CHAPTER – 1

INTRODUCTION

1.1 Background of the study

Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corners of the country because it is not possible to develop all the sectors by the investment of funds by the government alone. Commercial bank occupies quite an important place in the framework of every economy because it provides capital for the development of industry, trade and business by investing the saving collected as deposits from public. A bank is an institution that deals with money and credit. It accepts deposits from individuals and business institutions and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Banks are the most important financial institutions in the economy. They are also the lending buyers of bond and cater to the need for financial services to the public and their enterprises. They are also the most important source of short-term working capital for business and long-term business loans for new plants and equipments. Therefore, Banks are the principle source of credit for individual business and government.

Bank is a dealer of money. At present context, bank is not only confined to accepting deposits and disbursing loan but also engaged in different function as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills facilitating foreign trades through letter of credit (LC) etc.

Nepal is adopting mixed economy where public and private sectors co-exist. Nepal is a developing country. In any economy, the importance of financial sector in general and banking sector in particular can not be undermined. Banking sector definitely plays a vital role in the overall development of an economy. The Nepalese banking sector is at an exciting point in its development. The opportunities to enter new business and new markets and to deliver higher levels of customer services are immense. As the Nepalese banks position themselves as financial service providers, banking business is getting refined. Technology is unsetting the earlier business process and costumers' behavior is undergoing considerable changes. These have enhanced the forces of competition.

It is said that the banking sector mirrors the large economy. Its linkage to all sectors makes it a proxy for what is happening in the economy as a whole. Indeed, the Nepalese banking sector today has the same sense of excitement and opportunity that is evident in the Nepalese economy. Nepal's economic progress is being declined, political stability is not cleared and agriculture production is not sufficient, the number of financial institution is being increased day by day. In the recent time, there are 25 commercial banks, 56 development banks, 78 finance companies and 12 micro-finance institutions in Nepali financial market. The numbers of Co-operatives are uncountable and there are many more financial institutions in pipeline (www.nrb.org.np).

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

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

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

As a management student, selected to know the profit planning of Standard Chartered Bank Nepal Limited. Many industries and construction companies are emerging. For them a lot of fund is needed. So that banks provide loans with security. Banks are largely investing in hydro sector as well as construction, trade, business, education, health, sport etc. Their contribution is highly recognized. Especially, commercial banks that collect money from public giving low rate of interest and granting loan with high interest rate. The difference between interests is the profit along with commission and charge deducting all kinds of expenses.

1.2 Introduction of Bank

1.2.1 Meaning of Bank

Simply we can say that bank is an institution, which deals in money & credit. R.S. Sayers-"Ordinary banking business consists of changing cash for bank deposits & bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bills of exchange, government, bonds, the secured or unsecured promises of businessmen to repay."

Indian Company Acts defines banking as "The accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise withdrawal by cheque, draft or otherwise.” Similarly, United States Laws has defined it as “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank.”

“Banks are not just the storehouses of the country’s wealth but are the reservoirs of resources necessary for economic development. Bank renders valuable service to trade and industry. Industrial development can take place only if sufficient money is invested in industries. Banks undertake the stupendous tasks by mobilizing the saving of the people and lending the same to the traders and industrialists. The bank helps in the uniform development of the different regions in the country” (Radhasawami & Vasudevan, 1979: 521).

The banking business has its genesis form its function of lending. Lending is the most fundamental function of a bank. The pace of time has changed the portfolio of banking business from its primary functions to other functions such as merchant banking, credit card business, documentary credit, traveler cheques business etc. Nevertheless, the importance of lending in banking business is undoubtedly unchanged and remained vital as it was in early days of the business. “The classical economic functions of bank and other financial intermediaries all over the world have remained virtually unchanged in modern times. What have been changed are the institutional structure, the instruments and the techniques used in performing these functions” (Bhattacharya, 1998: XV). A banker or bank is a financial institution whose primary activity is to act as a payment agent for customer and to borrow and lend money.

1.2.2 Need of Bank

A well developed banking system plays an important role in the economic development of a country. A country, developing or developed need adequate and well-diversified banking services for the development of any concerned sector. In the modern economy, banks are to be considered not merely as the dealers in money but also the leaders in development. Therefore, banking is a backbone of any country's economy. Bank plays vital role in the overall development of the nation. Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. Following are some of the needs of establishing and developing banks:

- Capital Formation
- Monetization of Economy
- Economic Development
- Implementation of Monetary policy
- Price Stability
- Control Interest rate
- Credit Creation
- Expansion of Business
- Underwriting operation
- Safe Custody of Wealth
- Promote Saving
- Agency Service
- Fund Transfer
- Boost of Trade and Industry
- Employment Generation
- Legal Entity and Freedom from Exploitation
- Development of Agriculture and other neglected sectors, etc.

1.2.3 Types of Banks

There are mainly four types of financial institutions.

1. Central bank
2. Commercial bank
3. Finance companies
4. Co-operatives

1.2.4 Meaning of Commercial Banks

Commercial Banks are that financial institutions which deals in accepting deposits of persons and institutions and in giving loans against securities. They provide working capital, which needs of trade, industry and even to agricultural sectors. Moreover, Commercial Banks also provide technical and administrative assistance to industries, trade and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sectors of economy.

The definition of a bank varies from country to country.
Under English common law, “A banker is defined as a person who carries on the business of banking, which is specified as:

- Conducting current accounts for his customer
- Paying cheque drawn on him, and
- Collecting cheques for his customers.

Commercial Bank is corporations which accepts demand deposits subject to check and make short term loans to business enterprises, regardless of the scope of its other services.

“A commercial banker is dealer in money and substitutes for money such as cheque or bill of exchange. He also provides a variety of financial service” The new Encyclopedia Britannica, The world Book.
Commercial Bank Act 1975 A.D. defined, “A commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs. A

commercial banking function which is not a bank meant for co-operatives, agriculture, industries or for such specific purpose."

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and government establishments units.

"Commercial Bank means a bank which operates currency exchanges transactions, accepts deposit, provide loans, performs, dealing, relating to commerce except the banks which have been specified for the cooperative, agricultural, industry of similar other specific objective" Commercial Bank Act 2031. In the context of Nepal, one of the developed rectors is banking sector. More investor is attracted in the banking sector for the investment- The only stock exchanges of Nepal also so the growth of financial sector.

Thus, all the definitions of commercial banks try to introduce on the basis of its functions, so it will be relevant to discuss about the functions of commercial banks in the following section.

1.2.5 Functions of Commercial Banks

Commercial bank is the financial institution that deals with money and monetary transaction. Although, it generally accept deposits and provide loans. But nowadays, in the modern and advanced economy, it expand and diverse its functions. It perform every potential functions for the development of trade, commerce, industry and agriculture including supports for priority and deprived sector. It is established with the prime objective of profit maximization. So, keeping this objective in mind, commercial banks operate its banking business. They earn profit as interest by advancing the fund as loan at the interest rate higher than its cost.

As Central Bank is the guardian of all banks and financial institutions and it has got regulating and controlling authority over all banks, commercial bank must be set up under the provision of Central Bank. Commercial banks must have to obey the rules and regulations promoted by Central Bank.

The functions of commercials banks are as follows:

1. Accepting Deposits

Fixed Deposit Account

Saving Deposit Account

Current Deposit Account

Home Saving Account

Recurring Deposit Account

2. Advancing Loans

Term Loans

Cash Credit

Overdraft

Money at Call

3. General Utility Function

Issue of letter of credit and traveler's cheques

Remittance of money

Discounting bills of exchange

Locker facilities

Collecting trade information and banking statistics

Exchange foreign currency

Collection and payment of cheques, bills, promissory notes, etc.

4. Agency Function

Collection of money from other banks to the customer

Receipt and payment of dividend, interest, etc

Financial adviser to the customer

Security brokerage service

Underwriting securities of Public and Private sector

1.3 Historical Background of Banks

The evolution of banking industry had started a long time back, during ancient time. The name bank derives from the Italian word banco "desk/bench", used during the Renaissance by Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times. In 1157, the first bank named ‘Bank of vanish’ was established. The first modern bank was found in Italy in Genoa in 1406, its name was Banco di San Giorgio (Bank of St. George). But after the establishment of ‘Bank of England’ in 1694, modern banking was begun. Now, there are a lot of banks that are providing quality services world widely. To think about business, trade even life without bank is now impossible. For the contribution of economic development, banking sector plays vital role.

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market.

In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadar Shakhwa, a surda merchant of kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal.

The establishment of the “Tejaratha Adda” during the year 1877 AD was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. Tejaratha Adda distributed credit facilities to the public especially on the collateral of gold and sliver. Hence, the establishment of Tejarath Adda" could be regarded as pioneer foundation of banking in Nepal.

When government started trade with India and Tibet the need of banking institution was realized. In the 1937 AD, Nepal Bank Ltd was established under the "Nepal Bank Act 1937" as the first commercial bank of Nepal with 10 million authorized capitals. Rastriya Banija bank, the second commercial bank was established in the year 1965 AD. RBB being the largest commercial bank plays a major role in the economy. The financial shapes of the two old banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position (www.nrb.org.np).

Having felt need of development of banking sector and to help the government for formulate monetary policies, fiscal policies, issue of currency etc., Nepal Rastra Bank was established in 1956 A.D. as a central bank of the nation under Nepal Rastra Bank act 1956 A.D. Since then, it has been functioning as the government bank and has contributed to the growth of financial sector. With the opening of Nabil Bank Ltd. in 1985 AD, the door of opening commercial banks was opened to the private sectors. As the commercial banks grew they stopped entertaining small projects. Thus a scope for opening finance companies emerged. Nepal Housing & Development Finance Company was the first finance company (www.nrb.org.np).

No matter what name give to banks like Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, etc, they all perform the same basic function. Like other organization, the main objective of the banking industries will be profit maximization and wealth maximization. Many other financial activities were added over time. For example banks are important players in financial markets and offer financial services such as investment funds. Banks have influence economics and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies.

1.4 Banks in Nepal

Table -1

Commercial Banks in Nepal

S.No.	Names	Operation Date (A.D.)
1	Nepal Bank Limited	15/11/1937
2	Rastriya Banijya Bank	23/01/1966
3	Agriculture Development Bank Ltd.	02/01/1968
4	NABIL Bank Limited	16/07/1984
5	Nepal Investment Bank Limited	27/02/1986
6	Standard Chartered Bank Nepal Limited.	30/01/1987
7	Himalayan Bank Limited	18/01/1993
8	Nepal SBI Bank Limited	07/07/1993
9	Nepal Bangladesh Bank Limited	05/06/1994
10	Everest Bank Limited	10/18/1994
11	Bank of Kathmandu Limited	12/03/1995
12	Nepal Credit and Commerce Bank Limited	14/10/1996
13	Lumbini Bank Limited	17/07/1998
14	Nepal Industrial & Commercial Bank Limited	21/07/1998
15	Machhapuchhre Bank Limited	03/10/2000
16	Kumari Bank Limited	03/04/2001
17	Laxmi Bank Limited	03/04/2002
18	Siddhartha Bank Limited	24/12/2002
19	Global Bank Ltd.	02/01/2007
20	Citizens Bank International Ltd.	21/06/2007
21	Prime Commercial Bank Ltd	24/09/2007
22	Sunrise Bank Ltd.	12/10/2007
23	Bank of Asia Nepal Ltd.	12/10/2007
24	Development Credit Bank Ltd.	23/01/2001
25	NMB Bank Ltd.	26/11/1996
26	KIST Bank Ltd.	07/05/2009

Source: www.nrb.org.np

1.5 Introduction 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 who has 75% ownership 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. Standard Chartered Bank Nepal Limited is Nepal’s largest international bank currently operating in Nepal.

Standard Chartered Group employs almost 60,000 people, representing over 100 nationalities in over 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. 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 strong organic growth supported by strategic alliances and acquisitions and driven by its strengths in the balance and diversity of its business, products, geography and people, Standard Chartered is well positioned in the emerging trade corridors of Asia, Africa and the Middle East.

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.

An integral part of the only international banking Group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. With 17 points of representation and 19 ATMs across the Kingdom and with around 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through a large domestic network. In addition to which the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal. 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.

SCBNL is a socially responsible corporate and recognizes its responsibilities to its staff and to the communities in which it operates. The bank concentrates on projects that assist children, particularly in the area of health and education and it has taken up various initiatives to benefit the community. The major initiative in the area of health, ‘Living with HIV’ and ‘Seeing is Believing’ has been undertaken by the bank since 2003.

SCBNL has been awarded by different title of award in different years.

- March 2006**-** **'Best Commercial Bank 2004-05'-** awarded by The Boss Magazine**-** Speciality Media Private Limited
- March 2006 **- Manager of the Year Award -** awarded by Management Association of Nepal (MAN) on the occasion of their Silver Jubilee Program
- 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
- April 2005 **-FNCCI National Excellence Award 2003-2004** awarded by The Federation of Nepalese Chambers of Commerce & Industry (FNCCI)
- March 2005 **- Best Commercial Bank for the year 2003-2004**, awarded by The Boss Magazine**-** Speciality Media Private Limited.

- 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).
- December 2003 - **The Best Company, Financial Institutions** from Top 10 awards for Business Excellence awarded by 'The BOSS'
- September 2002 **"Bank of the Year 2002 Nepal"** by 'The Banker' of the Financial Times.
- 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)

Strategic Intent of SCBNL:

"The world's best international bank leading the way in Asia, Africa and the Middle East"

Brand Promise of SCBNL

- The Right Partner-Leading by Example

Values of SCBNL

- Responsive
- Trustworthy
- Creative
- International
- Courageous

1.5.1 Share Capital and Ownership of SCBNL

Table - 2

Share capital & ownership of SCBNL

	Particular	F/Y 2064/065
1	Share Capital	
1.1	**Authorized Capital**	**1,000,000,000**
A)	10,000,000 Ordinary Shares of Rs. 100 each	1,000,000,000
1.2	**Issued Capital**	**1,000,000,000**
A)	10,000,000 Ordinary Shares of Rs. 100 each	1,000,000,000
1.3	**Paid Up Capital**	**620,784,000**
A)	6,207,840 Ordinary Shares of Rs. 100 each	620,784,000

Source: SCBNL Annual Report

1.5.2 Share Ownership of SCBNL

Table - 3

Share ownership of SCBNL

	Particulars	Percentage	F/Y 2064/065
A	**Promoter**	**75**	**465,588,000**
1.1	Government of Nepal	-	-
1.2	Foregin Institutions	75	465,588,000
1.3	“A” Class Licensed Institutions	-	-
1.4	Other Licensed Institutions	-	-
1.5	Other Entities	-	-
1.6	Individual	-	-
1.7	Others	-	-
2	**General Public**	**25**	**155,196,000**
	Total	**100**	**620,784,000**

Source: SCBNL Annual Report

1.5.3 Details of Shareholders Holding > 0.5 % Shares

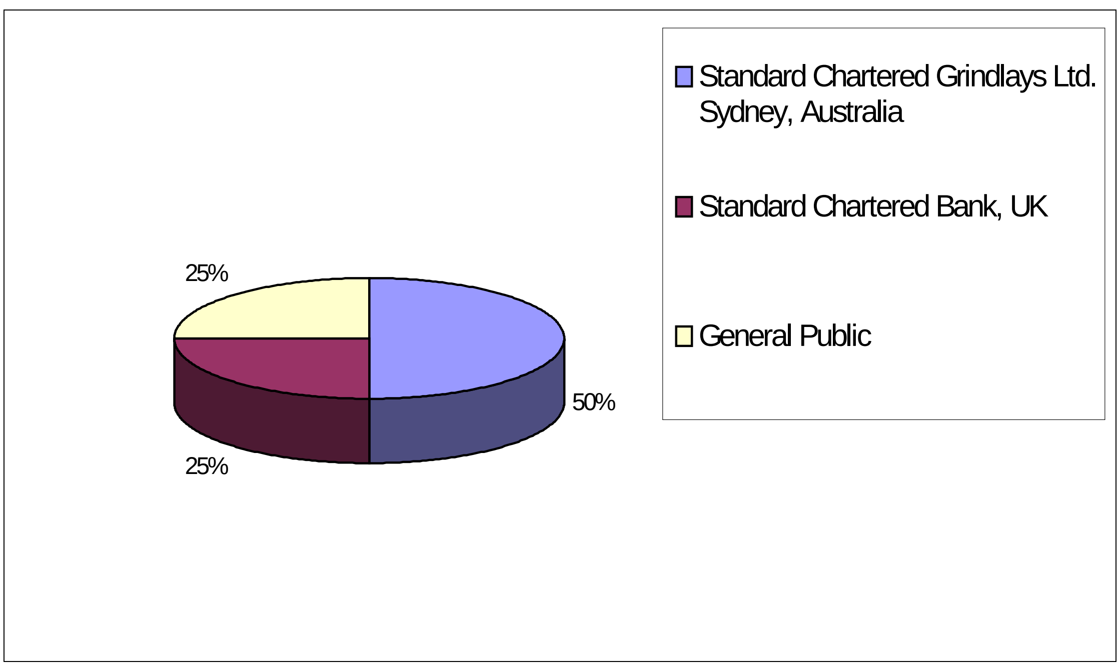
Table - 4

Details of Shareholders

S.N.	No. of Shares held	Name of the Shareholders	% of Total Shares	FY 2064/65 Amount Rs.
1	3,103,920	Standard Chartered Grindlays Ltd. Sydney, Australia	50.00	310,392,000
2	1,551,960	Standard Chartered Bank, UK	25.00	155,196,000
3	33,000	Priyanka Agrawal	0.53	3,300,000
4	33,000	Avinash Agrawal	0.53	3,300,000
5	33,000	Komal Agrawal	0.53	3,300,000
6	33,000	Shashi Agrawal	0.53	3,300,000
7	33,000	Shankar Lal Agrawal	0.53	3,300,000
8	33,000	Pashupati Soap Industries	0.53	3,300,000
9	31,583	Arjun Bandhu Regmi	0.51	3,158,300

Source: SCBNL Annual Report

Figure – 1 Ownership Structure of SCBNL



1.5.4 Boards of Directors

SCBNL’s governing boards has six members.

Table - 5

Boards of Directors

1	Mr. Neeraj Swaroop, SCB	Chairman
2	Mr. Anuraj Adlakha, SCB	Director
3	Mr. Sushen Jhingan, SCB	Director
4	Mr. Sujit Mundul, CEO, SCBNL	Director
5	Mr. Arjun Bahadur Regmi	Public Director
6	Mr. Ram Bahadur Aryal	Independent Director

Source: SCBNL Annual Report

1.5.6 Branch of SCBNL

SCBNL has 13 branches and 4 extension counters in all major cities. 3 branches are in Kathmandu Valley, 10 branches are in outside the Kathmandu Valley and 4 extension counters are in across the kingdom.

1.5.7 Service and Products of SCBNL

A. Deposit

1. Saving Account: The Savings Account is a transactional interest bearing account wherein a deposit is placed with the Bank for an unspecified period of time and the depositor can withdraw or transfer the funds whenever required through different means.

2. Current Account: The Current Account is a transactional non-interest bearing account wherein a deposit is placed with the Bank for an unspecified period of time and the depositor can withdraw or transfer the funds whenever required through different means.

3. Fixed Deposit: A Fixed Deposit account is an interest bearing account, where a fixed amount is held at fixed interest rate and is repayable (principal/interest) at a fixed future date as agreed at the time of placement of the Deposits

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

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

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

B. Loans

SCBNL provides various types of loan such as home loans, auto loans, personal loans, cash/near cash backed loan. Bank only provides loan to its customers who is aged at least 21 years and are under an employment having a take away pay sufficient to cover the installments.

C. Credit Cards

Issuance of credit card is one of the main services provided by SCBNL. It introduced Visa and MasterCard in Nepalese market. There are two types of cards: Local or Rupee Card and International or Dollar Card. Local or Rupee card is valid only in India and Nepal whereas International or Dollar credit card is valid worldwide. It also introduced the Visa Electron Debit Card.

D. Insurance

Secured Life Insurance

SCBNL offers a wide range of Life Insurance Products from American Life Insurance Co. (ALICO), one of the world’ s leading Insurance companies.

Secured Assets

Standard Chartered offers a wide range of Non- Life Insurance Products from National Insurance Company Limited (NICL), a leading non life insurance company.

(i) Home insurance

(ii) Vehicle Insurance

E. Other Services

1. ATMs Network

Growing network ATM facilities are available to account holders. Debit Cards with Pin numbers are issued to enable the customers to avail to 24-hour ATM facility. SCBNL has 19 ATMs representative within country.

