PROFIT PLANNING IN A COMMERCIAL BANK
(With Reference to Standard Chartered Bank Nepal Ltd.)

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In the partial fulfillment of the requirements for the Degree of
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RECOMMENDATION

This is to certify that the Thesis

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Entitled:

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

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VIVA-VOCE SHEET

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

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TRIBHUVAN UNIVERSITY

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"PROFIT PLANNING IN A COMMERCIAL BANK (With Reference to Standard Chartered Bank Nepal Ltd.)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Shanker Raj Joshi** of Shanker Dev Campus.

Date:……………………………

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HIRANYA PRASAD TIMILSENA
RESEARCHER
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LIST OF ABBREVIATION

A/C	=	Accountancy
A.D	=	Anno Domini
ATM	=	Automated teller Machine
BDO	=	Board of Director
BEP	=	Break Even Point
B.S	=	Bikram Shambat
Co.	=	Company
C.O.D	=	Cost of Deposit
CRR	=	Cash Reserve Ratio
C.V.	=	Coefficient of Variation
CVP	=	Cost Volume Profit
Etc.	=	Etcetera
FYC	=	Foreign Currency
FY	=	Fiscal Year
i.e.	=	That is
INGO	=	International Non Government organization
LABP	=	Loan, Advances & Bill Purchased
LC	=	Letter of Credit
LDO	=	Loan Discount and Overdraft
Ltd.	=	Limited
NGO	=	Non Government Organization
NO.	=	Number
NRB	=	Nepal Rastra Bank
P.E	=	Profitable Error
PPC	=	Profit Planning and Control
Rs	=	Rupees
SC	=	Standard Chartered
SCBNL	=	Standard Chartered Bank Nepal Limited
S.D.	=	Standard Deviation
T.U.	=	Tribhuvan University
VS	=	Versus

YOF = Yield on Fund

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INTRODUCTION

1.1 Background of the Study

The excess income over expenditure is called profit. The word profit is brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:125) the concept of profit is not new but the concept of profit planning and control is new word in business literature. We can define profit planning and control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So, we can conclude profit planning and control is as an organized and formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task. Profit planning and control programs facilitate the management to keep a level of profits which will make certain the continuation of the business and the accomplishment of organization responsibilities. Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationship between volume and cost.

Every business or institution is established on the definite goals and objectives. All the tasks performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institutions. Financial institutions include financial intermediaries like banks, credit unions, saving and credit, money market funds, life insurance companies, pension's funds mutual funds finance companies etc. Every country has to give a stress on up liftmen of the constant growth and sustainable financial system. Until and unless a nation can assemble its own domestic resources the nation cannot achieve economic growth. Transfer of funds from various savers to dynamic sectors is the major function of financial institution. Financial consist of financial institution including financial intermediaries using various financial instruments and connecting savers and users of cash. There is a tremendous growth in the number of financial institution in Nepal in the last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in

Nepal. There were no micro-credit development banks, finance companies, cooperatives and NGOs with limited banking transactions.

1.2 Nepalese Economy – Economic Development

Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is about 32.4 percent. Around 77 percent of the total population is engaged in the agriculture sector. 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 30.85 percent of the population is below the poverty line. Consequently, living standard of the people is worsening every year, though 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.

These are some current macroeconomic situation of Nepal.

1. The gross domestic product at producers' prices is estimated to register a growth of 4.7 percent in 2008/09 compared to a growth of 5.3 percent in 2007/08.
2. The agriculture sector is estimated to grow by 2.2 percent in 2008/09 compared to a growth of 4.7 percent in the previous year. The non-agriculture sector expanded by 4.8 percent in 2008/09 compared to a growth of 5.6 percent in the previous year. The long hours of load shedding, poor labor relations and supply disturbances were the major factors responsible for the sluggish performance of non-agriculture sector in 2008/09.
3. Although the trade deficit widened, the overall balance of payments (BOP) posted a surplus of Rs. 43.1 billion in the first ten months of 2008/09 compared to a surplus of Rs. 19.9 billion in the previous year.

4. Total imports increased by 25.4 percent in 2008/09 compared to a growth of 16.8 percent in the previous year.
5. Government revenue increased by 32.1 percent to Rs. 142.2 billion in 2008/09 compared to a growth of 22.7 percent in the previous year.
6. The government budget deficit expanded to Rs. 36.8 billion in 2008/09 from Rs. 33.4 billion in the previous year. In 2008/09, while the gross domestic financing of the budget deficit amounted to Rs. 18.4 billion, the external borrowing reached Rs. 10.4 billion.
7. Inflation rate was 7.7 percent in 2007/08

(Source: www.nrb.org.np)

Economic development is possible by participation of both private and public sectors. Private sector investors are found to be quite negligible mostly in developing countries. The small numbers of investors always try to invest only in those areas where there is higher rate of profit in the short term. But private investors of developing countries are not interested for creating infrastructures. Financial sectors are only responsible factor in the underdeveloped countries, where the base infrastructure for economic development has not been created. Financial sector may have direct and indirect impact on development. Expenditure on industry and commerce may directly aggregate the economic development. Indirectly, it can help in the economic development by its suitable policies and co-operation with private participants.

1.3 Importance of Financial Institutions

Financial 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. "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).

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resource and financial institutions have become much more significant than ever. Their activities for the poor can be considered as the major role-played by the endeavor toward poverty alleviation. In Nepal, there are several kinds of financial institutions such as Commercial Banks, Development Banks, Rural Development Banks, Finance Companies, Co-operatives involving in saving and credit activities etc. Most of the financial institutions are under regulation of Nepal Rastra Bank (NRB).

1.4 Emergence of Commercial Banks in the Economy

Before 1848 BC the Goldsmith used to store gold and other valuable goods of people 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, bill discounting, promissory notes, selling of other shares to general public, agency function of tasks, guarantee against any disable of payment (guarantee services).

1.5 Development of Banking System in Nepal

1.5.1 Indigenous Bank

The banking history of Nepal is not so old. It is assumed that the unrecognized lending and borrowing in the from of currency were dated back to Mandev. From the history we found that king Mandev started to use the currency called "Manaka" for exchange of goods. In 14^{th}

century King Jayasthiti Malla had classified the people into 64 classes on the basis of their occupations. Among those classes a class called "Tankadhari"was the owner of monetary transaction. They charged high rate of interest and extra dues on loan and advances. Because of this there were many inconveniences regarding monetary transaction.

In order to make it ease, Prime Minister "Ranodip Singh" had established "Tajarath Adda" was the first institutional Development of banking in Nepal. The main function of the Addha had to provide loan to general public and civil servant at 5 percent interest rate with keeping gold, silver and other valuable ornaments as security. Many branches were opened in different place named "Mal Adda" by Chandra Shamser. This Tejaratha Adda and district Mal Adda had acted as bank in Nepal during that Period.

And "Saue-Mahajan" charged higher interest rate. The main function of the Shaue-Mahajan, Shahukar, and Mukhiya was to provide loan to general public with higher interest rate, by keeping their land and other assets as security and they wrote a TAMSUKH for the securities too.

1.5.2 Modern Bank

The history of modern financial system in Nepal was begun in 1937 with the establishment of Nepal Bank Ltd. as the first commercial bank of Nepal. The bank was established to render services to the people and for the economic progress of the country. Prior to the establishment of NRB in 1956, the development of the financial system took a momentum. Realizing the importance of industrial development, HMG/N and NRB established the Nepal Industrial Development Corporation (NIDC) in 1959. The NRB created the Agricultural Credit Fund in 1959/60 and handed it over to HMG/N for the establishment of the Cooperative Bank in 1963. The second commercial Bank, the Rastriya Banijaya Bank was established in the public sector in 1996, with the equity participation of HMG/N and NRB. The Agriculture Development Bank (ADB/N) was set up in 1968 under the Agricultural Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank. HMG/N had established the Land Reform Saving Corporation in 1996 to make credit available to village communities and Land Reform Saving was merged with ADB/N in 1973.

A large number of non banking financial institutions were set up between 1962 to 1977. The legislation of the Commercial Bank Act, 1974 set out regulation for licensing, supervision, and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The growth of commercial banks in the last two decades remained phenomenal; particularly after the 1990 when financial sector reform process was followed aggressively.

1.5.3 Joint Venture Bank

"A joint venture, an association of two or more individuals or parties having exceptional advantages in a specific operation, is undertaken to make the operation highly remunerative with their collective efforts" (Gupta, 1984:15).A joint venture bank is an association of two or more person or parties under taken to make the operation highly efficiency with their collective efforts. This sort of financial institution, under the combined capital of person or between organizations is means to work for the development of industry, trade and commerce. Joint venture is the business contract of management effort between two persons, company or organization involving risk and benefit sharing.

In Nepal, history of joint venture bank (JVB) is not so old. Since commercial banks were not able to fulfill the growing public needs, and not able to change the economic condition of the people then it required more facilitated banking system. To change the whole economic sector, Nepal has adopted the policy of liberalization to develop the economic condition through the participation of private sector equally in the market on the area of industry, trade, business and banking. The government revised the Commercial Banking Act 1974 in 1984. JVBs are formed in Nepal as full-fledged commercial bank under the company Act.2021 and operated under the Banijya Bank Act 2032. Nepal government (HMG's) deliberated policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally running commercial banks, to enhance their banking capacity through competition efficiency, modernization, mechanization via computerization and prompt customer service.

It increased competition between commercial banks, to develop their working capacity and also to open foreign joint venture in Nepal. As per provision made in 2021Act, private sectors including foreign investors were given freedom in opening commercial banks. Then Nepal Arab Bank (Nabil Bank) was established in year 1984 A.D. as the first joint venture bank in Nepal under this Act. This was the first step of establishment of modern banking system in Nepal. This bank was established in collaboration with Emirates Bank International (Dubai). Subsequently following banks were established one by one. In 1986 Nepal Indosewz Bank (Nepal Investment Bank) and in 1987 Nepal Grindlays Bank (Standard Charted Bank) was established.

So, joint venture bank operating in Nepal have played important role in the economic development of the country. Besides they have also been creating competition for the local banks by making them alert to perform their operation smoothly.

1.6 Standard Chartered Bank Nepal Ltd.

Standard Chartered was formed in 1969 through a merger of two banks: They were originally known as the Standard Bank of British South Africa, founded in 1863, and the Chartered Bank of India, Australia and China, founded in 1853. From the early 1990s, Standard Chartered has focused on developing its strong franchises in Asia, Africa and the Middle East. It has concentrated on consumer, corporate and institutional banking and on the provision of treasury services - areas in which the Group had particular strength and expertise.

Standard Chartered Bank Nepal has been in operation in Nepal since 1987 standard chartered bank Nepal formerly know was Nepal Grindlays Bank limited name changed in July 2001. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75 percent in the company with 25 percent shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1600 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs around 70,000 people, representing over 125 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 17 points of representation, 21 ATMs across the country and with more than 375 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

Since 2000 the Bank has achieved several milestones with a number of strategic alliances and acquisitions, which have extended the customer and geographic reach and broadened the product range that Standard Chartered offers. Standard chartered bank Nepal limited focuses mainly on corporate and consumer banking catering to a wide range of customers from individuals, to mid market local corporate to multinational and large public sector comprise as well as embassies, aid agencies, airline, notes and government corporations. The bank has been the pioneer in introducing customer focused products and services in the country.

This program links staff to the overall objectives of the bank giving each employee a clean role to play in the strategic action plans of the organization. The bank has it's V-sat interlink overalls communication link which enables then to centralistic data processing in Kathmandu and has greatly improved local and international communication with the acquisition of the SCBNL group the bank have spent considerable efforts to change the system platform, both software and technology infrastructure.

1.6.1 Broad objectives and goals of SC Bank Nepal Ltd.

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

- **Vision**

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

- **Mission**

The mention of the bank states as "we at standard chartered bank, our goal is to achieve the highest standard of professionalism and service to create a lifelong relationship with our client by providing customized financial products and services through proactive management.

It further states "our multinational term of innovative and dynamic master minds match across the geographical and cultural dynamic with contemporary competitively designed and differentiated quality financial products and services to achieve strategic advantages in a dynamic environment."

Thus, the objective and goals set by the bank can be noted from above statement as follows:

1. To aim and achieve highest standard of profession link.
2. To aim and achieve highest standard of customized products and services to their clients.
3. To create lifelong relationship with their client.
4. To maintain management proactively.
5. To achieve strategic is advantages in the dynamic environment over their contemporary with their comparatively designed and differentiated quality financial products.

1.6.2 The Management

1.6.2.1 Board of Directors

There have been a few changes to the board of directors in the fiscal year 2007/08. The directors serving SC Bank Nepal ltd namely, Mr. Jaspal Bindra and Mr. Santanu Mitra were replaced by Mr. Anurag Adlakha and Mr. Sushen Jhingan as chosen by Standard Chartered Grindlays, Australia in February, 2008. Niranjan Kumar Twidewala completing the working period serving as the Director representing Public Shareholders handover his position to Mr. Arjun Bandhu Regmi in December, 2007 to provide the service for next 4 working years. The board members unanimously thank all the out joins directors for their valuable contribution to the successful operation of the bank and welcome the new directors to the board. Thus, there are 6 Board of Directors serving in SC Bank Nepal Ltd.

- Neeraj Swaroop ,Chairman
- Sujit Mundul ,Chief Executive Officer

- Anurag Adlakha , Director
- Sushen Jhingan, Director
- Ram Bahadur Aryal , Independent Director
- Arjun Bandhu Regmi ,Director representing Public Shareholder

1.6.2.2 Human Resource

The bank recognizes that the most important factor for the success of the bank is its people. Hence to keep its competition edge the bank rewards them and invests in them appropriately. To maintain its competitive edge the bank puts on training staff a great emphasis. To improve the skills and knowledge of staff, the bank continues to provide development programs.

With an aspiration to start and grow their career with an organization that strives to be a Great Place to Work in, a total of 89 new joiners started their journey with the Bank in this fiscal year. As compared to last year, our staff strength was 392 as of July 15, 2009 against 377 full time equivalent staff in July 15, 2008. The current mix of male and female ratio is 62:38.

The Bank recognizes the dedication, commitment and engagement of its people for its success and hence making it a Great Place to Work. Celebrating this at a function organized by the Bank staff members was honored for their dedicated 5, 10, 15 and 20 years of service to the Bank

1.6.3 Branch ,Head offices and Extension Counters of SC Bank Nepal Ltd

SC Bank Nepal Ltd is operating from their 12 branches and 4 Extension Counters located at various locations in the country. Name of the Branch Office, their locations are as given below:

1. Bhairahawa

PO Box 14, Budha Chowk Colony
Burmeli Tole, Bhairahawa, Siddhartha Nagar
977-71-524029, 524429,Fax. 977-71-524039

2. Biratnagar

PO Box 201, Hanumandas Road
Biratnagar - 8, Nepal
Tel. 977-21-528983, Fax. 977-21-528982

3. Butwal

Milan Chowk

Butwal, Municipality - 11

Rupandehi, Nepal

Tel. 977-71-546832, Fax. 977-71-546882

4. Dharan

Panna Kamala Complex

Ward No 7/100Ka, Buddha Marga

Dharan - 7 Sunsari, Nepal

Tel. 977-25-520505, 530980,

Fax. 977-25-530981

5. Head Office

P.O.Box 3990

Naya Baneshwar, Kathmandu, Nepal

Tel. 977-1-4782333, 4783753

Fax. 977-1- 4780762

6. Hetauda

Bank Road, Hetauda - 4

Makwanpur, Nepal

Tel. 977-57-523019, 524972

7. Lalitpur

PO Box 3990

Jawalakhel, Lalitpur, Nepal

Tel. 977-1-5540544, 5540566

Fax. 977-1-5523266

8. Lazimpat

PO Box 3990

Lazimpat, Kathmandu, Nepal

Tel. 977-1-4418456 , 4417428

Fax. 977-1- 4417428

9. Nepalgunj

Surkhet Raod, Ward No 13

Nepalgunj Banke, Nepal

Tel. 977-81-525514, 520022

Fax. 977-81-525515

10. Pokhara, Lakeside

PO Box 08

Lakeside Baidam

Pokhara, Nepal

Tel. 977-61-462102, 462805, 461746

Fax. 977-61-462318

11. Pokhara, New Road

P.O.Box 08

New Road, Pokhara, Nepal

Tel. 977-61-536230

Fax. 977-61- 531761

12. Birgunj

Adarsha Nagar-13,

Birgunj Nepal

Tel. 977-51-529499, Fax. 977-51-529677

13. Narayangarh

Lion's Chowk, Ward-4

Narayangarh,Bharatpur

Tel. 977-56-571277 , Fax. 977-56-571279

Extension Counters

UN Counter – Lalitpur

BP Koirala Medical College – Dharan

British Gurkhas PPO – Pokhara, Manipal Counter – Pokhara

(Source: Annual Report 2008/09)

1.6.4 ATM Location

Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network by representing 21 ATMS across the country. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. The ATM sites are as follows.

ATMs	Location Details

ATM- Maharajgunj, Kathmandu	Opposite U.S.Embassy, Kathmandu
ATM-Boudha, Kathmandu	Near main entrance gate of Boudhanath stupa, Kathmandu
ATM-Kamaladi, Kathmandu	Kashtamandap Departmental Store, Kamaladi, Kathmandu
ATM-Naya, ;Baneshwor,Ktm	Standard Chartered Bank Nepal Ltd.Naya Baneshwor, Kathmandu
ATM-New Road, Kathmandu	Shop # 88, Opposite Hotel Classic, Bishal Bazar, New Road ,Ktm.
ATM-World Trade Center, Ktm.	United World Trade Center, Tripureshwor, Kathmandu
ATM-Thamel, Kathmandu	Kathmandu Arcadia Building, Near Yin Yang Restaurant, Thamel, Ktm
ATM-Thamel, Kathmandu	Kathmandu Guest House, Thamel, Kathmandu
ATM-Lazimpat, Kathmandu	Standard Chartered Bank Nepal Ltd. Lazimpat, Kathmandu
ATM-Jawalakhel, Lalitpur	Standard Chartered Bank Nepal Ltd. Jawalakhel, Lalitpur
ATM-Pulchowk, Lalitpur	Standard Chartered Bank Nepal Limited,Near UNDP Complex,Lalitpur
ATM-Mangal Bazar	Patan, Lalitpur
ATM-BPKIHS, Dharan	BP Koirala Institute of Health Science, Dharan
ATM-Lakeside, Pokhara	Hotel Snowland, Lakeside Pokhara
ATM-New Road, Pokhara Branch	Pokhara, Nepal
ATM-Lakeside, Pokhara	Standard Chartered Bank Nepal Ltd. Pokhara,
ATM-Bhairahawa	Hotel Pawan Building Bhairahawa,
ATM-Itahari	Bhu Pu Gorkha Departmental Store, Dharan Biratnagar Road Itahari 1, Sunsa
ATM-Narayanghat branch	Standard Chartered Bank Nepal Limited, Narayangarh

1.6.5 General activities of SC Bank Nepal Ltd.

Every business concern has an objective of profit making likewise commercial banks also has same objective of making profit. SC Bank as a commercial bank performs various activities to achieve the objective and give sufficient return to stake holders. SC Bank being commercial banks and also a business concern performs various kind profitable business activities. The general activities of SC Bank Nepal Ltd. are listed below.

General Activities (Main Products Services)

Consumer Bank

i. Account in local & foreign currency

ii. Fund transfer services-local & international

iii. Credit cord services-issuance & Acceptance

iv. 24 hours ATM service

v. Safe deposit lockers

vi. Foreign exchange services

vii. Consumer finance-auto loan personal loans, home loan

viii. X-tra banking-365 days banking from Kantipath branch

Corporate & Institutional bank

i. Trade finance

ii. Bonding

iii. Commercial lending (working capital)

iv. Term lending

v. Debt syndication

vi. Electronic banking

vii. Cash management

Account holder from any branch of the bank around the country can avail its services for

i. Account opening

ii. Cheque withdrawal

iii. Cheque cash deposit

iv. Traveler cheque issuance & encashment

v. Cheque books statement order/delivery

vi. Draft issuance

vii. Foreign currency exchange

The product & services by the Nepal Rastra Bank (NRB) the central bank of Nepal.

1.6.6 Consumer Banking of SC Bank Nepal Ltd.

Consumer Banking priorities continue to be customer centric product innovation, service excellence, investment for the future and appropriate risk based pricing.

During FY 2008/09, despite a number of challenges posed by the political conundrum, coupled with sporadic shortage of fuel and acute load shedding, Consumer Banking fared pretty well in growing both quality assets and deposits.

SC Bank launched SME business with a focus to develop both asset and liability business in this segment, which is heading in the right direction.

In line with our commitment to expand at the right time and in the right place, we opened two more branches- one each in Narayangarh and Birgunj. With these two additional branches, our branch network has now reached seventeen.

Similarly for the ease of transactions, SC Bank installed four more ATMs- one each in Lazimpat, Naya Baneshwar, Narayangarh and Itahari. With these four additional ATMs, our total ATM network has now reached twenty one.

Our commitment to Treating Customers Fairly and our policies on Mis-selling and Mis-representation remain core to our values. In order to simplify banking we are aggressively educating our customer base for Online Banking which was launched last year and is now gaining momentum.

In order to enhance the plastic money culture in the country, our suite of plastic money– Rupee and USD Credit Card, Prepaid Rupee and USD Card and Proprietary ATM Cards have provided alternatives to Travellers Cheques and Cash.

The `Voice of Customer' survey is an integral tool to gauge the level of satisfaction of our customers. The Mystery Shopping Concept that we conducted gave us significant insight into our business and customers' perception. Further, our strategy to take direct feedback from customers on a regular basis has also helped us in enhancing the value to our customers. This is an ongoing journey and it is our commitment that we will continue to add value to our customers.

We have developed a system whereby each customer's complaint/feedback gets captured and responses / resolution to each of these issues are provided within an agreed timeline. In line with the customers' feedback and our aspiration to extend footprints in the right places, we have plans to open two more branches in the year 2009/10.

1.6.7 Community Work/Award Recognition/Achievements of SC Bank Nepal

1.6.7.1 Community Work

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values. The Bank believes in delivering shareholder value in a socially, ethically an environmentally responsible manner. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organizations involving charitable community activities The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign- 'Living with HIV/AIDS' where staff participated selling goods produced at rehabilitation center, also workshop for customer and 'Seeing is Believing' where staff participated in the eye camp and SC Bank sponsored 70 cataract operations. (Source: Annual report 2008/09)

1.6.7.2 Award Recognition/Achievements of SC Bank Nepal Ltd

- ❖ April 2002 - **Commercially Important Person (CIP)** awarded by His Majesty's Government the Ministry of Finance
- ❖ April 2002- **National Excellence Award 2002"** for significant achievement in customers satisfaction and relationship" awarded by Federation of Nepalese Chamber of Commerce & Industry (FNCCI)
- ❖ September 2002 **"Bank of the Year 2002 Nepal"** by 'The Banker' of the Financial Times.
- ❖ December 2003 - **The Best Company, Financial Institutions** from Top 10 awards for Business Excellence awarded by 'The BOSS'
- ❖ July 2004 - Award for the **Best Presented Accounts** in the Financial Institutions Category in Nepal for the Year 2002-2003 and 2002-2001awarded by Institute of Chartered Accountants of Nepal (ICAN).
- ❖ March 2005 - **Best Commercial Bank for the year 2003-2004**, awarded by The Boss Magazine- Speciality Media Private Limited.
- ❖ April 2005 **-FNCCI National Excellence Award 2003-2004** awarded by The Federation of Nepalese Chambers of Commerce & Industry (FNCCI)

- April 2005 -**A Citation for Outstanding Performance** amongst all the commercial Banks, awarded by Nepal Rastra Bank on the occasion of its Golden Jubilee celebration
- March 2006 - **Manager of the Year Award** - awarded by Management Association of Nepal (MAN) on the occasion of their Silver Jubilee Program
- March 2006- **'Best Commercial Bank 2004-05'**- awarded by The Boss Magazine-Speciality Media Private Limited

1.6.8 Future plans of Standard Chartered Bank Nepal Ltd.

It has intended to add two more branches in the year 2009/2010. Its focus will continue to be in improvising on its existing products with focus on quality, customer service and returns for its stakeholders. Despite a challenging environment from the Bank’s perspective - future holds opportunities. However, the bank will approach these opportunities with concern. Wholesale Bank will stick to its strategy of becoming the core bank to the existing clients by further deepening the relationships – offering new products and innovative solutions. It also intends to develop new relationships – though on a selective basis. Its differential capabilities stemming from the Group expertise vis-à-vis other players in the market enable the bank to anticipate and respond to the extraordinary changes that may take place in the future.

The bank is making continuous efforts to better its revenue streams through innovation as well as by introducing products which provide value added financial solutions to its customers. Its prime objective is to provide safety to its loyal depositor base by maintaining a healthy net-worth and liquidity position. As a Bank, it is resilient with a good appetite for acceptable risks as it has a strong balance sheet joined with the expertise in striking a proper balance between risks and growth. The bank will combine our global capability, deep local knowledge and creativity to outperform the competition.

In line with our brand promise to be The Right Partner, the bank will continue to invest in its people, processes and systems so as to improve the quality of service for customer delight. For its communities the bank will endeavor to make a real difference. It will consciously drive and maintain high level of governance. For its shareholders it will strive to continue providing them with superior returns. (Source: Annual Report 2008/09)

1.6.9 Product and Services Provided by SC Bank Nepal Ltd.

SC Bank Nepal Ltd has been introducing many products. To illustrate, the bank has implemented up till the following products now.

1) Credit Card
2) Tele Banking
3) Any Branch banking system
4) Automatic teller Machine (ATM)
5) E-Banking
6) Deposit
7) Loan and advance
8) Bill Purchase
9) Bank Guarantee
10) Remittance

1.6.10 Dividend Bonus Condition of SC Bank Nepal Ltd.

The 253rd meeting of the Board of Directors of the Bank has proposed dividend to the shareholders of the Bank for the year ended 15 July 2009 at the rate of 50% in cash and issue of bonus share of one for each two shares held.

1.6.11 Significant Accounting Policies of SC Bank Nepal Ltd.

i. Basis of Preparation

The financial statements are prepared on the historical cost basis. The preparation of the financial statements in conformity with Nepal Accounting Standard Board (NAS) and generally accepted accounting principles requires the use of certain critical accounting estimates. It also requires the management to exercise judgment in the process of applying the Bank's accounting policies.

ii. Interest Income

Interest income on loans and Nepal Rastra Bank recognized advance on cash basis as per the directive issued. Interest income on investments is recognized on accrual basis.

iii. Commission Income

Income from export bills purchased is accounted for under commission income on account basis. Commission Income exceeding Rs. 1, 00,000 earned on guarantees covering more than a year is accounted for on accrual basis over the period of the guarantee.

iv. Loans and Advances, Overdraft and Bills Purchased

Loans and advances, overdrafts and bills purchased include direct finance provided to the customers such as bank overdrafts, credit card, term loans, hire purchase finance and loans given to priority and deprived sectors. All loans are subject to regular review and are graded according to the level of credit risk and classified as per the Central Bank's Directives, Loans and advances, overdraft and bills purchased are net of loan loss provisions.

v. Interest Expense

Interest on deposit liabilities and borrowing from other banks are accounted for on accrual basis.

Vi. Foreign Exchange Transactions

Assets and liabilities denominated in foreign currencies are translated at mid-point exchange rates ruling at the Balance Sheet date. Income realized from the difference between buying and selling rates of foreign currencies is accounted for as trading gains on foreign exchange.

