621	344,347	166.70
2010/11	675,553	235,096	440,457	27.91

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the status of net profit of GBL. The figure in net profit column is negative by Rs. 2084,000 in the base year 2006/07 which is also the commencement year and this is obvious to have negative yield in terms of profit in the initial years. But the bank achieved a huge percentage in net profit the following year, i.e. 2007/08. The net profit growth percent in that year is 3990.82%. The trend of net profit is increasing every year where as the growth rate of profit is fluctuating trend. The growth rate is 1.43%, 166.70%, and 27.91% in FY 2006/07 to FY 2009/10 respectively. This shows that GBL has earned net profit higher in current year then in preceding year. It shows the real success of the bank and bank's strategy for the expansion of its business. For this analysis purpose the status of net profit presenting in the bar diagram and scatter diagram below.



From above figure, it is clear that bank's spread is much higher than burden by result of which net profit for the bank is increasing every year.

4.4 Performance Evaluation

The performance evaluation for internal management use is an important aspect of a comprehensive planning and control system. All companies regardless of their size have reporting requirements to show their overall performance.

Performance reporting is an important phase of control process. Performance evaluation can help to outline the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organization goal. Various technique and criteria are used to evaluate performance of GBL, Which are as follows.

1) Ratio Analysis

4.4.1 Ratio Analysis

An arithmetical relationship between two figures is known as a ratio. Ratio analysis is a financial device to measure the financial position, major strengths and weakness of firm.

To evaluate the performance of an organization by creating the ratios from the figures of difference account consisting in balance sheet and income statement is known as a ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups.

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

4.4.1.1 Liquidity Ratio

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

The current ratio, one of the most commonly cited financial ratio, measure the firms' ability to meet its short-term obligations. Current ratio is the ratio of current assets to current liabilities. Current assets are cash and other "nearness to cash" which can be converted into cash within one accounting period. Whereas the current liabilities are those short term obligations, which can be pay within a year. Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and prepaid expenses. Current liabilities refer to the short-term maturity objection, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, and provisions, accrued and accrued expenses. The current ratio is expressed as follows:

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

Table No. 24
Status Showing Liquidity Ratio

(Amount in Rs. '000')

Fiscal Year	Current Assets	Current Liabilities	Current Ratio in Terms of Time
2006/07	3,037,180	3,056,150	0.99:1
2007/08	6,810,473	7,450,621	0.91:1
2008/09	10,481,877	11,577,546	0.91:1
2009/10	14,394,790	15,511,598	0.93:1
2010/11	14,126,869	15,609,003	0.91:1
Mean	9,770,238	10,640,984	0.93:1
SD	4,358,152	4,837,135	-
CV	44.61	45.46	-
Growth Rate	53.40	58.45	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the liquidity ratio of GBL from FY 2005/06 to FY 2009/10. Higher the current ratio better the liquidity position, for the many type of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. GBL has higher current liabilities than current assets over the study period. The bank's current ratio is 0.99, 0.91, 0.91, 0.93 and 0.91 in FY 2006/07 to FY 2010/11 respectively with average ratio is 0.93. The standard of current ratio is 2:1. The current ratio of the bank is less than standard ratio in the all fiscal years. It shows that the performance strategy of the bank is aggressive. The bank may be unable to pay its current obligation in time as and when they become due.

4.4.1.2 Activity Ratio (Employee Productivity)

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

$$\text{Deposit per Employee} = \frac{\text{Deposit Collection}}{\text{No. of Employee}}$$

$$\text{LABP per Employee} = \frac{\text{LABP Deployed}}{\text{No. of Employee}}$$

Table No. 25
Status Showing Activity Ratio (Employee Productivity)

(Amount in Rs. '000')

Fiscal Year	Deposit Collection	LABP	No. of Employee	Deposit Employee	% of Deposit	LABP Employee	% of LABP
2006/07	3,023,616	2,564,140	68	44,465	0	37,708	0
2007/08	7,319,702	5,084,729	143	51,187	15.12	35,558	-5.70
2008/09	10,930,397	9,063,092	241	45,354	-11.39	37,606	5.76
2009/10	15,031,548	11,960,453	376	39,978	-11.86	31,810	-15.41
2010/11	15,066,490	12,372,423	386	39,032	-2.36	32,053	0.76
Mean	10,274,351	8,208,967	243	44,003	-2.62	34,947	-3.65
SD	4,633,120	3,840,898	-	4,349	-	2,580	-
CV	45.09	46.79	-	9.88	-	7.38	-
Growth Rate	57.29	52.99	-	-	-3.00	-	-3.65