2. Online Banking

SCBNL Online Banking, our internet banking service, connects the customers safely to their bank account any time, anywhere. Our Online Banking shares the Standard Chartered Group's secured global online platform, confidently accessed by millions of our customers worldwide. With Online Banking, SCBNL provides following services:

Account Services

- Account Information
- Cheque Book Request
- Request for Statement
- Status of Issued Cheques
- Status of Inward Remittance

Fund Transfers

- Within SCBNL Accounts
- To other Bank Accounts within Nepal
- Standing Order Requests for Periodic Payments

Credit Card Management

- Credit Card Transaction Review
- Credit Card Payments
- Credit Card Limit Increase Request

Personal Updates

- Change Contact Details
- Change Address Information

3. Safe Deposit Locker

Safe Deposit Locker is a special facility provided to our customers for keeping their valuables or important documents safely. The customers can access the locker any time during the Bank's business hours. Each locker has a separate number and is fitted with a double key lock, which ensures the safety of customer’s lockers. Currently the Safe Deposit Locker service is available at the following branches:

1. Naya Baneshwore
2. Lazimpat
3. Lakeside Pokhara
4. Biratnagar

F. Remittances

SCBNL provides an array of services to fulfill remittance requirements.

- Demand Drafts
- Telegraphic Transfers
- Cheque On Selves
- Quick Payment Services (Online payment for SCB India Beneficiary)
- Traveler’s Cheques
- Foreign Exchange

G. Priority Banking

Priority banking unit provides exclusive services with a new level of care and attention whilst fulfilling the entire gamut of financial needs of our most valued customers.

H. SME Banking

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

I. Wholesale Banking

Standard Chartered Bank Nepal Limited (SCBNL) is the leading wholesale bank in the country. It is very well known for innovation and our capability to implement new products in the market. It provides cross border payment, domestic payment service. SCBNL provides service of account transfers between standard chartered bank accounts, payment through correspondent banks, telegraphic transfers.

1.6 Statement of the Problem

Profit is the primary measure of success of business. Normal profit is necessary to run a business smoothly in long run. Bank is no exception for this. SCBNL also needs profit so SCBNL might have been planning the profit.

The present study will try to analyze and examine the profit planning of this bank. Without proper profit planning, any business organization can’t run in right way. This study will answer the following questions:

- ❖ To what extend has the process of profit planning follows in this bank?
- ❖ What are the overall problems of SCBNL?
- ❖ To explore how the profit, SCBNL is occurring?
- ❖ To what steps should be taken to improve the profit planning system in this bank?
- ❖ What suggestion can be recommended for their proper solutions?

1.7 Objectives of the study

The specific objectives of the study are listed below:

- To examine the present profit planning premises adopted by SCBNL
- To examine the resource mobilization and achievement of SCBNL
- To examine the outcome of those plan in term of achievements.
- To sketch the main problem of development and implementing profit planning system in SCBNL
- To provide appropriate suggestion and recommendation based on the major findings.

1.8 Importance of the study

The research study will concern with the profit planning in commercial bank with the case study of SCBNL, which analyzes the proper applicability of profit planning system in the bank. The significance of the study is really to examine whether SCBNL is applying profit planning system properly or not and analyze if there are any drawbacks in profit planning system in bank.

1.9 Limitation of the study

The limitations of the study are:

- Data prevails under this study are secondary.
- The study is limited to the related profit planning of SCBNL
- Profit planning analysis covers only five years from F/Y 2060/061 to 2064/065.
- Only SCBNL is taken into consideration in this study.
- Review of literature is widely used.
- The accuracy of the study is based on the data available from the website of Standard Chartered Bank Nepal Limited, its various published documents and management

1.10 Organization of the Study

According to the objectives of this study, it has been classified into five chapters and the chapter is as follows:

CHAPTER 1 – INTRODUCTION

This chapter includes background of the study, introduction of bank, meaning of commercial banks, historical background of banks, introduction of Standard Chartered Bank Nepal Limited, statement of problems, objectives of the study, importance and limitation of the study.

CHAPTER 2 – REVIEW OF LITERATURE

This chapter includes literature review about PPC, problems, limitation and importance of PPC. Review of previous research work and research gap are also included in this chapter.

CHAPTER 3 – RESEARCH METHODLOGY

This chapter deals with research methodology that includes research design, nature and source of data, procedure of data collection research variables and research tools.

CHAPTER 4 – PRESENTATION AND ANALYSIS OF DATA

This chapter deals with presentation and analysis of data using statistical and financial tools like mean, standard deviation, correlation analysis, trend analysis, percentage analysis, ratio analysis and major findings.

CHAPTER 5 – SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the final chapter of the study that includes summary, conclusion and recommendations.

The bibliography, appendix and glossary have been incorporated at the end of the study.

CHAPTER – 2
REVIEW OF LITERATURE

2.1 Concept of Profit

A general term for the excess of revenue, proceeds or selling price over related costs; any pecuniary benefit arising form a commercial operation, from one or more individual transaction of any person; usually preceded by a qualifying word or phrase signifying the inclusiveness of the off setting expenses or cost as "gross" or "net" according to and followed by an indication of the source and time covered as "from operations for the year" either the singular or the plural of the world may be used where two or more related transactions are considered together.

Profit is the primary measure of business success. At least, normal profit is necessary for the operations of any kind of organizations. Without profit organization can't operate its functions. A sound banking system with wide spread of branches through out the country, availing varieties of banking services to fulfill commerce, industry, trade & agriculture needs of the country is of crucial important of Nepal. Making profit is not easy because "Profits do not just happen, profits are managed" (Lynch, 1984: 99).

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

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

2.2 Concept of Planning

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

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

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

According to Oxford Dictionary, planning means:

- (To do something) arrangement for doing or using something considered or workout in advance.
- Way of arrangement something especially when shown on a drawing scheme.
- Go according to plan.

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

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

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

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

Three major function of management are planning, execution and control and these are the key elements of the management process. Business management must plan to its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyzed and handled.

“Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that the management can plan its activities and condition, the state of the enterprises that determine its destiny” (Pandey, 1991: 20).

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

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

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

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

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

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

2.2.1 Concept of Strategic, Tactical & Corporate Planning

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

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

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

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

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

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

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

The distinction between strategic and tactical planning is related to three dimensions, which are as follows:

Table - 6

Distinction between strategic & tactical planning

Classification	**Dimension Time**	**Scope of entity**	**Orientation of**
Strategic	Long term	Board views of activities	Objectives & Goals
Tactical	Short term	Detail view of activities	Means to achieve goals

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

2.2.2 Planning Vs Forecasting

Forecasting and planning is not same thing. A forecast is predication of future event condition or situation where as plans includes a program of intended future events, action and desired results. Forecasting predicts the future events in such a way that the planning process can be formed more actually. Forecasting is our best thinking about what will happen to us in the future. In planning we correspondingly develop our objectives in practical detail to achieve these objectives.

A simple definition might be that a forecast is a prediction of future event condition where as a plan includes a program of intended future action and desired results. A forecast is not a plan rather it is a statement of future condition about a particular subject. A forecast should always state the assumptions upon which it is based and it is only input into the development of plans. Actually planning is usually an important part of the total procedures.

2.3 Concept of Control

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

Controlling involves

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

Control provides timely information that may prompt the revision of goals. The purpose of control is achieved with setting standards comparing predicted and actual results against these standards and taking correctives actions.

“Controlling means evaluating the firm’s activities against the plan and deciding what should be done if the plan is not being followed” (Lynch & Williamson, 1984: 18).

“Controlling is the measurement and correction of performance in order to make sure that enterprise objective and the plans devised to attain them are accomplished” (Koontz & Heinz, 1999: 45).

Planning and controlling are interdependent and thus closely related with each other because a manager can not control unless he has planned a course of action for effective and smooth managerial behavior into proper profit and progress on behalf of company, firm or enterprise.

2.4 Meaning and definition of Profit, planning and control

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

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

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

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

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

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

- ❖ Provides a disciplined approach to the solution of business problems.
- ❖ Develops throughout the organization and atmosphere of profit mindedness, encouraging an attitude of coat-consciousness and maximum assets utilization.
- ❖ Coordinates the operating plan of the diverse segments of the business into a single, comprehensive plan.

- ❖ Affords the opportunity to appraise systematically every facet of the business as well as examine and restate periodically its basic policies and guiding principles.
- ❖ Aids in directing capital and effort into the most profitable channels.
- ❖ Provides yardsticks or standards to measure performance and gauge the managerial judgment and ability of the individual executive (Noll and Radetsky, P: 36).

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

“Profit plan is as estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss” (Ninemeire & Schmidgall, 1984).

“Profit planning represents and overall plan of operations, covers a definite period of time and formulates the planning decision of management. It consists of the operating budget, the financial budget and the appropriation budget” (Kukarni, 1981: 310).

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

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

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

For long range success the stream of managerial decision must generate plans and actions to provide the essential inflows that are necessary to support the planned outflows the enterprise so that reasonable level of profit and returns on investment are earned continuing generation of profit by managerial manipulation of the inflows and outflows provide the substance of profit planning and control.

Thus, profit planning is used for development and acceptance of objectives and goals and moving an organization efficiently to achieve those objectives and goals. Profit planning is developed to meet the objectives of effective performance of the management process.

2.4.1 Problems and Limitation of Profit Planning and Control

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

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

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

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

2.4.2 Objectives of Profit Planning and Control

The main objectives of the profit planning are as follows:

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

2.4.3 Importance of Profit Planning and Control

The major importance of profit planning is as follows:

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

2.4.4 Process of Profit Planning

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

The major processes of profit planning are:

1. Identification and evaluation of internal variables: identification involves separate consideration of variable that are not controllable and those that are controllable. Management planning must focus on how to manipulate the controllable and non controllable variables.

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

management function of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies and polices should be communicated and understood by subordinates. There are many factors involved in management leadership. However, a comprehensive profit planning program may aid substantially in performing this functions. Plans, policies and strategies developed through significant participation establish the foundation for effective communication.

9. Use of periodic performance report: As profit plans are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting departments on a monthly basis.

10. Use flexible budgets: The flexible expenses budget is also referred to the variable budgets, sliding scale budgets; expenses control budgets and formula budget. The flexible budget concept applies only to expenses. This is completely separate from the profit plan, but it used to complement. Many companies do not use flexible budget procedure (Welsch, 2006: 73).

2.5 Profit Planning and Control in Nepalese Enterprises

Planning compasses the whole field of deciding what you want human being accomplish. This involves that careful determination of needs the establishment of objectives and proper arrangement of responsibility to individual or group of individuals. If it is impossible to build a house without a blue print, without some indications of what the carpenters, electricians, masons, plumber and painters are to do, how can we expect to manufactures a product or render services without the some careful planning.

Most of the corporation in Nepal suffer from lack of corporate planning which renders them directionless and aimless and board of directors of the corporation are occupied with the routine work in minor day to day problems. Most of the corporations do not perform their profit panning programmed settled by the short term and long term planning. It is to be seen in many corporate that annual targets were not fired. On the basis of investment and achievement and so there is not relation between target and achievement. Nepalese enterprises are run without well-determined strategies and programmers, in other words without any sound plan of action.

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

2.6 Budgeting as Tools for PPC

Budget planning is one of the methods used for planning, coordinating and control of activates of an enterprises. The budget is a technique for comparing various alternatives in terms of results and costs. It forces consideration of all compassing climbs as to the directions in which the effort of an organization should be applied. Budgeting is the heart of the cut of business decision. It involves objectives and compares the means of reaching them.

Budgeting has long been recognized as the accepted procedure for profit planning and many of the most successful companies have applied it to good effect over a period of years (Alpine, 1976). Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in an organization. It serves as a guide to conduct operations and a basis for evaluating actual results. Budget as tools of management are an integral part of the broader system of planning and control. One of the primary objects of an annual budget is to measure the profit expectations for the next financial year with due regards to all the circumstances that can influence the trading prospects. Profits do not emerge of their own accord. They have to be influenced by management. The quality of management is often judged by the size of the profit figures at the end of the financial year. For its own protection and in the interest of business, management must plan to make profit and the accepted basis for this is the annual budget, properly supported by long-term strategic planning and operation planning.

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

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

A budget is a realistic statement of income and cost objective for a yare. It is a plan against which ensuring actual performance is compared to achievement and control by detecting and correcting off standards performance (Lawrence, 1977). A budget is a detailed quantitative plan to guide its operations in the planning organizing and controlling all the financial operating activities of the firms in the forthcoming period (Lynch & Williams, 1984). Thus, the primary purpose of budgeting is profit planning and control and in this connection it is concerned with every aspect and every activity of a business. The essence of the accurate budgeting is to be used to the events and for this reason it is unusual to operate through an annual budget as the ideal project. There is the further aspect that the performance of companies is judged by the annual accounts and it follows that management should focus its profit aims on the same period. There are two distinct stage of budgeting: first the formulation of the plan and the means of achieving them and second the translation of these plans into financial term and preparing a profit budget and balance sheet. Such that, the first stage is generally a function of line management and the second is an accounting function (Alpine, 1976).

2.6.1 Objectives of Budget

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

- It is a plan, which reflects the policy of a business in financial terms.
- It is a control document by which management can monitor actual performance.
- It acts as a motivator of employees.
- It is a measure against which to evaluate the quality of management.
- It is a means of forecasting future financial positions.
- It is means of giving information in organizations future intensions.

The purpose of budgeting in a context of an annual budget it to projects an accurately as possible the sale incomes, expenditure and profit for the ensuring year. This is the principle objectives and all other requirement of budgeting term from it.

2.6.2 Budgets and Budgeting

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

1. Expenditure Budget

2. Financial Budget

3. Profits Budget

4. Capital Budget

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

2.7 Sales Budget

Sales plan presents sales unit and sales revenue to be sold in specific time period. It is the most important and most difficult task to prepare. Sales plan provides basic management decisions about marketing.

"The sales plan is the foundation for periodic planning in the firm because practically all other enterprises are built on it. The primary source of cash is sales; the need of capital addition, the plan of expenses, the manpower requirement, production level and other important operational aspects depends on the volume of sales. A comprehensive sales plan includes two separate but related plans- the strategic and tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premises. So, the primary purpose of a sales plan is as follows:

1. To reduce uncertainty about future revenues.
2. To incorporate management, judgment and decisions into the planning processes.
3. To provide necessary information for developing other elements of comprehensive profit plan.
4. To facilitate management to control of sales activities" (Goet, 2062: 2).

The sales planning process is a necessary part of PPC because (a) it provides for the basic management decisions about marketing, and (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic (Welsch, 2006: 171).

2.7.1 Sales Forecasting and Sales Planning

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

2.7.2 Types of Sales Plan

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

1. Long range (Strategic) sales plan
2. Short range (Tactical) sales plan

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

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

2.7.3 Developing of Sales Plan

The developing of a comprehensive sales plan is exhibited in the following sequential steps:

Step-1: Guidelines or policies

Step-2: Marketing Plan

Step-3: Sales Forecast

Step-4: Assemble the relevant information such as production capacity, availability of raw material, workforce, funds, etc.

Step-5: Put above all steps in one and prepare sales plan.

Also the following factors should be considered when forecasting the sales:

- Past sales level and trends
- General economic trends
- Economic trends in company's industry
- Political and legal events
- Pricing policy of the company
- Planned advertising and promotion
- Expected actions of competitors
- Market research studies (Goet, 2062: 2.2).

2.8 Production Budget

Production budget is the projection of production of goods for specified periods. It has a very important role in planning, coordinating and control on comprehensive profit plan and control. Developments of production plan require the conversion of sales plan into production plans. It should also consider the estimation of future sales and inventory policies. Production planning is the matter of concern for only manufacturing organizations. The production plan specifies the planned volume of each product to be produced for each time period throughout the planning period. This entails the development of policies about efficient production level, use of productive facilities and inventory levels. It can be presented in equation:

Production Requirement = Sales Volume + Inventory

The main purpose of production plan is to bring balance between the sales, inventory and production. So that firm does not suffer from cost of carrying and cost of not carrying inventory, opportunities cost and stock is run out cost. "The production budget is the initial step in budgeting manufacturing operations. In addition to the production budget, three other principal budgets are relevant to manufacturing:-

1. Direct material and purchase component budget: It specifies the planned material and component requirement.
2. Labor Budget: It shows the planned quantity and cost of direct labor.
3. Manufacturing expenses or factory overhead budget: It includes the plans to all factories, costs other than direct material and labor.

To plan production effectively, the manufacturing operations are necessary for each product. The manger should develop information about the use and output capacities of each manufacturing department. The manager must provide historical data about production units, cost and the availability of resources.

Production planning responsibility rests directly upon the production managers to management policies must be considered in such matters as inventory levels, stability of production and capital addition with respect to production planning, the manger must plan an optimum coordination between sale, inventory and production levels.

2.8.1 Material Requirement Planning

In modern production operations, production is usually coordinate throughout the various production stages. MRP is a technique for coordinating production in multistage production environments with many parts, materials, components and finished product needed. It than backs up though the end productions process to determine when and how much of each material part, or subassembly will be required. Because of requirements for parts and materials are determined from the production schedule of the finished production these inputs have interdependent demands.

The main purpose of MRP is to ensure that materials and components are available in the right quantities at the right time so that finished products can be completed according to the material requirement schedule.

2.8.2 Merchandise Budget

In non-manufacturing organizations especially trading organization, they do not prepare production budget, direct material budget, direct labour budget and manufacturing expense budget because they are involved in purchasing finished goods and they sell it to customer in same form i.e. without any considerable quality change. It covers merchandise need budget, merchandise inventory budget and merchandise purchase budget and also planning for markdowns, discounts, stock shortage, shop lifting, gross margin as sales etc. it is the planning of trading goods about how it should be purchased, when it should be purchased and what will be the level of inventory of merchandise goods. It is prepared in same manner as production budget but the main difference is that merchandise should be purchased but production should be produced.

2.9 Material Purchase and Usage Budget

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

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

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

a) Material and Parts Budget
b) Material and Parts Purchase Budget
c) Cost of Materials and parts Usage Budget (Welsch, 2006: 240).

The three separate sub-budgets are listed above directly related. Collectively, they can be viewed as the material and purchase budgets.

2.10 Material and Parts Inventory Budget

The quantity differential planned between the materials and parts budget and the purchase budget is accounted for by the change in materials and parts inventory levels. The primary considerations in setting inventory policies for raw materials and parts are:

- Timing and quantity of manufacturing needs.
- Economics in purchasing through quantity discounts.
- Perish ability of raw materials
- Availability of materials and parts
- Capital requirement to finance inventory
- Storage facilities needed
- Cost of storage
- Protection against shortages
- Risk involved in inventories
- Opportunity cost

Management policy with respect to purchases and inventory should be specified. The basic timing factors are (i) How much to purchase at a time (EOQ) and, (ii) When to purchase (reorder level).

2.11 Direct Labor Budget

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

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

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

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

- Method of wage payment
- Type of production processes involved
- Availability of standard labor hours
- Adequacy of the cost accounting records relating to DLC

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

1. Estimate the standard DLH required for each unit of each product, and then estimates the average wage rates by department, cost center or operation.
2. Estimate ratios of DLC to some measure of output that can be planned realistically.
3. Develop personnel tables by enumerating personnel requirements for direct labor in each responsibility center.

Here, the primary elements of control of DLC are: Day to day attention to such costs and Performance reporting and evaluation of results

2.12 Overhead Budget

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

2.13 Cost Behavior

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

1. Fixed Expenses: These expenses are constant in total, from month to month, regardless of fluctuations in output or volume of work done.
2. Variable Expenses: These expenses are changes in total, directly with changes in output or volume of work done. The output must be measured in terms of some activity base, such as units completed, DLH, sales amount or

number of service calls, depending as the activities on the responsibility centers.

3. Semi-Variable Expenses: These expenses that are neither fixed nor variable because they posses some characteristics of both. As output changes semi-variable expenses changes in the same direction but not in proportion to the change in output.

2.13.1 Administrative Expenses Budget

Administrative expenses include those expenses other that manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprises rather than in the performance of any one function. Because of large portion of administrative expenses fixed rather than variable. The nation persists that they cannot be controlled a side from certain top management, salaries, most administrative expenses are determined by management decisions.

“It is advisable to base budget administrative expenses on specific plans and programs. Past experience adjusted for anticipated change in management. Policy and general economic conditions are helpful. Most administrative expenses are fixed, and an analysis of the historical record will often provide a sound basis for budgeting them” (Welsch, 2006: 317).

2.14 Flexible Budget

The concept of flexible budget is that all expenses are incurred because of passage of time, output activity or combination of time and output activity. Therefore, it is complementary ot tactical profit plan. It helps to provide an expenses plans. They should be adjusted to actual output for comparison with actual expenses in periodic performance report. It is the budget, which estimate costs and profit at several levels of activity. It depends upon the cost behavior as analyzed in the above analysis. For the purpose of our analysis the maximum sales during the past five years under study is assumed to be 100% level activity.

The flexible expenses budget is also referred to as the variable budget; sliding scale budget expenses control budget or formula budget. The flexible budget concept applies only to expenses. It is completely, separate from the profit plan but is used to complement it. It gives realistic information about expenses that make it possible to computer budget amounts for various output volumes in each responsibility center. To do this, the flexible budget provides a formula for each expense in each responsibility center. To apply the concept in a department then, each expense must be classified into three categories:

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

2.15 Capital Budget

"Capital budgeting is the process of planning and controlling the strategic (long term) and tactical (short term) expenditures for expansion and contraction of investments in operating fixed assets" (Welsch, 2000: 394).