Net translation differences arising from the translation of foreign currency assets and liabilities is accounted for as revaluation gain. In conformity with the Directives of the Central Bank, 25% of the total revaluation gain amounting is transferred to Exchange Fluctuation Reserve by debit to Profit and Loss Appropriation Account.

vii. Staff Loans

Loans and advances to staff are granted in accordance with the staff loan scheme are reflected under other assets.

viii. Loan Loss Provision

Provision for possible losses has been made to cover doubtful loans and advances, overdraft and bills purchased. The level of loan provision is determined from 1% to 100% on the basis of classification of loans and advances, overdrafts and bills purchased in accordance with the directives of the Central Bank. Further, additional provisions for possible losses have been made as per the directives issued by Central Bank for the blacklisted/restructured customers.

ix. Investments

Investments in Treasury Bills, Government of Nepal Development Bonds are those, which the Bank has purchased with the positive intent and ability to hold until maturity. Such securities are recorded at cost or at cost adjusted for amortization of premiums or discounts.

x. Fixed Assets

Premises, equipment, furniture and fixtures and vehicles are carried at cost less depreciation.

xi. Non-capitalized Assets

Vehicles, equipment, furniture's and fixtures with a unit value of Rs. 400,000/- are amortized over a period of thirty-six months from the month of purchase.

xii. Depreciation

Assets other than freehold land are depreciated at rates based upon their expected useful lives, using the straight line method.

xiii. Software Costs

Software applications purchased by the bank, costing greater than Rs. 40,000,000/- are amortized over a period of thirty-six months from the month of purchase.

xiv. Retirement Benefits

The Bank has schemes of retirement benefits namely Gratuity and Provident Fund. Provision for Gratuity and Provident Fund is made on accrual basis. Contributions to Approved Retirement Fund are made on a regular basis as per the Retirement Fund rules and regulations.

xv. Stationery

Stationery purchased for internal consumption is expended at the time of purchase.

xvi. Provision for Taxation

Provision for taxation has been made based on the prevailing Income Tax Act, 2058 and amendments thereto from time to time.

vii. Rounding off/previous year figures

financial statements are presented in Nepalese Rupees, rounded off to the nearest rupee. Where necessary, amounts shown for the previous year have been reclassified to facilitate comparison.

1.6.12 Function of SC Bank Nepal Ltd.

Commercial banks have different functions like accepting deposits, capital formation, granting loans, remittance, foreign exchanges. 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, HMG loan and guarantees including cash credit. With respect to non financing activities, the bank issue guarantees (besides providing forward covering, foreign exchange transactions).

1.6.13 Departmental Structure of SC Bank Nepal Ltd.

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

1) Cash Department
2) Deposits department
3) Accounts department
4) Credit department
5) Bills, Clearing and Collection Department
6) System Department
7) Remittance Department
8) Share Department
9) Forex and Treasury Department
10) LC, GTE Department
11) Research and Development department
12) Loan department etc.

1.7 Statement of the Problems

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In Nepal, the industrialization is still in its infancy that the concept of profit planning has not even been familiar in most of the business concerns including commercial banks. Commercial banks play vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. Commercial banks' major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest spread, which also can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form burden to contribution margin, the banks are attempting to compensate by other income generated out of non-fund based business activities of the bank.

This study has tried to analyze and examine the PPC side of commercial bank taking a case of Standard Chartered Bank Nepal Ltd. The study seeks answer of the following research questions.

1. Does Standard Chartered Bank Nepal Ltd has appropriate profit planning system?
2. What is the budgeting approach of Standard Chartered Bank?
3. Does the bank mobilize the deposit and other resources at optimal cost?
4. What is the trend of over all performance of Standard Chartered Bank?

1.8 Objective of the Study

The basic objective of this study is to appraise in the application of comprehensive PPC system in Standard Chartered Bank Nepal Ltd. Thus the major objectives are as follows:-

1. To focus the current profit planning system of, and it's effectiveness in Standard Chartered Bank.
2. To analyze the variance of budgeted and actual achievements.
3. To study the growth of the business of the bank over the period.
4. To provide suggestion and recommendations for improvements of the overall profitability of the bank.

1.9 Significance of the Study

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

1.10 Limitations of the Study

Every research has certain boundary since the world is dynamic therefore this study also is not an exception. The limitations tried to be eliminated to the best possible extent, yet it suffers from the following limitations:

1. The study made on the profit planning of Standard Chartered Bank.
2. The profit planning of SC Bank Ltd. has been analyzed, leaving other areas uncovered.
3. The study cover the period of five years from F/Y 2004-05 to 2008-09 only.
4. Primary data is collected only from the informal discussion with the personnel of the Bank.
5. The accuracy of this study is based on the data available from the management of Standard Chartered Bank, the various published documents of the Bank and the response made by the respondent during the informal discussion**.**

1.11 Organization of the Study:

The whole study is divided into five chapters, which includes:

Chapter I – Introduction

Chapter II – Review of Literature

Chapter III – Research Methodology

Chapter IV – Data Presentation & Analysis

Chapter V – Summary, Conclusion & Recommendation

Chapter I – Introduction:

The first chapter deals with introduction. This includes introduction, Nepalese Economy-Economic Development, Importance of Financial institutions, Emergence of commercial Banks in the Economy, Development of Banking System in Nepal , Standard Chartered Bank Nepal Ltd, Profile of Standard Charter Bank, Statement of Problems, Objectives of the Study, Significance of the Study, Limitations of the study, Organization of the Study.

Chapter II – Review of Literature:

Second chapter deals with the review of available literature. It includes review of books, reports, journals, previous unpublished thesis related websites etc.

Chapter III – Research Methodology:

Third chapter explains the research methodology used in the study, which includes research design, resource of data, population and samples, methods of data analysis.

Chapter IV – Data Presentation & Analysis:

This chapter is one of the main chapters of this study. It includes almost data and graphs are interpreted in such a way, so that the objective of the study can be achieved and lastly major finding of the study.

Chapter V – Summary, Conclusion & Recommendation:

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestions for further improvement and conclusion of the study.

A bibliography and appendices have been included at the end of the study.

CHAPTER-TWO

REVIEW OF LITERATURE

2.1 Introduction

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

2.2. Commercial Bank as a Concept

The bank is a place where people keep money for safe keeping as well as for earning some interest or the place from where people borrow the money as loan. Meaning of Bank in oxford dictionary says "an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheques". (Hornby, 1992).The random House Dictionary of an English Language defines the bank as " an institution for receiving money and in some cases issuing notes and translating other financial business".

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

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

The commercial bank Act 2031, under which commercial bank in Nepal are established and operated has 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". (Commercial Bank Act 2031)

The Act has defined the commercial bank on the basis of its objective and activities are as follows:

i. Should accept customer deposit
ii. Should advance loans and make investments

iii. Perform commercial transactions

iv. Should be established with a specified objective of corporative, agriculture, industrial and such kind of specific purpose.

The major functions of commercial banks are as follows:

i. Accepting various types of deposits

ii. Lending money in various sectors

iii. Letter of Credit

iv. Bank Guarantee

v. Remittance

vi. Bills

vii. 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 we can bring to a close that a commercial bank is set up to collect spread funds and employ them to creative sector.

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

2.2.1 Evaluation of Commercial Bank

The Latin word "Bancus", Italian 'Banca', French 'Banque' are the original form of the modern bank. According to some authors the word 'Bank ' is derived from all of above words the meaning of all words to a bench. This refers that early bankers transact their money lending activities on benches in the market exhibiting the cons of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word ' Banc' meaning joint stock fund. (Varshney, 1993:145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term "bankruptcy" is derived thereof.

Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 A.D. The famous temples of Ephesus, Delphi and Olympia were used as depositors for peoples surplus fund and these temples were the centers for money lending transaction .The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D m was the first public banking institution. Following this, in 14th century, the bank of Barcelona and bank of Genoa were established in 1401 A.D. *(www.bankinginnepal.com)*

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

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

In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the Ramayan and Mahabharata eras, banking had become a full-fledged business activity and during the smiriti period (after the Vedic period), the business of Banking was carried on by the members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Baishyash. The bankers in the Smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave arises and banker to the state and issuing and managing the currency of the country (Vaish, 1996;183).

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

Although during the Prime Minister-ship of Rana Prime Minister Ranadwip Singh an office called "Tejarath Adda" was established for granting loans to government officials and also to the general public against the security of gold, silver and other valuables, it could not be considered as Bank in real sense as it did not collect deposit. Later after establishment of Nepal Bank, the functions of „Tejarath Adda' were limited up to providing loans to government officials o only (NRB Report, 2045; 12).

Banking development in Nepal found another break after the establishment of Nepal Rastra Bank, the Central Bank of Nepal in 2013 B.S. (NRB, 2045:14). This has helped organizing the monetary system in the country before which the duel currency system (Indian and Nepalese currency) was prevailing in the system. Larger sector of economy was none monetized.

In the course of organized development of banking sector, second commercial bank, Rastriya Banijya Bank was established in 2022 B.S. at the state ownership (NRB Report, 2045;16).

Later on, in FY 2039/40, the policy for allowing establishment of foreign joint venture banks was taken with an aim of having fair competition and skill development in banking sector, which had added a new dimension in development of banking in Nepal. Accordingly, Nepal Arab Bank Ltd. (presently renamed as Nabil Bank) has been established as the first joint venture bank in Nepal in 2041 B.S. (NRB Report, 2045;17).

Afterward, various commercial banks were opened with foreign joint venture under private sectors in Nepal which had contributed a lot to bring the commercial banking at present day position.

2.2.2 Activities of 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. (Commercial Bank Act, 2031).

"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". (Gulshan & Gulshan 1996; 275)

Similarly, according to sir John pager's " No person or body corporate or otherwise, can be a banker who doesn't; (i) take deposit accounts, (ii) take current account, (iii) issue and pay cheques drawn on himself and (iv) collect cheques for his customer" (Gulshan and Gulshan, 1994: 107).

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 but also generating income activities has been added as in time span like remittance services, land development and ousting projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided in to two parts are as follows:

1. Mobilization of Resources

2. Deployment of Resources

2.2.2.1 Mobilization of Resources

Sustainable economic growth requires intermediary channels for efficient allocation of resources. 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 funds. Internal means owners fund and external means borrowed fund.

A. Internal Fund or Capital Fund:

Internal fund of the bank is capital fund, which consists paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions.

A commercial bank must have paid up capital of Rs 200 caror in order to establish as a national level commercial bank. Further the NRB has also prescribed the capital adequacy norms to be of at least 12 %. Likewise the commercial banking act 2031 has made a mandatory provision for every commercial bank to build the general reserve out of the allocation of at least 20 % of net profit amount each year until the amount becomes double the paid up capital.

The 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.

B. Customer Deposits

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

The total deposit of a bank is composed of demand and time deposits. The demand deposits are most volatile and can be withdrawn at any time by their depositors subject to the general rules of banks governing these deposits. Generally, no interests are paid in to these accounts.

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

The time deposits consisting fixed deposit and partly of saving deposit are called so because these can be withdrawn only after the expiry of the stipulated period for which these have been made. Banks offer interest on these accounts varying the duration of deposit maturities. Time deposits are kept generally by individuals, educational institutions, charitable trusts and others having surplus fund for future saving and earning some regular return on it.

The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031, as the bank account having money which is deposited for the purpose of saving (Commercial Bank Act, 2031). Banks generally impose certain restrictions on withdrawal from such accounts. Fixed deposit account is opened by the bank, in none of the depositors keeping fixed deposits. Amount in such accounts are called time liabilities of the bank because the money is payable on the expiry of a fixed period of time which the depositors choose as per his convenience.

The commercial banking act 2031 defines fixed deposit account as the "bank account which is having money in it for an specific period of time."

C. Other Liabilities

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

2.2.2.2 Development of Resources

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

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

Thus for banker, deployment of the available resources is a challenging job, because liquidity and profitability are the opposing consideration of each other. M.C Vaish in his book money banking trade and public finance's has rightly said " the secret of successful banking consists in allocating the resources between various forms of competing assets in such a way that a proper balance is stuck between the opposing consideration of liquidity and profitability. The sound balance will be achieved when the bank has sufficient (and no more than sufficient) cash in hand to meet every claim that is or likely to be made by its depositors on it and at the same time it earns enough income to pave its way and earns profit for its shareholders" (Vaish, 1996: 119).

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

A. Assets Portfolio for Liquidity

Liquidity in a bank means its capacity to convert its deposit liabilities in to cash. A major portion of a bank's resources constitute customer deposit which are subject to repayable on demand or after some time as the case may be, a banker cannot offered to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank keeps adequate amount of liquid asset in the form of cash in their vault and balance at their account in central bank (NRB). As said earlier, maintenance of excess liquid assets that required is detrimental to the profitability objective of the bank as the idle cash gives no return rather it involves the cost of carrying (insurance cost, guarantee cost etc.). The central bank fixes the mandatory cash reserve ratio (CRR) from time to time current CRR fixed by NRB for commercial banks is as below:

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

B. Investments

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

C. Loans, Overdrafts and Discounts (LDO):

Banking business essentially involves lending in fact the deposits are accepted for lending or investment. This is the most profitable activity of a commercial bank. Banks being a business proposition it must declare handsome dividends to its shareholders unless the profit outlook of a bank is bright, new funds will be difficult to obtain (Vaish, 1996: 201).

Commercial banks generally tend 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 selection the borrowers. Generally banks lending is guided by their lending policies. General, principal of a sound lending policy of a bank are as follows (Gulsham & Gulshan, 1994: 179).

a. **Safety:** Bank's lending should be secured by way of tangible securities and / or personal security(guarantee) of the borrower.

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

c. **Profitability:** The major income of a bank comes from the difference in interest earned from the borrower and interest paid to the depositors. Which is termed as 'spread' the interest rate of lending depends upon the purpose of advance and the risk involved greater the risk involved higher will be the rate of interest charged.

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

Generally, banks make their advanced in the forms of loans, overdrafts, cash credits and bills discounting.

In loan discount, the entire amount is disbursed to the borrower which is repayable in installment or in lump sum and expiry of loans. Interest is charged on the entire loan disbursed to the borrower. This types of loan may be pledge loan, demand loan, hire purchase, import finance (transit loans), export Finance (packing credit), loan against shares etc.

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

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

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

D. Concept of Spread

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

Deployment of resources in income generating assets (loans & investments) is the income yielding activities of the banks. Higher the proportion of loan and advances in the asset portfolio, higher will be the yield on fund. As the interest income is the major contributor income of a bank, the banker should be careful in realization of interest and enhance the profitability. The difference of interest earned from lending and interest expenses incurred in deposit is called the spread. In other words, spread is the net income of the bank from which banks have to meet their other operational costs and give out the dividends to the shareholders. Therefore, Banker attempt to maintain higher spread by minimizing the average cost of deposit and maximizing the average yield on funds. But as per the current regulatory provision of NRB, the interest spread of a Bank can be maximum by 5% only (BOD, NRB, 2002).

E. Loan Loss Provision

The central bank (NRB) has made a mandatory provision for the entire bank to classify their outstanding LABP the basis of aging into four grades viz. Pass loan, substandard, doubtful, and loss (BOD NRB 2002). The loans falling under the respective grades are identified on the basis of the overdue position from the date of maturity of the loan and the amount shall have to be allocated from net income in order to provided for against the loan loss at various rates (From 1% to 100% of loan amount depending on the grade in which a particular loan Accent falls). Such allocated amount is called loan loss provision amount and is treated as the expense items Therefore, in order to improve the profitability the bankers should be move attentive toward timely realization of dues so that the amount of loan provision may be maintained at the least possible extent.

F. Other Income Generating Activities of the Bank

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

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

G. Concept of Burden

During the establishment and operation of a bank, it has to incur various kinds of expenses. Besides the expenses are employees expense, administrative expenses, depreciation on fixed assets, other operating expenses, expenses for loan loss provision, interest suspense expenses, employees bonus expands, expenses for income tax provision etc. all such expenses other than interest expenses cumulatively form a burden to profitability. The speed earned by the bank must be at least enough to meet the burden in order to break even. However the other income (income other than interest income) earned by the bank from their other activities besides fund lending contributes to lowering the burden there by increasing the profitability of the bank. Therefore the net burden (other expense less other income) has been termed as burden.

2.2.3 Role of Commercial Banks in the Development of Economy

Commercial Banks play an important role in facilitating the affairs of the economy in various ways. The operations of commercial Banks record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country. Commercial Banks have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and trade in the country. By encouraging thrift among the people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposits thus help bringing the scattered resources into the organized banking sector which can be allocated to the different economic activities. In his way they help in country's capital assets formation. Through their advances, banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds to the public sector, joint sector or private sector for any type of organization. All employment income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance (Vaish, 1996;265).

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

2.2.4 Impact of National and Internal situation on commercial bank:

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, RNAC, 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 & 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 per cent. 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 January 1 2006, and Bay of Bengal initiative for Multi- Sectorial Technical and Economic Cooperation (BIMSTEC). Nepal’s recent entry to SAFTA and BBIMSTEC 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.nibl.com.np)*

2.3 Profit Planning as a Concept

A profit planning and control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities, ensure a degree of understanding not otherwise understanding of responsibilities, and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, fouls on assigned responsibilities likewise enhance the degree of communication essential to sound management (Welsch, 2001:215).

"Profit planning is an example of short range planning . This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245)

"Profit Plan is an estimation and pre-determination or revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirement. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss". (Ninemeire & Schmidgall, 1984).

"Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent is a tool which may be used by the management in planning the future course of actions and controlling the actual performance." (Gupta, 1992:521)

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

Comprehensive profit plan is viewed as a process designed to help management effectively perform significant phases of the planning and control function. The profit planning model involves

1. Development and application of board and long rung objectives of the enterprise.
2. Specification of enterprise goals.
3. Development of a strategic long profit plan in board terms.

4. Specification of a tactical short range profit plan detailed by assigned responsibility.
5. Developing a system of periodic performance reports details by assigned responsibility and follow up procedures.

Profit planning and control has been regarded as comprehensive technique. It can be applied both in profit making and non profit making enterprises as well as both manufacturing and nom manufacturing enterprises. It is a new term in business literature but not a new concept. It has adopted all the aspect of scientific management. We know management means co-ordination of human efforts for accomplish of organizational goals.

Profit planning system is especially familiar to business organization, but the practically of it depends upon the size of the business. The common objective of PPC system whether applied to business administration is to formulate policy as well as with the implementation of policy and ad objective established after the consideration of the probable course of events in the future.

Glenn A. Welsh Summarizes the concept of profit planning as, "the profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals"

2.4 Components of Profit Planning and Control

2.4.1 Profit

2.4.1.1 Meaning and Concept of Profit

Profit is a reward for any organization. In simply sense profit is a surplus over the expenditure for any kind of business firm. Business and non business organization both has a peculiar objective and goal. To achieve such objective of the firm, business organization should run successfully and to run a business successfully these business organization need some profit. Without profit these organization cannot run for a long period. Profit measure a success of any business and if the business is in profit it can easily acquire any type of loan and capital to expand its business. So profit is the very important aspect for any business organization.

According to accounting concept, Profit is the residual of sales revenue mines accounting cost of doing business." Profit in the accounting sense tends to become a long term objective, which measures not only the success of a product but also of the development of the market for it". (Kulkarni; 1981)

Profit is excess income over expenditure. Profit is a basic element of profit planning and control. There is no meaning of profit planning and control with out profit. Every profit oriented business concerns involves to profit generating activities. "Oxford dictionary defines profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amount spent. Like wise, advantage or benefits gained from something is called profit "(Hornby & Cowie -1992:63).

The successes and failure of business entity is measured by profit earned by them in certain period of time. The major concern of stack holder is profit so organization always wants to maximization of profit. Performance of management of organization is measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

2.4.1.2 Long term and Short term Profit Planning

Strategic profit plan and tactical sales plan is known as long term short term profit planning. Strategic sales plan is prepared for five to ten years. It is wide and universal in nature and developed by year and amount.

"The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and encompasses one year time horizon the up coming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and ideally a high level of management participation "(Welsch, Hilton & Gordon 2006:173) While preparing the strategic profit plan state of economy , political stability, population study etc are keep in considerations. Like wise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter, half year and a year.

2.4.2 Planning

2.4.2.1 Meaning and Concept of Planning

Planning is management responsibility not an accounting function. To plan is to secede advance and only the manager has the authority to choose the direction the company is to take. Accounting personnel are nevertheless deeply involved in the planning process. (The new encyclopedia Britannica, Volume-13:6)

Planning is a task is performed in advance of taking decisions. It means deciding in advance what is to be done in future. Planning started from forecasting and determining strategies. It is the first essence of management and all other functions are performed within the framework of planning. Planning is the base of foundation of profit plans. (Reginald and Gerge 1978;13)

Planning is the basis foundation of PPC. We should be clear in the concept of planning "According to Oxford Dictionary planning means.

- (To do something) arrangement for doing or using something, considered or workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme.
- Go according to plan." (Hornby, 1992:21)

Planning is the process of deciding in advance what is to be done in future. So, it is a future oriented concept. According to I.M Panday "planning is the feed forward process to reduce uncertainty about the future. The planning process is based on conviction that management can plan its activities and action of the enterprise that determine its destiny".

Planning is the process of developing enterprises objectives and selecting future course of action to accomplish them. It includes (Welsch, 1992;127).

1. Establishing enterprises objectives,
2. Developing premises about the environment in which they are to be accomplished,
3. Decision making,
4. Initiating necessary activities to translate plans in to action, and
5. Evaluating performance feedback to current re-planning and current deficiencies.

Planning is an intellectual process, rational way, systematic way, goal oriented task primary function of management and it provides all managerial activities and it is directed toward efficiency.

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished " (Welsch, Hilton, Gordon, 2006:45) Arrangement for doing or using something considered or worked out in advance is planning." Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny" (Pandey, 1991:325)

In planning the manage fixes the objective of the organization as a whole and in the light of thus the goal of the various department of the organization. Then he proceeds to prepare a kind of blue print mapping out way of attaining these objectives naturally then all other functions of the manager depend up on planning" (Bhusan 1976)

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

a) Planning is an intellectual process.
b) Planning is a goal-oriented task
c) Planning is a primary function of management
d) Planning pervades all management activities
e) Planning is desired towards efficiency.

2.4.2.2 Long term and Short term Planning

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

2.4.2.3 Corporate Planning

The concept of corporate planning was first introduced and started in the United State in the late 1950's and nowadays it has been using in several companies in all over the world. The premises of the corporate planning are as follows (Robertson, 1968;245).

1. Before drawing up a plan which is designed to decide some thing what the corporation wants to do.
2. In these days of rapid change it is necessary to look ahead as for as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments treat it as a corporate whole, and
4. Take full accounts of the company's environment before drawing up and plan.

Long Term Planning is included in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objectives of corporate planning are as follows:

i. Achieving objectives
ii. Embodiment of goals and objectives in the enterprises.
iii. Formulating realistic and attainable objectives.
iv. Clarity and adequacy of goals and objectives.
v. Communication of goals and objectives.
vi. Involvement of personnel in developing the goals of the enterprises.

2.4.3 Forecasting

Forecasting is the statement of expected future condition and perquisite and depends upon selected assumption. If assumptions are plausible the forecast has better change of being useful. Forecast is predication or estimate of the change. It is special tools of planning necessary for making decision that are economically.

A forecast is not plan; rather it is a statement and or a quantified assessment of future condition about a particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon when it is based. The management of a company may accept, modify or reject the forecast. (Lynch &Williams 1984; 172)

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

Forecasting is the estimation of future environment within which company will operate and good planning depends or good forecasting.

2.4.4 Foresting and Planning

Planning is clearly district from forecasting. Forecasting one of the essential elements of planning is a prediction of what will happen on the basis of certain assumption. Planning is an attempt to determine what should happen and what will make it likely to happen. A forecast is not a plan, rather it is a statement of and or quantified assessment of future conditions about a particular subject (sales revenue) based on one of more explicit assumption. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept modify or eject the forecast. In contrast a sales plan incorporates management decision that are based on the forecast, other inputs and management judgment about such related items as sales volume, price, production and sales, effort and financing (Welsch, 2001;109).

2.4.5 Control

After being clear about the concept of profit and planning we move towards the third component of profit planning and control i.e. control the dictionary meaning of control is.

i. Have a power or authority over same body or same thing
ii. Regulate something
iii. Management, guidance, restriction
iv. Standard of comparison for checking the results of the experiment (Hornby, 1992; 151-158).

Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprises and initiating corrective action when necessary to ensure efficient accomplishment of enterprises objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprise. Control is exercised by using personal evaluation, periodic performance, reports and special reports.

“Control” is an ambiguous word; it means the ability to direct oneself and one’s work. It can also mean domination of person by another (management). Objectives are the basis of control in the first sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute management by self control for management by dominant.” (Drucker P.F- 1954:20)

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other words, it is assumed that objectives that objectives, plan, policies, and standards have been developed and communicated to those manager who have the related performance responsibilities. Thus, control must necessarily rest upon the concept of feedback, which requires performances measurements and triggers corrective action designed to ensure attainment of the objectives. When plans become operational control must be exercised to measure progress. In some cases, control also results in the revisions of prior plans and goals or in the formulation of new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organization structure.

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

i. Compare actual performance for the period with the planned goals and standards.

ii. Prepare a performance report that shows actual results, planned results and any differences between the two (i.e Variation above or below planned results)

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

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

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

vi. Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-planning." (Welsch-1999)

The comparison of actual result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback. The facts shown in a performance report cannot be changed; however the historical measurement may lead to improved control in the future. The significant concept here is that objectives policies and standards fulfill two basic requirements in the overall control process, namely (1) feed forward-to provide a basis for control at the point of action. (2) Feedback-to provide a basis for measurement of the effectiveness of control after the action has taken place. Moreover, feedback is of instrumental in re-planning.

2.5 Budgetary Control

2.5.1 Meaning of Budgeting and Budget

As regards the term 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objectives and goals established by the top level management in respect of some future period (Gupta, 1981;136). A budget is forecast, in detail, of the results of an officially recognized programmed of operations based on the highest reasonable expected operating efficiency.

Budget is defined as a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of enterprises for some specified period in the future (Fregmen, 1976; 256). According to his definition the essential elements of a budget are:

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

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

2.5.2 Budgeting; As a Tools of Profit Plan

Budgeting is a forward planning. It serves basically as a device (tool) for management, control; it is rather pivot of any effective scheme of control. "Budgeting is the principal tool of planning and control offered to management by accounting functions" (Welsch,1999; 346).

"Budgeting has long been recognized as the accepted procedure for profit planning and many of the successful companies have applied it do good effect over a period of year". Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in an organization. It serves as a guide to conduct operations and a basis for evaluating actual results. Budgets as tools of management are an integral part of the broader system of planning and control.

Budget as an over a comprehensive plan of operations and action, expressed in financial terms. The concept of comprehensive budget covers its use in planning organizing and controlling all the financial and operating activities of the firm in the forthcoming period. A budget is a detailed plan, expressed in quantitative items, that specific how resources will acquire and used during a specified period of time.

Budget is concerned with policy making while budgetary control results from the implementation of the policy. Budgetary control represents the set of techniques utilized for administration of budget as instrument of control for attainment of defined objectives. It includes formulation and preparation of budgets, comparison of actual results with budget in real time, analysis of causes leading to significant differences if any and to take consequential executive action.

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

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

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

2.5.3 Essential of an Effective Budgeting

For effective budgeting system some requisitions are necessary. These pre-requisitions represents management attitude. Organizational structure and management approaches are also necessary for efficient and effective budgeting system. There are some important essential for effective budgeting.

a) Sound Forecasting

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

b) An Adequate and Planned Accounting System

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

c) Efficient Organization with Definite Lines of Responsibility

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

d) Formation of Budget Committee

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

e) Clearly Defined Business Policies

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

f) Availability of Statistical Information

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

g) Support of Top Management

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

h) Good Reporting System

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

i) Motivational Approach

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

2.6 Basic/ Fundamental Concept of Profit Planning

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

1. Management involvement and commitment
2. Responsibility accounting
3. Organizational adaptation
4. Full communication
5. Realistic expectations
6. Timeliness
7. Flexible application
8. Zero base budgeting
9. Activities costing
10. Behavioral view point
11. Management control using PPC

12. Follow Up
13. Management by emption

Each of there fundaments is discussed briefly in the following paragraphs. And it is tired to proof to what extant they are playing the role to make PPC, a meaning full and comprehensive approach.

2.6.1 Management involvement and commitment.

Managerial involvement initials managerial support, confidence, participation, and performance orientation. All levels of management especially top level management should consider following points in order to make PPC program successful.