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

$$\% \text{ in Deposit} = \frac{\text{Current year Deposit per Employee} - \text{Last year Deposit per Employee}}{\text{Last year Deposit per Employee}}$$

$$\% \text{ in LABP} = \frac{\text{Current year LABP per Employee} - \text{Last year LABP per Employee}}{\text{Last year LABP per Employee}}$$

Above table shows the relationship of major activities of bank with its human resources. The number of employees increasing every year likewise the major activities of GBL was increasing trend. The above table shows deposit collection, LABP deployed and No. of employees. The amount of deposit per employee and growth rate was in fluctuating trend. The base year to calculate the growth rate was FY 2006/07. The bank witnessed growth only in 2007/08 15.12% growth in deposit per employee as compared to the previous year. All the other years have resulted negative growth rates, i.e. -11.39%, -11.86% and -2.36% in 2008/09, 2009/10 and 2010/11 respectively. The trend of LABP per employee and percent of LABP per employee was fluctuating. The base year to calculate the percent change in LABP per employee was FY 2006/07. It has recorded

positive change in LABP per employee only in two report years, i.e. 2008/09 5.76 % and 2010/11 0.76 %. It has recorded negative growth with decreased percentage change in LABP per employee -5.70% in FY 2007/08 -15.41% in 2009/10. The main reason of decreasing of deposit per employee could be huge expansion of staff structure and challenges in deposit collection. The overall picture given by activity ratio can conclude that the bank has not reached to the excellent level in terms of human resource productivity.

4.4.1.3 Capital Structure Ratios (Leverage Ratio)

Capital structure ratios of leverage, ratios measure the proportion of outsider's capital in financing the firm's assets and are calculated by establishing relationship between borrowed capital and equity capital. A firm should have a strong short-term liquidity as well as long-term financial position. Higher leverage ratio, indicates larger amount of borrowed funds used by the firm to finance its assets and it also indicates increasing obligations and known as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in maturing date. The following ratios are used to measure the long-term solvency position GBL with the help of past 5 year financial data of the bank.

- A. Total Debt to Shareholders Equity Ratio,
- B. Total Debt to Total Assets Ratio.

A. Total Debt to Shareholder Equity

The debt equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owner. The total debt refers to the total current liabilities plus the borrowing from the other banks. It is commonly used to measure the debt of financial leverage of the firm and is calculated as follows:

$$\text{Total Debt Shareholder Equity} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

Table No. 26
Status Showing Total Debt to Shareholder's Equity

(Amount in Rs. '000')

Fiscal Year	Total Debt	Shareholder's Equity	Ratio in Times
2006/07	3,065,328	510,000	6.01
2007/08	7,543,094	700,000	10.78
2008/09	11,577,546	1,000,000	11.58
2009/10	15,680,394	1,473,350	10.64
2010/11	15,814,681	1,600,000	9.88
Mean	10,736,209	1,056,670	9.78
SD	4,898,614	423,817	-
CV	45.63%	40.11%	-
Growth Rate	58.96%	34.01%	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

The above table shows that debt to equity ratio of the bank varies from maximum of 11.58 times in FY 2008/09 to the minimum of 6.01 times in FY 2006/07 with an average of 9.78 times during the study period.

B. Total Debt to Total Assets Ratio

The ratio exhibits the relationship between creditors funds and owners capital. The ratio shows the proportion of outsider fund used in financing total asset. The ratio is calculated by dividing the total debt of the bank by its total assets, which is presented below.

$$\text{Total Debt to Total Assets} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table No. 27

Status Showing Total Debt to Total Assets

(Amount in Rs. '000')

Fiscal Year	Total Debt	Total Assets	% of Ratio
2006/07	3,065,328	3,534,819	86.72
2007/08	7,543,094	8,265,716	91.26
2008/09	11,577,546	12,626,473	91.69
2009/10	15,680,394	17,201,415	91.16
2010/11	15,814,681	17,522,708	90.25
Mean	10,736,209	11,830,226	90.22
SD	4,898,614	5,355,512	-
CV	45.63%	45.27%	-
Growth Rate	58.96%	56.17%	-

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows that the debt to total assets of the bank is in fluctuating trend, i.e. 86.72%, 91.26%, 91.69%, 91.16% and 90.25% in FY 2006/07 to FY 2010/11 respectively. The average of the debt to total asset ratio for the study period is 90.22% that indicates the bank has the wise debt assets ratio, which means the owners have invested more in asset than the creditors.