Capital budgeting's the planning of expenditure whose returns stretch the beyond a one- year time interval. It is the process of deciding whether or not to commit resources to a project whose benefits would be spread over several time periods.(Man Mohan, 1981). The investment decisions are commonly known as capital budgeting. Capital budget means planning for capital expenditure in acquisition of capital assets such as new building, new machinery or new project as a whole. Thus, the capital budgeting involves following steps:

- Consideration of investment proposal including alternatives.
- Application of profits, cash flows and analysis of cost benefit of the project.
- Estimation of available funds and utilization of funds.

- The objective is to maximize the profits with the utilization of available funds.

A capital budgeting is useful to earn future revenues organization and to reduce future a cost, capital expenditures includes such as fixed assets as property, plant, equipment, major renovation and potential. The main responsibility of capital budget lies on top executives or executive management and departmental managers. The organization capital budgeting for planning and controlling purpose can be as follows:

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

2.15.1 Evaluation of Investment Decisions

Traditionally, there are several methods used to measure the capital investment decision. Welsch, Hilton and Gordon describe the basic approaches used to measure such decisions:

A. Discounted cash flow methods

B. Non-Discounted cash flow methods

A. Discounted Cash Flow Method:

These methods recognize the time value of money and in that way measure economic value as a true interest rate. There are two discounted cash flow methods widely utilized:

i. Net present value

ii. Internal rate of return

iii. Profitability index

B. Non-Discounted Cash Flow Method:

i. Pay back period

ii. Average rate of return (Welsch, 2006: 402).

2.16 Cash Budget

It is an effective way to plan and control the cash flows, assess cash needs and effectively lose excess cash. The planning and controlling of cash flows focused on cash inflows, cash outflow and the related financing. Cash budgeting is an attractive way to plan and control the cash flows assets; cash needs and effectively use excess with. Therefore, cash management is important in both large and small enterprises, planning and controlling of cash includes right quality of money, right source of money, right time for solve money, right quality for liquidity and right costs of capital.

A comprehensive PPC program establishes the foundation for a realistic budget. Cash budget shows the planned cash inflows, outflow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. A cash budget basically includes two parts:

1. The planned cash receipts (inflows) and,
2. The planned beginning and ending cash position for the budget period and this will indicate.

The need of financing probable cash deficits:

The need for investments planning is to put excess cash to profitable use. The primary purposes of cash budgets are:

1. Give the probable cash position at the end of each period
2. Identify cash excess organization shortage by time periods.
3. Establish the need for financing and or the availability of idle cash for investment.

4. Establishing a sound basis for continuous monitoring of the cash position (Welsch, 2006: 434).

Preparation of the cash budget should be the responsibility of the company treasurer. The cash budget is a forecast of expected cash receipts and payments for a future period. Cash forecast precedes a cash budget. The cash budget consists of three parts:

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

Cash budget may be done daily, weekly or monthly basis. The period and frequency of cash budget generally depends upon the size of the firms and philosophy of management. The cash budget can be prepared by two approaches (a) The cash receipt and cash disbursement approach organization (b) The financial accounting approach.

Now, the cash receipt and disbursement approach basically involves the use of detailed data from the budgeted cash amount. Financial statement approach states with net income, which is adjusted to a cash basis to compute cash flow from continuing operations. The remaining cash sources and uses must be determined by using data from various budgets already prepared. The cash receipt and disbursements approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used for broad analysis of the cash position and for strategic long range planning.

2.17 Profit Budget

The profit budget is decided subtracting the budgeted costs from the budgeted revenue. The amount of investment is forecasted and a budget rate of return is developed for the annual management of profit plan. The development of annual profit plan ends with the planned income statement the planned balance sheet and the planned of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company.

"At this point in profit planning the budget director has an important responsibility. Besides for designing and improving the overall system, the budget director has been described as an advisor to the various managers to help develop plans for each responsibility center. Now, the parts must be assembled into a complete profit plan. This is the reasonability of the budget directors" (Welsch, 2006: 466).

2.18 The Concept Integrated with Profit Planning

2.18.1 Cost Volume Profit Analysis

Cost volume profit analysis is a tool to show the relationship between these ingredients of profit planning. It is an analytical technique for studying the behaviour of profit in response to the changes in volume, cost, prices and profit. It helps to determine the minimum scales volume to avoid losses and the sales volume at which the profit goal of the firm will be achieved. It is very much an extension or even a part of marginal costing.

"Contribution analysis involves a series of analytical technique used to determine and evaluate the effects on profits of changes in sales volume (i.e. units sold), sales prices, fixed costs and variables cost. It focuses on contribution margin, which is sales revenue minus total variable costs" (Welsch, 2006: 498).

The income statement is based on a contribution margin approach and contribution margin is equivalent to revenue minus variable cost. It will change if any one of the following variable changes i.e. volume of sale units, sales price and variable cost ratio

2.18.2 Break Even Analysis

"Cost volume profit analysis includes both contribution analysis and break even analysis. BE analysis uses the same concepts as contribution analysis, however, it emphasizes the level of output or productive activity at which sales revenue exactly totals costs i.e. there is no profit or loss. Break even analysis rests upon the foundation of cost variability separate identification and measurement of the fixed and variable components of cost" (Welsch, 2006: 500).

Break-even analysis is the analysis of the relationship among the three must concerned factors of business, the cost, volume and profit. It provides basic information that is necessary for product pricing, cost planning, sales volume planning and profit planning.

Break-even point can be carried out in two ways:

i Algebraic or formulae approach

ii Graphical or chart approach

Some of the following assumptions are as follows:

- All costs can be classified into FC and VC
- While VC vary proportionately with volume changes
- Selling price remains constant despite volume changes
- In case of multiple products sales mix also remains constant
- Productivity per worker and efficiency of plant etc remain mostly unchanged.

  Also the break even analysis can indicate the following economic characteristic of a company
- Fixed expenses variable expenses and total expenses at varying volumes.
- The profit and loss potential before and after income taxes at varying volumes.
- The most i.e. the relationship of budget sales to break even sales.

- The break even sales amount
- The preferred dividend or danger point i.e. the point below which preferred dividends are not earned.
- The dead point i.e. the sales amount at which the company earns only the going rate of investment.
- The common dividend or unhealthy points i.e. the sales amount below which earning are insufficient to pay the preferred dividends and expected dividend on the common stock.

2.19 Performance Reports

"Performance reporting for internal management use is an important part of compressive PPC system. The performance reporting phase of comprehensive PPC program significantly influences the extent to which the organization planned goals and objectives are attained" (Welsch, 2006: 542).

The performance reports should be prepared periodically generally on a monthly basis and occasionally generally, on weekly or daily basis for each responsibility centre, starting with those at the lowest level, which is turn in complied into summary report for each higher level. Periodic performance reports are prepared for each responsibility are distributed monthly basis and follow a standardize format. Such reports are designed to facilitate internal control by management. Frequently they identify problems that require special attention since, these reports are prepared to pin point both efficient and inefficient performance. These reports serve to motivate managers to perform in conformity with expected actions.

The main objectives of performance reports are the communication of performance measurements actual and the related variables. In additions to control implications performance reports after management is essential insights into all facts of operational efficiencies. Performance reports pose critical behavioral problems because inefficiencies as well as inefficient of individual are pin pointed and reported. Therefore certain performance reports should be

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

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

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

2.20 Budget Variance

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

"Variance analysis or comparison of actual results with budgeted goals has been emphasis as an integral part of control process. A basic feature of performance reports is the reporting of variances between actual and planned goals. If variance is significant a careful management study should be made to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause" (Welsch, 2006: 569).

Some of the primary approaches are the following:

- Analysis of work situation including the flow of work coordination of activities effectiveness of supervision and other prevailing circumstance.
- Direct observations.
- On the spot investigation by the line managers.
- Investigation by staff group
- Internal audits.
- Special studies variances analysis has wide application in financial reporting.

It is frequently applied in the following situations.

i Investigations of variances between actual results of current and prior period. The prior period is considered as the base.

ii Investigations of variances between actual results and standard costs. The standard cost is used as the base.

iii Investigation of the variances between actual results and budget goals reflected in the profit plans. The budget goals are used as the base.

2.21 Activity Costing

"Responsibility accounting system generally accumulates costs by department and product costing systems associates cost with unit of product or service organizations also frequently find it useful to associates costs well activities. By decomposing and organizations productions process into discrete set of activities and then associating cost with each of those activities management is in a better position to determine the costs an benefits of continuing the activities. More over by systematically identifying the activities throughout the organization managers can identify redundant activities. Some managers have found to their surprise that the some activity was being done in a dozen of different places in the company. An activity cost analysis can assists managers in eliminating redundant activities that are not cost benefit and achieving greater coordination's among the activities that remain" (Welsch, 2006: 42).

2.22 Zero Base Budgeting

Under zero budgeting, every budget is constructed as the promise that every activity in the budget must be justified. ZBB defines as an operative planning and budgeting process which require each manager to justify his entire budget in detail from search and shifts the burden of responsibility of each manger to justify when he should spend any money at all. It envisages a review of the total expenditure with a view to justify his entire budget. The entire program is reviewed and justified from zero base. It involves three phase of management planning, budgeting and review. Traditional budgeting generally no review organization justifications is required in ZBB. A manager is required for going activities, where as to justify not only the new proposal but also the going activities.

2.23 Review of research studies

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

Mr. Roshan Thapa (2004)

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

Findings:

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

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

- **Weakness**
  - Lack of clear cut mission and goals of the company.
  - Inadequate coordination between department
  - Lack of corporate belongingness.
  - Inadequate autonomy in the credit decision making to the credit department.
  - Unnecessary interference of the governing board in the functioning organization.
  - Its mission and objectives have not been clearly defined and delegated to the lower level.
  - The bank has not been able to maintain a minimum level of coordination between the departments and staff.
  - The profit budget is extremely ambitious. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
  - The bank is facing competition from increasing number of financial institutions in these years. Those have led to substantial decrease in interest rates in the market thus attributing to lower yield.
  - Budgets are prepared just to fulfill the formalities but these are not used effectively for the profit planning process.

Mr. Yadav Gautam (2008)

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

- ❖ To analyze the effectiveness of profit plan and practices of Himalayan Bank Limited.
- ❖ To analyze the profit trends and determine the variables
- ❖ To enumerate the variance between budgeted and actual performance.
- ❖ To provide appropriate recommendation to improve the situation.

In this research, he has pointed various findings. Some remarkable findings are as follows:

Corporate level planning

- ❖ HBL performs SWOT analysis before preparing profit plan.
- ❖ HBL has three types of core planning team to make plan, policy, program and budget.
- ❖ HBL has adopted two types of planning formulation methodology. One is seminar at head office and other is seminar at regional level of offices.
- ❖ The main objective of profit plan of HBL is to achieve 4% profit on outstanding.

Resource Mobilization

- ❖ Major concentration of resource mobilization of bank, was at deposit mobilization. In F/Y 2058/059, it was 87.35% and in F/Y 2062/063, it was 86.63% of total resource mobilization.
- ❖ Budget achievement of deposit collection in F/Y 2062.063 was 104.33%.

- ❖ Budget and actual deposit collections from F/Y 2059/060 to 2062/063 were overlapping in amount.
- ❖ The estimate target set for deposit mobilization by the bank is found to be considerably maintaining every year.
- ❖ Form the data analysis of deposit budget and actual achievements by coefficient of variance, it was found that the actual deposits were variable than budgeted one.
- ❖ Resource mobilization other than deposit collection amounted to 13.37% of total resource in average.
- ❖ Resource other than deposit collection is not satisfactorily mobilized.

Resource Deployment

- ❖ Bank's resource deployment for non-yielding liquid assets (Cash and bank balance) was in fluctuating trend every year and supporting to meet liquidity requirement of the bank.
- ❖ Major portion of the resources have been deployed in LABP and investments. LABP covers around 50% of deployment and around 40% is covered by investment sectors.
- ❖ The estimated targets for deployment towards LABP have been well met in average. It did not meet the target in F/Y 2058/059 and FY 2060/061 with negative figures of achievements.
- ❖ From the analysis of budgeted and actual LABP with the help of co-efficient of variance, it is found that the actual LABP is more variable than the budgeted one.
- ❖ Likewise, deployment in investment also did not meet the achievement in F/Y 2058/059 and F/Y 2060/061 than the budgeted figure. From analysis of budgeted and actual investments with the help of co-efficient of variance, it is also shows that the management is not planning their investment with considering other variables.

- The data analysis of LABP and deposit with the help of correlation coefficient shows that the deposit and LABP are perfectly correlated. It also shows that LABP is more variable than the deposit.
- The study also shows that deployment in other source is also not satisfactorily good.

Expenditure

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

Revenue

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

- The net profit of the bank is constantly in increasing trend.

Ratio Analysis

- The average current ratio of the bank has found to be always lower than standard ratio 2:1, which shows dissatisfactory liquidity position of the bank but than bank has its working capital level is satisfactory.
- The cash to current assets ratio of the bank has found to be satisfactory. It is always higher than standard rate of 5%.
- Cash ratio is always satisfactory. It has ratio of 2.46:1 in F/Y 2062/063.
- Generally, the debt equity ratio of the bank is higher because they mobilize fixed deposit much more times of their capital fund. HBL is also not exception to it. The ratio was 9.36:1 in F/Y 2062/063.
- Interest coverage ratio of the bank is higher than 1, which is satisfactory.
- Return on equity (ROE) of the bank is also satisfactory result. The bank has deployed most of the fund on non-business and fixed assets. Therefore, the ratio is very lower than the standard rate of 10%.
- EPS, MPS and P/E ratio are in increasing trend. It has 59.26 pe share income in F/Y 2062/063 and P/E ratio of 18.57 times.

Cash Flow

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

Ms. Uma Devi Karki (2002)

Uma Devi Karki has conducted a research in the topic *"A comparative study on profit planning of Rastriya Banijya Bank ltd (RBB) and Himalayan Bank Ltd (HBL)."* This research of Ms. Karki was mainly concerned with examining system of profit planning applied in RBB and HBL.

The time period covered by this research was five year i.e. FY 1993/94 to FY 1998/99. The data and other necessary information were collected by using secondary as well as primary sources. In the research she has come across certain findings and recommendations. The following are important findings.

1. Total revenue and total cost of RBB is higher than HBL but its profit is lower.
2. Volume of loans and advances is increasing every year in both the banks and provision for bad debts are higher in RBB than in HBL.
3. Ratio of interest income to total income is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.
4. Return on paid up capital is always negative in RBB. Net profit is also negative in RBB.
5. Ratio of loans and advances to customers deposit shows that more than 60% of customers deposit in utilized in RBB where as in HBL it is around 50%.
6. Interest spread is higher in RBB than in HBL.
7. Regression analysis showed that volume of profit is directly related with the size of loans and advances. There is only 0.5% profit in every loan of NPR 100 in RBB and 3.7% in HBL.
8. Interest coverage ratio of both banks in more than 1 except in the FY 1995/96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
9. No proper planning strategy seems to be developed. Although HBL is operating at profit but RBB is running with heavy cumulative loss.
10. As the accounting system of RBB is careless that it has not been audited from the FY1993/94 and it is difficult to take decision about data analysis.

11. Incase of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuating in cost.
12. Analysis of profit planning and control is basically an internal affair. It needs to analyze the insight positions. As insight is not flashed out due to the cause of secrecy attempt is made to analyze on the basis of data published.
13. Government seems less conscious in the present situations of RBB.

Mr.Dinesh Raj Shakya (1995)

"Financial Analysis of Joint Venture Banks", this thesis was submitted to IOM, TU, by Mr.Dinesh Raj Shakya (1995) with main objectives of evaluation of financial performance of Nabil and SCBL comparatively. The study covered six financial years beginning from 1988/89 to 1993/94. Besides this main objective, he had specified other objectives too:

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

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

1. Loan and advances as well as total deposits if Nabil are increasing each year.
2. There exists highly positive correlation between total deposits and loan and advances of Nabil during the study period.

3. There exist highly positive correlation between total deposit and loan and advances of SCBL.
4. Average cash and bank balance to current deposit ratio of SCBL is higher than that of Nabil.
5. Nabil's fixed deposit ratio is in increasing trend but the same o SCBL is in declining trend.
6. Saving deposit to total deposit is in increasing trend for both SCBL and Nabil.
7. NRB balance to total deposit ratio is in highly fluctuating trend for the both banks.
8. SCBL's liquidity position is comparatively better than of Nabil.
9. Investment to total deposit ratio is fluctuating trend for Nabil and increasing trend for SCBL.

2.24 Research Gap

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

But this study is different from the previous studies. The study aims to access the profit system of SCBNL. This study tried to indicate the role of profit planning to increase its profit. This study attempts to analyze the financial position of the bank by using various statistical and financial tools. It also concludes the various findings of the research and recommendation for immediate and long term improvement and corrections.

CHAPTER – 3

RESEARCH METHOLODY

3.1 Introduciton

“Research methodology is the way to solve systematically about the research problem” (Kothari, 1990: 39).

Research methodology is the procedure of planned outline which deals with research design, data collection procedure, nature of data, indentify the population, making confidence of the sampling method and sampling variables, data selecting styles, presentation style of collected information and data and interpreting it. Now, no doubtingly it is obvious that the research methodology is helpful to attain the objectives of the research.

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

3.2 Research design

Research design is that outline which configures the collection and analysis style of the data and information.

“Research design is a plan of structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances” (Kerlinger, 1986 : 275).

“Descriptive research is process of accumulating facts. It does not necessarily seek to explain relationship and test hypothesis make predictions or get at meanings and implications of a study” (Wolff and Pant, 2002: 81).

Analytical method is used to present information and data. A part from this, there is also qualitative aspect and these aspects are described in word detail wherever it is necessary.

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

3.3 Period Covered

The research covers the period of five years from F/Y 2060/61 to F/Y 2064/65. Data are taken from SCBNL and analysis is basically made on the basis of five years data.

3.4 Natures and Source of Data

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

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

5. Published and Unpublished document related to SCBNL

3.5 Data Collection Procedure

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

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

Once the data and information collected then tabulated, presentation, analysis and interpretation has been done.

3.6 Research Variables

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

3.7 Research Tools

Collected data and information are analyzed, presented in suitable table and format, chart, diagram and graph. Financial and statistical tools are used to analyze the presented data which includes mean, standard deviation, trend analysis, ratio analysis, percentile analysis, coefficient of correlation analysis, coefficient of variance, cash flow analysis etc.

CHAPTER – 4

DATA PRESENTATION AND ANALYSIS

Introduction

In this chapter, various elements and variables related with profit of SCBNL are analyzed. This study is mainly focused on analysis of revenue collection, deposit, loan and advances, investment, assets etc. by using financial and statistical tools, such as mean, standard deviation, coefficient of variation, variance analysis, correlation analysis and ratio analysis. For this purpose, data of 5 years period from F/Y 2060/061 to 2064/065 of SCBNL are used.

Resource Mobilization

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

- Deposit collection
- Loan and borrowing from others
- Capital fund

Among the above sources, the deposit collection is the major source of resource mobilization, which is in fact, one of the most important activities of a commercial bank. Loan and borrowing are obtained from local banks, foreign banks, central bank and other financial institutions generally for a short period of time.

The capital fund which includes reserve fund also is raised from shareholder's equity. This is the net worth of the bank capital fund of commercial bank is divided into two categories viz. core capital and supplementary capital.

Following table shows the resources mobilized by the bank over the period of study.

Table - 7

Status of Resource Mobilization

Amount in Rs.'000'

F/Y	2060/061	2061/062	2062/063	2063/064	2064/065
Deposit	21,161,442	19,335,095	23,061,032	24,647,021	29,743,999
% Share	89.73%	88.54%	89.66%	86.31%	89.47%
Borrowing	78,283	55,926	-	400,000	-
% Share	0.33%	0.26%	0.00%	1.40%	0.00%
Capital Fund	1,495,739	1,582,415	1,754,139	2,116,353	2,492,548
% Share	6.34%	7.25%	6.82%	7.41%	7.50%
Other Liability	847,571	863,844	905,411	1,391,548	1,009,793
% Share	3.59%	3.96%	3.52%	4.87%	3.04%
Total	23,583,035	21,837,280	25,720,582	28,554,922	33,246,340

Source: SCBNL Annual Reports

On the basis of above observation and data presentation, it could be said that the bank has substantially fund collection from deposit collection. The bank has no borrowing fund in F/Y 2064/065. The bank has increased capital fund every year. Other liability is in fluctuating trend over the study period.

From the above table, it was observed that the customer deposit collection contributes the major share in resource mobilization, which was more than 86%. Therefore, total source of resources mobilization comprised of two categories as follows:

a. From Customer Deposit Collection (Deposit)

b. From other sources than Customer Deposit (RMOD)

4.2.1 Deposit Collection

Customer Deposit is the major source of resource mobilization of the bank. The contribution of customer deposit to total resources is high. Deposit is collected form various sectors such as "A" class licensed institutions, other licensed institutions, other organized institutions, individual and others, which qualify to open an account in the Bank. If deposits are utilized properly, it will increase the profit of the bank. As per the data of study period, the contribution of customer deposit to total resources of SCBNL is 89.73%, 88.54%, 89.66%, 86.31% and 89.47% in F/Y 2060/061 to F/Y 2064/065 respectively. Except in F/Y 2061/062, the amount of deposit collection is increasing trend due to political stability, peace, security.