1. Understand the nature and characteristics of profit planning and control
2. Be convinced that this particular approach to managing is preferable for their situation.
3. Be willing to devote the effort required to make it possible.
4. Support the program in all its ramifications
5. View the result of the planning process as performance commitments.

For the comprehensive profit planning and control program to be successful it must have the full support of each a members of management, starting with the president the impetus and direction most come from the very top.(Ojha, Gautam 2008)

2.6.2 Responsibility Accounting

In order to set-up profit planning and control on a sound basis, there must be a responsibility accounting system that is one tailored first and foremost to the organizational responsibility. A responsibility accounting system can be designed and implementation on a relevant basis regarding of the accounting system standard cost system, direct costing systems and so on. Therefore, PPC requires responsibility accounting system.

2.6.3 Organizational Adaptation

A profit planning and control programmed must rest upon sound organizational structure for the enterprise and a clear-cut designation of authorities and responsibilities. The purpose of organizational structure and the assignment of authority is to establish a frame work with in which enterprise objectives may be attained in a co-ordinate and effective way on a continuing basis. The responsibility for the obligation of each departmental manager should be well clarified. Whatever may be the nature and sense of organizational structure, one should always bear in mind the fact that no means or tools to attain the goal. In conclusion the organizational involvement includes.

i. Delegation of authority and responsibility to each functional sub. units.
ii. Sub-divide the whole organization into different functional subunits.
iii. Each subunits should prepare its own annual or periodic plan
iv. Based upon plan prepared by subunits a master plan is to be prepared by higher management.(Ojha, Gautam 2008)

2.6.4 Full Communication

Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication can be of dialogue, massage, or understanding from working together. Although most of the management gives least importance on communication but it is the most important thing for any organization observation and control. Most of the organization faces lot of problem due to bad communication system.

For profit planning and control; effective communication means development of well defined objectives specification of goals, development of profit plans and reporting and follow up activities related to performance evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goals in both the executives and subordinates.

2.6.5 Realistic Expectations

Profit Planning and Control must be based on realistic approach or estimation. Management must be realistic assumption and must not take either irrational optimism or unnecessary conservation so for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

2.6.6 Timeliness

Time is going on it can't be stop whether an individual or organization busy or idle. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types one is timing planning horizons and another is timing of planning activities.

Planning horizons refers to the period of time into the future for which management should plan. Decision made to the organizations obviously can affect only the future. No present decision can effects or change the past, since all managerial decisions are futuristic each management is faced with the basic question of time dimension. The effective implementation of PPC concepts requires that the management of ES establish a definite time dimension for certain types of decision. And timings of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases if the planning process" (Goet, Bhattarai & Gautam 2062;1.5)

2.6.7 Flexible Application

"This stress that a PPC program must not dominate the business and the flexibility in applying the plan must be forthright management policy. So that strait Jackets are not imposed and all favorable opportunities are seized even through they are not covered by the budget rigidity in practicability will be the harmful boundary in an association in an occasion of r the enterprise. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of the organization (Goet, Bhattarai,Gautam 2063 1.5)

2.6.8 Zero Base Budgeting

Under zero bases budgeting, every budget is constructed on the promise that every activity in the budget must be justified. It starts with the basic premise that the budget for next year, is zero and that every expenditure, old and new, must be justified on the basis of its costs and benefits. The discipline of zero base budgeting takes a different approach in fact a reverse approach to this problem of justifying everything. What it says is this, begin with where you are and establish a business as usual budget for next year the same way and the same things you would do if you weren't concerned about constraint and total justification (Welsch 1999)

2.6.9 Activities Costing

Responsibility accounting system generally accumulates costs of department and product costing system associate costs with unity of product or service organization also frequently finds it useful to associate cost with activities. By decomposing an organization production process in to discrete set of activities, and then associating cost with each of those activities. Moreover by systematically identifying the activities through out organizations managers can identify redundant activities. (Welsch 1999)

2.6.10 Behavioral View Point

An ounce of behavior is better than a quintal of the theorem what so ever be the theory and theorem, the organization only when it improves its behavior, is best or in another way welsch has suggested that the motivation of human resources through dynamic leadership central to effective management. "it is found by many psychologist and educators and businessman that, there are many known and unknown, misconception and speculations concerning the response of the individual and the group in the varying situation so the PPC programs bring many of these behavior problems in the sharp and focus and trying to resolve. (Welsch 2006;53)

2.6.11 Management Control Using PPC

The primary purpose of control is to ensure attainment of the objective, goals and standards of the enterprises. Control has many facets such as direct observation, oral express, policies and procedures, reports of actual result and performance report. "PPC focuses on performance reporting and evaluation of performance to determine the causes of both high and low performance. The essential characteristics of a PPC performance report are as follows. (Welsch 2006;40)

a. Performance is classified by assigned responsibilities.
b. Controllable and non controllable items are designated
c. Timely reports are issued

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

2.6.12 Follow Up

The important of follow up action on profit planning and control approach is more. A careful study s needed to correct the action of substandard performance in a constructive manner, to recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control program.

2.6.13 Management by Emption

A comprehensive profit planning and control program facilities in many ways, underlying these is the measurement of actual performance against planned objectives goals and the reporting if that measurement in performance reports. This measurement and reporting extends to all areas of operations and to all responsibility centers in the enterprises. It involves reporting

a) Actual result
b) Budgeted or planned results
c) The difference between the two

This type of reporting represents an effective application of the well-recognized management exception principle. The exception principle holds that the manager should concentrate primarily on the exceptional or unusual items that appear in daily, weekly and monthly reports, thereby living sufficient managerial time for overall policy and planning considerations. It is the "out of line" hat needs immediate managerial attention to determine causes and to take corrective action. The items that are not out of line need not utilize expensive management time, however, they shall trigger "rewards' in appropriate ways. To implement the exception principle, techniques, procedures must be adopted to call the manager attention to the out of control items performance reports because, they include a comparison of actual results with plans by areas of responsibility, emphasize in a relevant ways performance variation. The out of line items stands out, it is with respect to these items that the busy executive should investigate, determine the corrective action and take corrective action" (Welsch, 1999)

2.7 Profit Planning and Control Process

A profit planning and control includes more than the traditional idea of a periodic or master budget. The planning process should involve periodic, consistent and in-depth replanting so that all aspects of operations are carefully re-examined and revaluated. These are some steps to be followed on the process of profit planning.

2.7.1 Identification and Evaluation of External Variables:

The most important step on the PPC process is to identify the relevant variables. Relevant variable mean those variable, which will be direct significant impact on an enterprise. Different variable have different impact according to the market nature. For the enterprise purpose the external relevant variables are population, G.N.P, competitive activity product line, and industry sales. And so far internal variable are concerned employee, capital, research productivity, pricing, operating costs, etc. These variables can be divided as controllable and non controllable variables. The management planning must focus on how to manipulate the controllable variable and how to work with the non controllable variable. In this phase identification involves on separation of variable as controllable and non controllable where as evaluation also includes as evaluation of present strength and weakness of the enterprise.

2.7.2 Development of the Broad Objectives of the Enterprises:

Development of the broad objectives of the enterprises is a responsibility of executive management. Based on a realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management, can specify or restate this phase of the PPC process. The statement of broad objectives should express the mission, vision and ethnical character of the enterprise. Its purpose is to provide enterprise identify continuity of purpose is to provide and identification. One research study listed the purpose of the statement essentially as follows.

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

2.7.3 Development of Specific Goals for the Enterprises:

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

These goals should be developed by executive management as the second component of the substantive plan for the up coming budget year. Executive management should act as leadership while developing such goals to formulate realistic and clearly articulated framework with in which operations will be conducted toward common goals. It also provides a basis for performance measurement. Such specific goals must be developed for both the strategic long and short range plans. These specific goals in large measure are qualified and specified for each major sub-division of the entrepreneur. They must represent realistic goals as opposed to more guesses.

2.7.4 Development and Evaluation of company Strategy:

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

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

2.7.5 Executive Management Planning:

Executive management planning explains the broad objective enterprise goals, enterprise strategies and any other executive management needed to develop the strategic and tactical profit plans. This planning must be communicated all level of management to participate equally in the development of strategic and tactical profit plan for the upcoming budget year. Executive leadership is necessary in developing and articulating this planning foundation and formulation of relevant strategies. At this phase in profit planning process, the foundation has been established to articulate the broad and specific objectives of the enterprise and the strategies that facilitate their attainment.

2.7.6 Preparation and Evaluation of Project Plans:

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

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

2.7.7 Development of Strategies and Tactical Profit Plan:

When the managers of the various responsibility centers in the enterprises receive the Executive management planning instruction and the projects plans, they can begin intensive activities to develop their respective strategic or tactical profit plans. The executive management will develop the strategic and tactical profit plans. Certain format and procedural instructions should be provided by a centralized source, normally the financial functions, to establish the general format, amount of detail and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of this activity must be coordinated among the centers in conformity wit the organization structure. As the two profit plans are being completed the approval process must be initialized. This process involves approval, disapproval or revision based on action by executive management of presentation and justification by the managers of responsibility centers. Each member of the executive management group would have been provided a copy of the center's plans to study before the final presentation. Then the manager of each major responsibility center should be given the opportunity to make a complete presentation of the plans.

After a participatory approval process is completed for each major responsibility center and programs from the major responsibility centers are combined into the overall strategic and tactical profit plan for the enterprise as a whole.

2.7.8 Implementation of Profit Plans:

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

2.7.9 Use of Performance Reports:

As profit plans are implemented during the period of the time specified in the tactical plan. Performance reports are need, which are prepared by the accounting department on a monthly basis. These performance report compare actual performance with planned and show each difference as a favorable or unfavorable performance variation. The performance report focused on dynamic and continuous control tailored to assigned managerial responsibilities.

2.7.10 Follow Up:

It is an important part of effective control. Because of performance reports are based on assigned responsibilities, they are the basis for effective follow up actions. Finally, there should be a special follow up of the prior follow up actions. This step should be designed to:

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

2.8 Advantage and Disadvantage of profit Planning and Control

Profit planning and control has both Advantage and Disadvantage even though Advantage are dominant one. Advantage of profit planning and control listed below.

1. It forces early Consideration of basic policies.
2. It requires adequate and sound organization structure that is there must be a definite assignment of responsibility fro each function of the enterprises?
4. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
5. It compels all members of management from the top down to participate in the establishment of goals and plans; it requires that management put down in figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of labor, material and capital.

8. It instills at all levels of management the habit of timely careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduce cost by increasing the span of control because, fewer supervisors are needed.
10. It frees executive from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking
11. It tends to remove the cloud of uncertainty that exists in many organizations, especially among, lower levels of management relatives to basic policies and enterprise objectives.
12. It pinpoints efficiency and inefficiency.
13. It promotes understanding among members of managers or theirs coworkers problems
14. It forces a periodic self-analysis of the company.
15. It forces management to give adequate attention to the effect of general business conditions.
16. It aids in obtaining bank credit; banks commonly require a projection of future operation and cash flows to support large loans.
17. It checks progress or lack of progress toward the objectives of the enterprise.
18. It forces reorganization and corrective action (including rewards).
19. It rewards high performance and seeks to correct unfavorable performance.
20. It forces management to consider expected future trends and conditions.

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

1. It is difficult, infect impossible, to estimate revenues and expenses in Company realistically.
2. Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
3. It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
4. Budgeting places to great a demand on management time, especially to revise budgets constantly. Too much proper work is required.
5. It takes away management flexibility.
6. It creates all kinds of behavioral problems.
7. It places the management in a straitjacket.

8. It adds a level of complexity that is not needed.
9. It is too costly asides from management time.
10. The managers, superiors and other employees hate budgets.

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

2.9 Limitation of Profit Plan

PPC is important tools of management. "Every planning is not out from limitation also profit plan is not free from limitation. So it is essential that the user of profit planning and control must be having a full knowledge of its limitations. In developing and using a profit planning and control program the following limitations kept in consideration. (Goet, Bhattarai, Gautam, 2063:1.6)

i. Based on Estimates:

PPC is based on estimation the success of profit planning and control depends to a large degree on the accuracy with which the basis estimates will be made. Estimates should be made on the basis of all the facts available using correct and modified statistical technique.

ii. Danger of Rigidity:

PPC is an estimation and quantitative expression of all relevant data. There should be tendency of rigidity on these data. Rigidity dates are not useful for the PPC model; it should be flexible for its use. Various techniques must be tired, improved, discarded and replace.

iii. Application for long Period

The application of PPC in the short period is not possible. This model should be used continuously in the business and should be modified and revised with the change in situation, environment in the business.

iv. Execution is Not Automatic

A skillfully prepared PPC will not itself improve the management of an enterprise, unless it is properly implementation. PPC system must be understood by all level of staff inside the enterprise. Each executive must feel the responsibility and should make efforts to attain that budgeted goals. Departmental heads should seriously think about individual responsibility to fulfill the target setup in their departmental budget the success of budgeting depends upon the efficient management and administrative.

v. Not a substitute for management

PPC is not a substitute for the management. It is totally wrong to think that introduction of PPC alone sufficient to ensure success and to guarantee future profits

vi. Costly

PPC is so costly that small column can not afford to it. Even for a large concern it should be some correlation between the cost of operating a budgeting system and adapted benefits exceeds the cost.

vii. Proper Evaluation

For finding out of the deficiencies proper evaluation should be made. On the assence of proper evaluation budgeting will hide inefficiencies. So, there should be continuous evaluation of the actual performance. Standard also should be reexamined regularly.

viii. Lower Morale and Productivity

By setting unrealistic targets and used PPC as a pressure tactic, it will lower moral and productivity.

2.10 Profit Planning in Commercial Bank

Profit planning in manufacturing sector is common it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending expenditure, income, investment , non fund base business etc. these budget are taken as functional budgets despite this budget now a days bank also prepare for future plan this is called profit plan

2.10.1 Resources Mobilization Plan or Budget

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

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

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

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

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

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

Among the capital fund, the equity capital is formed generally one time during opening of the bank. The central bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank. General-reserve, the other item of capital fund, has to be raised every year by at least 20% of the met profit earned by the bank until the amount gets double the paid up capital. This is the mandatory provision made by commercial banking act 2031.

Further, the bankers may choose by themselves whether or not to increase the owner's capital by raising the other item included in capital funds beside paid up capital and general reserves. It is always better to have a higher capital fund base of a bank because, creation of bank's assets, and the size of lending to any particular borrower are tried up with the capital adequacy requirement by the central Bank. As per NRB directives, banks should have to build their capital base at least of 12 percent by the end of FY 2060/61. And a bank can take the size of exposure per borrower equivalent to maximum of 25 percent of its core capital in fund based, and 50 percent of than in no fund based exposure (NRB Directives, 2001).

2.10.2 Resources Deployment Plan or Budget

Planning for development of resources starts from assessment of nature of resources to be mobilized. That is the assets are allocated on the basis of the nature of resources. This approach of deployment of resources is called asset allocation approach. The fundamental criterion which must be followed in allocating funds for acquiring different types of assets is that the velocity-turnover rate of different sources of supply of fund determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund, like saving deposits, fixed deposits and paid up capital could be used to buy long dated high yielding securities, demand deposit which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank (Vaish, 1996;365).

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

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

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

2.10.3 Planning for Non-Funded Business Activities

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

2.10.4 Expenditure Planning

Income can't imagine with out expenditure so expenditure should be planned in proper way. The expenses planning and controlling are very essential for supporting the objectives and planned programs of the business concerns. The income after deducting all of expenditure is called profit so in the process of profit planning the expenditure planning plays the vital role. A bank always tries to control their expenses by preparing periodical budget. Expenditure minimization means that the profit maximization so the expenses must be planned carefully for developing a profit plan. In a bank there are generally following expenses.

1. Administrative expenses.
2. Interest expenses.
3. Operating expenses.
4. Loan loss provisions
5. Bad debts
6. Non-operative expenses.

7. Expenses by the exchange fluctuation
8. Expenses for provision for loan loss
9. Expenses for provision for staff bonus
10. Expenses for provision of income tax etc.

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

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

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

2.10.5 Revenue Plan

The major expenditure of banks is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund by taking some margin. The sources of income for bank is not only the interest other non funded sources are also can generate income whereas interest is dominant one. The major sources of revenue for a bank are listed below:

1. Interest income
2. Dividend
3. Commission and Discount
4. Miscellaneous income
5. Foreign exchange income
6. Remittance income
7. Other non funded incomes

Generally the interest income of a commercial bank holds a major portion in total revenue of the bank and it provides the major source of earning of a bank. Therefore total income of a bank is categorized in two type viz. interest income and other income, while the later including other income items as listed above except the interest income. The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdraft, investments in government securities, debentures etc. For this study, the income from Bills discounting has also been treated as interest income, as we consider loans overdraft and bills discounting together as a single asset portfolio as LDO.

As the average rate of interest on LDO are comparatively higher than any other kind of income yielding assets, from the profitability point of view, higher asset allocation into LDO, higher will be the income. The other income are generate from other activities of the bank such as issuance of L/C Bank Guarantees, from remittance charges, cheque collection fee, locker charges, service charges, commitment charges, trading gain on foreign exchange, revaluation gain on foreign exchange reserves etc. The amount of other income of a bank greatly contributes in lowering the burden on the profitability. Higher the other income earned by the bank, lower will be the net burden amount and thus better will be the profitability of the bank.

Income of a bank is basically activity based it depends of the volume of business. Higher the income generating activities of bank, higher will be the amount of its revenues. Therefore the bank develops its plans for various activities in such a way that it maximizes its income.

2.11 Implementing of the Profit Plan

2.11.1 Completion of Annual Profit Plan

Development of an annual profit plan ends with the planned income statement, the balance sheet and the planned statement of cash flows. These three statements summaries and integrate the details of plans developed by management for the planning period. They also report the primary impact of detailed plans on the financial characteristics of the firm. In profit planning, the budget director has the responsibility for designing and improving the overall system. Other essential sub budgets are the following.

- Planned statement of cost of good manufacturing
- Planned statement of cost of good sold.
- Planned statement of income statement.
- Planned statement of balance sheet.
- Planned statement of cash flows.

"The profit plan completion date is important. Issuances of a profit plan after the beginning of the budget period are one sure way of destroying much of the budget potential". (Welsch 2004; 466)

2.11.2 Implementation of Profit Plan

Profit plan should represent potentially attainable goals, yet the goods should present a challenge to the enterprise. The plan should be developed with the conviction that the enterprise is going to meet or exceed all major objectives. Participation enhances communication (both down ward and upward). If this principle is to be effective, the various executives should have a clear understanding of their implementation responsibilities.

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

Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment, or failure is immediately known. On this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential." A budget program viewed and administrated in a sophisticated way does not hamper or restrict management, instead, it provide definite goals around which day today and mouth to mouth decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increases the probabilities of achieving or bettering the objectives" (Welsch, 1999; 238).

2.11.3 Performance Report

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

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

Features of Performance Reports

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

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

Aspects of Performance Reports

The various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to while the performance reports serves the management and decisions making needs of the users. Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs summary data as well as detailed data on day-to-day operation. Similarly lower level management needs reports that must be detailed, simple understandable and limited to items having a direct bearing on the supervisor's operational responsibilities.

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

2.12 Planning Expenses in Non manufacturing Enterprise

Managers should view expense planning and control as necessary to maintain reasonable expense levels to support the objectives and planned programs of the enterprise. Expenses planned shouldn't focusing decreasing expenses, but rather on better utilization of limited resources viewed in this light expense planning and control may cause either decreased or increased expenditures. Expense planning and control should focus on the relationship between expenditures and the benefit. Derived benefits should be viewed as goals, and sufficient resources must be planned to support the operating activities eventual for their accomplishment.

Some companies cut expenses without considering the effects as benefits others do not commit sufficient resources to the maintenance of assets such as equipment and buildings. Inevitably, such short-range decisions although temporarily reducing expenses, soon cause of the higher costs because of breakdown, inefficient machines. Frustrated employees, a forty-machine tolerance major repair costs and repair, costs and shortened asset lives cost control should be firmly tied to

1. Further goals and planned operations and
2. Organizational responsibilities.

The essence of expense control is the concept of a standard is the amount that an expense should be under a given set of conditions (such as work programs, product management policies and environmental variables).

Cost Behavior

All costs do not show the same behavior throughout the operation. Cost behavior implies the relationship between cost and activity. Cost can be classified as variable, fixed and Semi variable (mixed) costs.

a) Fixed Expenses

These expenses that, are constant in total from month, regardless of fluctuations in output or volume of work done because any expenses can change. This concept must be applied To a realistic or relevant range of output and In relation to a given set of condition (management policies time constraints and characteristics of the operation). Examples of fixed expenses are salaries, property tax, insurance and depreciation (straight line).

b) Variable Expenses

These expenses change in total, directly with change in output or volume of work done. The output must be measured in terms of some activities base, success units completed, direct labor hours, sales dollars or number of service calls, depending on the activities in the responsibility center. Examples of variable costs in a factory are direct material, direct labor and power usage.

c) Semi-Variable Expenses

Those expenses, that are neither fixed nor variable, because they posses some characteristics of both. As output changes semi-variable expenses change in some direction but not in proportion to change in output.

2.13 Controllable and Non Controllable Expenses

Closely related to expense classification by responsibility is the differentiation between controllable and non-controllable expenses. Controllable expenses one those, that one subject to the authority and responsibility of a specific manager care must be exercise. Because, the classification of an expense item as controllable or non-controllable must be made within a specific framework of responsibility and time. For example, the expenses of a particular responsibility center usually include some expenses such as supervisory salaries that one not ordinarily controllable within the responsibility center but rather at higher levels of management. Within the responsibility center such as expenses may be classified as non-controllable. But when viewed in terms of longer larger organizational segments or for the enterprise as whole, salaries are controllable similarly expenses such as depreciation usually are not controllable within the short run but are controllable in the long run. In the case depreciation, management decisions about capital additions determine the subsequent depreciation expense amount. In the final analysis all expenses are controllable depending or responsibility and timing. The banks are non-manufacturing enterprise they should develop expense budget for company administrative expenses.

2.13.1 Planning Administrative Expenses

Administrative expenses include those expenses, other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprises rather than, in the performance of any one function. Because large portion of administrative expenses are fixed rather than variable the notion persists that they cannot be controlled. Aside from certain top management salaries most administrative expenses are determined by management designs. It is common to find administrative expenses "top heavy" when measured by the volume of business done. In recent years, some informed observes have expressed the opinion that a developing characteristic of industry in the United States is the relative high lost of administration. These expenses, along with labor costs have frequently made of difficult to price products comparatively in the international market. General administrative expenses are close to up top management; therefore, there is strong tendency to over look their magnitude and effect on profits. Each administrative expense should be directly identified with a responsible center, and the center manager should be responsibility for planning the expenses. This fundamental of expense control is especially important for administrative costs because, there is often a failure to pinpoint responsibility for expenses of a general nature.

2.13.2 Capital Expenditures

Capital expenditure often called capital budgeting. Capital budgeting is the process of planning and controlling the strategic (long-term) and tactical (short-term) expenditure for expansion and contraction investments in operating (fixed) assets.

A capital expenditure is the uses of funds (i.e. cash) to obtain operational assets that will a. Help earn future revenues or b. Reduces future costs. Capital expenditures include such fixed (i.e. operational) assets as priority plant, equipment, major renovations and patents. Typically, capital expenditure projects involve large amounts of cash other resources and debt that are tied up for relatively long period of time.

The capital expenditure budget or plan is an important part of a comprehensive profit plan. It is directly related t a company's operative assets especially landing equipment and other operational assets and cash. Because of the long span and major resource commitments, major capital expenditure typically is budgeted as separate projects. Each project is unique to a specific assets or group of assets (i.e. investment) the amount and source of it funding, and its timing (both construction of acquisition time and subsequent use or service time). Major project are usually named and numbered. Typically, they are separately analyzed, planned, approved or rejected, completed if (approved). Therefore, the captain expenditures budget is primarily composed of a series of identified projects related to specific time dimensions.

2.13.3 Benefits of a Capital Expenditure Budget

A capital expenditure budget provides many benefits from the management planning. The capital expenditure budget enables executive management to plan the amount of resources that demands, meet competitive demands, and ensure growth. The budget process of capital additions is essential for management to avoid.

a. Idle operating capacity

b. Excess capacity and

c. Investments in capacity that will earn less than on adequate return on the funds invested.

2.13.4 Capital Expenditure Decision

The capital expenditure decisions are the choice of management from the competing capital expenditure alternatives (e.g. project) such decision must focus on low overriding problems.

a. Investments decisions: Selecting the best alternatives based on their economic worth to the company called investing worth.

b. Financing decisions: Determining the amounts and source of funds needed to pay for the selected alternatives. This cash constraint may necessarily limit the projects and proposals that can be initiated.

2.13.5 Capital Expenditure involved two kinds of Assets.

Depreciable assets such as buildings and equipments and Non-depreciable assets such as land capital expenditure that involve depreciable assets are much more common the total cash returns on these two kinds of capital additions are significantly different.

1) Planning Cash Flows

One of the major responsibilities of management is to plan, and safeguard the resources flow through many business cash and non-cash assets. We focus on cash inflows (i.e. cash received) and cash outflows (i.e. payments of cash), the planning of cash inflows, and the cash outflows and the related financing important in an enterprise. Cash budgeting is effectively used excess cash. A primary objective is to plan the liquidity position of the enterprises as a basis for determining future borrowing and future investments for example, excess cash, if not invested, timing of cash flows can be controlled in many ways by the management. Such as, increasing the effectiveness of credit and collection activities, making payments by time drafts rather that by check, making payments on the day of discount periods matching payments, and giving discounts on cash sales cash management is an important in enterprises. Whether large and small many lending enterprises require cash flow projections before granting large loans.

2) Cash Planning

A cash budget shows the planning cash inflows, outflows and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plan about their cash flows, the short term cash budget is included in the annual profit plan. A cash budget basically includes two parts

i. The planned cash receipt (inflows) and
ii. The planned cash disbursements (outflows).

Two primary approaches are used to develop the cash budget one is the cash receipt and disbursements approach. This method is based on a detailed analysis of the increase and decrease in the budgeted cash account that would reflect all cash inflows and outflows from such budgets as sales expenses and capital expenditures. It is simple to develop and it is appropriate when detailed profit plan is used.

Cash inflows arise from transactions used as cash sales collection of accounts and notes receivable. Interest received on investment sales of capital assets and miscellaneous income sources.

The primary approach to the problem is based on past collection experience the average period between the date of sale and the date of two related cash collections. The average responsible for the credit and collection should regularly determine for example the efficiency of collection. The treasures will seldom encounter much difficult in planning miscellaneous cash inflows from income sources such as royalties, rent interest and dividends received on investment.

Cash payments are made primarily for materials, direct labor, expenses, capital additions, retirement of debt and dividends paid to stockholders. The budgets for these items provide the basis for computing the planned cash outflows. The cash receipts and disbursements approach requires elimination of non-cash items, such as depreciation, from the appropriate expense budgets already prepared. Experience and company policy on purchase discounts must be taken in to account in estimating the time lag between the in occurrence of accounts payable and the subsequent cash payment of these payables.

Planning the cash flows of a company should include consideration of how to improve cash flow improving cash flow basically involves increasing the amount of available cash on a day to day basis. To accomplish tiny object gives the management should focus on (a). The cash collection process to the speed up cash collections. (b). the cash payment process to slow down the payment of cash and (c). The investment policies for the immediate investment of idle cash balances to maximize interest earnings improving the cash collection and payment processes and the investment policies for otherwise idle cash will exchange a company's liquidity position. Liquidity refers to the availability of cash to efficiency meet the day to day cash demands of a company.

2.14 Planning Cash in a Non-Manufacturing Company

In companies of all type cash management is vitae. In Bank, service-company in retail and wholesale enterprise cash management is needed. Because daily cash demand, large and costly inventories frequently must be maintained also extensive credit is used to maintain the inventories. A complete plan of operations is essential in developing a realistic cash budget. A line of credit with lending agencies is frequently dependent on a realistic sales plan supported by a comprehensive profit plan. The planned statements of cash flow (i.e. the cash budget is necessarily prepared near the end of the annual planning cycle along with the planned income statement and balance sheet. Preparing the cash plan (or budget) primarily involves two activities.

a. Combining all the planned cash inflows and outflows.
b. Making decisions about interim financing in case of cash, shortages and interim investment in case of excess cash.