4.4.1.4 Profitability Ratio

There are many measures of profitability each relate the returns of the firm to its assets and equity or share value. As a group these measures allow the analysis to evaluate firm's earnings with respect to a given level of sales, a certain level of assets, and the owner's investment of share value.

Profit is difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient amount of profit. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profit. The profitability ratios in the study are calculated to measure the operating efficiency and performance of GBL.

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}}$$

Table No. 28
Status Showing Profitability Ratio

(Amount in Rs. '000')

Fiscal Year	Net Profit	Total Assets	Return on Assets	Shareholder's Equity	Return on Equity
2006/07	-2,084	3,534,819	-0.06	510,000	-0.41
2007/08	85,263	8,265,716	1.03	700,000	12.18
2008/09	129,114	12,626,473	1.02	1,000,000	12.91
2009/10	344,347	17,201,415	2.00	1,473,350	23.37
2010/11	440,457	17,522,708	2.51	1,600,000	27.53
Mean		11,830,226		1,056,670	
SD		5,355,512		423,817	
CV		45.27%		40.11%	
Growth Rate		56.17%		34.01%	

(Source of Secondary Data: GBL, Annual Report 2006/07-2010/11)

Above table shows the status of return on assets and return on equity of GBL. It indicates to the fact that net profit and total assets is in increasing trend. The indication shows ROA level of the bank is fluctuating trend, it ranges from -0.06% to 2.51% throughout the study period. The commencing year has net loss, hence all indicators for that year including ROA and ROE is negative. It is not because of low profit but bank has invested its capital fund in fixed assets. The bank operations resulted 1.03%, 1.02%, 2%, 2.51% ROA in FY 2007/08 to 2010/11 respectively. The average ROA of the bank during the study period is 1.30. The bank should invest their borrowings and deposits to income generating activities which will increase its net profit and ROA. Likewise the return on equity is in increasing trend. It has negative ROE, i.e. -0.41% in 2006/07 and afterwards, it is 12.18%, 12.91%, 23.37% & 27.53% in FY 2007/08 to FY 2010/11 respectively. The average ROE is 15.12 during the study period. It is observed that the net income and equity capital amount is increasing every year. Any

organization having more than 10% ROE is good so the bank has been maintaining its ROE level in very satisfactorily and the profitability of GBL is strong and sound. Its profit ratio indicates of the higher overall efficiency of the GBL and better utilization of total resources available.

4.5 Major Findings

The major findings of this research study on "Profit Planning & Control Practice (A Case Study of Global Bank Limited)." are as follows:

1. Management and Personnel

- a) It was observed that the bank was adopting a policy to keep minimum but deserved and qualified number of employees as possible. But it has unnecessary long ladder at various levels without specific job description comparison to other banks. Number of staffs was increasing each year which reached as much as 386 in 2010/11 but activity ratio showing negative average employee productivity of -2.62%, it was because of increasing employee and decreasing deposit collection.
- b) The strategic planning and managerial decisions making process was highly centralized, however, top management takes the feed forwards for annual planning and strategy building through manager conferences and strategic meeting organized ones in every year. Staff expense constituted average 11.12% out of total spending of the bank. Position hierarchy in terms of staff motivation and benefit has been reflected.
- c) Advanced and practical oriented training for career development to the employees was lacking.
- d) Bank has the policy to employ academically highly qualified (first class MBA) fresh candidates at Management trainee, which may be considered as good aspect for future manpower building, but the bank neglects the product of Tribhuvan University who have passed MBS.