Deposits are collected on customer's accounts, which are opened as per the bank's policy. The customer's deposit accounts are of two types: One is non-interest bearing deposit account and another is interest bearing deposit account.

1. Non Interest Bearing Account
   - i. Current Deposits A/C
   - ii. Margin Deposits A/C
   - iii. Other Deposits A/C

2. Interest Bearing Account
   - i. Saving Deposits A/C
   - ii. Fixed Deposits A/C
   - iii. Call Deposits A/C

Table - 8

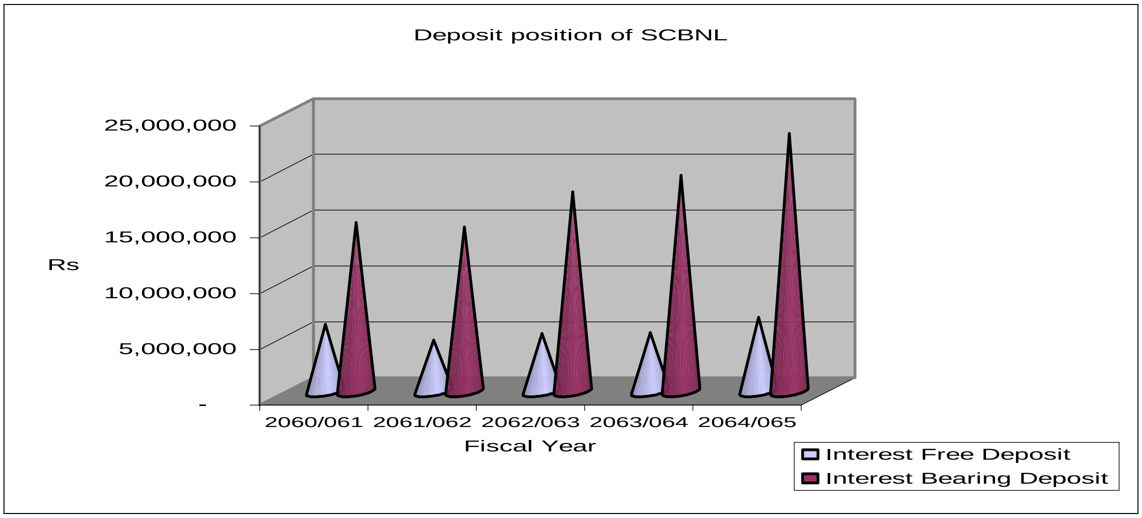
Deposit position of SCBNL

F/Y	Deposit		Total in '000'	% of Interest Free Deposit	% of Interst Bearing Deposit
	Interest Free '000'	Interest Bearing '000'			
2060/061	6,020,121	15,141,321	21,161,442	28.45%	71.55%
2061/062	4,592,917	14,742,178	19,335,095	23.75%	76.25%
2062/063	5,191,359	17,869,673	23,061,032	22.51%	77.49%
2063/064	5,280,636	19,366,385	24,647,021	21.43%	78.57%
2064/065	6,648,605	23,095,394	29,743,999	22.35%	77.65%
Total	27,733,638	90,214,951	117,948,589		

Source: SCBNL Annual Reports

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

Figure – 2 Bar Diagram showing Deposit position of SCBNL



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

4.2.1.1 Trend analysis of deposit

Table - 9

Trend Analysis of Deposit

Amount in Rs. '000'

F/Y	Year (X)	Deposit (y)	x=X-3	x2	xy
2060/061	1	21,161,442	-2	4	(42,322,884)
2061/062	2	19,335,095	-1	1	(19,335,095)
2062/063	3	23,061,032	0	0	-
2063/064	4	24,647,021	1	1	24,647,021
2064/065	5	29,743,999	2	4	59,487,998
	N=5	Σy=117,948,589	Σ=x	Σx2=10	Σxy=22,477,040

$a = \frac{\Sigma y}{N}$ $\qquad$ $b = \frac{\Sigma xy}{\Sigma x^2}$

$= \frac{117,948,589}{5}$ $\qquad$ $= \frac{22,477,040}{10}$

$= 23,589,718$ $\qquad$ $= 2,247,704$

In F/Y 2065/066, deposit will be

Y = a+bx

= 23,589,718+2,247,704*3

= 30,332,830

Deposit will reach to Rs.30,332,830,000, which is increasing trend.

4.2.1 Resource other than Customer Deposits

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

Table - 10

RMOD of SCBNL

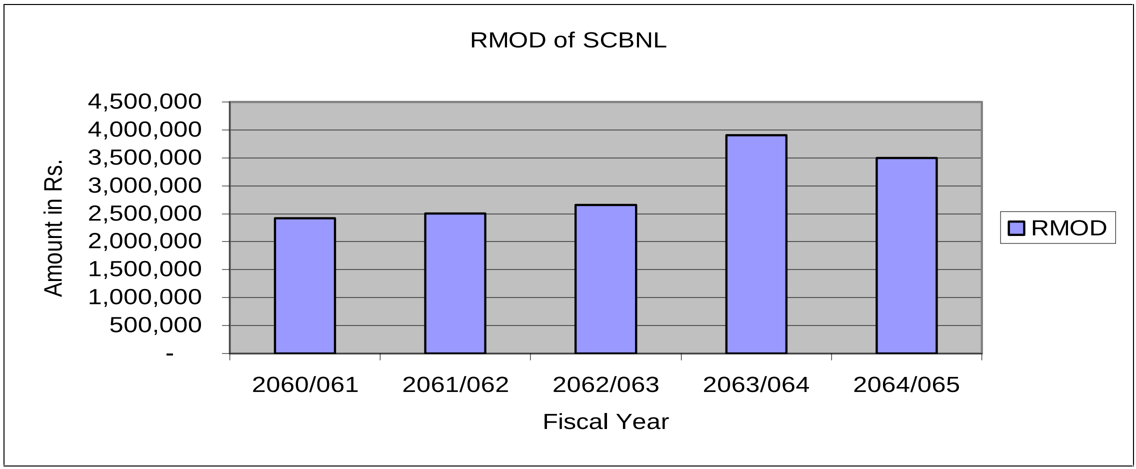
Amount in Rs. '000'

F/Y	RMOD	Change in Amount	Change in %
2059/060	2,100,493	-	-
2060/061	2,421,593	321,100	15.29%
2061/062	2,502,185	80,592	3.33%
2062/063	2,659,550	157,365	6.29%
2063/064	3,907,901	1,248,351	46.94%
2064/065	3,502,341	(405,560)	-10.38%

Source: SCBNL Annual Reports

The above table shows that RMOD is fluctuating trend. In F/Y 2064/065, it was decreased by 10.38% than previous year. The bank has made the policy to decrease borrowings and increase capital fund and reserve fund therefore, the RMOD is highly fluctuating. Minimizing its borrowings level and increasing its capital fund and reserve fund is good for the bank. The bank should also try to increase its other source of resources.

Figure – 3 Bar Diagram showing RMOD of SCBNL



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

4.2.2.1 Trend analysis of RMOD

Table - 11

Trend Analysis of RMOD

Amount in Rs. '000'

F/Y	Year (X)	RMOD (y)	x=X-3	x2	xy
2060/061	1	2,421,593	-2	4	(4,843,186)
2061/062	2	2,502,185	-1	1	(2,502,185)
2062/063	3	2,659,550	0	0	-
2063/064	4	3,907,901	1	1	3,907,901
2064/065	5	3,502,341	2	4	7,004,682
	N=5	Σy=14,993,570	Σ=0	Σx2=10	Σxy=3,567,212

$a=\frac{\Sigma y}{N}$ $b=\frac{\Sigma xy}{\Sigma x^2}$

$= \frac{14,993,570}{5}$ $= \frac{3,567,212}{10}$

$= 2,998,714$ $= 356,721$

In F/Y 2065/066, RMOD will be

Y = a+bx

= 2,998,714+356,721*3

= 4,068,878

RMOD will reach to Rs.4,068,878,000, which is increasing trend.

4.3 Resource Deployment

Deployment of the resources refers to the reasonable allocation of the resources for making comfortable liquidity as well as investing in income generating activities. Besides these, some investments have to be made in fixed assets and other operating assets for the bank. The deployment of available resources can be objectively categorized as below.

1. Deployment of liquidity:

This is made for meeting expected withdrawal and other kind of payments obligations of the bank. The resource for this purpose is kept in liquid form such as cash in vault, cash at bank etc. generally, there is no yield on this type of deployment expecting in the case money placed in interest bearing accounts. The central bank of Nepal, NRB has instructed commercial bank to mandatory maintain approximately 10% of their customer deposit liability as liquid form (Cash in Vault and at NRB). For this study, cash and bank is grouped in one deployment portfolio.

2. Deployment for income generating activities:

Bank deploys the major portion of the resources is deployed for income generating activities popularly called as fund based exposure. Fund base exposure is taken by the bank in following two portfolios:

(i) Loans, Advances and Bills purchased (LABP)

(ii) Other Investments

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

3. Deployment in other assets:

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

Table - 12

Status of Resource deployed by SCBNL

Amount in Rs.'000'

F/Y	2060/61	2061/62	2062/63	2063/64	2064/65
Cash and Bank Balance	2,023,164	1,111,117	1,276,241	2,021,021	2,050,243
% of CBB	9.44%	5.66%	5.40%	7.53%	6.58%
LDO	6,410,242	8,143,208	8,935,418	10,502,637	13,718,597
% of LDO	29.92%	41.48%	37.78%	39.14%	44.06%
Investment	11,360,328	9,702,553	12,847,536	13,553,233	13,902,819
% of Investment	53.03%	49.42%	54.31%	50.50%	44.65%
Other Assets	1,493,492	605,597	493,698	633,055	1,349,319
% of Other Assets	6.97%	3.08%	2.09%	2.36%	4.33%
Net Fixed Assets	136,234	71,413	101,302	125,591	117,272
% of Net Fixed Assets	0.64%	0.36%	0.43%	0.47%	0.38%
Total	21,423,460	19,633,888	23,654,195	26,835,537	31,138,250

Source: SCBNL Annual Reports

Investment was the major area for deployment of resources of the bank. After investment, LABP was the second major area for deployment of resources. It has highest deployment of 44.06% in F/Y 2064/065 and lowest deployment of 29.92% in F/Y 2060/061.

Investment covers around 50% of total deployment. The range of investment is between 44%-55% in 5 consecutive years. The bank has been investing mainly the shares of different limited companies including bank and financial institutions as its area for investment. The proportion is fluctuated in 5 consecutive years but the amount of investment had been increasing trend from F/Y 2062/063. The amount of investment in F/Y 2060/061 was Rs.11,360,328,000.00 and decrease to Rs. 9,702,553,000.00 in F/Y 2061/062. The proportion of other assets of the bank in total deployment of resource was 6.97%, 3.08%, 2.09%, 2.36% and 4.33% in F/Y

2060/061 to F/Y 2064/065 respectively, whereas fixed assets of the bank is below 1% over the study period.

From the above analysis, it could be said that the bank has increasing deployment of resources significantly. The bank could able maintained to balance the cash and bank balance within limit prescribed by NRB guidelines of at least of 10% of deposit collection. Likewise, LABP and Investment are major deployment sector of the bank so, if LABP increases then investment decreases and vice versa. The poor management of resources is the main reason of fluctuation of deployment.

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

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

4.3.1 Deployment in LABP

Table – 13

Statement of LABP

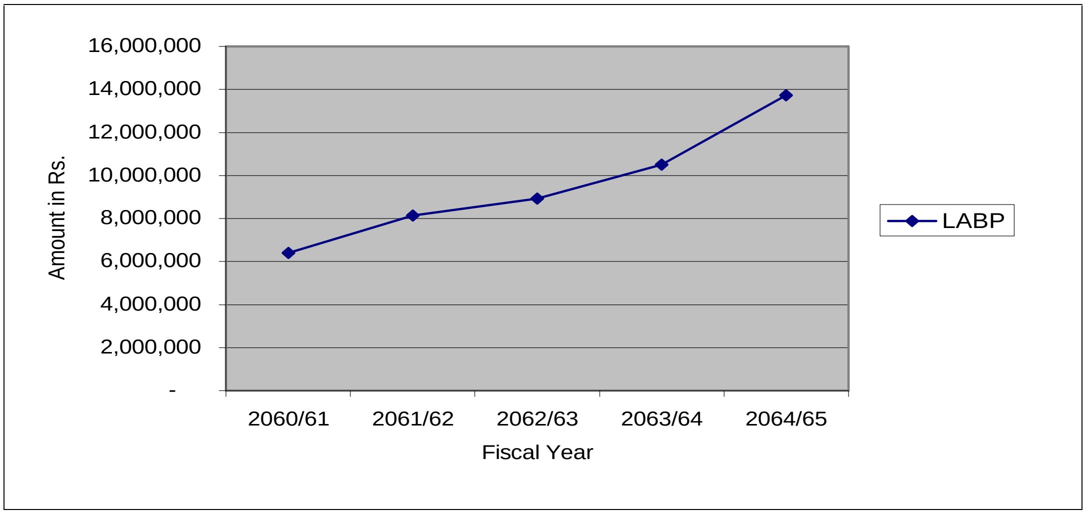
Amount in Rs. '000'

F/Y	LABP	Change in Amount	Change in %
2059/60	5,695,823	-	-
2060/61	6,410,242	714,419	12.54%
2061/62	8,143,208	1,732,966	27.03%
2062/63	8,935,418	792,210	9.73%
2063/64	10,502,637	1,567,219	17.54%
2064/65	13,718,597	3,215,960	30.62%

Source: SCBNL Annual Reports

The above table shows that total amount of LABP is increasing every year. In F/Y 2060/061, it was 5,695,823 thousand and increased to 13,178,597 thousand in F/Y 2064/065. It was increased by 30.62% than previous year. The main reason of increasing was political and business environment of the country. Due to political stability, market system, LABP was increasing trend over the period of study.

Figure – 4 Bar diagram showing Statement of LABP



The above figure shows that SCBNL is increasing its investment in LABP every year. In F/Y 2064/065, it was highly increased.

4.3.1.1 Trend Analysis of LABP

Table - 14

Trend Analysis of LABP

Amount in Rs. '000'

F/Y	Year (X)	LABP (y)	x=X-3	x2	xy
2060/061	1	6,410,242	-2	4	(12,820,484)
2061/062	2	8,143,208	-1	1	(8,143,208)
2062/063	3	8,935,418	0	0	-
2063/064	4	10,502,637	1	1	10,502,637
2064/065	5	13,718,597	2	4	27,437,194
	N=5	Σy=47,710,102	Σ=0	Σx2=10	Σxy=16,976,139

$a = \frac{\Sigma y}{N}$

$= \frac{47,710,102}{5} = 9,542,020$

$b = \frac{\Sigma xy}{x^2}$

$= \frac{16,976,139}{10} = 1,697,614$

In F/Y 2065/066, LABP will be

Y = a+bx

= 9,542,020 +1,697,614*3

= 14,634,862

LABP will reach to Rs. 14,634,862,000, which is increasing trend.

4.3.2 Deployment in Investment

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

Table – 15

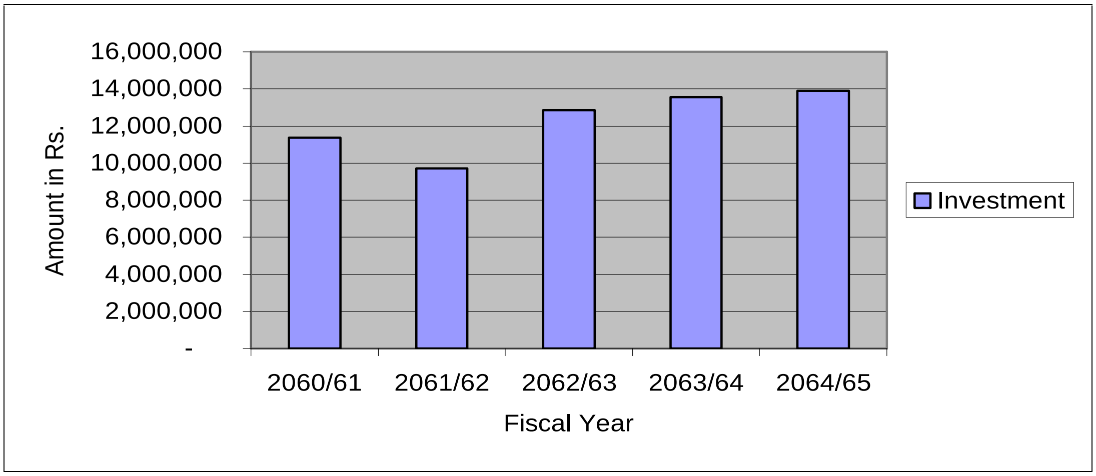
Status of Investment

Amount in Rs. '000'

F/Y	Investment	Change in Amount	Change in %
2059/60	10,216,199	-	-
2060/61	11,360,328	1,144,129	11.20%
2061/62	9,702,553	(1,657,775)	-14.59%
2062/63	12,847,536	3,144,983	32.41%
2063/64	13,553,233	705,697	5.49%
2064/65	13,902,819	349,586	2.58%

Source: SCBNL Annual Reports

Figure – 5 Bar diagram showing Status of Investment



The above table and figure shows that the trend of investment was increasing over the study period except in F/Y 2061/062, it was decreased by 14.59% in F/Y 2061/062 than previous year. This indicates that investment policy of the bank was satisfactory. The main reason of fluctuation was political and business environment of the country and investment policy of the bank. This also indicates that bank invest in secured sectors only. Increase in investment in secured sectors will increase the return of the bank.

4.3.3 Deployment in other portfolio (OP)

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

Table – 16

Status of Other Portfolio

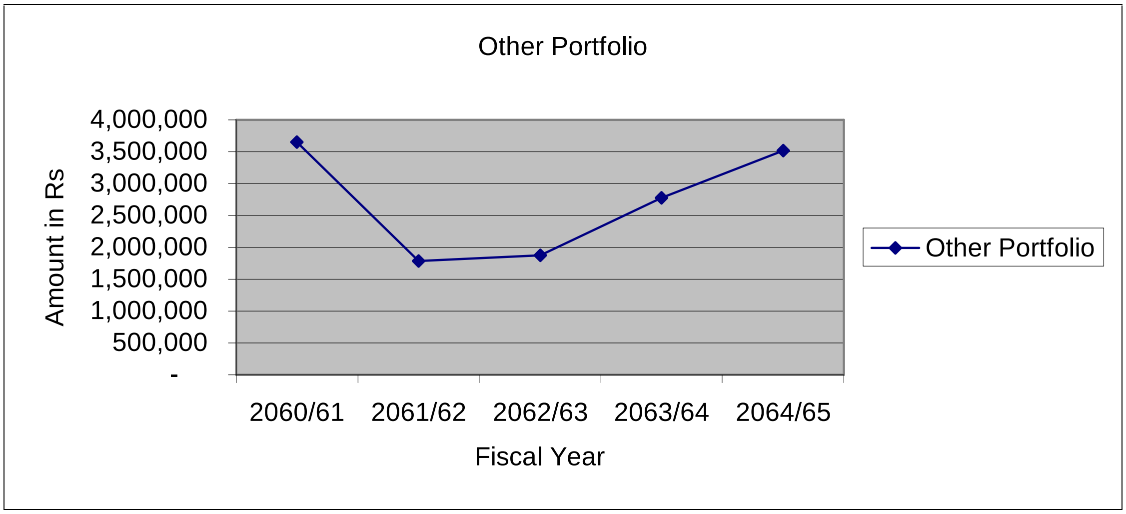
Amount in Rs. '000'

F/Y	Other Portfolio	Change in Amount	Change in %
2059/60	2,027,488	-	-
2060/61	3,652,890	1,625,402	80.17%
2061/62	1,788,127	(1,864,763)	-51.05%
2062/63	1,871,241	83,114	4.65%
2063/64	2,779,667	908,426	48.55%
2064/65	3,516,834	737,167	26.52%

Source: SCBNL Annual Reports

The above table shows that the other portfolio was increasing by 80.17% in F/Y 2060/061 and it was decreased by 51.05% in F/Y 2061/062 than respective previous year. The main reason of decreasing was decrease in investment in other assets and fixed assets and bank also increases the new loan investment.

Figure – 6 Bar diagram showing Status of Other Portfolio



The above figure shows that the trend of other portfolio was decreased in F/Y 2061/062 and then it was increasing trend every year.