The cash receipts and disbursement approach basically involves the use of detailed data from the budgeted cash account. The financial approach starts with net income (annual basis) which is adjusted to a cash basis to compute "cash flow from continuing operations". The remaining cash and uses must be determined by using that data from the various budgeted already prepared. The cash receipts and disbursements approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used for board analysis of the cash position and for strategic long range planning. Controlling cash flows is a daily task in many companies. Cash performance reports month by weekly and even daily identify involving cash flow problems that often need immediate attention.

2.15 Summary

The development of an annual profit plan ends with the planned income statement, the planned balance sheet and the planned statement of cash flows. These statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company. As this point in profit planning, the budget director has an importance overall system, the budget director has been described as an adviser to the various managers to help developing for each responsibility centre. Now the parts must be assembled into a complete profit plan. This is the responsibility of the budget director, the other essential budget are

1. Planned income statements.
2. Planned statement of cash flows.
3. Planned balance sheet.

These sub budgets, which have only been tentatively very approved, must now be combined by the budget director to compute planned net income, assets, liabilities, owner's equity and cash flows. These are the final steps in the development of the detailed plans.

The planning process involves a long-range profit plan and a short-range profit plan. In developing these plans many budget schedules are prepared to detail plans for each phase of a company's operations. The final step in the planning process is to complete the profit plan by combining the component schedules and preparing planned financial statement planned statements of financial position, income and cash flows are prepared in order to determine the implications for the company's plans for its future financial conditions.

2.16 Review of Previous Research Report

Profit planning and Control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studied has been conducted for the behavior of Profit planning. Regarding this various empirical studies have been conducting related area of profit planning. There are many researchers carried out by different research in this topic.

The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could found some studies that have been made in this topic. Here are reviewed theses which related with the financial sector that can help us to understand about their major findings about this topic.

Binod Kumar Sharma (2002) has studied the profit planning aspect of Nepal Bangladesh Bank

Objectives:

1) To highlight the current profit planning premises adopted and it's effectiveness in

NB Bank.

2) To observe NB bank's profit planning on the basis of overall managerial budgets developed by the bank.
3) To analyze the variance of budgeted and actual achievements.
4) To study the growth of the business of the bank over the period.

Some major findings are as follows:

1. It is observed that the bank is adopting a police to keep minimum number of employee as possible. But it has unnecessary long ladder at various levels with out specific job description.
2. NB Bank is currently operating with its 15 branch offices making its presence at almost all of the cities of the country. It is one of the banks, having highest branch network among the joint venture bank in Nepal.
3. Major concentration of recourses mobilization of NB Bank is at deposit mobilization. In this respect they are incurring higher cast toward deposit mobilizations.
4. The interest expanse of the bank is found increasing each year corresponding to the increasing in deposit. The interest expenses are perfectly and positively correlated with deposit.
5. Outstanding letter of credit liability of the bank is increasing every year however the growth is not consistent.
6. The amount of interest income is increasing every year corresponding to increase in LDO. There is a perfect and positive correlation between interest income and LDO.

Uday kishor Tiwari (2003) has studied the profit planning aspect of SC Bank

Objectives:

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

Some major findings are as follows:

1. Bank is awarded by ' Bank of the year 2002 Nepal'

2. Bank management policy is very strong. It keep minimum number of employees number of employees and highly qualified for maintain the job
3. The bank always adopt new technology
4. The Bank is provides ATM and 365 days of services for customers.
5. Customer deposit collection is the main resources mobilization of the bank.
6. Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment
7. There is no significant relationship between budgeted and actual LABP.
8. 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.
9. LABP holds highest outlet resources deployment among the various portfolios.
10. Actual LABP are increasing trend.
11. The analysis of cash flow statement shows the strong position of bank.

Roshan Thapa (2004) has conducted a research work on the topic of " A study on profit planning and control of Nepal SBI Bank limited"

Objectives:

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

Some major findings are as follows:

1. Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
2. The budget is not based on past performance but on targeted growth, which is very optimistic in booth the budgeted year.
3. Nepal SBI has not made any in depth analysis of its strength and weakness.
4. Its mission and objectives have not clearly defined and delegated to the lower levels.
5. The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
6. The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.

7. The bank is facing competition from increasing number of financial institutions in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
8. Budgets are prepared just to fulfill the formalities but these are not used effectively from the profit planning process.

Lalit man Shrestha (2006), in his project work on " A study of profit planning of commercial banks in Nepal " (Comparative Study of Nepal Bangladesh Bank Ltd. And Bank of Kathmandu Ltd.)

Objective:

1) To highlight the system of profit planning and practices of the NB Bank and BOKL Ltd
2) To observe the bank's profit planning on the basis of overall managerial budgets developed.
3) To examine the effectiveness of profit planning in the NB bank and BOK Ltd.
4) To provide suggestions and recommendations for improvements of the overall profitability of the bank.
5) To check on the superiority between NB bank and BOKL from the ascept of profit planning aspect

Some major Findings are as follows:

1. Deposit mobilized by the banks are found to be considerably growing every year in both the NBBL and BOK.
2. Resources other than customer deposits of the banks are found considerably increasing in both the bank.
3. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) is increasing every year but comparatively the BOK has been decreasing position than NBBL.
4. In the NBBL, LDO has found increasing trend over the year where in the BOKL has increasing trend.
5. Interest expenses ratio is the highest in the total expenses items of the banks, the interest expenses of the banks are found increasing each year corresponding to the increase in deposit on the both the banks.

6. Interest income of the bank is the highest among other income items in the total revenue. The amount of interest income is increasing every year corresponding to increase in LDO in both the banks.
7. The interest spread or the amount of interest margin is found to be increasing every year in both the banks. The increasing trend of NBBl is high volume than BOKL.
8. Both the banks have net profit over the study period and increasing trend up to the FY 2002 but decreasing trend in the rest FY 2002 and 2004.
9. The average current ratio of the NBBL has found to be higher than standard ratio 2:1 expect in the FY 2004, which shows satisfactory liquidity position and the average ratio of BOKL has found to be lower than standard which shows the solvency position of BOKL is no better than NBL
10. The average debt to equity ratio of NBBL is higher than BOKL
11. The average interest coverage ratio of NBBL is 1.25 and BOKL is 1.22 times during the study period.
12. From the profitability ratio, it is found that the return in assets of NBBL is more than BOKL.
13. The average return on equity of NBBL is higher than BOKL.

Arun Pratap Khadka (2007) has studied the " Financial Performance analysis of Everest Bank Ltd"

Objectives:

1. To evaluate the financial performance of Everest Bank Ltd. In a terms different kind of ratio.
2. to see the relationship between deposit and profit investment and profit deposit and investment of EBL.
3. To examine income and expenditure of EBL.

Some major findings are as follows:

1. EBL has enough investment in government securities in a final year of study period.
2. cash and bank balance to total deposit ratio of EBL shows its liquidity position was week over the ten year of study period.
3. EBL didn't meet current ratio 2:1 over the ten year of study period. it is a satisfactory comparing to a banking industry.
4. Loan and advance to total deposit ratio was inconsistent during the study period.

5. in a year 2006, EBL distributed 25 percent of dividend to equity shareholder which is highest of ten year study period.
6. Trend analysis of deposit and profit shows the increasing trend.
7. Return on assets during the study period was less than 2 percent.
8. Debt equity ratio of EBL showed the large portion of the bank's assets has been financed through outsider's fund. the aggregate 74 percent of assets was financed by outsider's fund.

Indra Man Panday (2008) has studied the " Profit Planning aspect of a comparative study of Bank of Kathamdnu Limited and Himalayan Bank Limited"

Objectives:

1) To higlight the current profit planning premises adopted and its effectiveness in HBL and BOK
2) To analize the variance of budgeted and actual achievements.
3) To study the growth of the business of the banks over the period.
4) To provide suggestion and recommendations for improvements of tne overall profitability of the banks.

Some major findings are as follows:

1. From the data analysis of deposit budget and actual achievement. It is found that the actual deposit is more variable than the budgeted one.
2. Banks resources deployments for non yielding liquid assets (cash and Bank balance) are fluctuating every year. At the FY 2005/2006, both bank growth rates is negative by -1.60% and -14.75 % of BOKL and HBL respectively.
3. Major portion of the recourses, have been deployed in LABP of the bank found to the considerably increasing every year expect 2002/2003 for BOKL. Comparatively the BOKL has been decreasing position than HBL
4. The LABP of both banks are fluctuating rate over the study period.
5. In the BOKL, NLABP has found high at first years and negative in second year then after fluctuate. Similarly the HBL, NLABP has found positive in five year and negative in two year.
6. Interest income amount of both bank are highest among other income items in the total revenue.

7. The interest expenses of the banks are found increasing each year corresponding to the increase in deposit on the both bank.
8. The interest spread or the amount of interest margin is found to be increasing every year in both the banks.
9. Net burden of the bank are increasing except FY 2001/2002 of BOKL.
10. The average ratios of the HBL and BOKL have found to be lower than standard ratio 2:1, which shows the solvency position of the banks.

Sushank Kharel (2008) has studied the "Profit Planning aspect of a comparative study of Everest Bank limited, Nabil Bank limited, and Bank of Kathamdnu Limited"

Objectives:

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

Some Major Findings are as follows:

1. EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
2. From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of Nabil and BOK.
3. BOK has higher investment on shares and debentures to total working fund ratio.
4. The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BOK.
5. The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.
6. The return on loan and advances ratio and return on assets of EBL is lowest of all. The ratio suggests that the earning capacity of the banks loan and advances is satisfactory.
7. EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.

Ganesh Bajgai (2009), has studied the "profit planning aspect of Nepal Investment Bank Limited"

Objectives:

1. To focus the current profit planning premises adopted and it's effectiveness in NIBL.
2. To study the variance of budgeted and actual achievements.
3. Te analyzes the growth of the business of the bank over the period.
4. To provide suggestion and recommendations for improvements of the overall profitability of the bank.

Some major findings are as follows:

1. The Bank is awarded "Bank of the year 2003, 2005, and 2008 "by the London based Financial Times Group's, The Banker.
2. The bank has 88% average contribution of customer deposit in the resources mobilization.
3. NIBL is well performing in the deposit collection sector.
4. NIBL Bank is currently operating with its 22 branch offices and bank has aim to rise up to 50 branches with in the year 2010 A.D.
5. The yearly interest income is in increasing trend in amount as per the O/S LDO is also increasing.
6. The amount of interest margin of NIBL is in increasing trend where as the increment percentage is fluctuating trend over the study period.
7. LDO is in increasing trend over the period.
8. The relationship between actual deposit and actual O/S LDO is in increasing trend over the period.
9. The current ratio of NIBL has met the standard of 2:1
10. Debt-Equity ratio shows that the NIBL's financial strength is very strong because it has more internal fund to repay the borrowing capital.
11. The interest coverage ratio of NIBL ranges between 1.99 to 2.34 Times.
12. The analysis of cash flow statement shows the sufficient position of bank

2.17 Research Gap

Most of the past research studies were about profit planning system is basically related to profit planning system of manufacturing organization or production oriented activities. The researcher could not find only one study so far that has been related to profit planning system of a commercial bank. All dissertations have pointed out there is no proper planning and controlling system and recommend for the effective implementation of profit planning and controlling system in the concerned institutions.

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

Above chapter two gives the detailed study about the conceptual framework of profit and profit planning, various activities of commercial bank and the applicability of profit and profit planning, in the bank with a specific reference to Standard Chartered Bank Nepal Ltd.

The forthcoming chapter includes the Research Methodology adopted for the study

CHAPTER – THREE

RESEARCH METHODOLOGY

3.1 Introduction

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

This study has intense relation with the application of planning and control in a Commercial Bank with a specific reference to Standard Chartered Bank regarding the Objectives to analyze, examine and interpret the application of profit planning in the Bank. The research methodology will include; research design, data collection procedures, and tools used.

3.2 Research Design:

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of the data .As per Kerlinger (1986), Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. This study is an examination and evaluation of budget process in profit planning program of Standard Chartered Bank. Various functional budgets and other related accounting information 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 has adopted in this research. This is a case study research.

3.3 Population & Sample

As this report aims at studying the profit planning aspect of a commercial Bank taking the case study of a single Bank i.e. Standard Chartered Bank Nepal Ltd, and data have been made analyzed for its operation. The population and sample term is not relevant for this study.

3.4 Data Collection Procedures and Sources of Data

This study is mostly based on secondary data. However; primary data and information have been obtained through informal discussions with the executives and other staff of the Bank. Secondary data have been collected from the annual published accounting and financial reports, official records, web site, brochures, prospectus and other relevant publications of Standard Chartered Bank, NRB, Central Bureau of Statistic and related publications.

Research Variables

Loan and advances, overdrafts, bills discounted (LDO), customer deposits, total resources, total deployment, outstanding balance of letter of credit and Bank Guarantees, interest expenses, Interest Income, other income, Share Capital etc of Standard Chartered bank are the research variable for the Study

3.6 Tools and Technique Employed.

This study is confined to examine the profit planning of SC Bank ,Therefore the data have been collected accordingly and managed ,analyzed and presented in suitable tables ,formats ,diagrams ,graphs, and charts .Such presentation have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, Test of goodness of fit of the regression estimates (r^2), correlation, mean, standard deviation, coefficient of variance etc.

3.6.1 Financial Tools

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

a. Ratio analysis: By ratio analysis we study the arithmetical relation ship of two data, in this study, we have applied liquidity Ratio, Capital Structure Ratio, Activity Ratio and Profitability Ratio of the Bank.

b. Cost Volume Profit analysis: we study the relationship among cost, volume, price and profit of the Bank

3.6.2 Statistical and Mathematical Tools

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

1. Percentile Increment
2. Mean
3. Standard Deviation
4. Coefficient of Variance
5. Regression analysis
6. Test of Goodness of fit of the Regression Estimation.
7. Correlation of coefficient
8. Probable Error
9. Coefficient of Determination

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

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 the specific context of SC Bank Nepal Ltd. To accomplish these objectives, the 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, cost volume profit analysis.

4.2 Status of Resource Mobilization

All the commercial Banks have identical accounting year of 12 months beginning from 1st of Shrawan to the end of Ashad of the next year. Standard Chartered Bank Nepal Ltd. prepares the profit plans for every year, which includes the business budget; revenue, expenditure and profit plan for the year.

The Strategic Profit Plan of Standard Chartered Bank Nepal Ltd. is reflected in its Business budget that shows the resource mobilization plan of Standard Chartered Bank Nepal Ltd.. Here, the term resources have been used for the fund required by the bank for its activities. Bank mobilizes its resources from the following sources:

i. Deposit collection
ii. Loan and Borrowings
iii. Share Capital

Among the above three sources, the Deposits accounts/ collection is the major source of resource mobilization which is in fact, one of the most important activities of every commercial Bank. Loans and Borrowings are obtained from local Banks, Foreign Banks, Central Bank and other financial institutions generally for a short period of time.

The Capital Find is raised from shareholder’s equity. It reflects the net-worth of the bank. Commercial Banks’ Capital Fund has been divided into two categories viz Core capital and Supplementary Capital.

The following table shows the resource mobilized by the bank over the period of study:

Table No: 1

Status of Resources Mobilization

(Amount in Rs. '000')

Fiscal Year	Deposit		Borrowing		Capital Fund		Other Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2004/05	19,363,470	88.90	27,551	0.13	1,582,415	7.26	808,243	3.71	21,781,679
2005/06	23,061,032	89.49	-	-	1,754,139	6.80	952,181	3.69	25,767,352
2006/07	24,647,021	86.19	400,000	1.39	2,116,353	7.40	1,433,315	5.01	28,596,689
2007/08	29,743,999	89.23	-	-	2,492,547	7.48	1,099,242	3.29	33,335,788
2008/09	35,871,721	88.38	300,000	0.74	3,052,470	7.52	1,363,277	3.36	40,587,468

(Sources: SC bank Nepal Ltd., Annual Report 2004/05-2008/09)

From the above, it is clear that the customer deposit collection contributes the major share in resources mobilization. The average portion of deposits, borrowings, capital fund and other liability to total resource mobilization for five years is 88.44%, 0.75%, 7.29% and 3.82% respectively. During the year 2006/07 and 2008/09 deposit decreased so other resources has been increased as borrowing increased in these period. Capital fund seems to be fluctuating in all the period of the study, in this situation bank should have issued the share. In 2005/06 and 2007/08 borrowing is nil, with decreased percentage of capital fund and other liability these may be due to efficiency of management of bank so more customers managed to deposit. Therefore, for the study we have suggested total sources of resources mobilization as follows.

A. From Customer Deposit Collection (Deposit)

4.2.1 Deposit Collection

Customer Deposit is the major important source of resource mobilization of the Bank. The contribution of customers deposit to total resources is high. Deposit is collected from various sectors such as the general public, business entities NGO's, Schools, And Trusts 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 deposit accounts are of two types

1. Interest Free Deposit Accounts

i. Current Deposits A/C

ii. Margin Deposits A/C

iii. Other Deposits A/C

2. Interest Bearing Deposits accounts

i. Saving Deposit Account

ii. Call Deposit Account

iii. Fixed Deposit Account

4.2.1.1 Deposit Collection budget of SC Bank Nepal Ltd.

The following table shows the budgeted and actual figures of the deposit collection under this category over the period of study. Since the budgeted figure for deposit collection from fiscal year 2004/05 to 2008/09 could not be available so, this study has assumed the budgeted amount for the corresponding years using time series.

Table No.2

Status of Budgeted and Actual Deposit Collection

Amount in Rs "000"

Fiscal year	Budgeted Amount	Actual Amount	Achievement

2004/05	21397720	19,363,470	90.49%
2005/06	22765956	23,061,032	101.29%
2006/07	24134192	24,647,021	102.14%
2007/08	25502429	29,743,999	116.63%
2008/09	26870665	35,871,721	133.50%

(Sources: SC Bank Nepal Ltd, Annual Reports, 2004/05-2008/09)

The above table shows the status of budgeted and actual deposit collection of SC Bank Nepal Ltd. The achievement range is slightly incresed it ranged between 90.49 % to 133.50 % through out the five year study period. The data of table are presenting in bar diagram for the analysis purpose

Diagram No.1: Bar Diagram of Budgeted and Actual Deposit Collection

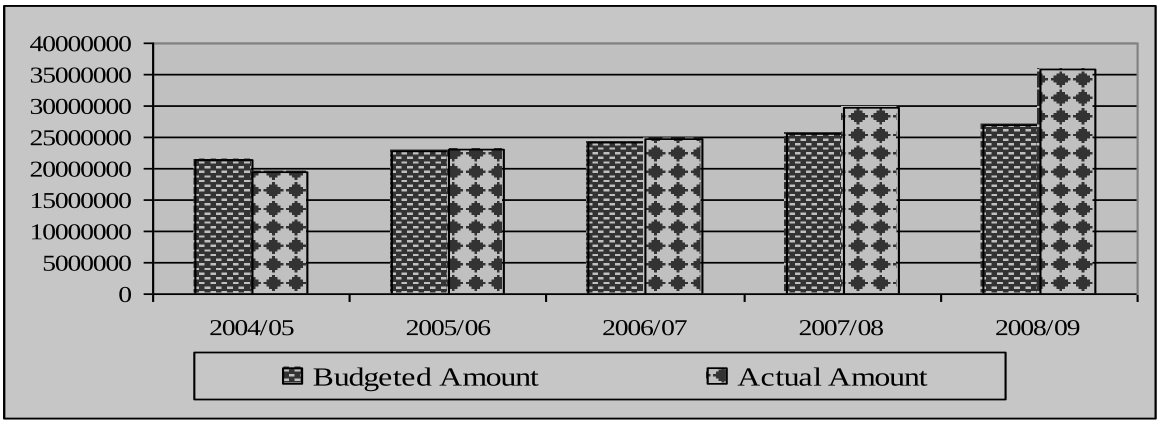
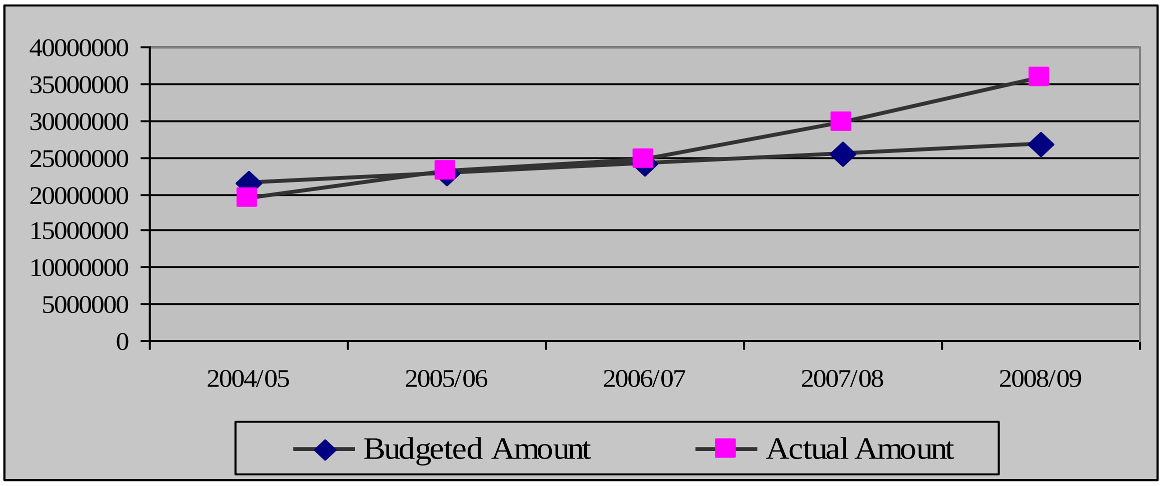


Diagram No.2: Scatter Diagram of Budgeted and Actual Deposit Collection



The table shows that the deposit collection target was achieved recording 90.49 % in the first fiscal year 2004/05 and then afterwards this picture shows the high level of achievement made by the Bank in deposit collection. The reason behind it is the increasing of faith of customers towards bank because of its investment on highly performance assets in deposit collection sectors, increases in bank customer, increases in business activities, increase in income generation activities and etc. The bar diagram shows the achievement level higher than the budgeted level. Similarly, in the scatter diagram, the actual line is running higher than the budgeted line. The entire above picture give the high level of performance of the bank in deposit collection sector. We can find the relationship between the budgeted deposit collections with that of actual for different year by the help of statistical tools, that is arithmetic mean, standard deviation and coefficient of variation. The detail calculation of these, statistical tools shows in appendix 1. now we are going to present summering the results from appendix 1.

Table No.3

Summary of the deposit collection budget and achievement:

(Amount in Rs '000')

Statistical tools	**Budgeted deposit in Rs. (x) in (000)**	**Actual deposit in Rs. (y) in (000)**
Mean (×)	24134192.4	26537448.6
Standard deviation (σ)	1934978.47	5736475.652
Coefficient Variation (C.V)	8.01	21.23

Source : Appendix :1

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

A statistical tool correlation co-efficient can be used to analyze the relationship between budgeted deposits and actual deposits. There should be positive co-relation between budgeted deposits and actual deposits. Karl person's coefficient correlation was used to find correlation between actual deposits and budgeted deposits. Karl person's coefficient of correlation is denoted by (r). By calculating (r) correlation between budgeted deposits and actual deposits can be known. The actual deposits will change in the same direction, as the budgeted deposits. For this purpose budgeted deposits assuming to be independent variable was assigned X and actual deposit assuming to be dependent variable was assigned Y upon budgeted deposits. Budgeted deposits and the actual achievement increased, which meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) is tested with probable error PE.

The detail calculation of ‘r’ and probable error PE was made in appendix 1. From that appendix the calculated the value of r was 0.134887. This figure ‘r’ shows that there was positively perfect correlation between budgeted deposits and actual deposits. The value of r=0.009787 and Probable Error (PE)= 0.134887

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

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

$$y - \overline{y} = r \times \sigma y / \sigma x \ (x - \overline{x})$$

We have the following values as calculated above:

	Budgeted (X)	Actual (Y)
Mean	24134192.4	26537448.6
$S.D\ \sigma$	1934978.47	5736475.652

$r(x, y) = 1$

then $y - \overline{y} = r \times {}^{\sigma y}\!/_{\sigma x} \ (x - \overline{x})$

$$y - 26537448.6 = 0.009787 \times {}^{5736475.652}\!/\!_{1934978.47}\ (X - 24134192.4)$$

$$y - 26537448.6 = 0.029\,(X - 24134192.4)$$

$$y - 26537448.6 = 0.029x - 699891.6$$

$$y = 0.029x + 25837557.0$$

From the above equation, it is clear that actual deposits are in increasing trend by the help of this regression equation. We ascertain the expected deposit achievement with given value of target deposit say (x) ascertain the expected deposit achievement for fiscal year 2009/10

when X= 28239401

The expected deposit achievement

$$\begin{aligned} y &= 0.029 \times 28239401 + 25837557.0 \\ &= 26656500 \end{aligned}$$

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

Table No.4

Growth of deposits of SC Bank Nepal Ltd.

(Amount in Rs '000')

Fiscal Year	**Deposit Amount**	**Growth in Rs.**	**Growth %**
2004/05	19,363,470	-	-
2005/06	23,061,032	3,697,562	19.10

2006/07	24,647,021	1,585,989	6.88
2007/08	29,743,999	5,096,978	20.68
2008/09	35,871,721	6,127,722	20.60

(Source: SC bank Nepal Limited, Annual Report 2004/05-2008/09)

The above table shows the growth trend of deposit collection of SC Bank Nepal Ltd. F/Y 2004/05 is the base year for the growth calculation. In F/Y 2005/06 the deposit collection is increased by the 19.10 % in comparison with F/Y 2004/05. The amount of deposit collection is in increasing trend where as the increasing percentage is fluctuating as a result in F/Y 2006/07 the percentage has decrease in 6.88 % from 19.10 % of F/Y 2005/06 and in F/Y 2007/08 the trend of growth is 20.68 % with comparison of F/Y 2006/07. The growth rate in 2008/09 has decreased to 20.60 % with comparison of F/Y 2007/08 since the amount of deposit increased

4.2.2 Resource Development plan:

A reasonable allocation of the resources is required for comfortable liquidity for investment as well as in income generating activities. Besides these, some investments need to be made in fixed assets and other operating assets in the context of the Bank. The development of available resources can be objectively made in three categories as below.

i. Deployment for liquidity.
ii. Deployment for income generating activities.
iii. Deployment for other asset.

i. Deployment for liquidity:

This is made for meeting withdrawal and other kind of payment obligation of the bank. The resources for this purpose is kept in liquid form such as in Vault, Cash at Bank. Generally, there is no yield on this type of fund with an exception of money placed in interest bearing account. The Central Bank of Nepal, NRB's instruction made the commercial Banks mandatory to maintain approximately 10% of their total customer deposit liability form (Cash in Vault at NRB). Therefore, Cash & Bank Balance is grouped in one portfolio investment.

ii. Deployment for income generating activities.

Bank deploys the major portion of the resources for income generating activities. Popularly called as fund based exposure. Fund based exposure are made by the Bank in following two portfolios:

a. Loan, Advances and Bills purchased (LABP)

b. Other investments.

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

iii. Deployment for the assets:

This includes the employment of the resources in acquiring fixed assets, along with other capital expenditure subject to write off in future, income receivables; advance payments, sundry debtors etc. The following table deployment of fund by the bank over the period of study:

Table No.5

Status of Resource Development of SC Bank Nepal Ltd.