2. Branch Office

- a. GBL was currently operating with its 28 points of representation making its presence at almost all of the cities and many of remote sectors of the country. This is significant in number as compared to other established commercial banks of Nepal. GBL has tried to reach in the remote areas such as Taplejung, Rolpa etc.
- b. Controlling functions of the branches are so far being carried out directly by Head Office, which may be difficult in the days to come because of its wide geographical stretch. However, the effective management team of GBL has been good enough to regulate the entire branches from the head office. Regional at Nepalgunj, Pokhara and Biratnagar have been established to monitor branches at regional level.

3. Objectives of the Bank

- a. To provide complete financial solutions to the customers.
- b. To become top 5 commercial bank among 32 commercial banks (including Agriculture Development Bank) of Nepal.

4. Resources Mobilizations

- a. Deposit collection constitutes a major share in resource of GBL. The average share of deposit in resource mobilization was 86.81% where as borrowing, capital fund & other liabilities constituted 2.06%, 9.80% & 1.34% of total resources respectively. In this respect it is incurring higher cost toward deposit mobilizations. Interest expense against customer deposit was so vital; average share of interest expenses in total cost structure during the period was 67.35%.
- b. Deposit mobilized by the bank was found to be fluctuating trend throughout the study period. The targets set for deposit mobilization by the bank have been well met every year.
- c. The volatile political situation coupled with low economic growth, widening trade deficit, high inflation and liquidity crunch in the banking system continued to remain the major challenges. Liquidity crunch is mainly attributed to the slowdown in remittances,

funds getting locked up in non productive sectors and weakening of confidence resulting in lower deposit collection/mobilization in the subsequent years i.e. growth in deposit was as low as 0.23% in 2010/11.

5. Resources Deployment

- a. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) was fluctuating trend average 12.77% during the period, which was detrimental to profitability objectives;
- b. Major portion, average 69.20% of the resources have been deployed in LABP.
- c. The targets for deployment by the bank have well met every year.
- d. LABP of the bank has found to be with an average growth was over the period of last five years was as high as 52.99%.
- g. CD Ratio (Credit to Deposit Ratio, Ratio of LABP on Total Deposit expressed in percent term) of the bank is high. The average CD ratio of the bank for the period of last five years was as high as 79.77% which indicates the bank has aggressive lending policy to yield attractive net profit.
- h. The data analysis of LABP and deposit with the help of Karl Person's co-efficient of correlation shows that, the deposit and the LABP are positively correlated.
- i. The data analysis of Deposit and LABP with the help of coefficient of variation shows that LABP was more variable than the Deposit.

6. Non-Funded Business Activities

- a. Outstanding letter of Credit liability of the bank shows fluctuating growth averaging 69.42% during the study period.
- b. Outstanding bank guarantee liability of the bank was not consistent and it had average growth of 173.58%.

7. Expenditure

- a. Interest expenses amount was the highest among total expenses items of the bank every year. This was in increasing trend average share of such cost was 67.35%.
- b. The interest expense amount of the bank was found increasing each year corresponding to the increase in deposit. A mathematical interpretation of Karl Pearson's coefficient of correlation shows that the interest expenses are perfectly and positively correlated with deposit.
- c. The interest holds highest percentage of expenses amount as deposit was the major resources of the bank. The COD of GBL was in the range of 1.33% to 8.55%. The average COD over the period has been found to be at 4.70% that indicates the bank has spent much in deposit collection.
- d. Other expenses amount of the bank was also in increasing trend every year for example office operations costs and provision for staff bonus.

8. Revenue

- a. Interest income amount of the bank, average 87.58%, was the highest among other income items in the total revenue.
- b. The amount of interest income was increasing every year corresponding to increase in LABP. Average growth in interest income was 172.27%. There was a perfect and positive correlation between interest income and LABP.
- c. Average yield on LABP (ratio of interest income to total LABP expressed in percent term) was increasing every year. The average yield on LABP for the last five years has remained at 9.05%.
- d. The amount of other income of bank was also in fluctuating growth trend but the exchange earning shown the decreasing trend.
- e. The interest spread or the amount of interest margin was found to be in increasing growth trend showing average of 170.21%.
- f. The amount of net burden of the bank was increasing every year. Average net burden during the study period was 73%.

g. The amount of net profit was in increasing trend as the rate of growth of spread was higher than that of burden; the profitability of the bank was increasing but the growth of net profit was as low as 27.91% in 2010/11 as compared to 166.70% of 2009/10.