4.4 Actual deposit collection vs. Actual LABP Status of SCBNL

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

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

Table - 17

Actual deposit collection Vs. Actual LABP Status of SCBNL

Amount in Rs.'000'

F/Y	Actual Deposit	Actual O/S LABP	LABP to Deposit Ratio (CD)
2060/061	21,161,442	6,410,242	30.29%
2061/062	19,335,095	8,143,208	42.12%
2062/063	23,061,032	8,935,418	38.75%
2063/064	24,647,021	10,502,637	42.61%
2064/065	29,743,999	13,718,597	46.12%

Source: SCBNL Annual Reports

From the above table, it was observed that the LABP to Deposit ratio (CD ratio) was between 30%-47%. The average CD ratio over the period of the study was 39.98%. This implied that the bank was able to lend to customers from the deposit collection from the customers to the extent of average percentage of 39.98%. The study indicates that LABP to deposit ratio and actual deposit were fluctuating trend and outstanding LABP amount is increasing trend.

LABP covers more than 30% of customer’s deposits. Deposits are deployed in major two sectors. One is LABP and another is investment. There in inverse relationship between LABP and investment, if deployment in LABP increases, deployment in investment decreased and vice versa. The main reason of fluctuation was deployment policy of the bank.

It could be said that the bank was succeeded in real banking business. Bank was able to use average 39.98% only of its resources collection from customers. The bank should focus on utilization of collected resources in income generating activities.

Figure – 7 Bar Diagram Status of LABP versus Actual deposit of SCBNL

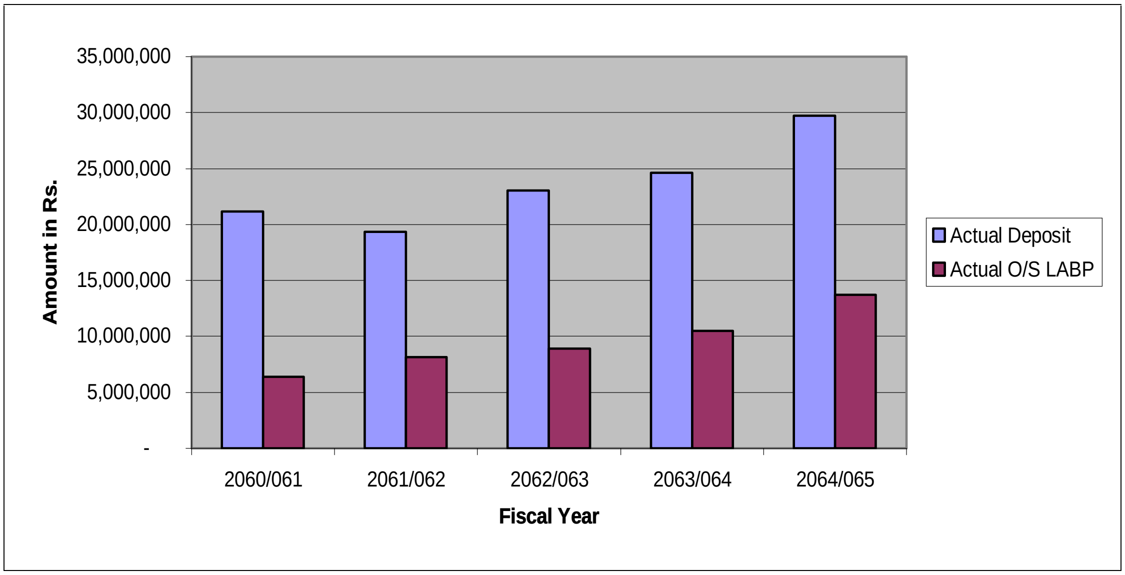
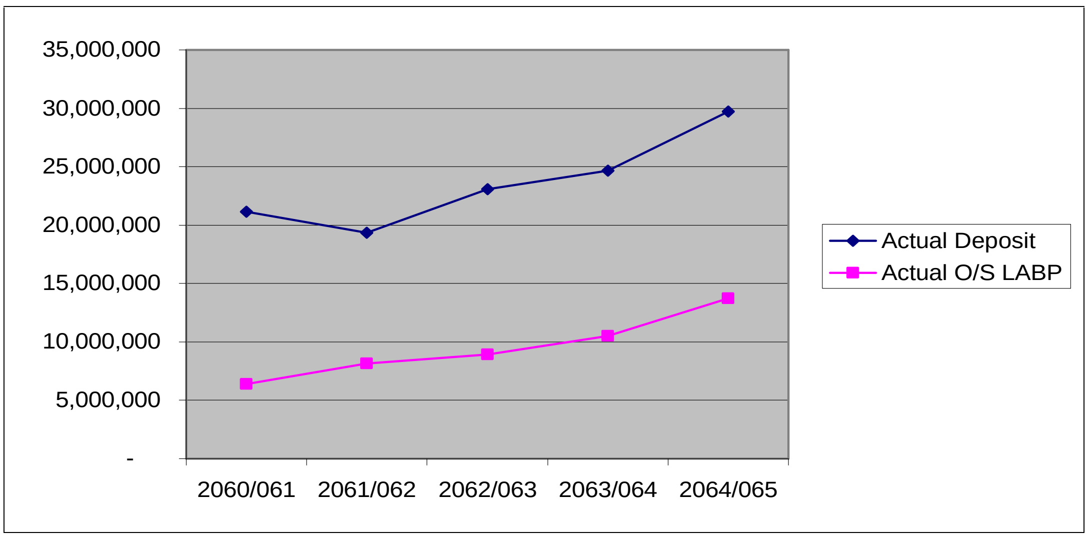


Figure – 8 Scatter Diagram showing status of LABP vs. Actual Deposit of SCBNL



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

It is important to analyze the relationship between actual deposit and LABP. In order to find out the variability of actual deposit and LABP of different years, researcher has to calculate arithmetic mean, standard deviation and coefficient of variance technique. The detail calculations of these statistical tools are presented in Annex 1.

Table – 18

Result of statistical analysis of Actual Deposit Vs LABP

Statistical Tool	**Actual Deposit (x)**	**Actual LABP (y)**
Mean	23589717	9,542,020
Standard Deviation	3,977,151	2,761,307
Coefficient of Variance	0.169	0.289
Coefficient of Correlation	0.924	
Probable Error (PE)	0.0441	
6PE	0.2646	

Since, the actual LABP is higher than that of actual deposit. The actual LABP are more variable than actual deposits.

Another statistical tool, coefficient of correlation was used to analyze the relationship between actual deposit and actual LABP. Karl Pearson's coefficient of correlation is denoted as 'r'. By calculating 'r' researcher can examine whether correlation between actual deposit and actual LABP is positive or not. The value of 'r' ranges -1 to +1. If the value of 'r' is -1, then the relation is perfectly negative and if the value is +1, then the relation is perfectly positive, whereas '0' value denote no relation at all. The actual LABP will change the same direction as actual deposit if the correlation value is near to +1. For this purpose, actual deposit be denoted by 'X' an independent variable and actual LABP be denoted by 'Y' a depended variable. So that increase in actual deposit is support to increase in actual LABP or vice versa.

The calculated value of 'r' is 0.924 and probable error is 0.0441. The value of 'r' as tested with PE shows about perfect positive correlation between deposit and lending. Since, r>6PE i.e. 0.924>0.2646, the value of 'r' is significant and there is perfect correlation between actual deposit and actual LABP.

4.5 Expenditure planning of SCBNL

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

Table – 19

Yearly Cost Structure of SCBNL

Amount in Rs'000'

Expenses	F/Y				
	2060/061	**2061/062**	**2062/063**	**2063/064**	**2064/065**
Interest Expenses	275,809	254,127	303,198	413,055	471,730
% Share	26.36%	24.50%	27.35%	31.89%	31.48%
Staff Expenses	134,685	148,586	168,231	199,778	225,256
% Share	12.87%	14.33%	15.17%	15.43%	15.03%
Operating Expenses	279,694	256,649	221,087	228,451	230,571
% Share	26.73%	24.75%	19.94%	17.64%	15.39%
Provision for doubtful debt	23,517	30,082	47,730	36,809	69,885
% Share	2.25%	2.90%	4.31%	2.84%	4.66%
Provision for staff bonus	85,955	88,683	93,937	101,610	119,337
% Share	8.22%	8.55%	8.47%	7.85%	7.96%
Income tax provision	235,793	258,944	274,505	315,427	381,493
% Share	22.54%	24.97%	24.76%	24.35%	25.46%
Non operating expenses	10,756	-	-	-	-
% Share	1.03%	0.00%	0.00%	0.00%	0.00%
Total expenses	1,046,209	1,037,071	1,108,688	1,295,130	1,498,272

Source: SCBNL Annual Reports

The above table shows that each type of expenses was fluctuating trend except operating expenses. Operating expenses was decreasing trend. Interest expenses covered 31.89% in F/Y 2063/064 but it covered only 24.50% in F/Y 2061/062. The increase and decrease in interest expenses would be affected accordance of the deposit collection amount during the year. Interest expenses fully depends upon the customer deposits so higher the customer deposit, it should be higher the interest expenses as well.

Similarly, staff expenses proportion to total expenses was 12.87%, 14.33%, 15.17%, 15.43% and 15.03% in F/Y 2060/061 to F/Y 2064/065 respectively. It seems that proportion of staff expenses a re increasing trend every year but in F/Y 2064/065, it was slightly decreased by 0.40%. The amount of staff expenses are increasing every year. The increase in cost of staff was mainly due to company's policy to regular increase in salary every year to existing staff with certain percentage and additional new staff on expansion. The bank has created provident fund as per the Income Tax Act 2058 as a separate entity. The bank has been provided bonus to staff of the net profit before tax as per Bonus Act, 2030. This showed that the bank has motivated those employees who are the key to success of the bank.

The proportion of operating expenses was decreasing trend. The proportion of operating expenses was 26.73%, 24.75%, 19.94%, 17.64% and 15.39% in F/Y 2060/061 to 2064/065 respectively. The amount of operating expenses is fluctuating trend.

Provisions for possible losses are made as per NRB directive to cover the risk inherent in Bank's loan provision. Provision of doubtful debts was 2.25%, 2.90%, 4.31%, 2.84% and 4.66% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 respectively. It shows that the higher possible losses provision was 4.66% in F/Y 2064/065. Provisions for possible losses are below 5% in 5 consecutive years. It showed the efficient management of loans. The bank is providing loans to secure sectors only.

The proportion of provision for staff bonus was 8.22%, 8.55%, 8.47%, 7.85% and 7.96% in F/Y 2060/061 to 2064/065 respectively. The proportion of provision for staff bonus was fluctuating trend but the amount of provision for staff bonus is increasing every year. The staff bonus is based on net profit of the bank therefore, if bank earns more profit, staff bonus is increased subsequently.

The tax expense is also based on the profit of the bank. The proportion of provision for income tax was fluctuating trend but the amount of Income tax provision was increasing every year. The bank has the profit in increasing trend therefore, the amount of income tax provision is also increasing rate. It was 22.54% in F/Y 2060/061 and 25.46% in F/Y 2064/065.

The proportion of non-operating expenses was 1.03% in F/Y 2060/061 and then after its proportion was nil.

Interest Expenses to Total Deposit

Interest expenses are the expenditure incurred for making payment of interest to the deposit collected by the bank. As the customer deposit holds a major share on total resources of the bank, interest is also highest among others in total expenses of the bank. The customer deposit is one of the major sources for resources mobilization by the bank. There are various kinds of deposit account from non-interest bearing account to interest bearing accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (CoD) of the bank. For a bank lower CoD refers to better position in terms of profitability.

Table – 20

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

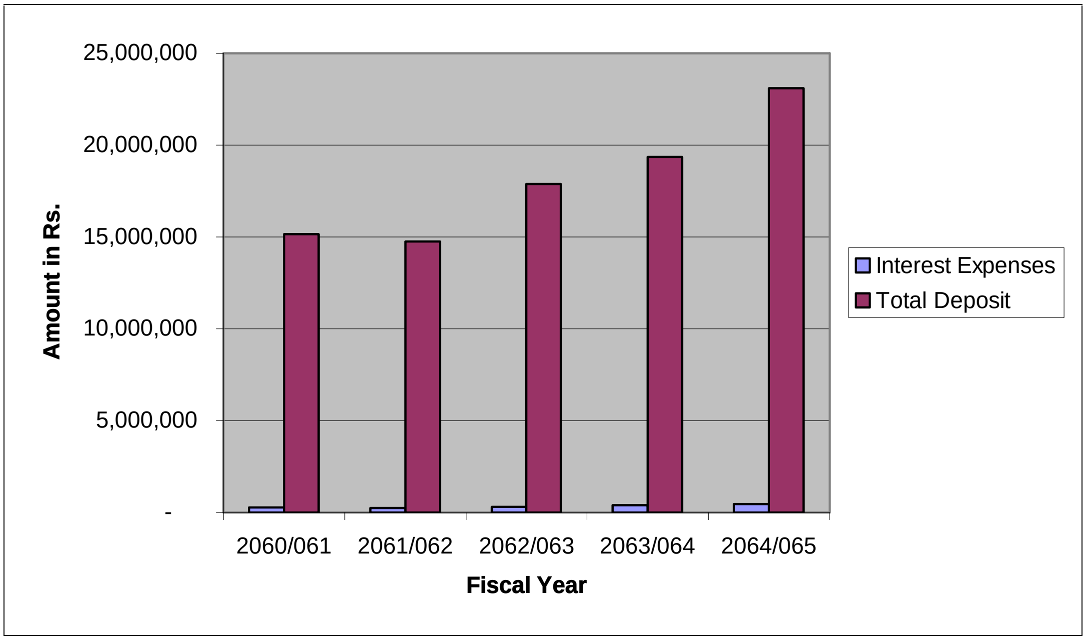
Amount in Rs'000'

F/Y	Interest Expenses	Total Deposit (Interest Bearing)	Cost of Deposit (%)
2060/061	275,809	15,141,321	1.82%
2061/062	254,127	14,742,178	1.72%
2062/063	303,198	17,869,673	1.70%
2063/064	413,055	19,366,385	2.13%
2064/065	471,730	23,095,394	2.04%

Source: SCBNL Annual Reports

From the above table, it was observed that cost of deposit (CoD) was fluctuating trend. It was 1.82%, 1.72%, 1.70%, 2.13% and 2.04% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 respectively. The bank has maintained less minimum cost of deposit. The reason for minimum cost of deposit was due to the bank policy to collect the deposit with low interest rate. The average CoD for the period of the study was 1.88%. It indicates that the profitability position of the bank because lower CoD refers to better position of the bank.

Figure -9 Bar diagram of Status of Interest Expenses to Total Deposit of SCBNL



It is important to analyze the relationship between interest expenses and interest bearing deposit. In order to find out the variability of interest expenses and total deposit of different years, researcher has to calculate arithmetic mean, standard deviation, coefficient of variance and coefficient of correlation technique. The detail calculations of these statistical tools are presented in Annex 2.

Table – 21

Result of statistical analysis of Interest Expenses to Total Deposit

Statistical Tool	**Total Deposit (x)**	**Interest Expenses (y)**
Mean	18,042,990	343,584
Standard Deviation	3414061	94174
Coefficient of Variance	0.189	0.274
Coefficient of Correlation	0.963	
Probable Error (PE)	0.0219	
6PE	0.1315	

The above result shows the coefficient of variation of interest expenses is higher than actual deposit. Hence, the actual interest expenses are more variable than actual deposit.

The calculated value of ‘r’ is 0.963 and probable error is 0.0219. The value of ‘r’ as tested with PE shows about perfect positive correlation between deposit and interest expenses. Since, r>6PE (0.963>0.1315), the value of ‘r’ is more significant and there is perfect correlation between actual deposit and actual interest expenses.

4.5.2 LABP Vs Provision for doubtful debts

As per the directives of Nepal Rastra Bank, the commercial banks are required to set aside some amount form their operating profit at a fixed ratio against the outstanding LABP of the bank as prescribed by NRB from time to time. Such amount provided by against the LABP is based on the classification of the loans. As per NRB current directives, banks are required to classify their outstanding LABP on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F/Y 2058/059 which are follows:

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

Substandard: All loans and advances those are past due for a period of three months to six months shall be included in this category. The required provisioning is 25% of the outstanding loan falling under this category.

Doubtful: All loans and advances those are past due for a period of more than six months to one year are included in this category and require provisioning of 50% of outstanding LABP falling under this category.

Loss: All loans and advances chose are past due for a period of more than one year, are included in this category which shall to be provided for 100% of the LDO falling under this category.

All classified loans except ‘Pass’ are called non-operating loan. The higher amount of non-performing loan consumes the profit of the bank, as they require higher amount of provisioning toward loan loss. Therefore, banks have to make reasonable effort for regularizing their loan to keep them performing in order to reduce the amount of provisions for those losses to enhance the profit. Further, internationally accepted standard rate of percent for total loan loss provision to total loan is as 3%.

Table - 22

Status of provision for doubtful debt to LABP

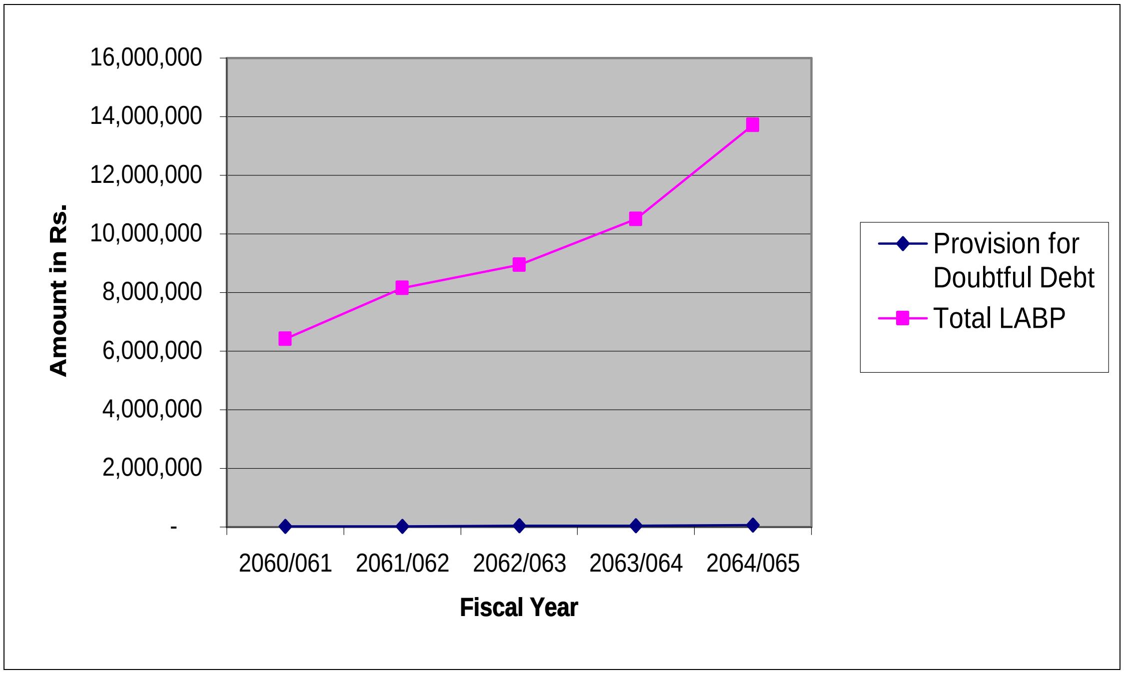
Amount in Rs’000’

F/Y	Provision for Doubtful Debt	Total LABP	Provision for Doubtful Debt to Total LABP
2060/061	23,517	6,410,242	0.37%
2061/062	30,082	8,143,208	0.37%
2062/063	47,730	8,935,418	0.53%
2063/064	36,809	10,502,637	0.35%
2064/065	69,885	13,718,597	0.51%

Source: SCBNL Annual Reports

The above table shows that the percentage of provision for doubtful debts to total LABP was 0.37%, 0.37%, 0.53%, 0.35% and 0.51% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 respectively. Provision for doubtful debt to LABP is below 0.53%. This indicates that the bank in lending their deposits securely. This is the good sign for the bank. Both the directives of NRB and management are responsible to control loss provisions.

Figure -10 Scatter Diagram of Provision for Doubtful Debt and Total LABP



4.6 Revenue planning of SCBNL

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

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

Table - 23

Income Structure of SCBNL

Amount in Rs '000'

Revenue	F/Y				
	2060/061	**2061/062**	**2062/063**	**2063/064**	**2064/065**
Interest Income	1,042,176	1,058,678	1,189,603	1,411,982	1,591,196
% Share	65.79%	67.16%	69.05%	71.29%	70.80%
Commission & Discount	198,948	184,830	222,929	221,207	276,432
% Share	12.56%	11.73%	12.94%	11.17%	12.30%
Forex. Income	273,050	266,865	283,472	309,087	345,653
% Share	17.24%	16.93%	16.45%	15.61%	15.38%
Non Operating Income	-	2,957	1,433	9,492	1,683
% Share	0.00%	0.19%	0.08%	0.48%	0.07%
Other Income	69,835	62,945	25,442	28,785	32,594
% Share	4.41%	3.99%	1.48%	1.45%	1.45%
Total	1,584,009	1,576,275	1,722,879	1,980,553	2,247,558

Source: SCBNL Annual Reports

The above table shows that the revenue was increasing every year. Income form interest was the highest among the others in total revenue for each year. The average proportion of interest is around 69% of total revenue.