(Amount in Rs. '000')

Fiscal Year	Cash & Bank Balance		LABP		Investment		Other assets		Net Fixed Assets		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2004/05	1,111,117	5.69	8,143,208	41.71	9,702,553	49.70	493,697	2.53	71,413	0.37	19,521,988
2005/06	1,276,241	5.36	8,935,418	37.55	12,838,555	53.97	638,565	2.68	101,302	0.43	23,790,081
2006/07	2,021,021	7.53	10,502,637	39.14	13,553,233	50.50	633,055	2.36	125,591	1.47	26,835,537
2007/08	2,050,243	6.58	13,718,597	44.06	13,902,819	44.65	1,349,319	4.33	117,272	0.38	31,138,250
2008/09	3,137,164	8.14	13,679,757	35.50	20,236,121	52.52	1,341,585	3.48	137,293	0.36	38,531,920

(Sources: SC Bank Nepal Ltd., Annual Reports, 2004/05 to 2008/09)

The above table shows that the deployment available resources of the bank portfolios, LABP and Investment holds the biggest outlet of resource deployment. Through out the study period, the range of cash and bank balance of SCBNL is 5.36 % to 8.14 % it means that the bank use their fund to maintain liquidity position 5.36 % to 8.14 % out of total resource deployment. The trend of cash and bank balance slightly fluctuating.

The use of resources in the LABP is the range from 35.30 % to 44.06 % out of total deployment over the five years of study period. In the F/Y 2004/05 the percentage was 41.71% and in it decreased in F/Y 2005/06 to 37.55 % .In F/Y 2006/07, it slightly increased in 39.14 % again it increased than F/Y 2007/08 to 44.06 %. And the LABP is in increasing trend where as the increasing percentage is fluctuating as a result in F/Y 2008/09 the percentage has decreased in 35.5% from 44.06 % of F/Y 2007/08. Even though the range of LABP is fluctuating trend in terms of percentage the amount is in fluctuating over the study period. Like wise the bank use their fund in investment 44.65 % to 53.97 % over the period. The trend of investment is in fluctuating trend. The percentage of investment in the F/Y 2004/05 is 49.70 % whereas in increase in year 2005/06 in 53.97 %. Whereas, the percentage of investment is decrease by 50.50% in F/Y 2006/07 and also decreased by F/Y 2007/08 of 44.65%. Whereas in increase in F/Y 2008/09 in 52.52%. SCBNL use the resources in net fixed assets and other assets in nominal percentage out of total deployment. The range of net fixed assets is 0.36% to 1.47% and other assets are 2.36% to 4.33 % out of total deployment over the study period. Therefore, in this study, deployment of resources is categories into the two categories:

a. Deployment in LABP (LABP)

b. Deployment in other sector than LABP (NLABP)

4.2.2.1 LABP budget of SC Bank Nepal Ltd.

The following table shows the budgeted amount resources allocation and achievement. Since the budgeted figure of LABP from the F/Y 2004/05 to F/Y

2008/09 was not available, time series model was used to find the budgeted amount of resource deployment

Table No. 6

Status of Budgeted and Actual Deployment for LABP

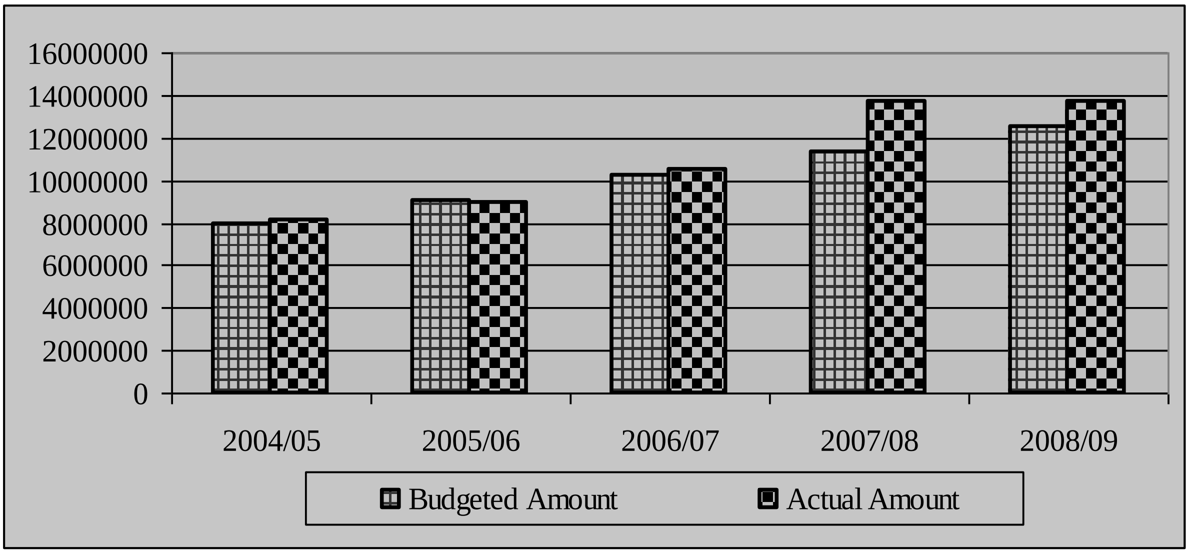
(Amount in Rs.'000')

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2004/05	7937478	8,143,208	102.59%
2005/06	9079917	8,935,418	98.41%
2006/07	10222355	10,502,637	102.74%
2007/08	11364794	13,718,597	120.71%
2008/09	12507232	13,679,757	109.37%

(Sources: SC Bank Nepal Ltd, Annual Reports, 2004/05-2008/09)

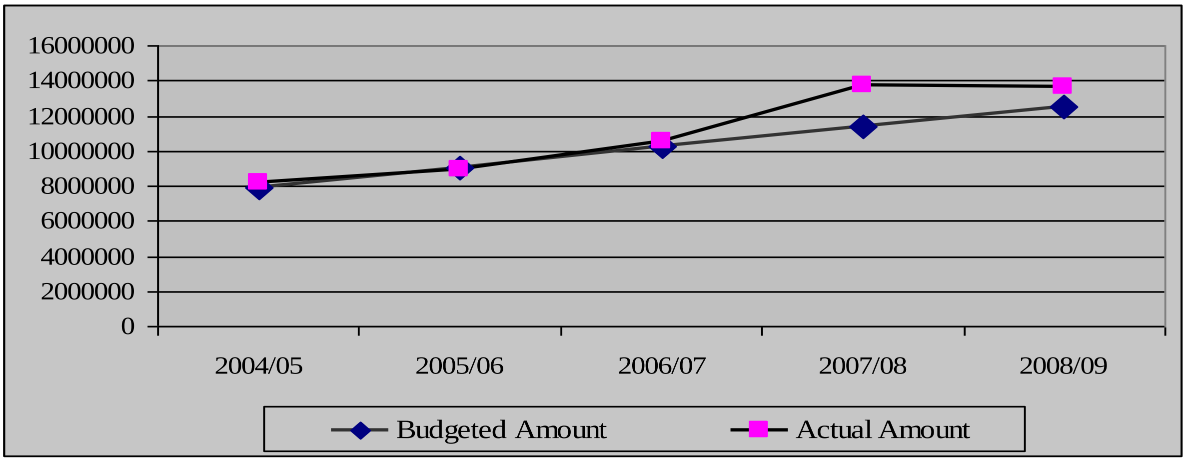
Above table shows that status of budgeted and actual LABP of SC Bank Nepal Ltd. The investment in LABP is increasing trend in terms of amount where as the achievement percentage with budgeted figure is fluctuating trend. The range of achievement over the five year period is 98.41 % to 120.71 % it shows that SC Bank Nepal Ltd has meet the targeted in LABP in every year but the achievement trend is not same increment trend. In F/Y 2005/06 the percentage has decrease in 98.41 % from 102.59 % of F/Y 2005/06 and in F/Y 2006/07 the trend of growth is 102.74 % and also increase in F/Y 2007/08 in 120.71%. In F/Y 2008/09 the percentage has increase in 109.37 % respectively. From the main reason for fluctuation is investor's own security and their business security. For the study purpose the figure of LABP are presented in Bar and scatter diagram and draw some conclusion accordingly.

Diagram No. 3 Bar Diagram of Actual Deployment for LABP



The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LABP. The trend of actual deployment is in increasing trend and budgeted too. The actual achievement of LABP has met the budgeted LABP in every year. For the more analysis purpose the figure of budgeted and actual LABP in presenting is scatter diagram to show the relationship between budgeted figure and actual achievement through out the study period. The scatter diagram showing the status of budgeted and actual LABP of SC Bank Nepal Ltd.

Diagram No:4 Scatter Diagram of Actual Deployment for LABP



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

Table No. 7 Summary of the LABP collection budget and achievement:

(Amount in Rs. '000')

Statistical tools	Budgeted LABP in Rs. (x) in (000)	Actual LABP in Rs. (y) in (000)
Mean ($\times$)	10222355.2	10995923.4
Standard deviation (σ)	1615652.28	2334249.932
Coefficient Variation (C.V)	15.81%	21.23%
Correlation of Coefficient (r)	0.960	
Probable Error (PE)	0.010	

Source : Appendix :2

The above table shows that actual LABP were more variable than targeted LABP. Since the coefficient of variations of actual LABP was greater than that of targeted LABP, actual LABP were of more variable. On the other hand budgeted LABP were more consistent and homogeneous than actual LABP. A greater coefficient of variation said to be more heterogeneous. Here SC Bank Nepal Ltd actual LABP were the nature of more variability than budgeted LABP.

Another statistical tool correlation co-efficient to analyze the relationship between budgeted LABP and actual LABP. There should be positive co-relation between budget LABP and Actual LABP. Karl person's coefficient of correlation was used to find correlation between actual LABP and budgeted LABP. Karl person's coefficient of correlation is denoted by (r). By calculating ® the positive correlation between budgeted LABP and actual LABP can be examined. The actual LABP will change in the same direction, as the budgeted LABP. For this purpose budgeted LABP was assigned by X and assumed to be independent variable and actual LABP was assigned 'Y' and assumed to be dependent variable upon budgeted LABP.

It helped to examine whether increase in budget increased in actual achievement or vice versa, which meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of ® was tested with probable error (PE). The probable error (PE)=0.01042

The details of calculation of 'r' and probable error 'PE' were presented in appendix 2. The value of r is 0.9606. This figure of 'r' shows that there was positively perfect correlation between budgeted LABP and actual LABP.

Since r was greater than six times of the probable error (0.9606<6*0.0104). the value of r is not significant. So it is no doubtful that actual LABP would go on the same direction that of budgeted LABP.

From the correlation in appendix 2, we have obtained the value of r being 0.9606. Now the coefficient of determination which explains the change in Y variable i.e budgeted LABP can be calculated as the square of 'r'

Therefore, coefficient of determination $(r)^2 = (0.9606)^2 \Rightarrow 0.92275$

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

$$Y - \overline{Y} = r \times {}^{\sigma y}\!/_{\sigma x} \, (X - \overline{X})$$

We have the following values as calculated above:

	Budgeted (x)	Actual (y)
Mean	10222355.2	10995923.4
S.D	1615652.28	2334219.932

r (x,y) = 0.9606

then,

$$Y - 10995923.4 = 0.9606 \times {}^{2334219.932}\!/_{1615652.28} \, (X - 10222355.2)$$

$$Y - 10995923.4 = 1.388 \, (X - 10222355.2)$$

$$Y - 10995923.4 = 1.388x - 14188629$$

$$Y = 1.388x - 3192706$$

From the above equation, it is clear that actual LABP are in increasing trend by the help of this regression equation. We ascertain the expected deposit achievement with given value of target deposit say (x) ascertain the expected deposit achievement for fiscal year 2009/10

When x = 13649670

The expected LABP achievement

$$Y = 1.388x - 3192706$$

$$Y = 1.388 \times 13649670 - 3192706 \quad \Rightarrow \quad 15753035$$

Growth of LABP of SC Bank Nepal Limited

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

Table No. 8

Growth of LABP of SC Bank Nepal Limited

(Amount in Rs. '000')

Fiscal Year	LABP	Growth in Amount	Growth in Percentage
2004/05	8,143,208	-	-
2005/06	8,935,418	792210	9.73
2006/07	10,502,637	1567219	17.54
2007/08	13,718,597	3215960	30.62
2008/09	13,679,757	-38840	-0.28

(Source: SC Bank Nepal Limited, Annual Report 2004/05-2008/09)

The above table shows the growth trend of LABP collection of SC Bank Nepal Ltd. The base year to calculate the growth rate of SC Bank is F/Y 2004/05. The increment rate is 9.73 % in F/Y 2005/06 in comparison with F/Y 2004/05. The rate of growth is increased in the F/Y 2006/07 it is only 17.54 % since the amount of LABP increased as last year. In the F/Y 2007/08 it has improved than the year 2006/07. The growth rate in 2008/09 has declined to 0.28% with comparison of F/Y 2007/08 since the amount of LABP decreased.

4.2.2.2 Resource development in other portfolio than LABP (NLABP)

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

The following table shows the budgeted and actual figure of the resources deployed over the period of study. Since the budgeted figure of NLABP from the F/Y 2004/05 to F/Y 2008/09 was not available, time series model was used to find the budgeted amount of resource deployed.

Table No.9

Status of Budgeted and Actual Deployment in NLABP

(Amount in Rs “000”)

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2004/05	14227360	11,378,780	79.98%
2005/06	18144150	14,854,663	81.87%
2006/07	15010718	16,332,900	108.81%
2007/08	15402397	17,419,653	113.09%
2008/09	15794076	24,852,163	157.46%

(Sources: SC Bank Nepal Ltd, Annual Reports, 2004/05 to 2008/09)

The above table shows the achievement of the bank in deployment of the NLABP. It shows the fluctuating trend during the study period. The range of achievement over the five year period is 79.98 % to 157.46 %. In F/Y 2005/06 the percentage has decrease in 81.87 % from 79.98 % of F/Y 2005/06 and in F/Y 2006/07 the trend of growth is 108.81 % and also increase in F/Y 2007/08 in 113.09%. In F/Y 2008/09 the percentage has increase in 157.46 % respectively. For the analysis purpose the status of budgeted and actual NLBP is presenting in diagram below.

Diagram No.5 Bar Diagram of Budgeted and Actual Deployment for NLABP

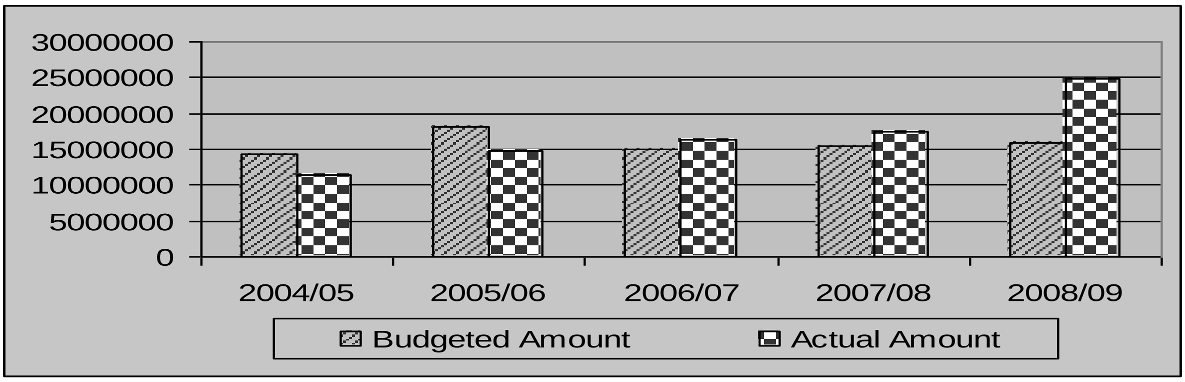
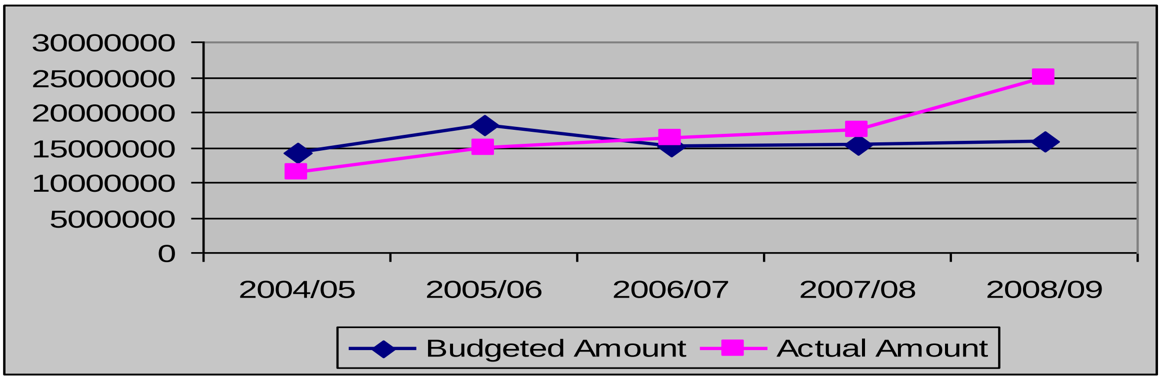


Diagram: 6 Scatter Diagram of Actual Deployment for NLABP



we can find the relationship between the budgeted NLABP with that of actual for different years by the help of statistical tools that is arithmetic mean, standard deviation and coefficient of variation. The detailed calculations of the detailed calculation of the statistical tools are shown in appendix 3. now we are going to present summering the results from appendix 3. We have.

Table No. 10

Summary of the NLABP collection budget and achievement:

(Amount in Rs. '000')

Statistical tools	**Budgeted NLABP in Rs.(x) in (000)**	**Actual NLABP in Rs.(y) in (000)**
Mean (×)	15715740.2	16967631.8
Standard deviation (σ)	1320138.37	4437858.52
Coefficient Variation (C.V)	8.40%	26.16%
Correlation of Coefficient (r)		0.14033
Probable Error (PE)		-0.13224

Source: Appendix No:3

The above table shows the summary of investment in other sector (NLABP) . The average investment in other sector is highest than the budgeted figure. It means the target has been achieved. The actual NLABP is more variable in nature since it has higher C.V it means that the budgeted figure is more consistent a greater C.V is said to be more heterogeneous. The correlation between budgeted and actual NLABP is denoted by r. The value of r is 0.14033 so the relationship between budgeted and actual figure is perfectly correlated. Since r was greater than six times of the probable error (0.14033<6*-13224) the value of r is not significant. So it is no doubtful that actual NLABP would go on the same direction that of budgeted NLABP

Growth of NLABP of SC Bank Nepal Limited

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

Table No: 11

Growth of NLABP of SC Bank Nepal Limited

(Amount in Rs. '000')

Fiscal Year	**NLABP**	**Growth in Amount**	**Growth in percentage**
2004/05	11,378,780	-	-
2005/06	14,854,663	3475883	30.55
2006/07	16,332,900	1478237	9.95
2007/08	17,419,653	1086753	6.65
2008/09	24,852,163	7432510	42.67

(Source: SC Bank Nepal Ltd. Annual Reports, 2004/05-2008/09)

The above table shows the movement SC Bank Nepal Ltd. The base year to calculate the growth rate of SC Bank is F/Y 2004/05. The increment rate is 30.55 % in F/Y 2005/06 in comparison with F/Y 2004/05. The rate of growth is declined in the F/Y 2006/07 it only 9.95% since the amount of NLABP could not increased as last year. Again, in F/Y 2007/08 it has decreased 6.65% than the year of 2006/07. In the F/Y 2008/09 it has improved than the year 2007/08 .The growth rate in 2008/09 has reached to 42.67 % with comparison of F/Y 2007/08 since the amount of NLABP increased.

4.2.3 Actual deposit collected vs. actual LABP status of SC bank Ltd.

The major source of resources mobilized of SC Bank Nepal Ltd. was the customer deposit and similarly the major outlet for deployment portfolio was for loan and bills purchased (LABP). It is desirable to analyze the comparative status of the same for the study period. Following table shows actual balance of customer deposit mobilization and actual position of deployment toward LABP and the ratio of LABP to deposit (CD Ratio) as of corresponding fiscal year.

Table No.12

Status of LABP verses Actual Deposit of SC Bank Nepal Ltd.

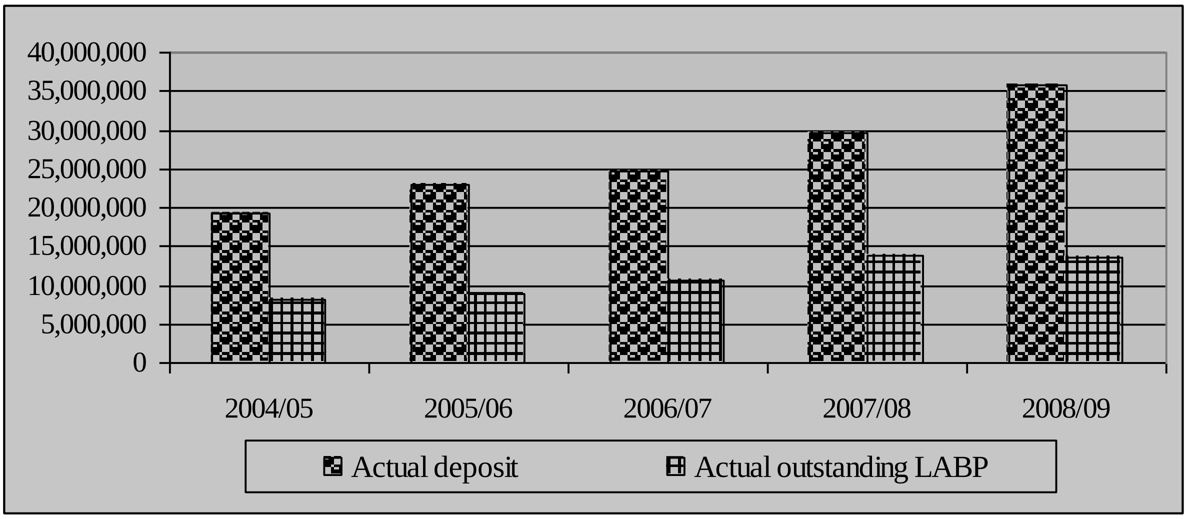
(Amount in Rs. '000')

Fiscal Year	Actual deposit	Actual outstanding LABP	LABP to deposit ratio (CD Ratio)
2004/05	19,363,470	8,143,208	42.25
2005/06	23,061,032	8,935,418	38.75
2006/07	24,647,021	10,502,637	42.61
2007/08	29,743,999	13,718,597	46.12
2008/09	35,871,721	13,679,757	38.16

(Source: SC Bank Nepal Ltd., Annual Report 2004/05-2008/09)

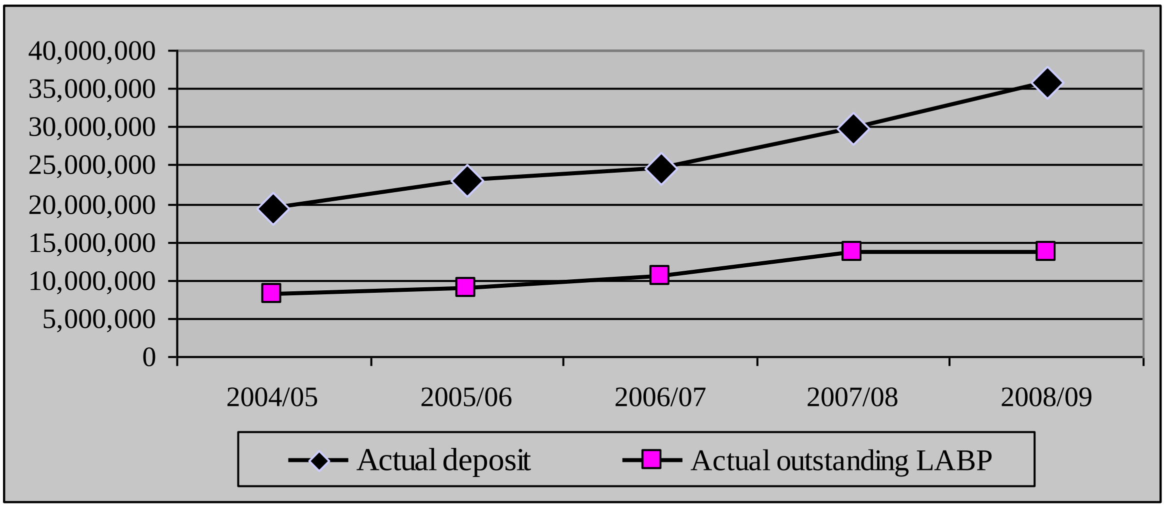
The above table shows the status of actual deposit balance and actual outstanding LABP. It is significant to analyze the relationship between deposits and outstanding LABP. The actual deposit and actual outstanding LABP both are in increasing trend through out the study period. The average CD ratio over the period of last five years was 41.58%. the utilization of deposit collection in terms of LABP is fluctuating trend in percentage. The LABP deposit ratio is ranges from 38.16% to 46.12%. This indicate that the bank invest in LABP out of total deposit in the range of 38.16% to 46.12% over the five years time period. In the F/Y 2004/05 CD ratio is 42.25% it has decreased to 38.75% in F/Y 2005/06 because less amount of deposit has been flown as credit. Similarly, CD ratio was 42.61% and 46.12% in the F/Y 2006/07 and 2008/09 because high amount of deposit have been provided as credit and so on. 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. For the analysis purpose the figure of actual LABP and actual deposit is presenting in the bar and sectors diagram as below.

Diagram No. 7 Bar diagram showing Actual deposit vs. Actual LABP of SC bank Ltd.



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

Diagram No. 8 Scatter Diagram showing Actual deposit and Actual LABP of SC Bank Nepal



From the above table and charts it can be found that both the deposit and LABP is in increasing trend over the period. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LDO. We have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error.

The details calculation was presented in appendix no. 4. now, summarizing the results from appendix 4, we have

Table No.13

Summary of Actual deposits and Actual outstanding LABP

(Amount in Rs "000")

Statistical tools	Actual Deposits	Actual outstanding LABP
Mean ($\times$)	26537448.6	10995923.4
Standard deviation (σ)	5736475.652	2334219.932
Coefficient Variation (C.V)	21.62	21.23
Correlation of Coefficient (r)		0.9311
Probable Error (PE)		0.0179

Source: Appendix No .4

The above table shows that actual LABP is more variable than actual deposit. Hence the Coefficient of variation of actual deposit is higher than that of actual outstanding LABP. The relationship between actual deposit and actual outstanding LABP can be measured by co-relation of coefficient between them.

We can take the help of Karl Person's Co-efficient of correlation (r) to find correlation between actual deposit and actual outstanding LABP. We can examine whether there was positive correlation between actual deposits outstanding and actual LABP outstanding or not.

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

The correlation r is 0.93116 this means it is perfectly correlated between actual deposit and actual outstanding LABP. Significance of correlation r is tested with probable error (PE), here the r > 6 P E (0.93116 > 6* 0.01793). So, the calculation of r is highly significance.

4.2.4 Plan for Non-Funded Business Activities of SC Bank Nepal Ltd.

The total income of bank can be generate by two form one is fund base another is non fund base. Advancing loan, overdraft, Bills discounting and investments are fund consuming income generative activities. Another activities performed by the bank which don not involve fund yet but they are income generative. Such transactions are called non fund business activities and off balance sheet items. In such transactions, the bank has to take contingents liabilities on behalf of their customer for a fee and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expense burden of the bank. SC Bank Non- Fund business activities (off-Balance sheet items) are summarized below for the study period.

a) Letter of Credit Business

b) Bank Guarantee Business

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

4.2.4.1 Letter of credit (LC) business of SC Bank Nepal Ltd:

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

Following table shows the letter of credit business status of the bank as of the closing of the respective fiscal year and its growth over the period of this study.

Table No.14

Growth of Letter of Credit Business of SC Bank Nepal Ltd.