9. Ratio Analysis

- a. GBL has the highest current ratio of 0.99 in FY 2006/07 with an average current ratio of 0.93. The average ratio of the bank found to be always lower than standard ratio of 2:1, which shows unsatisfactory liquidity position of the bank.
- b. Generally the debt equity ratio of the banks was higher because they mobilize fixed deposit much more times of their capital fund. GBL was also not exception to it. The average debt equity ratio of the bank was approximately 9.78:1.
- c. From the study of total number of manpower and total volume of overall activities of the bank, it is found that the volume of business per employee was increasing in the initial year but it started to decrease in the subsequent years resulting negative average activity ratio i.e. -2.62, which suggests productivity of manpower could have been better. But this might not necessarily highlight the real case because the economic recession and credit crunch might have greater impact on this leading the position of the bank beyond expectation.
- d. From the profitability ratio, it was found that the ROA (Return on Assets) was in increasing trend from -0.06 times in 2006/07 to 2.51 times in 2010/11. Return on equity was also in increasing trend from -0.41 times in 2006/07 to 27.53 times in 2010/11. This shows that overall efficiency of the GBL and better utilization of total resources available was higher and strong.
- e. Debt to assets ratio of the bank varies from 86.72% in FY 2006/07 to 91.69% in FY 2008/09 but decreased to 90.25% in FY 2010/11 and average 90.22% during the study period. The analysis indicates that the bank has the wise debt assets ratio, which means the creditors have invested more in the bank than the owner.

CHPATER – FIVE

SUMMARY, CONCLUSION & RECCOMONDATION

5.1 Summary

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

Nepal is arguing to achieve economic prosperity though rich in natural resources, such resources for the economic progress of the country then to its poor economic condition. Its per capita income is only \$470 according to the year 2007/08 (NAPSE) that Nepal still belongs to the groups of the least development country. Due to recession, the economic growth is not increasing. Political instability, strikes, bandas, shortage of fuel, food, raw material, insecurity of public, higher rate of transportation, power cut of electricity, labor hike, higher rate of wages etc. largely impact negatively in the development of industries, banks etc. In this time of insurgency, it is very hard to run a business and cope with these types of challenges.

To remain as the major contributing factor to the growth of the nation's economy, the banks also have to sustainable existence and growth of themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability. As the banks are

formed as joint stock companies promoted by shareholders investment, it must give reasonable return on the fund of the shareholders. Further by the profit made by the bank, it may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate them for better performances.

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

Global Bank Limited has been in operation in Nepal since 2007 A.D. when it was initially registered as a bank having its head office outside the capital city. Today the bank comprises the status of one of the fastest growing banks in Nepal.

This study has tried to cover the various aspects of budgeting and profit planning in the bank from the time of its inception of the end of FY 2010/11. In the first introductory chapter, his study report has tried to give brief introduction of banking and its relation to the economy, brief profile of the concerned bank, general concepts to the profit and profit planning, the problem statement, objective of the study and its scope, limitations and significance.

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

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

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

Finally, the summary, conclusions and the recommendation made by the research by this study are hereby being presented in this current chapter, chapter five titled as 'Summary, Conclusions and Recommendations.'

5.2 Conclusion

The following conclusion can be drawn on the basis of the study on profit planning of the commercial banks during the study period.

- Bank management policy was very strong. It keep minimum number of employee and highly qualified for maintain the job.
- The bank operation with 28 representations and 35 ATMs in various locations in the country.
- The banks provide 24 Hrs. services and ATMs service for the customers.
- The banks adopt always new technology.
- The banks provide funds for health and education.
- The bank was adopting new accounting policy, which was prescribed by Nepal Rastra Bank.
- Customer deposit collection was the main resource mobilization of the bank.
- Loan, allowance and bill purchasing hold the highest outlet of resources deployment.