The proportion of interest income was 65.79%, 67.16%, 69.05%, 71.29% and 70.80% in F/Y 2060/061 to 2064/065 respectively. It seems every year share of income from interest amount is increasing for the bank. Overall, generation of interest income of SCBNL is satisfactory. The interest income is based on the amount of LABP amount was also increasing every year. SCBNL gives loan, advance and bill purchase in higher rate of interest and gives lower rate of interest to its depositors.

The proportion of commission & discount was 12.56%, 11.73%, 12.94%, 11.17% abd 12.30% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 respectively. The above table shows that commission & discount is in fluctuating trend but it was nominal fluctuation. This can be regarded as normal fluctuation only.

Foreign exchange income was also major part of total revenue collection. The proportion of foreign exchange income was 17.24%, 16.93%, 16.43%, 15.61% and 15.38% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 6064/065 respectively. The proportion of foreign income is decreasing trend but the amount of foreign exchange is increasing trend except in F/Y 2061/062, The reason of increase or decrease in foreign exchange income is due to decrease or increase in US Dollar rate.

Non-operating income contributes to total income was very negligible proportion. It was below 0.48% over the study period.

Similarly, proportion of other income was 4.41%, 3.99%, 1.48%, 1.45% and 1.45% in F/Y 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 respectively. It was negligible proportion in total income.

4.6.1 Interest Income to LABP

As interest income contributes the major portion of Total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore, this proudly called Yield of Fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, researcher has grouped the outstanding loan, advances and overdraft and the bills discounted together to call LABP and have included commission too into the total interest income amount (YOF). Now, researcher shall analyze the comparative status of total YOF with the total LABP with the help of following table and bar diagram.

Table – 24

Status of Interest Income to LABP

Amount in Rs '000'

F/Y	Total Interest Income with Comm.	Total LABP	Total LABP Yield to LABP
2060/061	1,241,124	6,410,242	0.19
2061/062	1,243,508	8,143,208	0.15
2062/063	1,412,532	8,935,418	0.16
2063/064	1,633,189	10,502,637	0.16
2064/065	1,867,628	13,718,597	0.14

Source: SCBNL Annual Reports

Figure -11 Bar Diagram of Interest Income to Total LABP

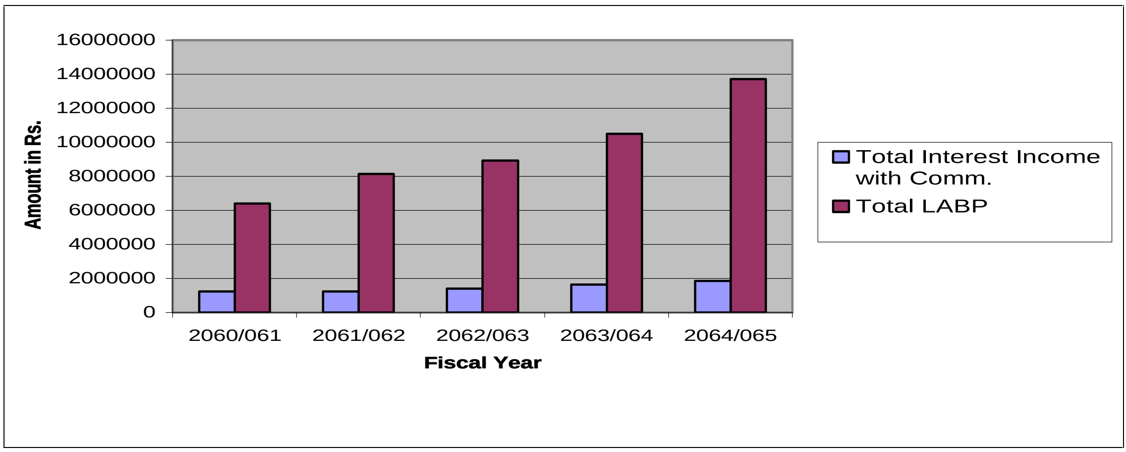
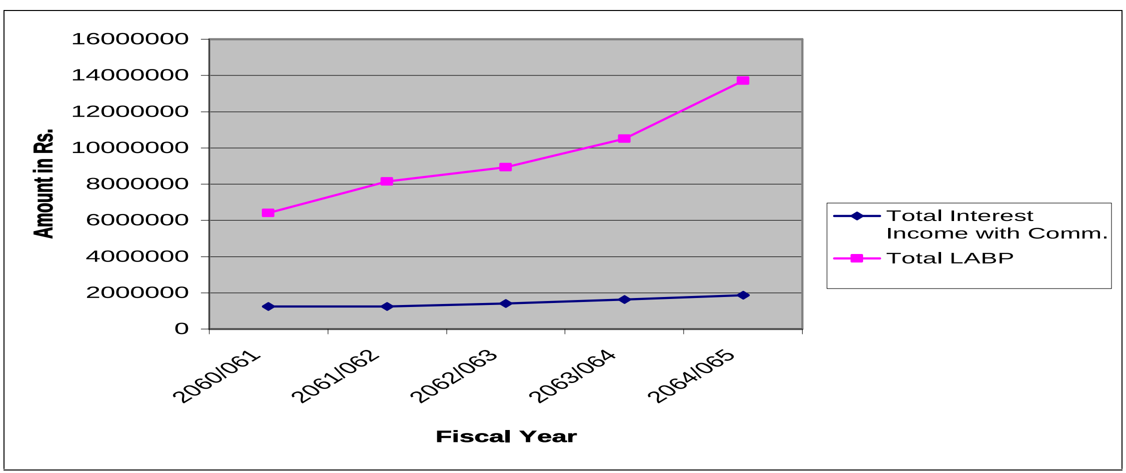


Figure -12 Scatter Diagram of Interest Income to Total LABP



From the above table, it was observed that the yearly YOL of SCBNL range form 13.61% to 19.36% in various years. The yield on LABP was 19.36% in F/Y 2060/061 whereas; it was 13.61% in F/Y 2064/065. The average YOF for the period of study was 15.92%. The above table indicates that total interest income is in increasing trend but YOL is in decreasing trend. The decrease in yield was mainly due to decrease in interest rate. Due to poor market system, political situation and other instability, the bank has decreased its interest rate to mobilize its deposits.

It is significant to analyze the relationship between interest income and total LABP. In order to find out the variability of interest income and total LABP of different years, researcher has to calculate arithmetic mean, standard deviation, coefficient of variance and coefficient of correlation technique. The detail calculations of these statistical tools are presented in Annex 3.

Table – 25

Result of statistical analysis of Interest Income to Total LABP

Statistical Tool	**Total LABP (x)**	**Interest Income (y)**
Mean	9542020	1479596
Standard Deviation	2,761,307	269,844
Coefficient of Variance	0.289	0.182
Coefficient of Correlation	0.968	
Probable Error (PE)	0.019	
6PE	0.114	

The above result shows the coefficient of variation of total LABP is higher than interest income. Hence, the total LABP are more variable than interest income.

The calculated value of ‘r’ is 0.968 and probable error is 0.019. The value of ‘r’ as tested with PE shows about perfect positive correlation between total LABP and interest income. Since, r>6PE i.e. 0.968>0.114, the value of ‘r’ is more significant and there is perfect correlation between total LABP and interest income.

4.6.2 Interest Spread

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

Table - 26

Yearly spread of SCBNL

Amount in Rs '000'

F/Y	Interest Income	Interest Expenses	Interest Spread	Growth in Amount	Growth in %
2060/061	1,042,176	275,809	766,367	-	-
2061/062	1,058,678	254,127	804,551	38,184	4.98%
2062/063	1,189,603	303,198	886,405	81,854	10.17%
2063/064	1,411,982	413,055	998,927	112,522	12.69%
2064/065	1,591,196	471,730	1,119,466	120,539	12.07%

Source: SCBNL Annual Reports

The above table shows that the status of interest income, interest expenditure and spread of the bank for the study period. It was observed that in F/Y 2060/061, the spread of the bank was Rs. 766,366,452.00. It was Rs. 804,550,931.00 in F/Y 2061/062and increased by 4.98% than the previous year. Similarly, it was Rs. 886,404,538.00 in F/Y 2062/063 and increased by 10.17% than the previous year. It was Rs. 998,926,715.00 in F/Y 2063/064 and Rs. 1,119,465,826.00 in F/Y 2064/065 and growth rate increased by 12.69% and 12.07% than the previous year.

The above table indicates that interest spread is in increasing trend. The amount of interest income and interest expenses are also increasing trend. Therefore, growth of interest spread is also increasing too. The increasing was mainly due to political stability, peace and other stability.

Figure -13 Bar Diagram of Interest Income, Expenses and Spread of SCBNL

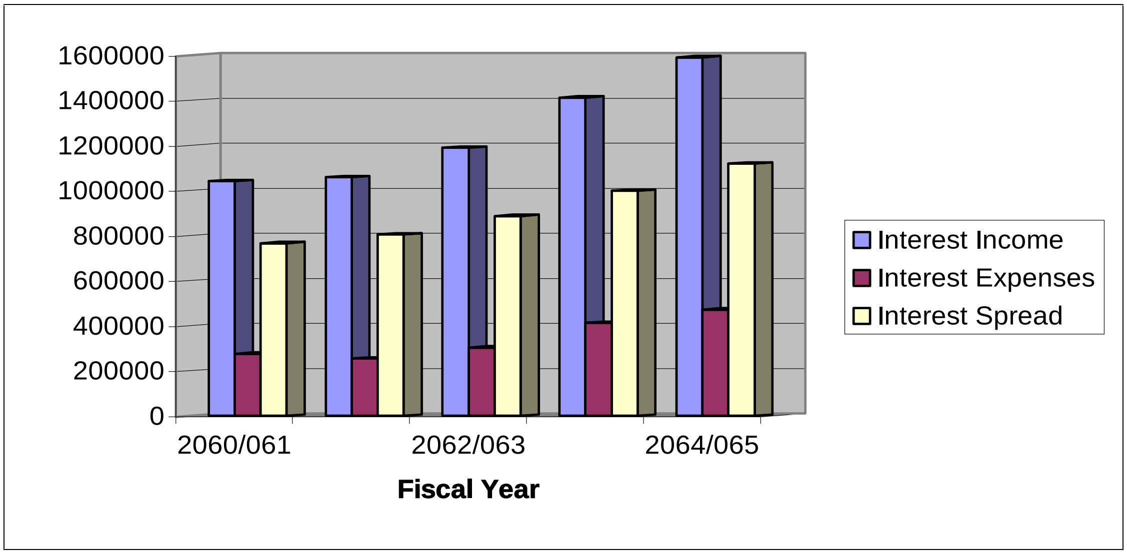
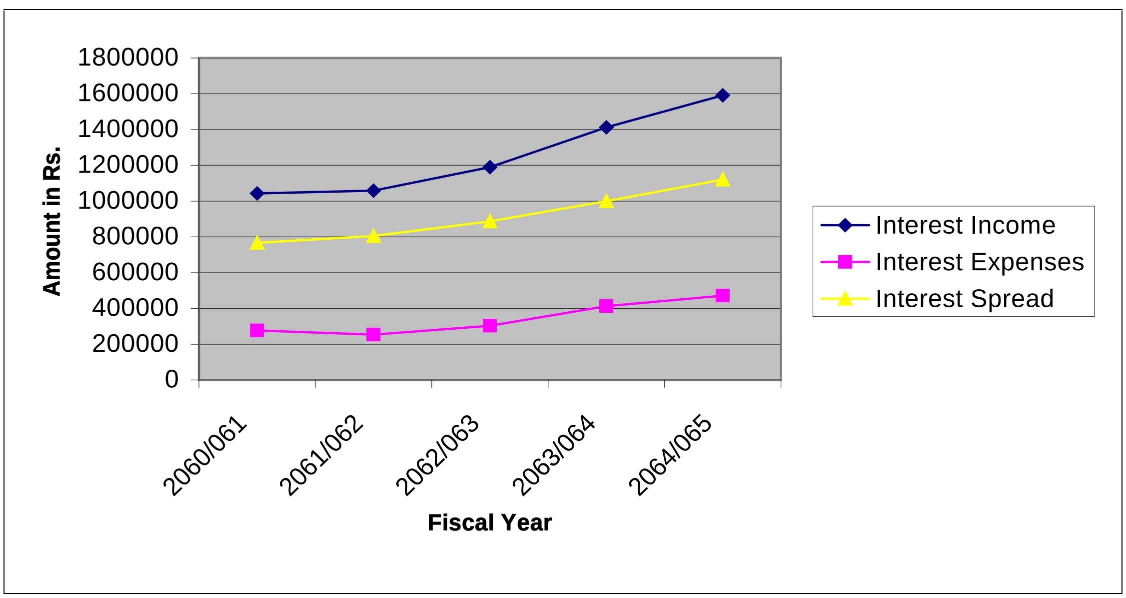


Figure -14 Scatter Diagram of Interest Income, Expenses and Spread



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

4.6.3 Burden

Burden is the overall expenses of the bank except interest expenses incurred for the payment of deposit interest. That is the operating cost of the bank excepting interest cost is called the burden. The net burden is the net amount of burden cost obtained which is the difference between other expenses and other income. The nature of this cost is semi fixed where as interest cost is variable cost.

Table – 27

Net Burden of SCBNL

Amount in Rs '000'

F/Y	Other Expenses	Other Income	Net Burden	Growth in Amount	Growth in %
2060/061	279,694	69,835	209,859	-	-
2061/062	256,649	62,945	193,704	(16,155)	-7.70%
2062/063	221,087	25,442	195,645	1,941	1.00%
2063/064	228,451	28,785	199,666	4,021	2.06%
2064/065	230,571	32,594	197,977	(1,689)	-0.85%

Source: SCBNL Annual Reports

From the above table, it was observed that the net burden of the bank in F/Y 2060/061 was Rs. 209,859,000.00. It was Rs. 193,704,000.00 in F/Y 2061/062, which was increased by -7.70% than the previous year. Similarly, the net burden was Rs.195,645,000.00 in F/Y 2062/063, Rs.199,666,000.00 in F/Y 2063/064 and Rs.197,977,000.00 in F/Y 2064/065. The growth percentage was 1.00%, 2.06% and -0.85% in those years respectively than the respective previous year.

The major objective of this study was to find out whether other resources of income are maintaining the other expenses part or not. It was observed that the net burden of the bank was positive. The net burden of the bank was in fluctuating trend over the study period with fluctuating rate.

The indication of the study showed that the other income are increasing or decreasing in respect to other expenses. The net burden of the bank was not so high so the bank could manage its fund to collect other source of income.

Figure -15 Bag Diagram of Other Expenses, Other Income and Net Burden

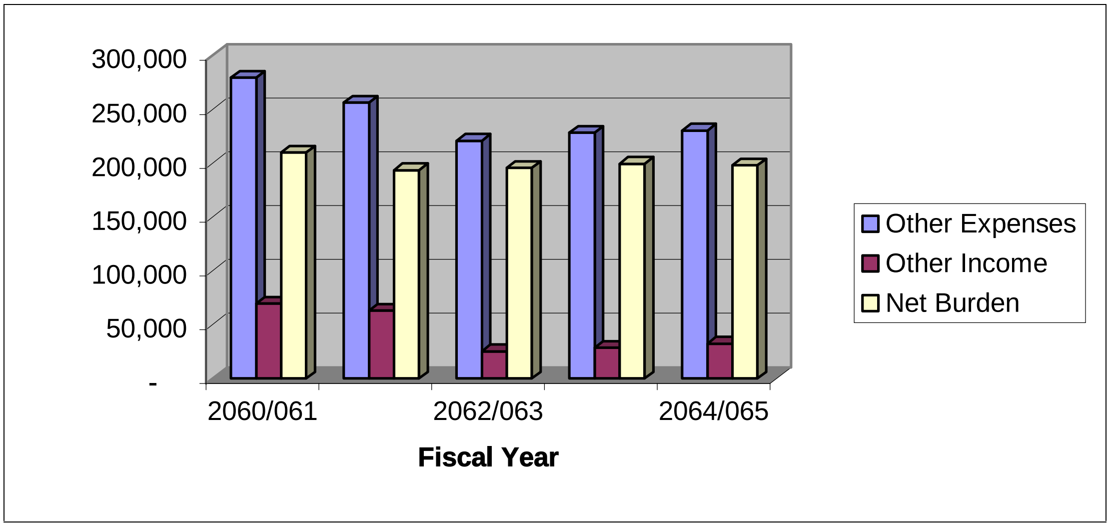
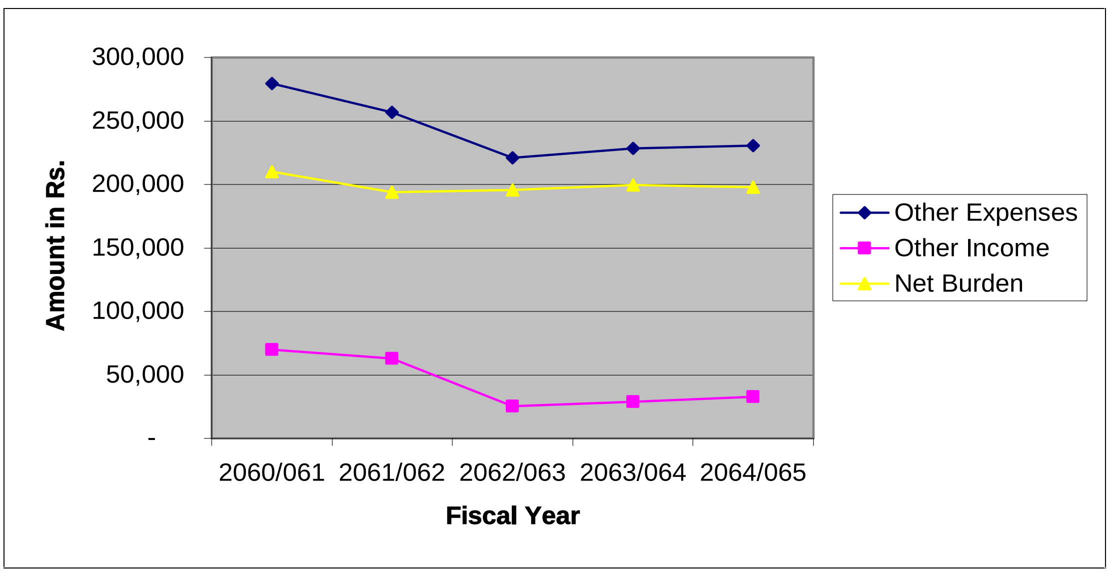


Figure -16 Scatter diagram of Other Expenses, Other Income and Net Burden



Further above diagram shows that trend of other expenses and other income are decreasing from F/Y 2060/061 to F/Y 2062/063 and then slightly increasing trend on F/Y 2063/064 and 2064/065. Similarly, decreasing trend of net burden form F/Y 2060/061 to 2061/062 and slightly increasing trend from F/Y 2062/063 to F/Y 2064/065.

4.6.4 Net Profit

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

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

Table – 28

Net profit of SCBNL

Amount in Rs '000'

F/Y	Spread	Burden	Net Profit	Growth	% of Growth
2060/061	766,367	209,859	556,508	-	-
2061/062	804,551	193,704	610,847	54,339	9.76%
2062/063	886,405	195,645	690,760	79,913	13.08%
2063/064	998,927	199,666	799,261	108,501	15.71%
2064/065	1,119,466	197,977	921,489	122,228	15.29%

Source: SCBNL Annual Reports

From the above table, it was observed that net profit of the bank in F/Y 2060/061 was Rs.556,508,000.00. It was increased by Rs. 54,339,000.00 in F/Y 2061/062 with 9.76% increased than the previous year. Similarly, it was Rs. 690,760,000.00, Rs. 799,261,000.00 and Rs. 921,489,000.00 in F/Y 2062/063, 2063/064 and 2064/065 respectively with the growth rate of 13.08%, 15.71% and 15.29% respectively than the respective previous year.

The above table indicates that interest spread and Net profit both are in increasing trend. Burden of the bank is decreasing trend from F/Y 2060/061 to F/Y 2061/062 and then slightly increasing trend over the study period. As researcher analyzed earlier, burden is the difference amount of other income and other expenses and net income is the difference of total interest spread and total burden.

Following diagrams will further clarify the net profit position of the bank. This shows the real success of the bank and bank's strategy for the expansion of its business.