(Amount in Rs “000”)

Fiscal Year	Outstanding L/C Amount	Increased/decreased Amount	Growth in %

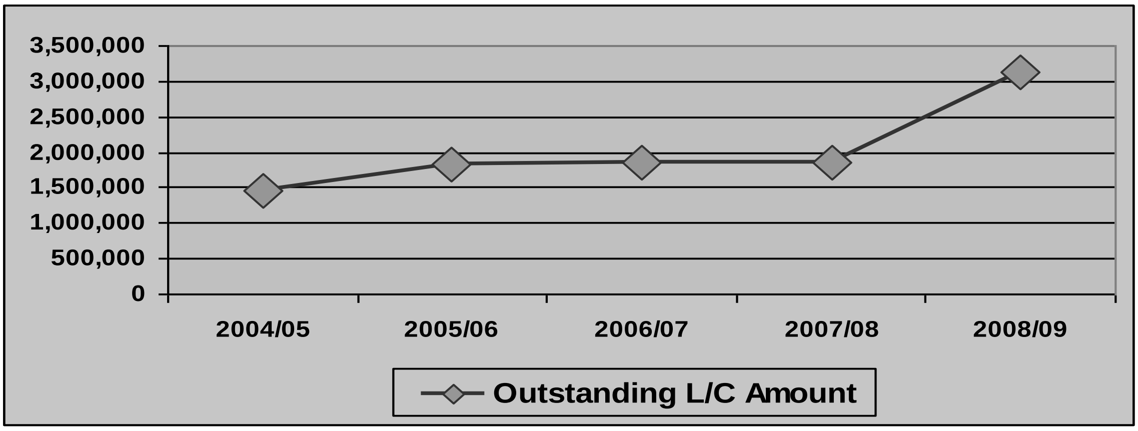
2004/05	1,456,762	-	-
2005/06	1,837,398	380636	26.13
2006/07	1,861,944	24,546	1.34
2007/08	1,857,994	(3,950)	(0.21)
2008/09	3,120,879	1262885	67.97

(Source: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

The above table shows the movement of letter of credit business of SC Bank Nepal Ltd. The trend of such business is very fluctuating. The base year to calculate the growth rate is 2004/05. It had a record growth of 67.97% in the fiscal year 2008/09 and decreasing growth rate (0.21) % in the fiscal year 2007/08. Fluctuation in L/C have been recorded from the study. L/C being the facility provided by Bank, can be influenced by Bank policy and strategies, NRB direction , economic policy, current situation of the country, import-Export, trade policy, currency fluctuation, foreign exchanges etc. For the more analysis researcher going to present the LC business in scatter bar diagram below.

Diagram No: 9

Scatter Diagram of Growth of L\C Business of SC Bank Nepal Ltd.



The above scatter diagram shows the position of letter of credit business of SC Bank. Trend of business decreasing in F/Y 2007/08. In F/Y 2008/09 it reached higher position of the letter of credit

4.2.4.2 Bank Guarantee business of SC Bank Nepal Ltd:

A bank guarantee is a definite and irrevocable understanding by a bank on behalf of its customer to make payment up to a specified sum of money to the beneficiary on demand in case of default by its customer. Bank issues the bank guarantee on behalf of their customer for bidding or performing activities by the latter in favor of the employer of the activities.

The following table shows the status of bank guarantee liabilities of SC Bank and the increment amount and growth percentage of bank guarantee business of SC Bank .

Table No: 15

Yearly Growth in Bank Guarantee Liability

(Amount in Rs.'000')

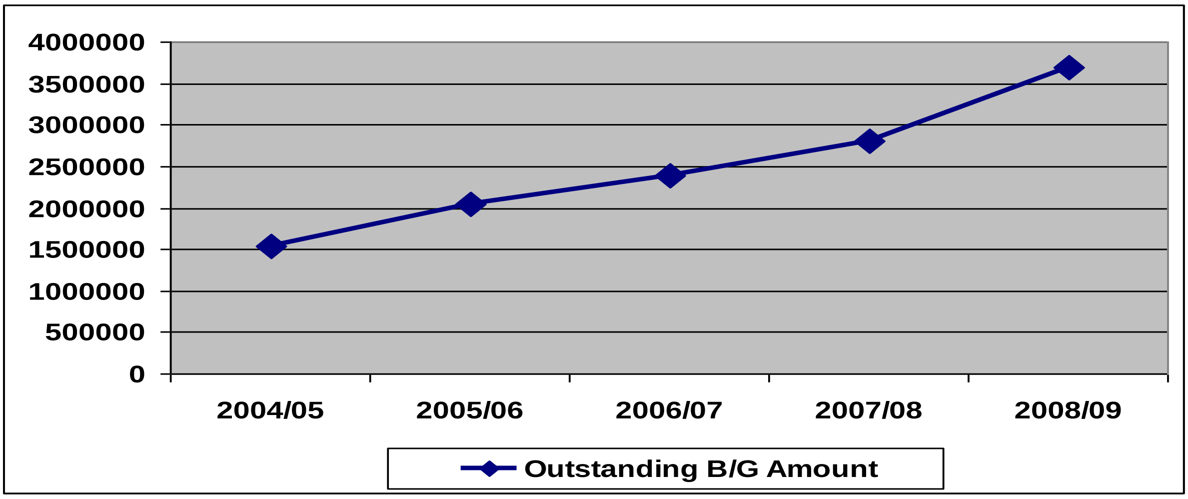
Fiscal Year	**Outstanding B/G Amount**	**Increased (Decreased) Amount**	**Growth in %**
2004/05	1,531,069	–	–
2005/06	2,046,063	514,994	33.64
2006/07	2,389,969	343,906	16.80
2007/08	2,800,467	410,498	17.17
2008/09	3,687,373	886,906	31.67

(Sources: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

The above table shows the status of bank guarantee business of SC Bank. The amount of bank guarantee is in increasing trend every year. Whereas the growth rate is decreasing tend. The base year to calculate the growth rate is F/y 2004/05. Maximum growth rate of banks guarantee is 33.64 % in year 2005/06. The rate of growth bank guarantee business is 16.80 %, 17.17 %, 31.67 % with the comparison with F/Y 2006/07, 2007/08, 2008/09 respectively. The trend of bank guarantee business is increasing in terms of amount but the growth trend is in decreasing trend. For the analysis purpose we have plotted the data in scatter diagram and some conclusion drawn below.

Diagram No: 10

Yearly Bank Guarantee Business of SC Bank Nepal Ltd.



The scatter bar diagram shows the status of bank guarantee business of SC Bank. The trend of the business is slightly increasing over the five years.

4.2.5 Expenditure Planning of SC Bank Nepal Ltd.

Expenditure planning is most essential to achieve the objectives and planned programs of the bank. Expenditure plan helps to organization to achieve the goal and objectives. Expenditure planning considered expenses and the benefits derived from this expenditure. Expenses are necessary to possible has to services to gain maximum profit. The following table shows the status of expenditure incurred by the SC Bank Nepal Ltd. over the study period.

Table No.16

Yearly Cost Structure of SC Bank Nepal Ltd.

Amount in Rs "000"

Year Expenses	2004/05		2005/06		2006/07		2007/08		2008/09		Types wise Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Interest Expenses	254,127	33.97	303,198	38.55	413,055	43.81	471,730	45.05	543,787	44.58	1985897
Employee Expenses	148,586	19.86	168,231	21.39	199,778	21.18	225,256	21.51	253,053	20.74	994904
Office operational expenses	256,649	34.31	221,087	28.11	228,451	24.22	230,571	22.04	276,327	22.65	1213085
Non-operating expenses	–	–	–	–	–	–	–	–	–	–	–
Provision for staff bonus	88,683	11.86	93,937	11.94	101,610	10.77	119,337	11.40	146,721	12.02	550288
Loan Provision	–	–	–	–	–	–	–	–	–	–	–
Total Expenses	748,045		786,453		942,894		1,046,894		1,219,888		

(Sources: SC Bank Nepal ltd, *Annual Reports 2004/05-2008/09)*

The above table shows the total expenses of SC Bank. The trend of all expenses is in fluctuating. The major expense of bank is interest expenses out of total expenses of SC Bank. Interest expenses are in fluctuating trend. The range of interest expenses is 33.97% to 45.05% out of the total expenses of SC Bank Nepal Ltd though out the five year of time period. The employee expense is in fluctuation trend, the range of employee expenses in 19.86% to 21.51% in 2004/05 and 2007/08 respectively. The office operation expenses are in fluctuation trend in 22.04% to 34.31% in 2007/08 and 2004/05 respectively. The trend of provision for staff bonus is fluctuation the ranged the range of staff bonus is 10.77% to 12.02% in 2006/07 and 2008/09 respectively out of total expenses.

1) Interest expense
2) Expense other than interest (other expenses).

4.2.5.1 Interest Expenses

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

Table No.17

Yearly Status of Interest Expenses to total Deposit (Cost of Deposit)

(Amount in Rs "000")

Fiscal Year	Interest Expenses Amount	Total Deposit Amount	Cost of deposit in percentage
2004/05	254,127	19,363,470	1.31
2005/06	303,198	23,061,032	1.31
2006/07	413,055	24,647,021	1.65
2007/08	471,730	29,743,999	1.59
2008/09	543,787	35,871,721	1.50

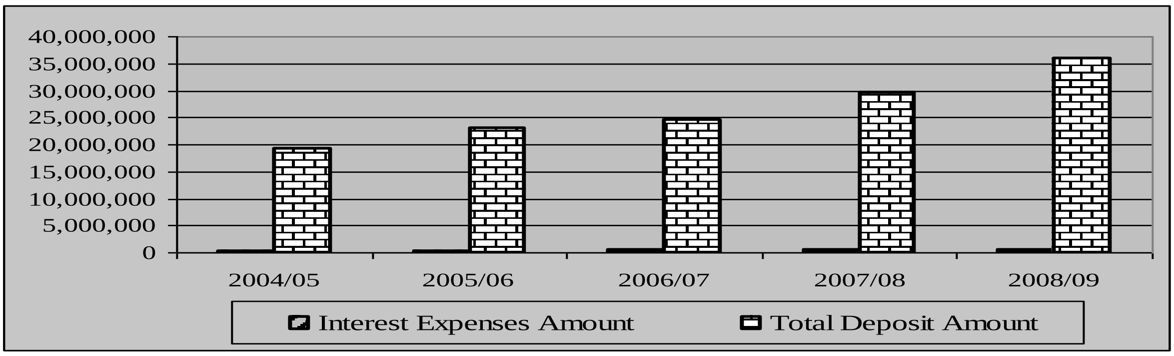
(Sources: SC Bank Nepal Ltd, Annual Reports, 2004/05- 2008/09)

The above table shows the total deposit and interest expenses of respective year. The deposit amount is increasing trend likewise the interest expenses too. The customer deposit is one of the major sources for resources mobilization by the bank. For the deposit taken by the bank it has to pay interest. There are various kinds of deposit account from interest free deposit to varying interest deposit accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (COD) of the bank. For a bank lower COD refers to better position in terms of profitability.

The yearly COD of SC bank ranged from 1.31% to 1.65% in various years the average COD for the period of this study was 1.472%.The COD of the bank is slightly fluctuating trend the highest cost of deposit is 1.65% in the year 2006/07. The status of total deposit and the COD is shown in the bar diagram as below.

Diagram No: 11

Bar Diagram Showing Years Deposit & Interest Expenses of SC Bank Nepal Ltd.



The bar diagram shows the status of interest expenses and total deposit amount in the respective year. The amount of total deposit is increasing trend like wise interest is changing trend accordingly. In order to find out the variability of actual 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 calculations of these statistical tools are presented in appendix 5 we have.

Table No.18

Summary of Actual deposits and interest expenses amount

(Amount in Rs. '000')

Statistical Tools	**Actual deposit in (x)**	**Interest Expenses Amount (Y)**
Mean (X)	26537448.6	397179.4
Standard deviation (σ)	5736475.652	106395.5899
Coefficient of variance (C.V)	21.62%	26.79%
Correlation of Coefficient (r)	0.96028	
Probable Error (PE)	0.010503	

Source: Appendix No.5

The above shows the actual deposit is more variable than actual interest expenses. Hence the coefficient of variation of actual outstanding deposit is higher than the actual interest expenses. The relationship between actual deposit and interest expense can be measured by co-relation of coefficient between them. There should be positive correlation between actual outstanding deposits and actual interest expenses.

We can take the help of Karl Person's Co-efficient of correlation (r) to find correlation between actual deposit and actual interest expenses. We can examine whether there was positive correlation between actual deposits outstanding and actual interest expenses or not. For this purpose, actual deposits (X) were assumed to be independent variable and actual interest expenses (Y) is assumed to be dependent variable

After this the significance of 'r' was tested with probable error of r. The details calculation of 'r' and probable of 'r' was presented in appendix 5. From this appendix the value of r and P.E were respectively 0.96028 and 0.010503. Since r> 6 P.E (0.96028>6*0.010503) the value of 'r' was significant. There is perfect correlation between actual deposits and actual interest expenses incurred.

From the calculation shown in appendix 5, we have obtained the value of 'r' being 0.96028, now the coefficient of determination, which explains by x variable i.e. deposit can be calculated as the square of 'r'.

Therefore, the coefficient of determination $(r)^2 = (0.96028)^2 = 0.9221$

4.2.5.2 Expenses Other than Interest Expenses

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

1. Expenses for employees
2. Operational expenses
3. Non-operating expenses
4. Loan loss provision

4.2.6 Revenue Planning of SC Bank Nepal Ltd.

SC Bank Nepal ltd. generates revenue from its income earning activities. Such activities are mostly fund-based, based deployment fund, and some portion from non-fund based business activities. It can be categorized into two types like interest income and other income. Interest income is the interest earned from the loan advances and overdraft provided to the borrowers, investments in the government bonds etc. The major contribution in revenue of bank is interest income. Interest income holds major share in total income portfolio of the Bank. Other income consists of the income other than interest income, which are as follows:

1. Income from Commission & Discounts
2. Income from interest earning
3. Income from foreign exchange transactions
4. Other operating income
5. Other non-operating income

Table No.19

Yearly Income Structure of SC Bank Nepal Ltd.

(Amount in Rs. '000')

Revenue Year	F/Y 2004/05		F/Y 2005/06		F/Y 2006/07		F/Y 2007/08		F/Y 2008/09		Types wise
	Anount	%	Anount	%	Anount	%	Anount	%	Anount	%	

											Total
Interest income	1,058,678	14.83	1,189,603	16.66	1,411,982	19.78	1,591,196	22.29	1,887,221	26.44	7138680
Commission & discount	178,651	15.74	222,929	19.65	221,207	19.49	276,432	24.36	235,469	20.75	1134688
Exchange earning	273,044	16.14	283,472	16.76	309,087	18.27	345,653	20.43	480,031	28.38	1691287
Other operating income	29,293	19.62	25,442	17.04	28,785	19.28	32,594	21.83	33,191	22.23	149305
Other non-operating income	2,957	7.85	1,433	3.80	9,492	25.20	1,683	4.46	22,098	58.67	37663
Total Revenue	1,542,623	15.19	1,722,879	16.97	1,980,553	19.50	2,247,558	22.13	2,658,010	26.18	10151623

(Source: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

The above table shows that the revenues are increasing each year; income from interest is the highest among to the others in total revenues for each years. . Interest income is in increasing trend the range of interest income is 14.83% to 26.44% out of the total revenue of SC Bank Nepal Ltd though out the five year of time period. The range of exchange earning is 16.14 % to 28.38%. The trend is increasing over the five year the exchange earning is main source of income over the period. Commission and discount income ranged 15.74 % to 24.36 % over the five years. This income is in fluctuating trend like wise other operational income ranged between 19.28% to 22.23 % the trend of this income increasing except the F/Y 2005/06. Non operational income has little contribution in total income the range of non operational income is 3.80 to 58.67 % the trend of non operational income is fluctuating tend over the five year period.

4.2.6.1 Interest Income

Interest income also called return of LABP contributes major portion of total revenue mix. Interest income is generated out of the loan and advances made by the bank. This is popularly called yield on fund (YOF). Bills discounting is also one form of advances. So in this study we have grouped the outstanding loan, advances, overdraft and the bills discounted together called LABP and have included the bills discounting commission too in to the interest income amount(YOF). First lets see the growth rate of interest income during the study period from 2004/05 to 2007/08.

Table No: 20

Yearly Growth in Interest Income

(Amount in Rs. '000')

Fiscal Year	Interest Income Amount	Increased / Decreased Amount	Growth (%)
2004/05	1,058,678	-	-
2005/06	1,189,603	130,925	12.37
2006/07	1,411,982	222,379	18.69
2007/08	1,591,196	179,214	12.69
2008/09	1,887,221	296,025	18.60

(Source: SC Bank Nepal Ltd. Annual Report 2004/05-2008/09)

The above table shows the status of interest income of SC Bank. The amount of interest income is in increasing trend every year. Whereas the growth rate is decreasing tend. The base year to calculate the growth rate was F/Y 2004/05. Maximum growth rate of interest income was 18.69 % in year 2006/07. The trend of interest income was increasing in terms of amount but the growth trend was in decreasing trend. SC Bank has recorded fluctuating growth rate percent of interest income in different F/Y . It can be influenced by the bank policy, volatility of interest rates, government's policy, failed investment funds for reputation etc. Since, the deposit collection of different F/Y has mostly increasing trend For the analysis purpose we have plotted the data in scatter diagram and some conclusion drawn below. The comparative status of total YOF with the total LABP with the total LABP were presented with the help of following table and bar, Scatter Diagrams.

Table No:21

Status of Interest Income to Total LABP

(Amount in Rs. '000')

Fiscal Year	Interest Income	Actual LABP	Average Yields on LABP %
2004/05	1,058,678	8,143,208	13.00
2005/06	1,189,603	8,935,418	13.31
2006/07	1,411,982	10,502,637	13.44
2007/08	1,591,196	13,718,597	11.60
2008/09	1,887,221	13,679,757	13.80

(Source: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

The above table shows the comparative status of interest income with the actual LABP and average yield on LABP. The interest income is in increasing trend as the LABP has increased where as the average (YOF) is fluctuating trend.

The range of yield on LABP lies between 11.60% to 13.80 % over the five year period. The average YOF for the period of study is 13.03%.

It is effective to analyze the relationship between actual LABP and interest income by using the statistical tools to find out the actual LABP and actual interest income of different years we have to calculate arithmetic mean, standard deviation coefficient of variation, coefficient of determination and correlation of coefficient. The detail calculations of these statistical tools are presented in appendix no 6 now summary of calculation listed below.

Table No:22

Summary of Actual LABP & Interest Income Amount

(Amount in Rs. '000')

Statistical Tools	Actual LABP	Interest Income
Mean(x)	10995923.4	1427736
Standard Deviation (σ)	2334219.932	293600.0539
Coefficient Variation (C.V)	21.228%	20.564%
Correlation of Coefficient (r)	0.94247	
Probable Error (PE)	0.015075	

Source: Appendix No.6

The above results show that actual o/s LABP is more variable than interest income since Coefficient Variation of LABP is higher than of interest income. There should be positive correlation between o/s LABP and interest income. In other words the interest income increases as the o/s LABP increase or vice versa.

To find the correlation between interest income and actual o/s LABP we can take the help of Karl person's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between interest income and actual LABP outstanding or not .

The actual LABP (X) is assumed as independent variable and interest income (Y) is assumed to be dependent variable. So that increase in LABP will support to increase in interest income and vice verse.

After this significance of 'r 'is tested with the probable error of 'r'. The details calculation of 'r' and probable error of 'r' is presented in appendix 6. The value of r is 0.94247 & P.E is 0.015075 since r >6PE the value of r is significant. From the calculation shown in appendix 6 the value of r is 0.94247. Now the coefficient of determination which explains the change in Y variable i.e. interest income by x variable i.e. LABP can be calculated as the ^{r2}.

Therefore, the coefficient of determination $r^2 = (0.94247)^2 = 0.8883$

For the more analysis purpose of data of interest income and actual LABP presented in bar diagram as below.

Diagram No.12

Bar Diagram of Interest Income to Total LABP

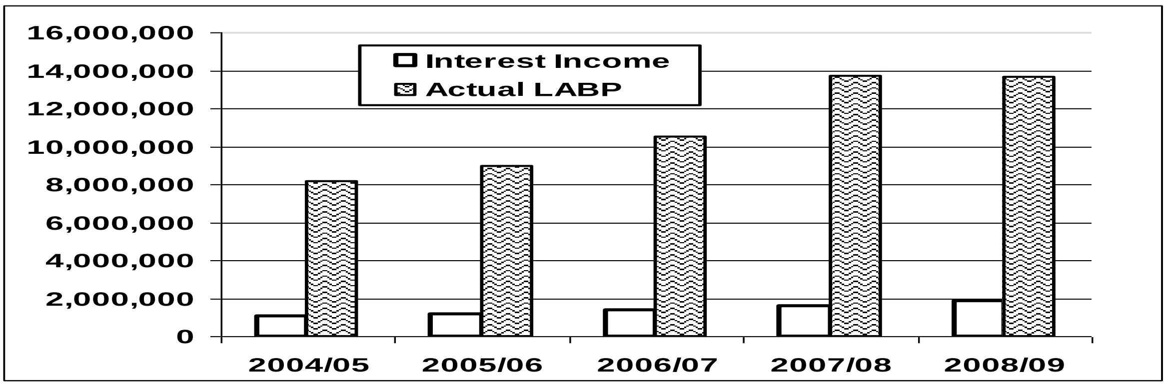
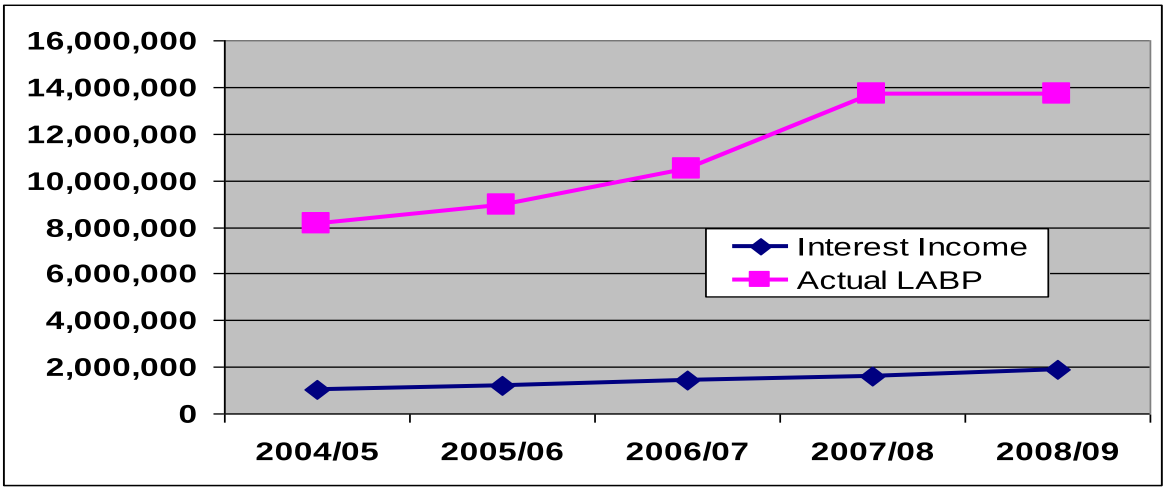


Diagram No: 13

Scatter Diagram of Yearly LABP & Actual Income



Above diagram shows, both the actual LABP and interest income are incurred in increasing trend.

4.2.6.2 Income Other than Interest Income

Income earned by bank other than interest income is called other income. Most part of such incomes are earned from non fund based activities in the form of commissions, fees, charges, profit, on foreign exchange sale, revaluation gains, commitment charges, remittance fees, service charges etc.

4.2.7 Interest Spread

Interest spread refers to deviation of total interest expenses and the total interest earned. In other words, it is the margin on interest or net interest income of the Bank.

It can be show in the formula

$$Interest\ \ Spread = Interest\ \ Income - Interest\ \ Expenses$$

The following table shows the interest show in the different year.

Table No.23

Yearly Spread of SC Bank Nepal Ltd.

(Amount in Rs. '000')

Fiscal Year	Interest Income	Interest Expenses	Interest Spread	% of Interest Spread
2004/05	1,058,678	254,127	804551	-
2005/06	1,189,603	303,198	886,405	10.17
2006/07	1,411,982	413,055	998,927	12.69
2007/08	1,591,196	471,730	1,119,466	12.07
2008/09	1,887,221	543,787	1,343,434	20.00

(Source: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

$$\% \ of \ Interest \ Spread = \frac{Current \ year \ \text{int} \ erest \ spread - Last \ year \ \text{int} \ erest \ spread}{Last \ year \ \text{int} \ erest \ spread}$$

The above table show the position of interest spread and its growth through out the study period. The figure of interest margin is increasing trend every year. Percentage change in interest spread in compare last year for every year of SC Bank is fluctuating percentage change in interest spread was 20.00% in F/Y 2008/09 that it decreased to 10.17 % and 12.07 % in 2005/06 and 2007/08 respectively. This shows that SC Bank has been following NRB rules. It has adopted different strategies to accumulate high amount of deposits and to high amount of credit, tight monetary policy in different year. In order to stimulate deposit and motivate credit, SC Bank has different interest spread percent.

The position of interest income, interest expense and interest spread is presenting in the bar diagram below.

Diagram No : 14

Bar Diagram of Interest Income, Interest Expense and Interest Spread

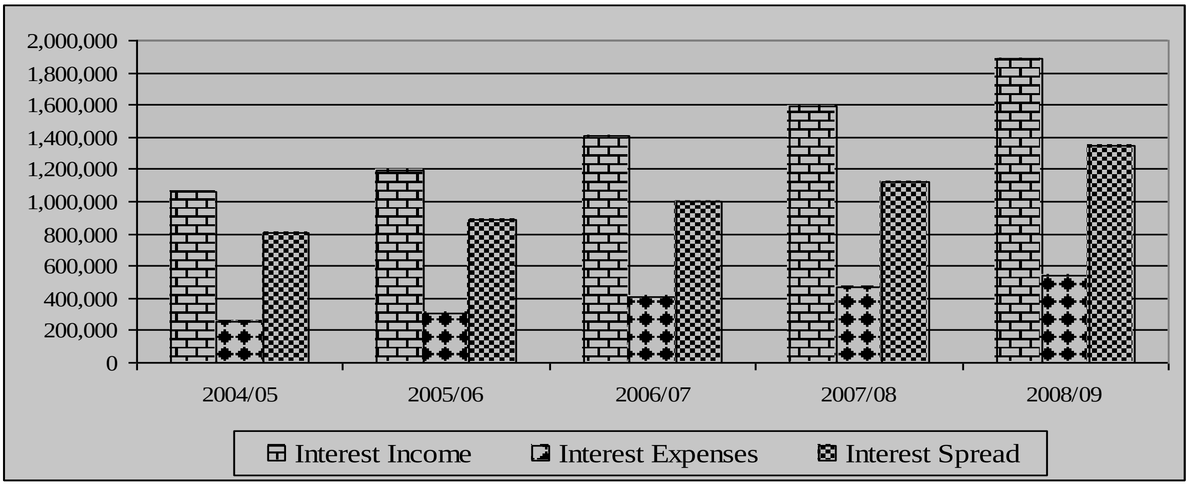
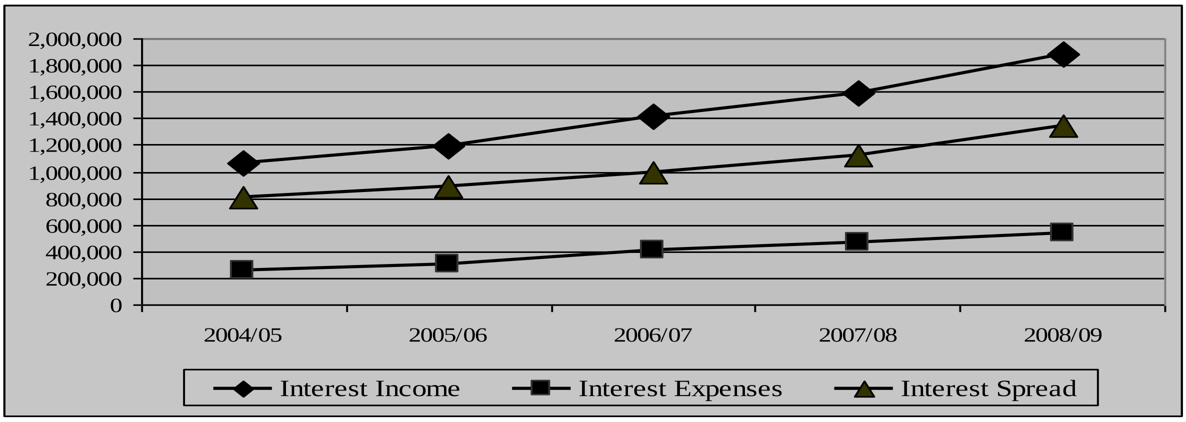


Diagram No: 15

Scatter Diagram of Interest Income, Interest expenses and Interest Spread



The above bar diagram and scatter diagram is showing the status of interest spread comparison with interest income, interest expenses of SC Bank.