- Bank's actual deposit was more variable than actual outstanding LABP. Hence the coefficient of variance of actual deposit was higher than actual outstanding liability LABP.
- LABP highest outlay of resource deployment among the various portfolios.
- Actual LABP was in increasing trend.
- There was perfect correlation between actual deposits and actual LABP.
- There was no continuity in letter of credit amount, it increase and decrease every year.
- Bank guarantee was fluctuating trend.
- Interest expenses were highest portion among in other cost.
- Coefficient of variation of actual interest expenses was higher than of actual deposits.
- The highest revenue comes from the interest income among the other revenue.
- Actual LABP was more variable than interest income.
- The average current ratio of the bank has found to be always lower than standard ratio of 2:1, which shows dissatisfactory liquidity position of the bank.
- The average current ratio of the bank was 0.93 times. So the bank has shows dissatisfactory liquidity position of the bank.
- The average debt equity ratio of the bank was 9.78 times and the average debt to total assets was 90.22% during the study period.

5.2 Recommendation

- The Bank should focus on long term planning and controlling in order to cope with the global crisis in the financial sector for example liquidity crunch during the study period.
- Bank has negative activity ratio in FY 2010/11, it should implement staff development programmes and performance based pay system.
- The bank has strong liquidity position and it can invest its resource aggressively that will result into higher net profit in the coming years.

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Appendix-1
Status of Actual Deposits and Actual LABP

(Amount in Rs. '000')

Fiscal Year	Actual Deposits (X)	Actual LABP (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2006/07	3,023,616	2,564,140	-	-	52,573,152,239,637	31,864,076,375,791	40,929,145,340,208
2007/08	7,319,702	5,084,729	-	-	8,729,948,349,482	9,760,865,580,035	9,231,026,614,626
2008/09	10,930,397	9,063,092	656,046	854,125	430,396,878,953	729,528,832,325	560,345,368,981
2009/10	15,031,548	11,960,453	4,757,197	3,751,486	22,630,927,102,567	14,073,644,207,007	17,846,557,542,457
2010/11	15,066,490	12,372,423	4,792,139	4,163,456	22,964,600,029,032	17,334,362,533,171	19,951,859,620,911
Total	51,371,753	41,044,837	0	0	107,329,024,599,671	73,762,477,528,329	88,518,934,487,184

Where,

\bar{X} = Mean of X

\bar{Y} = Mean of Y

$$\text{Mean of Actual Deposits } (\bar{X}) = \frac{\text{Sum of Actual Deposits}}{\text{No. of Year}}$$

$$= 10,274,351$$

$$\text{Mean of Actual LABP } (\bar{Y}) = \frac{\text{Sum of Actual LABP}}{\text{No. of Year}}$$

$$= 8,208,967$$

$$\text{S.D. of Actual Deposits } (\sigma_x) = \sqrt{\frac{1}{n} \sum x^2}$$

$$= 4,633,120$$

$$\text{S.D. of Actual LABP } (\sigma_y) = \sqrt{\frac{1}{n} \sum y^2}$$

$$= 3,840,898$$

$$\begin{aligned}\text{C.V. of Actual Deposits} &= \frac{\sigma_x}{\text{Mean of } x} \times 100\% \\ &= 45.09\end{aligned}$$

$$\begin{aligned}\text{C.V. of Actual LABP} &= \frac{\sigma_y}{\text{Mean of } y} \times 100\% \\ &= 46.79\end{aligned}$$

$$\begin{aligned}\text{Correlation (r)} &= \frac{\Sigma xy}{n\sigma_x\sigma_y} \\ &= 0.9949\end{aligned}$$

$$\begin{aligned}\text{Probable Error (PE)} &= \frac{1-r^2}{N} \times 0.6745 \\ &= \frac{1-0.9236^2}{5} \times 0.6745 \\ &= 0.001385\end{aligned}$$

Appendix-2
Status of Actual Deposits and Interest Expenses

(Amount in Rs. '000')

Fiscal Year	Actual Deposits (X)	Interest Expenses (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2006/07	3,023,616	40,325	-	-	52,573,152,239,637	306,360,538,359	4,013,270,390,014
2007/08	7,319,702	218,947	-	-	8,729,948,349,482	140,532,272,391	1,107,627,861,427
2008/09	10,930,397	459,784	-	-	430,396,878,953	17,966,592,600	-87,936,143,766
2009/10	15,031,548	962,010	-	-	22,630,927,102,567	135,561,411,595	1,751,536,589,318
2010/11	15,066,490	1,288,051	-	-	22,964,600,029,032	481,952,046,964	3,326,835,732,599
Total	51,371,753	2,969,116	0	0	107,329,024,599,671	1,082,372,861,909	10,111,334,429,591