Figure -17 Bar Diagram of Spread, Burden and Net Profit of SCBNL

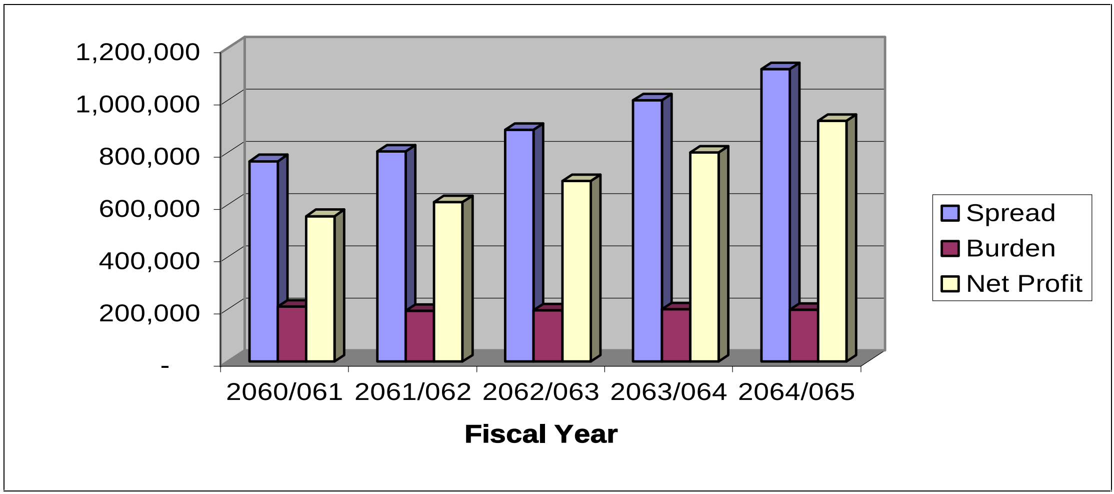
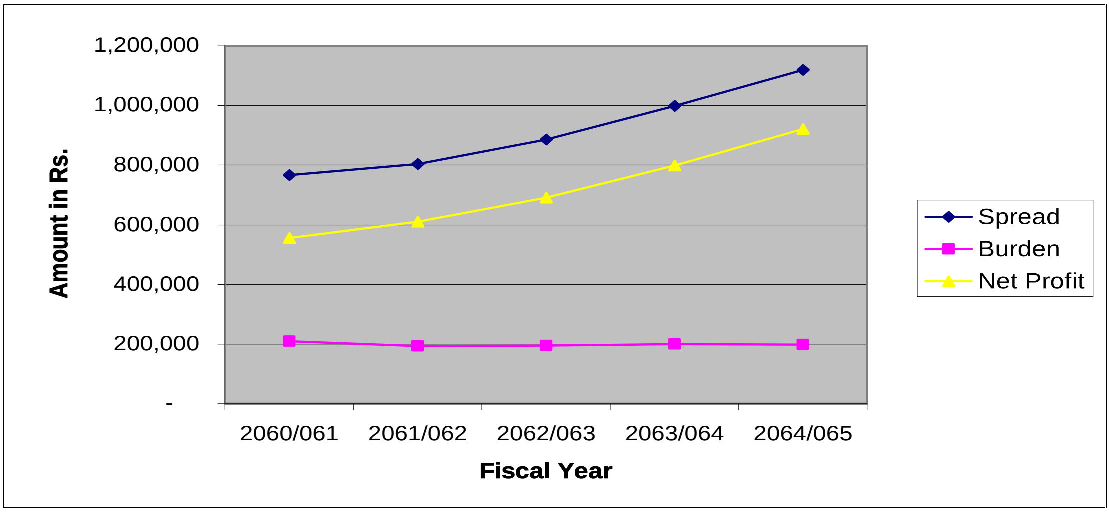


Figure -18 Scatter Diagram of Spread, Burden and Net Profit of SCBNL



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

4.7 Performance Evaluation of Bank

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

1. Ratio Analysis
2. Cash Flow Analysis

4.7.1 Ratio Analysis

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

(a) Liquidity Ratio

(b) Capital Structure Ratio

(c) Activity Ratio

(d) Profitability Ratio

4.7.1.1.1 Liquidity Ratio

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

Table – 29

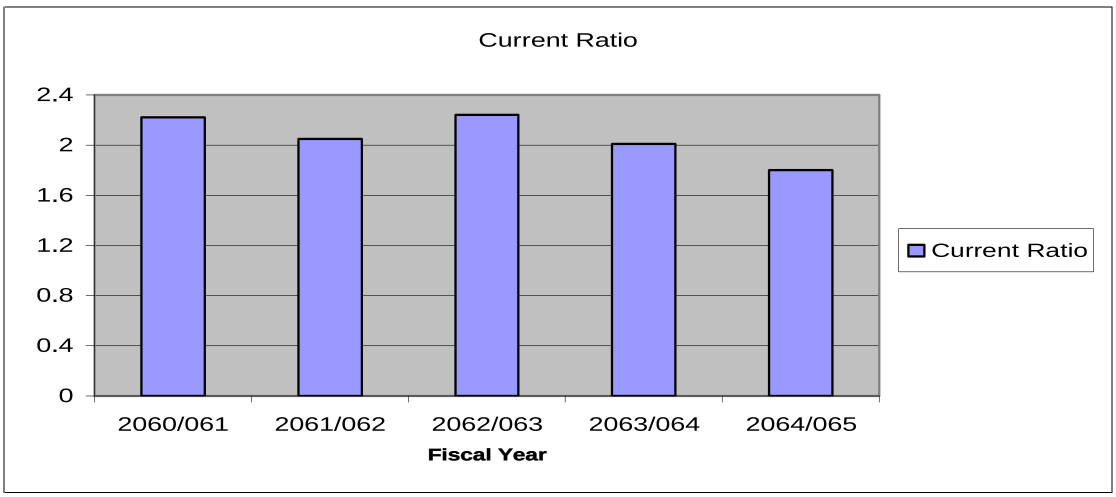
Liquidity Ratio of SCBNL

Amount in Rs. '000'

F/Y	Current Assets	Current Liabilities	Current Ratio	Working Capital
2060/061	22,087,296	9,926,898	2.22:1	12,160,398
2061/062	20,254,865	9,859,921	2.05:1	10,394,944
2062/063	23,966,443	10,705,357	2.24:1	13,261,086
2063/064	26,438,569	13,156,714	2.01:1	13,281,855
2064/065	30,753,792	17,118,159	1.80:1	13,635,633

Source: SCBNL Annual Reports

Figure -19 Bar Diagram showing current ratio of SCBNL



From the above table and bar diagram, it was observed that the SCBNL has current ratio ranging form 1.80 times to 2.24 times during the study period. The highest current ratio was 2.24 times in F/Y 2062/063 and the lowest current ratio was 1.80 times in F/Y 2064/065. The company has positive working capital over the five years study period. It means the current assets are more than current liabilities. The bank has maintained standard ratio 2:1 except in F/Y 2064/065. The bank has increased its investment in fixed assets that's why the bank was not able to maintain standard ration in F/Y 2064/065. It showed that the performance of the bank was satisfactory. The bank has ability to pay its current obligation in time as and when they become due.

4.7.1.2 Capital Structure Ratio

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

1. Debt to Equity Ratio
2. Interest Coverage Ratio

(1) Debt to Equity Ratio

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

Table – 30

Status of Long-term Debt to Total Equity Ratio

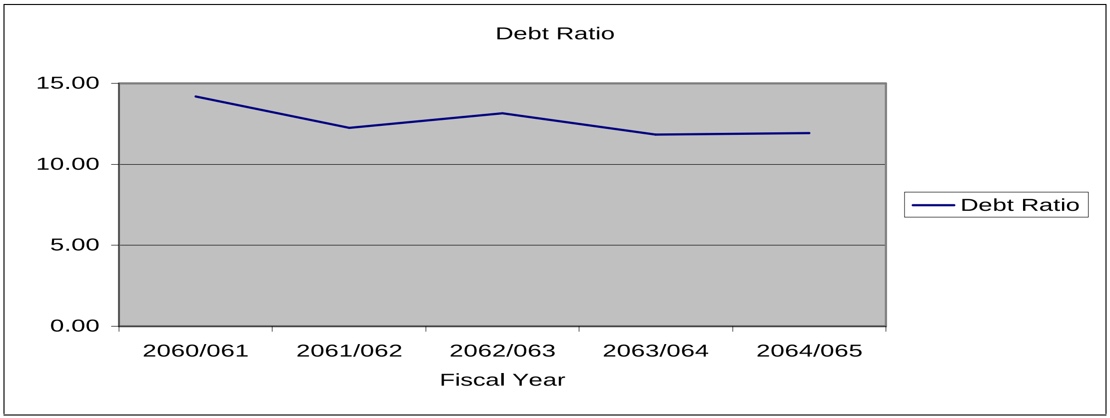
Amount in Rs. '000'

F/Y	Deposit & Borrowing	Equity Capital	Debt to Equity Ratio
2060/061	21,239,724	1,495,739	14.20
2061/062	19,391,021	1,582,415	12.25
2062/063	23,061,032	1,754,139	13.15
2063/064	25,047,026	2,116,353	11.83
2064/065	29,743,999	2,492,547	11.93

Source: SCBNL Annual Reports

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

Figure – 20 Scatter diagram showing debt ratio of SCBNL



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

(2) Interest Coverage Ratio

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

Table – 31

Status of Interest Coverage Ratio

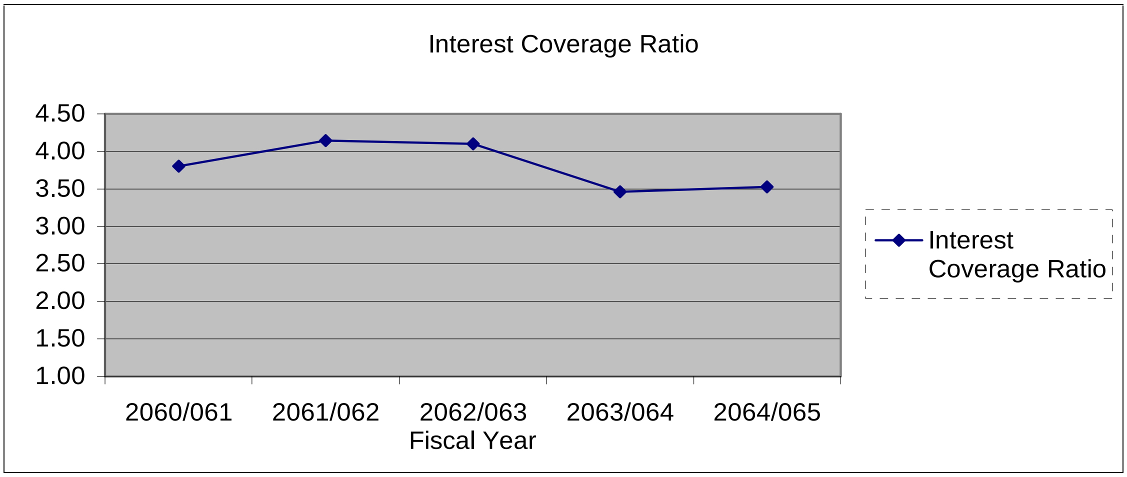
Amount in Rs. '000'

F/Y	Net Profit Before Interest & Tax	Interest Expenses	Interest Coverage Ratio
2060/061	1,049,402	275,809	3.80
2061/062	1,052,275	254,127	4.14
2062/063	1,242,573	303,198	4.10
2063/064	1,429,150	413,055	3.46
2064/065	1,665,103	471,730	3.53

Source: SCBNL Annual Reports

From the above table, it was observed that interest coverage ratio is in fluctuating trend over the study period. It was 3.80 times in F/Y 2060/061 which increased to 4.14 times in F/Y 2061/062. It was decreased to 4.10 times in F/Y 2062/063 and again decreased to 3.46 times in F/Y 2063/064. It was increased to 3.53 times in F/Y 2064/065. The highest interest coverage ratio was 3.80 times in F/Y 2060/061 over the study period. There is no standard ratio of interest coverage in case of the bank, however, it would be better if coverage ratio of the bank was higher than 1. The interest coverage ratio of the bank was higher than 1 over the study period, which means the bank could able to pay interest in borrowing adequately and its indicator of healthy financial status of the bank. Researcher can see that the trend line of interest coverage ratio below which is in fluctuating trend.

Figure – 21 Scatter diagram showing Interest coverage ratio of SCBNL



4.7.1.3 Employee Productivity Ratio (Activity Ratio)

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

Table – 32

Employee productivity ratio of SCBNL

Amount in Rs. '000'

F/Y	Deposit Collected	LDO Deployed	No. of employee	Deposit per Employee	LDO per Employee
2060/061	21,161,442	6,410,242	263	80,462	24,374
2061/062	19,335,095	8,143,208	302	64,023	26,964
2062/063	23,061,032	8,935,418	345	66,844	25,900
2063/064	24,647,021	10,502,637	351	70,219	29,922
2064/065	29,743,999	13,718,597	377	78,897	36,389

Source: SCBNL Annual Reports

The above table shows that deposit per employee are increasing trend except in F/Y 2061/062. The main reason of decreasing of deposit per employee in F/Y 2061/062 is huge expansion of staff and also decrease in deposit collection. LDO per employ are in increasing trend which indicates that the productivity of SCBNL is remarkable.

4.7.1.4 Profitability Ratio

It shows the overall efficiency of the organization. The relation of the return of the firm to either its sales or its equity or its assets is known as profitability.

4.7.1.4.1 Calculation of Return on Equity of SCBNL

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

Table – 33

ROE of SCBNL

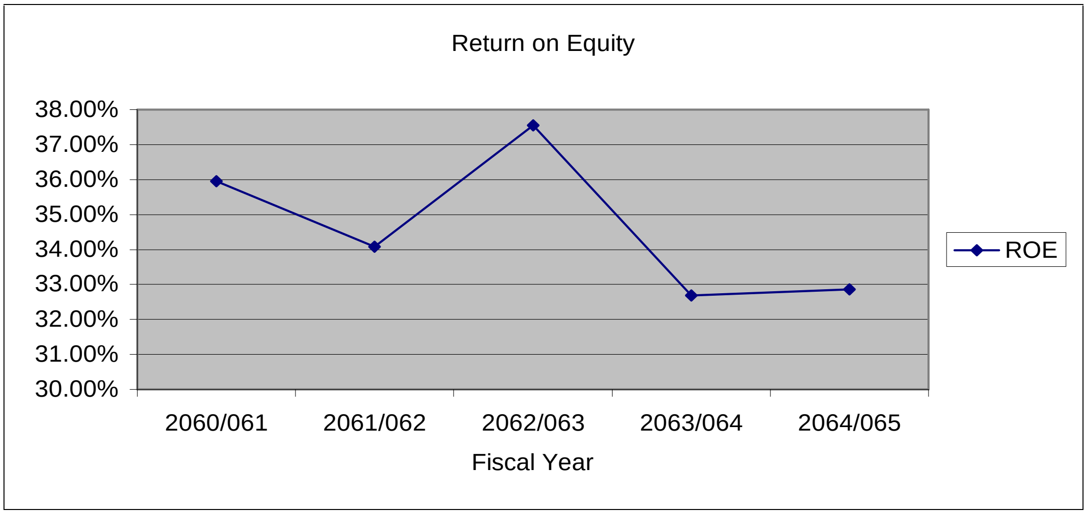
Amount in Rs. '000'

F/Y	Net Income	Equity Capital	ROE
2060/061	537,800	1,495,739	35.96%
2061/062	539,204	1,582,415	34.07%
2062/063	658,756	1,754,139	37.55%
2063/064	691,668	2,116,353	32.68%
2064/065	818,921	2,492,547	32.85%

Source: SCBNL Annual Reports

Above table shows the relationship between income after tax and total equity capital of the bank. The ROE of SCBNL was in fluctuating trend. It was 35.96%, 34.07%, 37.55%, 32.68% and 32.85% in F/Y 2060/061 to F/Y 2064/065 respectively. It was observed that the net income and equity capital amount is increasing every year. Any organization having more than 10% ROE is good so the bank has been maintaining its ROE level in very satisfactorily position. The lowest ROE over the study period was 32.68%. ROE of SCBNL were remarkable so that the profitability of SCBNL was strong and sound. It shows the management efficiency of the bank.

Figure – 22 Scatter diagram showing ROE of SCBNL



4.7.1.4.2 Calculation of Return of Assets (ROA) of SCBNL

ROA ratio is primarily an indicator of managerial efficiency. It indicates how capably the management of the bank has been converting the firm's assets into net earning. It indicates how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment" Its measure in terms of relationship between net profit and total assets. Higher ratio shows the higher return on the assets in the business thereby indicating effective use of the resources available and vice versa.

Table – 34

ROA of SCBNL

Amount in Rs. '000'

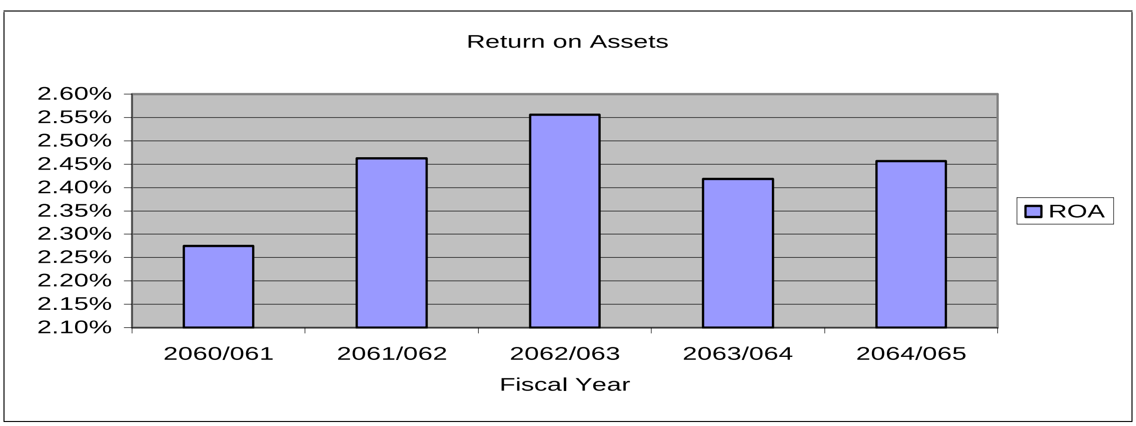
F/Y	Net Income	Total Assets	ROA
2060/061	537,800	23,642,060	2.27%
2061/062	539,204	21,893,578	2.46%
2062/063	658,756	25,776,332	2.56%
2063/064	691,668	28,596,689	2.42%
2064/065	818,921	33,335,788	2.46%

Source: SCBNL Annual Reports

From the above table, it was found that the ratio is in fluctuating trend. It was observed that the highest ROA was 2.56% in F/Y 2062/063 and the lowest ROA was 2.27% in FY 2060/061. It was 2.46% in F/Y 2061/062 and increased to 2.56% in F/Y 2062/063. It was 2.42% and 2.46% in F/Y 2063/064 and F/Y 2064/065 respectively.

The indication shows ROA level of the bank was fluctuating trend. It was not because of low profit but bank has invested its capital fund in fixed assets. The bank should invest their borrowings and deposits to income generating activities which will increase its net profit and ROA.

Figure – 23 Bar diagram showing ROA of SCBNL



4.7.1.4.3 Calculation of Earning per Share (EPS), Market Price per Share (MPS) and Price Earning (P/E) ratio of SCBNL

EPS is derived dividing net profit to numbers of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. It is a measuring tool of organizational overall performance and how far an organization is able to use its resources to generate profit. It is determined by the amount of profit it has earned. Thus, the EPS determines the market value of share; the attitude of outsides and high amount of EPS increases the goodwill of the organization. Likewise, market price of the share is the book value of per share income and price-earning ratio is MPS divided by earning per share (EPS). The higher P/E ratio, the better if is for the owners. The ratio is used to assess a firm's performance as expected by the investors. The following table shows EPS, MPS and P/E ratio of the bank for the study period.

Table – 35

EPS, MPS and P/E ratio of SCBNL

F/Y	Net Income	No. of Shares	EPS	MPS	P/E Ratio [MPS/EPS]
2060/061	537,800,000	3,746,404	143.55	1745	12.16
2061/062	539,204,050	3,746,404	143.93	2345	16.29
2062/063	658,756,000	3,746,404	175.84	3775	21.47
2063/064	691,668,000	4,132,548	167.37	5900	35.25
2064/065	818,921,000	6,207,840	131.92	6830	51.77

Source: SCBNL Annual Reports

From the above table, EPS of the bank in F/Y 2062/063 was Rs. 175.84 which was the highest among other F/Ys of the study period. It was Rs. 143.55 in F/Y 2060/061 and increased to Rs. 143.95 in F/Y 2061/062. EPS of F/Y 2062/063 was Rs. 175.84. It was increasing till F/Y 2062/063 and decreasing from F/Y 2063/064. It was decreased to Rs. 167.37 in F/Y 2063/064 and again decreased to Rs. 131.92 in F/Y 2064/065. The decrease of EPS was mainly due to the increase in number of shares every year from F/Y 2063/064.

Similarly, MPS of the bank in F/Y 2060/061 was Rs. 1,745.00. It was increasing every year. It was increased to Rs. 2,345.00 in F/Y 2061/062. It was Rs. 3,775.00, 5,900.00 and Rs. 6,830.00 in F/Y 2062/063, 2063/064 and 2064/065 respectively. The increasing in MPS was mainly due to remarkable progress of profitability, regular dividend provision and regular financial progress of the bank.