4.2.8 Burden of SC Bank Nepal Ltd

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

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

Table No:24

Showing Burden of SC Bank Nepal Ltd.

(Amount in Rs. '000')

Fiscal Year	Other Expenses	Other Incom	Net Burden	% in net burden
2004/05	405235	29,293	375942	-
2005/06	389318	25,442	363876	(3.21)
2006/07	428229	28,785	399444	9.77
2007/08	455827	32,594	423233	5.96
2008/09	529383	33,191	496192	17.13

(Source: SC Bank Nepal Ltd., Annual Report 2004/05-2008/09)

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

The above table showed the others expenses and others income of the bank during the study period. The figure of burden in increasing trend every year. The base year to calculate the net burden is 2004/05. Percentage change in net burden in compare last year for every year of SC Bank is fluctuating percentage change in net burden is 17.13 in F/Y 2008/09 that it decreased to (3.21) %, and 5.96 % in 2005/06 and 2007/08 respectively. The position of others income, others expense and net burden is presenting in the bar diagram below.

Diagram No: 16

Bar Diagram Showing Annual Burden of SC Bank Nepal Ltd.

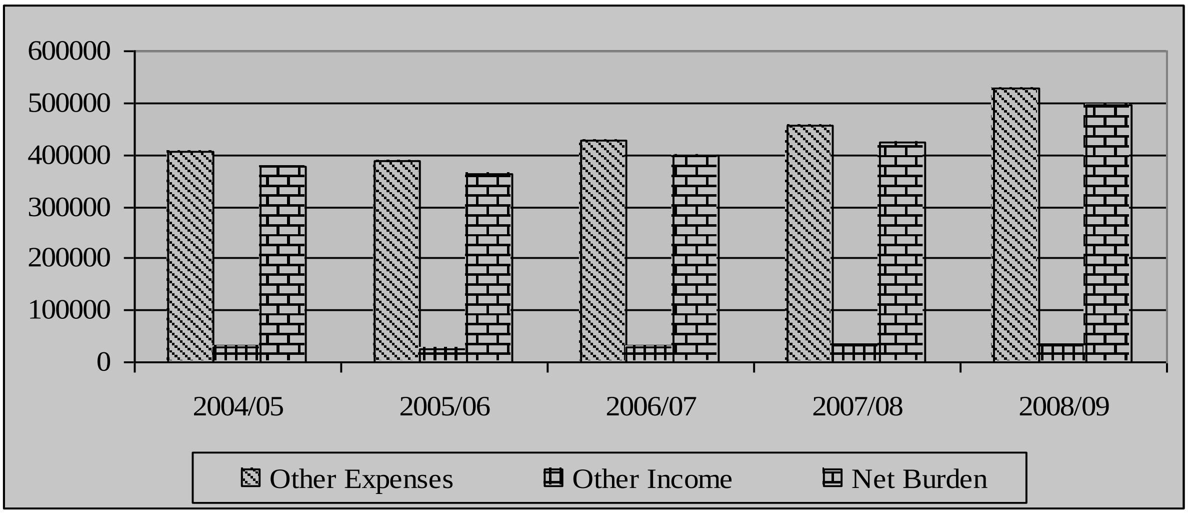
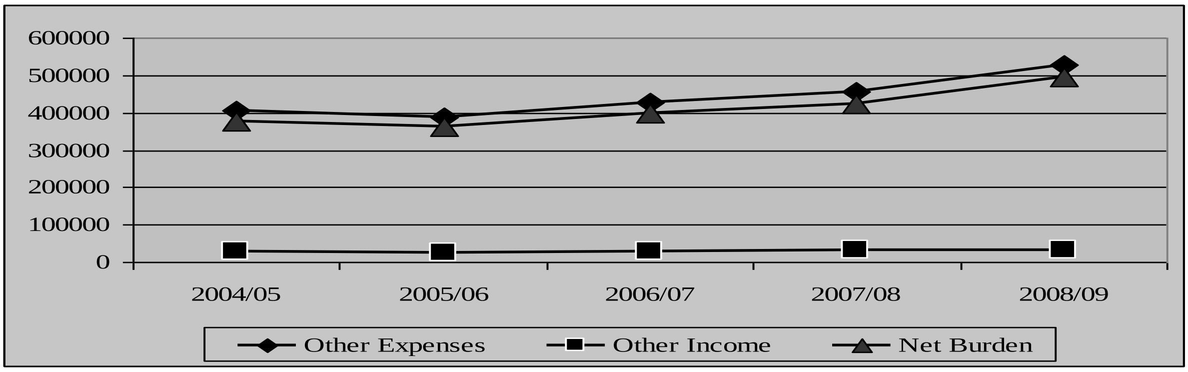


Diagram No: 17

Scatter Diagram of Annual Burden of SC Bank Nepal Ltd



The above bar diagram shows the position of other expenses, other income and burden of the SC Bank Nepal Ltd. The purpose of the diagram is to show the relationship of burden amount with other expenses and the other income. The other expenses are in the higher position in bar diagram through out the five years of time period. The other income is in second position this result of diagram shows that other expenses is higher that other income every year. The burden is the visions of other expenses and other income.

4.2.9 Net Profit

Profit is excess of income over expenses. In this context, the net profit was taken being the excess spread over the net burden. Spread is the net interest income (excess interest income over the interest expenses), and the net burden is the difference amount from other expenses and other income.

The following table and graphs show the status of spread, Burden and Net Profit of various year of the study.

Table No:25

Yearly Net Profit Status of SC Bank Nepal Ltd

(Amount in Rs. '000')

Fiscal Year	Spread	Burden	Net profit	% of Profit
2004/05	804551	375942	428609	-
2005/06	886,405	363876	522529	21.91
2006/07	998,927	399444	599483	14.73
2007/08	1,119,466	423233	696233	16.14
2008/09	1,343,434	496192	847242	21.69

(Source: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

$$\% \; of \; \Pr ofit = \frac{Current \; Year \; \Pr ofit - Last \, Year \; \Pr ofit}{Last \; Year \; \Pr ofit}$$

The above table shows the status of net profit of SC Bank since the figure in Profit column are positive from the SC Bank is in profit zone ever year. The trend of net profit is increasing every year where as the growth rate of profit is fluctuating trend. The rate of growth in F/Y 2005/06 is 21.91% in comparison with the F/Y 2004/05 the rate of decreased by 7.18% in F/Y 2006/07 and it decreased to 16.41% in F/Y 2007/08.and the rate of growth increased by 21.69% in F/Y 2008/09. This shows that SC Bank has earned net profit higher in current year than in preceding year. For the analysis purpose the status of net profit presenting in the bar diagram and scatter diagram below

Diagram No: 18

Bar Diagram Showing Annual Interest Income, Burden and Profit of SC Bank Nepal Ltd.

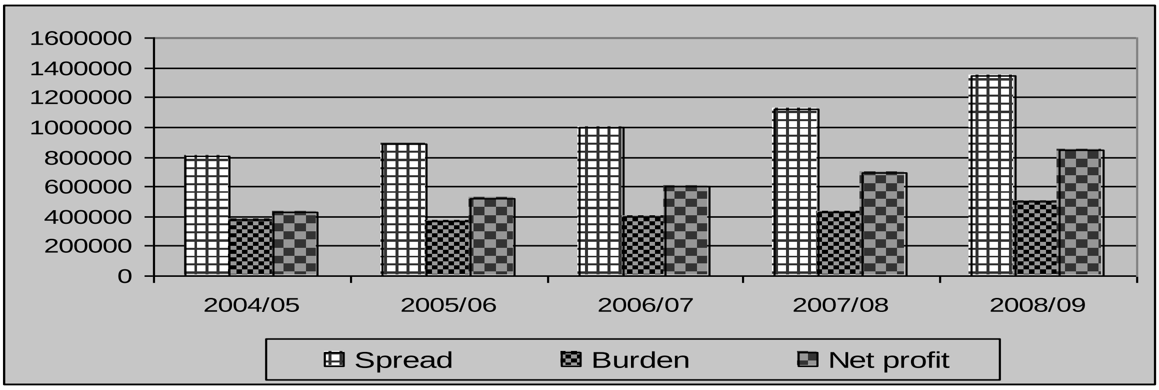
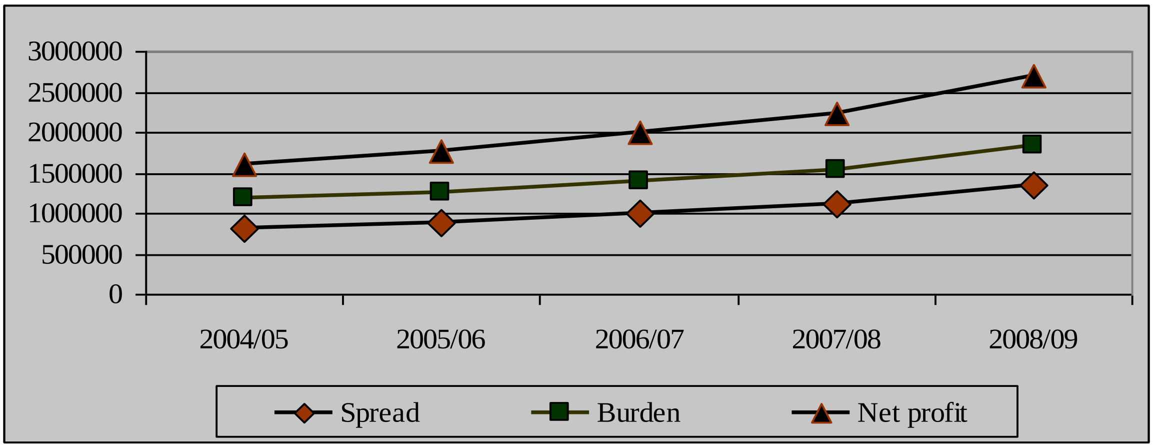


Diagram No: 19

Scatter Diagram of Net Profit of SC Bank Nepal Ltd.



4.3 Performance Evaluation of SC Bank Nepal Ltd.

The performance evaluation for internal management use is an important aspect of a comprehensive profit planning & control-system (Welsch-1999).

Non manufacturing and service firm can be use performance evaluation tools. 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 organizational goal.

We can use various technique and criteria to evaluate performance of SC Bank, some financial tools is as follows:

1) Ratio Analysis

2) Cost volume profit analysis

4.3.1 Ratio Analysis

Ratio Analysis is a financial device to measure the financial positions, major strengths, and weaknesses of a firm. It may be defined as the mathematical expression of the relationship between two accounting figures. To evaluate the different performance of an organization by creating the ratios from the figures of different accounts is termed as ratio analysis. The Ratio can be classified in to four categories.

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

4.3.1.1 Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity. Liquidity ratio reflects the short term financial strength of a firm. This ratio is calculated by the help of current assets and current liabilities of SC Bank Nepal Ltd.

Current assets can be converted in to cash with in short period of time normally not exceeding one year. Current liabilities are those obligation which are payable within short period. Current assets consist of cash and bank balance, money at call or short terms notice, loan & advances, bills purchased and discount inter branch account, other short term loans, receivables and repaid expenses.

Current liabilities refer to the short-term maturity objective, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions, accrued expenses. It is calculated by dividing the total current assets by current liabilities.

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

Table No: 26

Calculation of Liquidity ratio

(Amount in Rs. '000')

Fiscal Year	Current Assets	Current liabilities	Current Ratio in terms of time

2004/05	11,514,016	19,391,021	0.59:1
2005/06	12,188,930	23,061,032	0.53:1
2006/07	14,284,810	25,047,021	0.57:1
2007/08	17,966,378	29,743,999	0.60:1
2008/09	18,872,469	36,171,721	0.52:1

(Source: SC Bank Nepal Ltd., Annual Report 2004/05-2008/09)

The above table represents the detailed charts of liquidity ratio of SC Bank for the years from fiscal year 2004/05 to 2008/09. Higher the current ratio better the liquidity position, for the many types 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. SC Bank has higher current liabilities than current assets over the study period . SC bank has the highest current ratio of 0.60 in 2007/08 and the lowest current ratio is 0.52 in 2008/09 with the average ratio 0.562. The standard of current ratio is 2:1.The current ratio of the bank is less then standard ratio in the all fiscal years.

4.3.1.2 Activity Ratio (Employee Productivity Ratio)

The relationship between active of the bank and human resources is called activity ratio. These ratios reflect how efficiently the organization is utilizing its manpower.

These are expressed as LABP per employee, deposit per employer and non-funded activities per employer.

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

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

Table No: 27

Calculation of Activity Ratio of SC Bank Nepal Ltd.

Amount in Rs. '000'

Fiscal Year	Deposit Collection	LABP Deployed	No of employee	Deposit employee	% in Deposit	LABP employee	% in LABP
2004/05	19,363,470	8,143,208	302	64,117	-	26,964	-
2005/06	23,061,032	8,935,418	345	66,844	4.25	25,900	-3.94
2006/07	24,647,021	10,502,637	351	70,219	5.05	29,922	15.53
2007/08	29,743,999	13,718,597	377	78,897	12.36	36,389	21.61
2008/09	35,871,721	13,679,757	392	91,509	15.99	34,897	-4.10

(Source: SC Bank Nepal Ltd., Annual Report 2004/05-2008/09)

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

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

The above table shows the relationship of major activities of bank with its human resources. The number of employees increasing every year like wise the major activities of SC Bank is increasing trend. In the above table shows deposit collection, LABP deployed and NO. of employees. The amount of deposit per employee is in increasing trend every year. Whereas the growth rate is increasing tend. The base year to calculate the growth rate was F/y 2004/05. Maximum growth rate of deposit per employee was 15.99 % in year 2008/09. The rate of percent change in deposit 4.25%, 5.05%, 12.36% with the comparison with F/Y 2005/06, 2006/07, 2007/08 respectively. The trend of LABP per employee is increasing in terms of amount but the percent change in LABP per employee is in fluctuation trend. SC Bank has recorded fluctuating percent change in LABP per employee in different F/Y . The base year to calculate the percent change in LABP per employee is F/y 2004/05 .It has record change in LABP per employee of 21.61% and 15.53% in the F/Y 2007/08, 2006/07 respectively . it has record negative LABP per employee -3.94% and -4.10% in the fiscal year 2005/06 and 2008/09 respectively.

4.3.1.3 Capital structure ratios (Leverage Ratio):

To judge the long-term financial position of SC Bank the leverage ratio were calculated .A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in the maturing date. The following two ratios are calculated in Capital Structure Ratio.

1) Total debt to shareholders equity ratio.
2) Total debt to Total Assets ratio.

1) Total debt to shareholders equity ratio.

The relationship between total debt and share holder's equity is called debt equity ratio. The total debt refers to the total current liabilities plus the borrowings from the other banks. It is commonly used to measure the degree of financial leverage of the firm and is calculated as follows:

$$Total\ debt\ to\ shareholder's\ equity = \frac{Total\ debt}{Shareholder's\ equity}$$

Table No:28

Total Debt to Shareholder's Equity

(Amount in Rs. '000')

Fiscal Year	Total debt	Shareholder's equity	Ratio in times
2004/05	24,276,732	1,582,415	15.34
2005/06	29,198,040	1,754,139	16.65
2006/07	33,334,458	2,116,353	15.75
2007/08	36,983,025	2,492,547	14.84
2008/09	48,186,092	3,052,470	15.79

(Source: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

The above table shows the debt to shareholder's equity ratio of SC Bank Nepal ltd. The column shows the figure of total debt and share holder’s equity. By dividing to Total debt by shareholder's equity is the result of ratio in times. The trend of debt to equity ratio of the bank is fluctuating every year. The range of debt equity ratio of SC Bank Nepal ltd. is 15.79 times to 14.84 times. The analysis indicates that the bank has the debt equity ratio, which means the creditors have invested more in the bank than the owner

2. Total debt to Total Assets ratio.

The ratio exhibits the relationship between creditor 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 asset, which is presented below:

$$Total\ debt\ to\ total\ assets\ =\ \frac{Total\ debt}{Total\ assets}$$

Table No:29

Total Debt to Total Asset Ratio

Fiscal Year	Total debt	Total Assets	Ratio of percentage
2004/05	24,276,732	21,781,679	111.45
2005/06	29,198,040	25,767,352	113.31
2006/07	33,334,458	28,596,689	116.57
2007/08	36,983,025	33,335,788	110.94
2008/09	48,186,092	40,587,468	118.72

(Source: SC Bank Nepal Ltd, Annual Report 2004/05-2008/09)

The above table shows that debt to assets ratio of the bank varies from maximum of 118.72% in the year 2008/09 to the minimum 110.94 in the year 2007/08 times with an average of 114.198 during the study year. 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.

4.3.1.4 Profitability Ratio:

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

Profit is different between total revenues and total expenses over a period of time Profit is the ultimate put of a commercial bank and it will have no future it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profits. The profitability ratios in the study are calculated to measure the operating efficiency and performance of SC Bank Nepal Ltd.

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

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

Table No:30

Calculation of Profitability Ratio

(Amount in Rs. '000')

Fiscal Year	Net profit	Total Assets	Return on Assets	Shareholder's Equity	Return on Equity
2004/05	536,245	21,781,679	2.46	1,582,415	33.88
2005/06	658,756	25,767,352	2.55	1,754,139	37.55
2006/07	691,668	28,596,689	2.41	2,116,353	32.68
2007/08	818,921	33,335,788	2.45	2,492,547	32.85
2008/09	1,025,115	40,587,468	2.53	3,052,470	33.58

(Source: SC Bank Nepal Ltd., Annual Report 2004/05-2008/09)

The above table shows the status of return on assets and return on equity of SC Bank Nepal Ltd. It indicates that net profit and total assets of SC Bank was in increasing trend. The ratio shows the relation of net profit with the total assets and shareholder's equity. The rate of return on assets is changeable trend it is ranged between 2.41 % to 2.55 % through out the five years period. Like wise the return equity ratio presenting the relation of net profit with the shareholder's equity. The range of return on equity is 32.68 % to 37.55 % it is fluctuating trend through five years of study period. Profitability ratio of SC Bank is sound and strong. Its profit ratio indicated of the higher overall efficiency of the SC Bank Nepal Ltd and better utilization of total resources.

4.3.2 Cost Volume Profit Analysis

Relationship between cost volume and profit is known as cost volume profit (CVP) analysis. The CVP analysis is a tool of profit planning used by management. The three component of CVP analysis is inter-related each other. For example profit depends upon sales, selling price to a greater extent will depend upon the cost, cost depends upon the volume of productions. CVP analysis help to management for decision making about the cost control. CVP analysis of Standard Chartered Bank Nepal Ltd. is based on following assumptions.

a) Activity of SCBNL is selected on following assumptions.

b) Cost volume structure is based on the accounting data of fiscal year 2004/05 to 2008/09 and CD ratio and YOF is taken for the cost of 5 average years.

c) In case of bank, net burden is treated as fixed cost, which is calculated in the basis of total other cost and total other income of fiscal year 2008/09. And interest margin (spread) is calculated on the basis total interest income and total interest expenses of fiscal year 2008/09.

Cost Volume Profit Analysis of SC Bank Nepal Limited.

	Amount in Rs. '000'	
Total Interest Income	=	Rs. 1,887,221
Total Interest Expense	=	Rs. 543,787
Total Other expense	=	Rs. 559,383
Total Other Income	=	Rs. 33,191
Average Yield on Fund (YOF)	=	13.03%.
Average CD Ratio	=	41.58%.
Net Burden	=	Total other expenses-Total other income
	=	Rs (559,383 - 33,191)
	=	Rs. 526,192
Interest Margin (Spread)	=	Total Interest Income-Total Interest Expense
	=	Rs (1,887,221- 543,787)
	=	Rs. 1,343,434

a) **We can calculate the BEP in terms of interest income of SC Bank Nepal Ltd. as below.**

$$BEP\ in\ \% = \frac{Net\ Burden}{Spread} \times 100\%$$

$$= \frac{526192}{1343434} \times 100\%$$

$$= 39.16\%$$

$$BEP\ in\ Rs. = Interest\ income \times BEP\ \%$$

$$= 1887221 \times 39.16\%$$

$$= 739035.74$$

b) **We find out SC Bank's break even interest income level is Rs. 739035.74**

c) **Margin of Safety for the Year 2008/09 can be calculated as below:**

$$Margin\ of\ Safety = Total\ Interest\ income - BEP\ income$$

$$= 1887221 - 739035.74$$

$$= 1148185.25$$

$$Margin\ of\ Safety\ ratio = \frac{Margin\ of\ safety \times 100\%}{Total\ Interest\ Revalue}$$

$$= \frac{1148185.25 \times 100\%}{1887221}$$

$$= 60.84\%$$

d) **BEP in Terms of volume of LABP can be calculated as below:**

$$BEP\ LABP = \frac{BEP\ interest\ income}{Average\ YOF}$$

$$= \frac{739035.74}{0.1303}$$

$$= 5671801.54$$

e) **BEP in terms of volume of deposit can be calculated as below:**

$$BEP\ Deposit = \frac{BEP\ LABP}{Average\ CD\ ratio}$$

$$= \frac{5671801.54}{0.4158}$$

$$= 13640696.33$$

The analysis shows that the bank figure is as earning trend will be encouraging if it can increase its revenue and decrease in burden.

4.4 Cash Flow Analysis

The total cash flow of the is bank is the combination of cash from operating activities, cash from investing activities and cash from financial activities. Following table presents cash flow statement of the Bank for last two years, which gives the satisfactory picture of cash inflow to meet the required cash out flow within the bank for the period**.**

Table No: 31
Cash Flow Statement

S.N	Particular	This Year	Previous Year
A.	**Cash flow from operations Activities**	**6,948,938,465**	**(45,233,839)**
1.	Cash receipts	**2,128,177,260**	**1,862,221,002**
1.1	Interest income	1,480,241,128	1,295,672,504
1.2	Commission and discount income	238,616,592	272,068,274
1.3	Currency exchange again	352,358,259	255,436,198
1.4	Recovery of Loan Written off	23,770,030	5,867,246
1.5	Other income	33,191,251	33,176,780
2.	**Cash Payment**	**1,963,910,721**	**1,621,292,559**
2.1	Interest expenses	521,840,234	474,628,760
2.2	Staff expenses	254,218,116	223,667,612
2.3	Office Operating Expenses	250,890,193	206,769,247
2.4	Income tax Payment	440,908,086	385,040,406
2.5	Other expenses	496,054,092	331,186,534
3	**Cash Flow before Changes in Working Capital**	**164,266,539**	**240,928,443**
3.1	**(Decrease/ (Increase) of Current Assets**	**233,676,234**	**(4,364,232,028)**
	(Decrease / (Increase) in Money at Call and Short Notice	141,988,600	(436,386,100)
	(Decrease / (Increase) in Short-term Investment	-	-
	(Decrease / (Increase) in Loan and Bills Purchase	44,154,587	(3,255,242,077)
	(Decrease / (Increase) in Other Assets	47,533,047	(672,603,852)
3.2	**(Decrease) /Increase of Current Liabilities**	**6,550,995,692**	**4,078,069,747**
	(Decrease) / Increase in Deposits	6,127,722,333	5,096,978,038
	(Decrease) / Increase in Certificate of Deposits	-	-
	(Decrease) / Increase in Short Term Borrowings	285,544,727	(348,771,311)
	(Decrease) / Increase in Other Liabilities	137,728,632	(670,136,980)
B	**Cash flow from investment Activities**	**(5,990,481,198)**	**(16,662,637)**
1	Decrease/ (Increase) in Long term Investment	(6,333,302,071)	(323,460,547)
2	Decrease/ (Increase) in Fixed assets	(24,719,699)	(14,116,435)
3	Interest Income from Long Term Investment	365,061,547	319,814,530

4	Dividend Income	2,479,025	1,099,815
5	Others	-	-
C	**Cash flow from financing**	**790,400**	**901,800**
1	Increase/ (Decrease) in Long term Borrowings (Bond, Debenture etc)	-	-
2	Increase / (Decrease) in Share Capital	790,400	901,800
3	Increase / (Decrease) in Other Liability	-	-
4	Increase / (Decrease) in Refinance /Facilities received from Nepal Rastra Bank	-	-
D	**Income/Expense from change in exchange rate in Cash and Bank Balance**	**127,672,654**	**90,216,822**
E	**Current year's cash flow from all activities**	**1,086,920,321**	**29,222,146**
F	**Opening Cash and Bank Balance**	**2,050,243,214**	**2,021,021,068**
G	**Closing Cash and Bank Balance**	**3,137,163,535**	**2,050,243,214**

(Sources: SC Bank, Annual Reports, 2008/09)

The data presentation, analyses are shown above for this study. The forthcoming chapter includes the Summary, Conclusion and Recommendation.

4.5 Major Findings

The major findings of this research study on profit planning of Standard Chartered Bank Nepal is as follows:

1. **Resources Mobilizations:**

a) Major concentration of resources mobilization of SC bank is at deposit mobilization, therefore they are incurring higher cost toward deposit mobilizations.

b) Deposit mobilized by the bank is bound to SC considerably growing every year.

c) From the data analysis of deposit budget and actual achievement by coefficient of variation. It is found that the actual deposit is more variable than the budgeted one.

d) The targets set for deposit mobilization by the bank were being well met every year.

2. **Resources Deployment:**

a) Bank's resources deployment for non-yielding liquid assets (cash and bank balance) increased every year. Thus making supportive to meeting liquidity requirements of the Bank.

b) Major portion of the resources were deployed in LABP.

c) LABP of the bank has found to the increasing every year with average growth, is over the period of last five year is as high as 30.62%

d) From the analysis of budget and actual , actual LABP with the help of coefficient of variation than the budgeted one.

e) From the regression analysis of budgeted and actual LABP, remaining the trend same as before the estimated LABP by the end of F/Y 2009/10 shall be Rs.15753035.

f) The targets of deployment of fund on LABP were met every year.

g) CD Ratio (Credit to Deposit Ratio, ratio of LABP on total Deposit expressed in percent term) of the Bank was high. The average CD ratio of the Bank for the period of last five years was as high as 41.58%.

h) The data analysis of LABP and deposit, with help of Karl Person's co-efficient of correlation showed that, the deposit and the LABP were not perfectly correlated.

i) The data analysis of Deposit and LABP with the help of coefficient of variation showed that LABP was less variable than the Deposit.

3. Non-Funded Business Activities:

a). Outstanding Letter of Credit liability of the bank showed the growth which was not constant.

b). Outstanding guarantee liability of the bank was in increasing trend every year.

4. Expenditure

a) Interest expenses amount were the highest among total expenses item of the Bank every year.

b) 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.

c) The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of SC Bank Nepal Ltd. is in the range of 1.13 % to 1.65 %. The average COD over the period has been found to be at 1.472%.

d) Other expenses of the bank were also in increasing trend every year.

5. Revenue

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

b) The amount of interest increased every year corresponding to increase in LABP. There is perfect and positive correlation between interest income and LABP.

c) The other income of Bank was also in increasing trend.

d) The amount of interest Spread of SC Bank is in increasing trend where as the increment percentage is fluctuating trend over the study period.

e) Net burden of the bank is in increasing and decreasing trend during the study period, but the growth of other expenses is higher than the other income.

f) The rate of growth of spread is higher than of burden the profitability of the bank is in increasing position.