Where,

\bar{X} = Mean of X

\bar{Y} = Mean of Y

$$\text{Mean of Actual Deposits } (\bar{X}) = \frac{\text{Sum of Actual Deposits}}{\text{No. of Year}}$$

$$= 10,274,351$$

$$\text{Mean of Interest Expenses } (\bar{Y}) = \frac{\text{Sum of Interest Expenses}}{\text{No. of Year}}$$

$$= 593,823$$

$$\text{S.D. of Actual Deposits } (\sigma_x) = \sqrt{\frac{1}{n} \sum x^2}$$

$$= 4,633,120$$

$$\begin{aligned} \text{S.D. of Interest Expenses } (\sigma_y) &= \sqrt{\frac{1}{n} \Sigma y^2} \\ &= 465,268 \end{aligned}$$

$$\begin{aligned} \text{C.V. of Actual Deposits} &= \frac{\sigma_x}{\text{Mean of } x} \times 100\% \\ &= 45.09 \end{aligned}$$

$$\begin{aligned} \text{C.V. of Interest Expenses} &= \frac{\sigma_y}{\text{Mean of } y} \times 100\% \\ &= 78.35 \end{aligned}$$

$$\begin{aligned} \text{Correlation (r)} &= \frac{\Sigma xy}{n\sigma_x\sigma_y} \\ &= 0.938127 \end{aligned}$$

$$\begin{aligned} \text{Probable Error (PE)} &= \frac{1-r^2}{N} \times 0.6745 \\ &= 0.016177 \end{aligned}$$

Appendix-3
Status of LABP and Interest Income

(Amount in Rs. '000')

Fiscal Year	Actual Deposits (X)	Interest Income (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2006/07	2,564,140	65,103	-	-842,003	31,864,076,651,258	708,968,325,866	4,752,959,191,777
2007/08	5,084,729	357,911	-	-549,195	9,760,862,770,720	301,614,970,965	1,715,815,357,543
2008/09	9,063,092	683,933	854,124	-223,173	729,528,237,171	49,805,982,521	-190,617,078,534
2009/10	11,960,453	1,464,978	3,751,485	557,872	14,073,641,217,824	311,221,101,663	2,092,848,328,048
2010/11	12,372,423	1,963,604	4,163,456	1,056,498	17,334,365,211,106	1,116,188,039,218	4,398,682,884,235
Total	41,044,837	4,535,529	0	0	73,762,474,088,079	2,487,798,420,231	12,769,688,683,070

Where,

\bar{X} = Mean of X

\bar{Y} = Mean of Y

$$\begin{aligned} \text{Mean of Actual LABP } (\bar{X}) &= \frac{\text{Sum of Actual LABP}}{\text{No. of Year}} \\ &= 8,208,967 \end{aligned}$$

$$\begin{aligned} \text{Mean of Interest Income } (\bar{Y}) &= \frac{\text{Sum of Interest Expenses}}{\text{No. of Year}} \\ &= 907,106 \end{aligned}$$

$$\begin{aligned} \text{S.D. of Actual LABP } (\sigma_x) &= \sqrt{\frac{1}{n} \sum x^2} \\ &= 3,840,898 \end{aligned}$$

$$\begin{aligned} \text{S.D. of Interest Income } (\sigma_y) &= \sqrt{\frac{1}{n} \Sigma y^2} \\ &= 705,379 \end{aligned}$$

$$\begin{aligned} \text{C.V. of Actual LABP} &= \frac{\sigma_x}{\text{Mean of } x} \times 100\% \\ &= 46.79 \end{aligned}$$

$$\begin{aligned} \text{C.V. of Interest Income} &= \frac{\sigma_y}{\text{Mean of } y} \times 100\% \\ &= 77.76 \end{aligned}$$

$$\begin{aligned} \text{Correlation (r)} &= \frac{\Sigma xy}{n\sigma_x\sigma_y} \\ &= 0.942660 \end{aligned}$$

$$\begin{aligned} \text{Probable Error (PE)} &= \frac{1-r^2}{N} \times 0.6745 \\ &= 0.015027 \end{aligned}$$