Price earning (P/E) ratio of the bank in F/Y 2060/061 was 12.16 times. It was increased to 16.29 times in F/Y 2061/062. It was increasing every year. It was increased to 21.47 times in F/Y 2062/063. The P/E ratio of F/Y 2063/064 was 35.25 times and increased to 51.77 times in F/Y 2064/065. This showed that the investment in the bank has been recognized in share market well.
The observations clearly showed that the bank has increasing the shareholders' fund by implementation of expansion of plan and budget.

4.8 Cash Flow Analysis

Cash flow shows the overall Flow of funds and sources in one chart. With the help of cash flow analysis, researcher can find out the liquidity position of the bank. 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 outflow in the bank for the period.

The cash flow table is observed hat the cash flow from operating activities was subsequently decreased to Rs. 45,234 thousand in F/Y 2064/065 from positive cash flow of Rs. 1,092,749 thousand in F/Y 2063/064. Negative cash flow in F/Y 2064/065 was due to increase in current assets and current liabilities. Current assets are increased more than 3 times than previous year. Similarly, current liabilities are increased more than 1.5 times than previous year.

The major contributors for operating cash inflow were interest income, deposit and other liabilities and outflow were interest expenses, income tax payment, other expenses and loan & bills purchased.

The cash flow from investing activities was negative Rs.747,652 thousand in F/Y 2063/064 and it reach to negative Rs. 16,662 thousand in F/Y 2064/065. Investment in fixed assets and long term investment was decreased than previous year

The cash flow from financing activities is decreased to Rs 902 thousand in F/Y 2064/065 from positive cash flow of Rs.1,150 thousand in F/Y 2063/064.

Overall cash and bank balance of the bank has been increased from Rs.2,021,021 thousand to Rs. 2,050,243 thousand in F/Y 2064/065. The bank has increased its cash balance in F/Y 2064/065 due to decrease in investment in fixed assets and long-term investment.

Table – 36

CASH FLOW STATEMENT OF SCBNL

Amount in Rs. '000'

Particulars	F/Y 2063/064	F/Y 2064/065
(A) Cash Flow From Operating Activities	**1,092,749**	**(45,234)**
1. Cash Receipts	**1,572,010**	**1,862,221**
1.1 Interest Income	1,071,701	1,295,673
1.2 Commission and Discount Income	224,164	272,068
1.3 Income from Foreign Exchange Transaction	237,104	255,436
1.4 Recovery of Loan Written off	1,020	5,867
1.5 Other Income	38,021	33,177
2. Cash Payment	**1,631,699**	**1,621,293**
2.1 Interest Expenses	397,832	474,629
2.2 Staff Expenses	200,045	223,668
2.3 Office Operating Expenses	207,528	206,769
2.4 Income Tax Payment	330,026	385,040
2.5 Other Expenses	496,268	331,187
Cash Flow before Changes in Working Capital	**(59,689)**	**240,928**
Decrease / (Increase) of Current Assets	**(1,351,802)**	**(4,364,232)**
1. Decrease / (Increase) in Money at Call and short Notice	216,120	(436,386)
2. Decrease / (Increase) in Short Term Investment	-	-
3. Decrease / (Increase) in Loan and Bill Purchase	(1,589,803)	(3,255,242)
4. Decrease / (Increase) in Other Assets	21,881	(672,604)
(Derease) / Increase of Current Liabilities	**2,504,240**	**4,078,070**
1. (Derease) / Increase in Deposits	1,585,989	5,096,978
2. (Derease) / Increase in Certificate of Deposits	-	-
3. (Derease) / Increase in Short Term Borrowings	380,417	(348,771)
4. (Derease) / Increase in Other Liabilities	537,834	(670,137)
(B) Cash Flow from Investment Activities	**(747,652)**	**(16,662)**
1. Decrease / (Increase) in Long Term Investment	(714,678)	(323,461)
2. Decrease / (Increase) in Fixed Assets	(33,230)	(14,116)
3. Interest Income from Long Term Investment	256	319,815
4. Dividend Income	-	1,100
5. Others		-
(C) Cash Flow from Financing Activities	**1,150**	**902**
1. Increase / (Decrease) in Long Term Borrowings (Bond, Debenture etc)	1,150	-
2. Increase / (Decrease) in Share Capital	-	902
3. Increase / (Decrease) in Other Liability	-	-
4. Increase / (Decrease) in Refinance / Facilities received from		-
(D) Income / Expense from Change in Exchange Rate in Cash and Bank Balance	**71,983**	**90,217**
(E) Current year's cash flow from all activities	**744,780**	**29,222**
(F) Opening Cash and Bank Balance	**1,276,241**	**2,021,021**
(G) Closing Cash Balance	**2,021,021**	**2,050,243**

Source: SCBNL Annual Reports

4.9 Major Findings

4.9.1 Resource Mobilization

- Major resource mobilization of SCBNL was deposit.
- Deposit mobilized by SCBNL was found to be considerably growing every year. Interest bearing deposit was growing rapidly every year than interest free deposit.
- Total deposit was Rs. 29,743,999 thousand in F/Y 2064/065 which was increased by 20.68%.

4.9.2 Resource Deployment

- Major area of the resources was deployed in investment.
- Investment was in increasing trend. It was reached to Rs. 13,902,819 thousand in F/Y 2064/065.
- Cash and bank balance was in fluctuating. It was reached to Rs. 2,050,243 thousand in F/Y 2064/065.
- LABP was in increasing trend over the study period. It was increased by 30.62% and reached to Rs.13,718,597 thousand in F/Y 2064/065.
- CD ratio (credit to deposit ratio, ratio of LABP on total deposit expressed in percentage) of the bank was high. The average CD ratio of the bank. The average CD ratio of the bank for the study period was 39.98%.

4.9.3 Expenditure

- Interest expenses amount were the highest among the total expenses of the bank. In F/Y 2064/065, it was 31.48% of total expenses.
- Interest expenses of the bank were increasing trend every year. Interest expenses were perfectly correlated with deposit.
- Cost of deposit (Calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year and expressed in percentage)

of the bank was increasing trend but the bank has maintained lower CoD. It was 1.59% only in F/Y 2064/065.

- Amount of other expenses of the bank were fluctuating trend every year but the proportion on total expenses was decreasing trend.
- Provision for doubtful debt to LABP ratio was 0.51% in F/Y 2064/065. It was because of granting good loan.

4.9.4 Revenue

- Interest income was the highest among the others in total revenue. It was 70.80% in F/Y 2064/065.
- The amount of interest was increasing trend every year corresponding to increase in LABP. There is perfect correlation between interest income and LABP.
- The average YOL was 15.92% over the study period.
- Interest spread was in increasing trend but net burden was in fluctuating trend.
- Net profit of the bank was positive and increasing trend over the study period. In F/Y 2064/065, its growth was 15.29%.

4.9.5 Performance Evaluation

Ratio Analysis

- Liquidity ratio of the bank was 1.8:1 in F/Y 2064/065. The bank had able to maintain standard ratio till F/Y 2063/064 over the study period.
- Debt to equity ratio of the bank was 11.93% in F/Y 2064/065. The bank had maintained its debt to equity ratio as per NRB guideline.
- Interest coverage ratio of the bank was higher than 1, which is satisfactory. It was 3.53 times in F/Y 2064/065.

- No. of employee of SCBNL was increasing trend. Deposit per employee and LDO per employee were also increasing trend. It shows that the work efficiency was increased.
- ROE of SCBNL was 32.85% in F/Y 2064/065. It was remarkable and it's only because of management efficiency.
- ROA of the bank was 2.46% in F/Y 2064/065. The bank has deployed most of the fund in non business and fixed assets. Therefore, ROA of the bank was low.
- EPS, MPS, PE ratio are increasing trend over the study period. It has Rs.131.92 per share income in F/Y 2064/065 and P/E ratio is 51.77 times. It was because of remarkable progress and goodwill of the bank.

Cash Flow

- Cash flow analysis of the bank shows source of cash inflow are adequately met by the bank for the cash outflow.
- Deposit mobilization is the major contributor of the bank in cash inflow.
- Loan, Advance and Bills Purchase is the major cash outflow of the bank.

CHAPTER – 5

SUMMARY, CONCLUSION AND RECOMMENDRATIONS

5.1 Summary

Nepal is arguing to achieve economic prosperity though rich in natural resources, such resources for the economic progress of the country then to its poor economic condition. Its per capita income is only $383 according to the 2006/07 (CBS) that Nepal still belongs to the groups of the least development country. Due to recession, the economic growth is not increasing. Political instability, strikes, bandas, shortage of fuel, food, raw material, insecurity of public, higher rate of transportation, power cut of electricity, labor hike, higher rate of wages etc largely impact negatively in the development of industries, banks etc. In this time of insurgency, it is very hard to run a business and cope with these types of challenges.

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

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

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

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution has to plan for the reasonable profit earnings. Profit planning is the planning of activities in such way that it helps in increasing the income at a minimum possible cost or at optimum cost. PPC can be used an effective remedy for the organization running in loss and maintain same or high level profit. It is combination of various financial and physical techniques, which not only helps on increasing profit but also to reduce unnecessary cost and utilize the expenses in the best manner. This study aims at examining the application of profit planning in a commercial bank, with a specific case study of Standard Chartered Bank Nepal Limited.

Standard Chartered Bank Nepal Limited is also one of the leading commercial banks of Nepal. It is Nepal’s largest international bank currently operating in Nepal since 1987. 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.

This study has tried to cover the various aspects of profit planning in the bank from the time of fiscal year 2060/61 to the end of fiscal year 2064/65. In the first introductory chapter, this study report has tried to give brief introduction of banking and its relation to the economy, brief history of banking in Nepal, brief profile of the concerned bank, general concepts to profit and comprehensive planning, the problem statement, objective of the study ant its scope, limitation and significance.

During the research works, an extensive review of various literatures, books, past thesis, journals have been made and internet materials from relevant websites were also consulted. The work was complied into “review of literature” chapter.

Research methodology followed for this research work is mentioned in the chapter three entitled as “Research Methodology”. Likewise, Data relating to various activities of the bank has been collected, presented in tabular and various diagram form and are tired to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, mathematical and statistical tools have been listed in a systematic manner. All these works are compiled in the fourth chapter titled as “Data Presentation and Analysis” of the study.

Finally, the summary and the recommendation are made for this study is hereby being presented in this chapter five titled as “Summary, Conclusion and Recommendations”

Conclusion

Economical development plays the significant role for the countries overall development. In the Nepalese prospective since the establishment of financial institution have played progressive role for the economical development of the country. So far commercial banks have been proved as prime movers of the economical development in Nepalese scenario. But as a developing country Nepal need to strengthen its economical structure to achieve rapid overall development due to the problems of fund mobilization and investment. Similarly, Nepalese banks are still stuck to traditional approaches for fund utilization and management.

Studying the available data, it can be concluded that major concentration of resource mobilization of the bank is deposit collection. Deposit collection of the bank is satisfactorily good but mobilization of resources other than deposit is not good. Likewise, resource deployment for non yielding liquid assets was in fluctuating trend each year. Major portion of resources are deployed in investments and LABP. Interest income is the main contributor of the income sources. Likewise, interest expenses are the major portion of the expenses. Cost of deposit of the bank is found to be increasing trend but the bank has maintained lower CoD. Other expenses other than operating expenses were increasing trend every year. Other source of income other than other income is also increasing trend. Interest spread is to be increasing trend each year and net profit of the bank was increasing trend over the study period. Most of the correlation shows positive correlation. SCBNL is able to maintain proper coordination between goals, objective and strategies. There is proper application of PPC system.

Recommendations

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

1. From the study it seems that SCBNL has been focusing in the urban side of the country. So, it should focus on rural areas too for development of the nation.
2. Corporate Social Responsibility should be maintained very seriously because it has responsibility to change the environment around it survives.
3. The bank should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level.
4. The Standard Chartered Bank Nepal Limited should follow the process of profit plan to increase its efficiency and to increase its profitability position.

Making profit plan means making further plan for income, expenses and profit etc. This will help the bank to increase profit, income and reduce expenses.

5. The bank should reduce its expenses (such as interest expenses, staff expenses, provision for doubtful debt). These expenses are increasing yearly which is not favorable for the bank.
6. The bank should make effort to collect non interest bearing deposit. The bank should make effort to utilize the available resources effectively and implement cost effectiveness technique to reduce operating expenses. It must utilize effectively its human resources to reduce its staff expenses. Decrease in expenses will increase net profit of the bank.
7. The bank should increase its interest income as well as non interest income. The bank should mobilize its fund properly to increase income.
8. The bank has able to maintain lower provision for doubtful debt to total LABP over the study period. It is suggested to maintain the same level. The bank should evaluate the project before flow the loan and granting the loan on secured projects.
9. Investment is the safe sector to utilize the fund. It does not increase any losses. The bank should increase investment activities and should invest in profitable sectors. The bank should invest on industrial sector and hydropower sector, which really helps to develop the nation.

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Annex 1

F/Y	Actual Deposit (x)	Actual O/S LABP (y)	X-mean of X=x	Y-Mean of Y=y	x2	y2
2060/061	21,161,442	6,410,242	(2,428,276)	(3,131,778)	5,896,523,360,866	9,808,035,946,707
2061/062	19,335,095	8,143,208	(4,254,623)	(1,398,812)	18,101,815,170,280	1,956,676,130,394
2062/063	23,061,032	8,935,418	(528,686)	(606,602)	279,508,675,122	367,966,471,686
2063/064	24,647,021	10,502,637	1,057,303	960,617	1,117,890,056,730	922,784,252,196
2064/065	29,743,999	13,718,597	6,154,281	4,176,577	37,875,177,088,673	17,443,792,095,668
Total	117,948,589	47,710,102	-	-	63,270,914,351,671	30,499,254,896,649

Arithmetic mean of x ∑X/N = 117948589/5 23,589,718
whereas N=no. of fiscal year

Standard Deviation of X = √(∑X2/N) = √(63270914351670/5) = 3,977,151

Coefficient of Variance of X = Standard deviation of X/Mean of X 3,977,150 / 23,589,717 = 0.1686

Arithmetic mean of y ∑Y/N = 117948589/5 9,542,020
whereas N=no. of fiscal year

Standard Deviation of Y = √(∑Y2/N) = √(30499254896649/5) = 2761307

Coefficient of Variance of Y = Standard deviation of Y/Mean of Y = 2,761,307 / 9,542,020 = 0.2894
r = 0.924
PE = 0.0441

Note : Correlation of Coefficent, Probable Error is calculated by using computer swotware.

Annex 2

F/Y	Actual Deposit (x)	Interest Expenses (y)	X-mean of X=x	Y-Mean of Y=y	x2	y2
2060/061	15,141,321	275,809	(2,901,669)	(67,775)	8,419,684,146,229	4,593,423,515
2061/062	14,742,178	254,127	(3,300,812)	(89,457)	10,895,361,179,669	8,002,519,066
2062/063	17,869,673	303,198	(173,317)	(40,386)	30,038,851,816	1,631,012,842
2063/064	19,366,385	413,055	1,323,395	69,471	1,751,373,796,667	4,826,247,629
2064/065	23,095,394	471,730	5,052,404	128,146	25,526,784,158,254	16,421,448,574
Total	90,214,951	1,717,919	-	-	46,623,242,132,635	35,474,651,627

Arithmetic mean of x ? X/N = 90214951 / 5 18,042,990
whereas N=no. of fiscal year

Standard Deviation of X = ?(? X2/N) = ?(46623242132634/5) = 3,414,061

Coefficient of Variance of X = Standard deviation of X/Mean of X 3,414,061/ 18,042,990 0.1892

Arithmetic mean of y ? Y/N = 1717919 / 5 343,584
whereas N=no. of fiscal year

Standard Deviation of Y = ?(? Y2/N) = ?(35474651627/5) = 94174

Coefficient of Variance of Y = Standard deviation of Y/Mean of Y = 2,761,307 / 9,542,020 0.2741
r = 0.963
PE = 0.0219

Note : Correlation of Coefficent, Probable Error is calculated by using computer swotware.

Annex 3

F/Y	Total LABP (x)	Interest Income (y)	X-mean of X=x	Y-Mean of Y=y	x2	y2
2060/061	6,410,242	1,241,124	(3,131,778)	(238,472)	9,808,035,946,707	56,868,990,173
2061/062	8,143,208	1,243,508	(1,398,812)	(236,088)	1,956,676,130,394	55,737,638,179
2062/063	8,935,418	1,412,532	(606,602)	(67,064)	367,966,471,686	4,497,606,922
2063/064	10,502,637	1,633,189	960,617	153,593	922,784,252,196	23,590,748,212
2064/065	13,718,597	1,867,628	4,176,577	388,032	17,443,792,095,668	150,568,677,811
Total	47,710,102	7,397,981	-	-	30,499,254,896,649	291,263,661,297

Arithmetic mean of x ? X/N = 47710102 / 5 9,542,020
whereas N=no. of fiscal year

Standard Deviation of X = ?(? X2/N) = ?(30499254896649/5) = 2,761,307

Coefficient of Variance of X = Standard deviation of X/Mean of X 2761307/ 9542020 0.2894

Arithmetic mean of y ? Y/N = 7397981 / 5 1,479,596
whereas N=no. of fiscal year

Standard Deviation of Y = ?(? Y2/N) = ?(291263661297/5) = 269,844

Coefficient of Variance of Y = Standard deviation of Y/Mean of Y = 269844 / 1479596 0.1824
r = 0.968
PE = 0.019

Note : Correlation of Coefficent, Probable Error is calculated by using computer swotware.

Annex 4
Standard Chartered Bank Nepal Limited
Comparative Balance Sheet
2060/061 to 2064/065

Amount in Rs. '000'

Particulars	**2060/061**	**2061/062**	**2062/063**	**2063/064**	**2064/065**
Assets					
Cash & Bank Balances	2,023,164	1,111,117	1,276,241	2,021,021	2,050,243
Money at call and short Notice	2,218,600	2,259,691	1,977,271	1,761,152	2,197,538
Investments	11,360,328	9,702,553	12,838,555	13,553,233	13,902,819
Loan Advances & Bills Purchased	6,410,242	8,143,208	8,935,418	10,502,637	13,718,597
Fixed Assets	136,234	71,413	101,302	125,591	117,272
Other Assets	1,493,492	493,697	638,565	633,055	1,349,319
Total Assets	**23,642,060**	**21,781,679**	**25,767,352**	**28,596,689**	**33,335,788**
Liabilities					
Share Capital	374,640	374,640	374,640	413,255	620,784
Reserves and Funds	1,121,099	1,207,775	1,379,498	1,703,098	1,871,764
Debentures and Bonds	-	-	-	-	-
Loans and Borrowings	78,283	27,551	-	400,000	-
Deposit Liabilities	21,161,442	19,363,470	23,061,032	24,647,021	29,743,999
Bills Payable	59,025	56,298	55,751	36,168	87,397
Proposed and Unpaid Dividend	-	461,338	499,980	341,744	506,367
Income Tax Liabilities	-	-	-	5,599	2,051
Other Liabilities	847,571	290,607	396,451	1,049,804	503,426
Total Liabilities	**23,642,060**	**21,781,679**	**25,767,352**	**28,596,689**	**33,335,788**

Annex 5
Standard Chartered Bank Nepal Limited
Comparative Profit And Loss Account

2060/061 to 2064/065

Amount in Rs. '000'

Particulars	2060/061	2061/062	2062/063	2063/064	2064/065
Interest Income	1,042,176	1,058,678	1,189,603	1,411,982	1,591,196
Interest Expenses	275,809	254,127	303,198	413,055	471,730
Net Interest Income	**766,366**	**804,551**	**886,405**	**998,927**	**1,119,466**
Commission and Discount	198,948	178,651	222,929	221,207	276,432
Other Operating Income	26,531	29,293	25,442	28,785	32,594
Exchange Fluctuation Incomes	273,050	273,044	283,472	309,087	345,653
Total Operating Income	**1,264,895**	**1,285,539**	**1,418,248**	**1,558,006**	**1,774,145**
Staff Expenses	134,685	148,586	168,231	199,778	225,256
Other Operating Expenses	279,694	256,649	221,087	228,451	230,571
Exchange Fluctuation Loss	-	-	-	-	-
Operating Profit Before Provision for Posible Loss	**850,516**	**880,304**	**1,028,930**	**1,129,777**	**1,318,318**
Provision for Possible Loss	23,516	27,726	47,730	36,809	69,886
Operating Profit	**827,000**	**852,578**	**981,200**	**1,092,968**	**1,248,432**
Non-Operating Income/ (Loss)	(10,756)	2,957	1,433	9,492	1,683
Provision for Possible Loss Written Back	43,303	33,685	53,090	20,160	90,635
Profit from Ordinary Activities	**859,547**	**889,220**	**1,035,723**	**1,122,620**	**1,340,750**
Income/(Expenses from Extra Ordinary Activities	-	(2,389)	(2,411)	(4,915)	(29,040)
Net Profit after considering all activities	**859,547**	**886,831**	**1,033,312**	**1,117,705**	**1,311,710**
Provision for Staff Bonus	85,955	88,683	93,937	101,610	119,337
Provision for Income Tax	235,792	261,903	280,619	324,427	374,452
Net Profit/Loss	**537,800**	**536,245**	**658,756**	**691,668**	**817,921**