6. Ratio Analysis

a) SC Bank Nepal Ltd has the highest current ratios of 0.60 in year 2007/08 with an average current ratio of 0.526 .The average current ratio of the bank found to be always lower than the standard ratio of 2:1, which showed the solvency liquidity position of the bank.

b) From the study of total number of manpower and total volume of over all activities of the bank, it is found that the volume of business per employee is increasing productivity of manpower.

c) Debt to equity ratio of the bank varies from maximum of 16.65 times in the year 2004/05 to the minimum 14.84 in the year 2007/08 times during the study year. The analysis indicates that the bank has the wise debt equity ratio, which means the creditors have invested more in the bank than the owner.

d). Debt to assets ratio of the bank varies from maximum of 118.72% in the year 2008/09 to the minimum 110.94 in the year 2007/08 times during the study year. 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.

e) From the profitability ratio, it was found that the ROA (Return on assets) was positive and this trend followed the same trend over the study period. As Return on assets is high during 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.

f) From the cost volume & profit analysis, the break even income level of the bank is found to be Rs. 739035.74 and BEP LABP and BEP deposit to be Rs. 5671801.54 and Rs. 13640696.33 respectively.

7. Cash Flow Analysis

Following findings from the Cash Flow Analysis are done

i. Cash Flow from investing activities this is better than previous year due to changes in following activities

a) Changes in balance with bank. The closing balance as on previous year was Rs. 2050243214 whereas it has increased by 53.01% to RS. 3137163535 in current year according annual report 2008/09.

b) Changes in Money at call and short notice. The money at call and short notice was Rs. 436386100 in previous year it is Rs. 141988600 in this current year. It is clear that there is decrease in current assets i.e. money at call and short notice by 132.54%.

c) Changes in other assets. The other assets as on previous year was Rs. 672603852 whereas it has decreased by 107.06% to RS. 47533047 in current year.

d) Changes in fixed assets. The fixed assets as on previous year was Rs. 14116435 whereas it has increased by 75.11% to RS. 24719699 in current year.

ii. Cash flow from financing activities and operating activities of this year is less than previous year due to changes in following activities

a) Decrease in Share Capital and discharge of liabilities. The share capital and discharge of liabilities as on previous year was Rs. 901800 whereas it has decreased by 12.35% to RS. 790400 in current year.

b) Interest expenses increases this year. The interest expenses as on previous year was Rs. 474628760 whereas it has increased by 9.95% to RS. 521840234 in current year.

The data presentation, analysis and major findings for this study show above. The forthcoming chapter includes the Summary, Conclusion and Recommendation.

CHAPTER-FIVE

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject mater of economic development has been limited due to variety of geographical structural and economic constraints.

The economic growth of a country can’t imagine with out financial institutions. Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization. The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy.

As the banks are formed as joint stock companies promoted by shareholder's 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 employee, there by enhancing the morale of the employees and motivate them for better performance.

Therefore, profit for commercial organization 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 a specific case study of Standard Chartered Bank Nepal Limited.

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal which showed in the five year study period.

With 17 points of representation, 21 ATMs across the country and with more than 375 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal

The main objective of the study is to evaluate the budgeting and profit planning system of SC Bank Nepal Ltd. The study is mostly based on secondary data and required data have been collected by using various sources.

During the research work, an extensive review literature's books, past thesis journal have been made and internal materials from relevant web 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 interpret in the study report in logical ways. Data are then analyzed applying various financial, mathematical and statistical tools have been listed in a systematic manner. All these works are the fourth chapter titled as 'Data Presentation and Analysis' of this study. Finally the summary, Conclusion and the recommendation made by the researcher by this study are hereby being presented in this current chapter, chapter five titled as Summary, Conclusion and Recommendation.

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 is very strong. It keep minimum number of employee and highly qualified for maintain the job.
- The bank operated with only 12 branches, 4 extension various location in the country.
- The bank adopt always new technology.
- The bank is provides 24 Hrs. Services and ATM services for the consumers.
- The bank provides funds for health and education.
- The bank is adopting new accounting policy, which was prescribed by Nepal Rastra Bank.
- Customer deposit collection is the main resource mobilization of the bank.
- Loan, allowance and Bills purchasing hold the highest outlet of resources deployment.
- Bank's Actual deposit is more variable than actual outstanding LABP. Hence the coefficient of variance of actual deposit is higher than actual outstanding liability LABP.
- LABP highest outlay of resource deployment among the various portfolios.
- Actual LABP are in increasing trend.
- There is perfect correlation between actual deposit and actual LABP.
- There is no continuity in Letter of credit amount, it increase and decrease every year.
- Bank Guarantee is increasing and decreasing every year.
- Interest expenses are highest portion among in other cost.
- Coefficient of variation of actual interest expenses is higher than of actual deposit.

- ❖ The highest revenue comes from the Interest income among the other revenue.
- ❖ Actual LABP are more variable than Interest income.
- ❖ The average current ratio of the bank have 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 is 0.562 times. So the bank has shows dissatisfactory liquidity position of the bank.
- ❖ The bank has debt equity ratio and average of 114.198 during the study year

5.3 Recommendations

On the basis of the study on planning of SC bank, the following suggestions are recommended to improve the profit planning system of SC bank.

A. In the Internal Management and Personal Part:

1. Level wise specific job description and responsibility assignment should be mentioned clearly.
2. Bank management should adopt the policy of appropriate authority delegation all the level management in order to save the valued time chief executive officer for the productive use.
3. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head Office.
4. Employee training & career planning at advance level should be given more focus in order to keep the man power updated with the changing practices and the technologies.
5. It is suggested to the bank to form a specific strategic planning and research department, which shall be responsible for developing new innovative products, further development and up-gradation of existing products, which in turn ensure better profitable business for the bank.

6. Profit Planning & control technique should be used for making long term banking strategies and managerial decisions.

7. Since objectives of the bank are much more specific and highly optimistic the management should launch the new innovative products, which will give quality service to the customers and yield better profit.

8. Every business concerns have one another obligation i.e corporate social responsibility so SC Bank Nepal Ltd. needs more involvement in social activities in the coming days

9. People in rural area of Nepal still out of banking services so SC Bank Nepal Ltd. is suggested to take bold steps to expand and promote its network to reach such area with their products and services.

B. In the Business Part

1. The average cost of deposit of the Bank is high. Therefore, bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost due to high cost of deposit, bank is forced to invest its liquid and obviously risky for the bank.

2. Bank CD ratio is high, which is rather a compulsion to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquid and is more risky for the bank and calls for more provision for loan loss. In this way, the profitability of the bank also gets hampered on the long run. Therefore, the bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.

3. LABP of bank is increasing significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures.

4. The NRB has the restriction on the difference of average rate of interest income and average rate of interest expenses of the bank (i.e Spread) not to exceed 5%. Therefore, the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.

5. Net Profit of the Bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin. SC Bank shall attempt to lower the

burden cost, by increasing the other income and decreasing the other expenses. At the same time it should take a policy to make the interest margin at the maximum extent as allowed by the central bank's norm.

6. The deposits, loans, securities from foreign donors come through the deposit in SC Bank, this may be the biggest advantage for SC Bank to increase in the deposit percentage.

8. Bank should implement its activities with prior planning; there must be budgeting system, which enables it to achieve its objectives.

With the above mentioned Summary, Conclusion, Major Findings and Recommendations suggested the report is concluded.

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Appendix- 1

Status of Budgeted Deposit and Actual Deposit

Fiscal Year	Budgeted deposit(X)	Actual Deposit(Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2004/05	21397720	19,363,470	-2736472.6	-7173978.6	7488282290550.76	51465968953257.96	19631395871886.36
2005/06	22765956	23,061,032	-1368236.8	-3476416.6	1872071940874.24	12085472376755.66	4756561124250.88
2006/07	24134192	24,647,021	0	-1890427.6	0	3573716510841.76	0
2007/08	25502429	29,743,999	1368236.8	3206550.4	1872071940874.24	10281965467740.16	4387320258334.72
2008/09	26870665	35,871,721	2736472.6	9334272.4	7488282290550.76	87128641237401.76	25542980663536.24
Total	**120670962**	**132687243**	**0**	**0**	**18720708462850**	**164535764545997.2**	**54318257918008.2**

Where,

$\overline{X}$ = Mean of X $\qquad$ $\overline{Y}$ = Mean of Y

$$Mean\ \ of\ \ Budgeted\ \ Deposit\ (X) = \frac{Sum\ of\ \ Budgeted\ \ Deposit}{No\ of\ \ years}$$

$$= \frac{120670962}{5} \Rightarrow 24134192.4$$

$$Mean\ \ of\ \ Actual\ \ Deposit\ (Y) = \frac{Sum\ of\ \ Actual\ Deposit}{No\ of\ \ years}$$

$$= \frac{132687243}{5} \Rightarrow 26537448.6$$

$$S.D\ of\ \ Budgeted\ \ Deposit\ \ (X) = \sqrt{\frac{1}{n}\sum x^2}$$

$$= \sqrt{\frac{1}{5} \times 18720708464850} \Rightarrow \sqrt{3744141692570} \Rightarrow 1934978.47$$

$$S.D\ of\ \ Actual\ \ Deposit\ \ (Y) \quad = \quad \sqrt{\frac{1}{n}\sum y^2}$$

$$= \sqrt{\frac{1}{5}\times 164535764545997.2} \Rightarrow \quad 5736475.652$$

$$C.V\ of\ \ Budgeted\ \ Deposit \ = \ \frac{\sigma}{Mean\ of\ \ x}\times 100\% \Rightarrow \frac{1934978.47}{24134192.4}\times 100\% \Rightarrow 8.01$$

$$C.V\ of\ \ Actual\ \ Deposit \quad = \quad \frac{\sigma}{Mean\ of\ \ x}\ \times\ 100\%$$

$$= \frac{5736475.652}{26537448.6}\times 100\% \ \Rightarrow\ 21.23\%$$

$$Correlation \quad (r) \quad = \frac{\sum xy}{n\sigma_n \sigma_y}$$

$$= \frac{54318257918008.2}{5\times 193497847\times 5736475.652} \Rightarrow \frac{54318257918008.2}{5549978440149606.22} \ = \ 0.009787$$

$$\Pr obable \ \ Error \ \ (PE) \quad = \frac{1-r^2}{N}\times 0.6745$$

$$= \frac{1-(0.009787)^2}{5}\times 0.6745 \quad \frac{1-0.000095785396}{5}\times 0.6745 \ \Rightarrow 0.134887$$

Appendix- 2
Status of budgeted LABP and Actual LABP

Fiscal Year	Budgeted LABP (X)	Actual LABP (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2004/05	7937478	8,143,208	-2284877.8	-2852715.4	5220664276055.04	8137985153397.16	6518106087178.12
2005/06	9079917	8,935,418	-1142438.4	-2060505.4	1305166411745.44	4245682503429.16	2354000492367.36
2006/07	10222355	10,502,637	0	-493286.4	0	243331472424.96	0
2007/08	11364794	13,718,597	1142438.4	2722673.6	1305166411745.44	7412951532136.96	3110486871306.24
2008/09	12507232	13,679,757	2284876.8	2683833.6	5220664276055.04	7202962792488.96	6132229127700.48
Total	**51,111,776**	**54,979,617**		**0**	**13051661375600.96**	**27242913453877.2**	**18114822578552.2**

Where,

$\overline{X}$ = Mean of X $\qquad \overline{Y}$ = Mean of Y

$$Mean \ \ of \ \ Budgeted \ \ LABP \quad = \quad \frac{Sum\ of\ \ Budgeted\ \ LABP}{No\ of\ \ years}$$

$$= \frac{51111776}{5} \Rightarrow 10222355.2$$

$$Mean \quad of \ Actual \ LABP \quad = \frac{Sum \ of \ Actual \ LABP}{No \ of \ \ years}$$

$$= \frac{54979617}{5} \Rightarrow 10995923.4$$

$$S.D \ of \ \ Budgeted \ \ LABP \ (X) \quad = \sqrt{\frac{1}{x}\sum x^2}$$

$$= \sqrt{\frac{1}{5} \times 13051661375600.96} \Rightarrow 1615652.28$$

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

$$= \sqrt{\frac{1}{5} \times 27242913453877.2} \Rightarrow 2334219.932$$

$$C.V \ of \ \ Budgeted \ \ LABP \quad = \frac{\sigma}{Mean \ of \ \ x} \times 100\%$$

$$= \frac{1615652.28}{10222355.2} \times 100\% \Rightarrow 15.81\%$$

$$C.V \ of \ \ Actual \ \ LABP \quad = \frac{\sigma}{Mean \ of \ \ y} \times 100\%$$

$$= \frac{2334219.932}{10995923.4} \times 100\% = 21.23 \ \%$$

$$Correlation \quad (r) \quad = \frac{\sum xy}{n\sigma_x \sigma_y} \Rightarrow \frac{181148225785522.2}{5 \times 1615652.28 \times 2334219.932}$$

$$= \frac{181148225785522.2}{18856438775786.2248} \Rightarrow 0.9606$$

$$\Pr obable \ \ Error \ \ (PE) \quad = \frac{1 - r^2}{N} \times 0.6745$$

$$= \frac{1 - (0.9606)^2}{5} \times 0.6745 \Rightarrow \frac{1 - 0.92275236}{5} \times 0.6745 \Rightarrow 0.01042$$

Appendix- 3
Status of Budgeted NLABP and Actual NLABP

Fiscal Year	Budgeted NLABP (X)	Actual NLABP (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2004/05	14227360	11,378,780	-1488380.2	-5588851.8	2215275619752.04	31235264442363.24	8318336359854.36
2005/06	18144150	14,854,663	2428409.8	-2112968.8	5897174156736.04	4464637149773.44	-5131154141014.24
2006/07	15010718	16,332,900	-705022.2	-634731.8	497056302492.84	402884457931.24	447500010045.96
2007/08	15402397	17,419,653	-313343.2	452021.2	98183960986.24	204323165249.44	-141637769275.84
2008/09	15794076	24,852,163	78335.8	7884531.2	6136497561.64	62165832243773.44	617641059176.96
Total	78578701	84838159	0	0	8713826537528.8	98472941459090.8	**4110685518787.2**

Where,

$\overline{X}$ = Mean of X $\quad\quad$ $\overline{Y}$ = Mean of Y

$$Mean\ of\ Budgeted\ NLABP = \frac{Sum\ of\ Budgeted\ NLABP}{No\ of\ years}$$

$$= \frac{78578701}{5} \Rightarrow 15715740.2$$

$$Mean\ of\ Actual\ NLABP = \frac{Sum\ of\ Actual\ NLABP}{No\ of\ years}$$

$$= \frac{84838159}{5} \Rightarrow 16967631.8$$

$$S.D\ of\ Budgeted\ NLABP\ (X) = \sqrt{\frac{1}{x}\sum x^2}$$

$$= \sqrt{\frac{1}{5} \times 8713826537528.8} \Rightarrow 1320138.37$$

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

$$= \sqrt{\frac{1}{5} \times 98472941459090.8} \Rightarrow 4437858.52$$

$$C.V\ of\ Budgeted\ NLABP = \frac{\sigma}{Mean\ of\ x} \times 100\%$$

$$= \frac{1320138.37}{15715740.2} \times 100\% \Rightarrow 8.40\%$$

$$C.V\ of\ Actual\ NLABP = \frac{\sigma}{Mean\ of\ y} \times 100\%$$

$$= \frac{4437858.52}{16967631.8} \times 100\% \Rightarrow 26.16\%$$

$$Correlation \quad (r) = \frac{\sum xy}{n\sigma_x \sigma_y} \Rightarrow \frac{4110685518787.2}{5 \times 1320138.37 \times 4437858.52}$$

$$= \frac{4110685518787.2}{29292936564417.062} \Rightarrow 0.14033$$

$$\Pr obable \quad Error \quad (PE) = \frac{1-r^2}{N} \times 0.6745 \Rightarrow \frac{1-(0.14033)^2}{5} \times 0.6745$$

$$= \frac{1-0.0196925089}{5} \times 0.6745 = 0.1322$$

Appendix- 4
Status of Actual Deposits and Actual LABP

Fiscal Year	Actual Deposit (X)	Actual LABP (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2004/05	19,363,470	8,143,208	-7173978.6	-2852715.4	51465968953257.96	8137985153397.16	20465319231490.44
2005/06	23,061,032	8,935,418	-3476416.6	-2060505.4	12085472376755.56	4245682503429.16	7163175176949.64
2006/07	24,647,021	10,502,637	-1890427.6	-493286.4	3573716510841.76	243331472424.96	932522225264.64
2007/08	29,743,999	13,718,597	3206550.4	2722673.6	10281965467740.16	7412951532136.96	8730390121149.44
2008/09	35,871,721	13,679,757	9334272.4	2683833.6	87128641237401.76	7202962792488.96	25051633898672.64
Total	**132,687,243**	**54,979,617**	**0**	**0**	**164535764545997.2**	**27242913453877.2**	**62343040653526.8**

Where,

$\overline{X}$ = Mean of X $\qquad$ $\overline{Y}$ = Mean of Y

$$Mean \quad of \quad Deposit = \frac{Sum \ of \ Deposit}{No \ of \ years} \Rightarrow \frac{132687243}{5} \Rightarrow 26537448.6$$

$$Mean \quad of \quad LABP = \frac{Sum \ of \ LABP}{No \ of \ years} \Rightarrow \frac{54979617}{5} \Rightarrow 10995923.4$$

$$S.D \ of \ Actual \ Deposit \ (X) = \sqrt{\frac{1}{x}\sum x^2} \Rightarrow \sqrt{\frac{1}{5} \times 164535764545997.2}$$

$$= 5736475.652$$

$$S.D \ of \ Actual \ LABP \ (Y) = \sqrt{\frac{1}{n}\sum y^2} \Rightarrow \sqrt{\frac{1}{5} \times 27242913453877.2}$$

$$= \quad 2334219.932$$

$$C.V \ of \ Actual \ Deposit = \frac{\sigma}{Mean \ of \ x} \times 100\% \Rightarrow \frac{5736475.652}{26537448.6} \times 100\%$$

$$= \quad 21.62 \ \%$$

$$C.V \ of \ Actual \ LABP = \frac{\sigma}{Mean \ of \ y} \times 100\% \Rightarrow \frac{2334219.932}{10995923.4} \times 100\%$$

$$= \quad 21.23 \ \%$$

$$Correlation \quad (r) = \frac{\sum xy}{n\sigma_n \sigma_y} \Rightarrow \frac{62343040653526.8}{5 \times 5736475.652 \times 2334219.932}$$

$$= \frac{62343040653526.8}{66951839503003.27832} = 0.93116$$

$$\Pr obable \ Error \ (PE) = \frac{1-r^2}{N} \times 0.6745 \Rightarrow \frac{1-(0.93116)^2}{5} \times 0.6745$$

$$= \frac{1-0.8670589456}{5} \times 0.6745 = 0.01793$$

Appendix-5
Status of Actual Deposits Amount and Interest Expenses Amount

Fiscal Year	Total Deposit Amount(X)	Interest expenses Amount(Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2004/05	19,363,470	254,127	-7173978.6	- 43052.4	51465968953257.96	-2852715.4	1026254856278.64
2005/06	23,061,032	303,198	-3476416.6	-93981.4	12085472376755.56	-2060505.4	326718499051.24
2006/07	24,647,021	413,055	-1890427.6	15875.6	3573716510841.76	-493286.4	(30011672406.56)
2007/08	29,743,999	471,730	3206550.4	74550.6	10281965467740.16	2722673.6	239050256250.24
2008/09	35,871,721	543,787	9334272.4	146607.6	87128641237401.76	2683833.6	1368475274310.24
Total	**132,687,243**	**1,985,897**	**0**	**0**	**164535764545997.2**	**0**	**2930487213483.8**

Where,

$\overline{X}$ = Mean of X $\qquad$ $\overline{Y}$ = Mean of Y

$$Mean \ of \ Deposit = \frac{Sum \ of \ Deposit}{No \ of \ years} \Rightarrow \frac{132687243}{5} \Rightarrow 26537448.6$$

$$Mean \ of \ \text{int} \ erest \ Expenses = \frac{Sum \ of \ Interest \ Expenses}{No \ of \ years}$$

$$= \frac{1985897}{5}$$

$$= 397179.4$$

$$S.D\ of\ \ Actual\ \ Deposit\ \ (X) = \sqrt{\frac{1}{x}\sum x^2} = \sqrt{\frac{1}{5}\times 164535764545997.2}$$

$$= 5736475.652$$

$$S.D\ of\ \ Interest\ \ Expenses\ (Y) = \sqrt{\frac{1}{y}\sum y^2} \Rightarrow \sqrt{\frac{1}{5}\times 56600107705.2}$$

$$= 106395.5899$$

$$C.V\ \ of\ \ Actual\ \ Deposit = \frac{\sigma_x}{Mean\ \ of\ \ x}\times 100\% \Rightarrow \frac{5736475.652}{26537448.6}\times 100\%$$

$$= 21.62\ \%$$

$$C.V\ of\ \ Interest\ \ Expenses = \frac{\sigma_y}{Mean\ \ of\ \ y}\times 100\% \Rightarrow \frac{106395.5899}{397179.4}\times 100\%$$

$$= 26.79\ \%$$

$$Correlation\ \ (r) = \frac{\sum xy}{n\sigma_x \sigma_y} \Rightarrow \frac{2930487213483.8}{5\times 5736475.652\times 106395.5899}$$

$$= \frac{2930487213483.8}{3051678554707.635574} \Rightarrow 0.96028$$

$$\Pr obable\ \ Error\ \ (PE) = \frac{1-r^2}{N}\times 0.6745 \Rightarrow \frac{1-(0.96028)^2}{5}\times 0.6745$$

$$= \frac{1-0.9221376784}{5}\times 0.6745 = 0.010503$$

Appendix-6

Status of Actual LABP and Interest Income

Fiscal Year	Actual LABP (X)	Interest Income (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2004/05	8,143,208	1,058,678	-2852715.4	-369058	8137985153397.16	136203807364	1052817440093.2

2005/06	8,935,418	1,189,603	-2060505.4	-238133	4245682503429.16	56707325689	490674332418.2
2006/07	10,502,637	1,411,982	-493286.4	-15754	243331472424.96	248188516	7771233945.6
2007/08	13,718,597	1,591,196	2722673.6	163460	7412951532136.96	26719171600	445048226656
2008/09	13,679,757	1,887,221	2683833.6	459485	7202962792488.96	211126465225	1233181281696
Total	**54,979,617**	**7,138,680**	10995923.40	0	**27242913453877.2**	**431004958394**	**3229492514809**

Where,

$\overline{X}$ = Mean of X $\overline{Y}$ = Mean of Y

$$Mean \quad of \quad LABP = \frac{Sum\ of\ LABP}{No\ of\ years} \Rightarrow \frac{54979617}{5} = 10995923.4$$

$$Mean \quad of \quad Interest \quad Income = \frac{Sum\ of\ Interest\ Income}{No\ of\ years} \Rightarrow \frac{7138680}{5}$$

$$= 1427736$$

$$S.D\ of\ Actual\ LABP\ (X) = \sqrt{\frac{1}{x}\sum x^2} \Rightarrow \sqrt{\frac{1}{5}\times 27242913453877.2}$$

$$= 2334219.932$$

$$S.D \quad of \quad Interest \quad Income\ (Y) = \sqrt{\frac{1}{y}\sum y^2}$$

$$= \sqrt{\frac{1}{5}\times 431004958394}$$

$$= 293600.0539$$

$$C.V\ of\ Actual\ LABP = \frac{\sigma_x}{Mean\ of\ x}\times 100\% \Rightarrow \frac{2334219.932}{10995923.4}\times 100\%$$

$$= 21.228\ \%$$

$$C.V\ of\ Interest\ Interest = \frac{\sigma_y}{Mean\ of\ y}\times 100\% \Rightarrow \frac{293600.0539}{1427736}\times 100\%$$

$$= 20.564\ \%$$

$$Correlation \quad (r) = \frac{\sum xy}{n\sigma_x\sigma_y} \Rightarrow \frac{3229492514809}{5\times 293600.0539\times 2334219.932}$$

$$= \frac{3229492514809}{3426635489248.271674} = 0.94247$$

$$Probable\ Error\ (PE) = \frac{1-r^2}{N} \times 0.6745$$

$$\Rightarrow \frac{1-(0.94247)^2}{5} \times 0.6745$$

$$= \frac{1-0.8882497009}{5} \times 0.6745 = 0.015075$$

Fiscal year	Actual deposit (Y)	x	X2	xy	Yc= a+bx
2002/03	18755635	-2	4	-37511270	18661247.6
2003/04	21161442	-1	1	-21161442	20029483.8
2004/05	19363470	0	0	0	21397720
2005/06	23061032	1	1	23061032	22765956.2
2006/07	24647021	2	4	49294042	24134192.4
Total	106988600	0	10	13682362	

Standard Chartered Bank Nepal Ltd
Trend Analysis
Calculation of trend line of deposit of SC Bank Nepal Ltd (Rs. '000')

Where, a = average deposit b = rate of change on deposit

Hence, the equation of a straight trend is y = a+bx
Here,
The normal equation for estimation a and b are
ΣY= Na+bΣx……………………………… (i)
ΣXY= aΣx +bΣx2………………………… (ii)
By, substituting the vale of the table in normal equations, we get,
ΣY= Na+bΣx……………………………… (i)
106988600 = 5a+0b
21397720 = a
ΣXY= aΣx +bΣx2………………………… (ii)
13682362 = 0a+10b
1368236.2 = b

year	**Deviation of F/Y**	**Trend Line**	**Trend Value**

2007/08	3	Y = a+bx	25502428.6
2008/09	4	Y = a+bx	26870664.8
2009/10	5	Y = a+bx	28238901

Standard Chartered Bank Nepal Ltd
Trend Analysis
Calculation of trend line of LABP of SC Bank Nepal Ltd. (Rs. '000')

Fiscal year	Actual LABP (Y)	x	X2	xy	Yc = a+ bx
2002/03	5,695,824	-1	1	-5695824	6795040
2003/04	6,410,242	-2	4	-12820484	5652601.6
2004/05	8,143,208	0	0	0	7937478.4
2005/06	8,935,418	1	1	8935418	9079917
2006/07	10,502,637	2	4	21005274	10222355
Total	**39687392**	**0**	10	11424384	

Where, a = average LABP b = rate of change on LABP
Hence, the equation of a straight trend is y = a+bx
Here,
The normal equation for estimation a and b are
ΣY= Na+bΣx……………………………… (i)
ΣXY= aΣx +bΣx2………………………… (ii)

By, substituting the vale of the table in normal equations, we get,
ΣY= Na+bΣx……………………………… (i)
39687392 = 5a+0b
7937478.4= a

ΣXY= aΣx +bΣx2………………………… (ii)
11424384 = 0a+10b
1142438.4 = b

year	**Deviation of F/Y**	**Trend Line**	**Trend Value**
2007/08	3	Y = a+bx	11364793.6
2008/09	4	Y = a+bx	12507232
2009/10	5	Y = a+bx	13649670

Standard Chartered Bank Nepal Ltd
Trend Analysis
Calculation of trend line of NLABP of SC Bank Nepal Ltd (Rs. '000')

Fiscal year	Actual NLABP (Y)	x	X2	xy	Yc = a+ bx
2002/03	13,557,237	-1	1	-13557237	13835681
2003/04	15,013,218	-2	4	-30026436	13444002
2004/05	11,378,780	0	0	0	14227360
2005/06	14,854,663	1	1	14854663	18144149.6
2006/07	16,332,900	2	4	32645800	15010717.6
Total	**71,136,798**	0	10	3916790	

Where, a = average NLABP b = rate of change on NLABP

Hence, the equation of a straight trend is y = a+bx

Here,
The normal equation for estimation a and b are
$\Sigma Y= Na+b\Sigma x$………………………………. (i)
$\Sigma XY= a\Sigma x +b\Sigma x2$………………………… (ii)

By, substituting the vale of the table in normal equations, we get,
$\Sigma Y= Na+b\Sigma x$………………………………. (i)
71136798 = 5a+0b
14227359.6 = a

$\Sigma XY= a\Sigma x +b\Sigma x2$………………………… (ii)
3916790 = 0a+10b
391679 = b

year	**Deviation of F/Y**	**Trend Line**	**Trend Value**
2007/08	3	Y = a+bx	15402396.6
2008/09	4	Y = a+bx	15794075.6
2009/10	5	Y = a+bx	16185754.6