CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal is surrounded by India to East, West and South, and China to the North. Nepal is located between the latitude 26°22’ North to 32°27’ South and longitude 80°4’ East and 88°12’ West. The average length being 885 km from East to West and average breadth is about 193km from North to South and the total area is 147,181 sq. km.

Nepal is one of the developing countries in the world. The greatest disadvantage for the country is that it is landlocked. Though Nepal is small in size it is a world in itself. It consists of geographical features, climates, vegetations, etc. The highest peak Mt. Everest to deepest Arun Valley also lays here. The highest human habitation in world is also found in Nepal. They live in more than 4000m above sea level. The development of a country mainly depend upon the economic condition of the people, utilization of natural resources like water, soil, forest, minerals and other aspects of development . Nepal is directing her efforts in accelerating the pace of economic development. People are mainly depended in different occupation but the economy of Nepal is mainly survived by agriculture sector. Over 80% of the population is dependent on agriculture. Thus, we can say that the economy of Nepal is survived by agricultural sector which contributes over 60% to the GDP [Gross Domestic Product] of the country.

Even the social indicators such as literacy, life expectancy, access to safe drinking water health and sanitation are still far below the levels in other developing countries. The infant mortality is one of the highest and malnutrition and immunization rates are among the worst. The development indicators are very low for the rest majority of the people and are extremely low for the poor and destitute (Shrestha, 2000: 15).

Hence, the major contribution of government of Nepal has been the development and advancement of the agricultural sector. Along with it industrial sector and tourism sector can also be expected to play a vital role in overall development of the country. And it is possible when there is sufficient financial support available which tends to the importance to financial institutions.

The establishment of Agricultural Development Bank has provided the support to farmers to raise the required capital. Various programs like micro finance programs, co-operative programs have been introduced in various villages of Nepal. However, there has always been scarcity of finance in this sector.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects in this sector, which deals in the process of channelizing the available resources in the needed sectors. Commercial banks are the intermediary between the deficit and surplus of financial resources. Commercial banks facilitates in overall development of the economy, with major thrust in industrial development. Commercial banks came into existence mainly with the objective of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development with effective planning.

Capital is one of the most important components for an organization. Every organization started with zero position and only come into existence when the promoters, owners or shareholders finance on it as capital. They should have enough capital to run business. Hence; commercial banks are one of the major financer for business house. After the restoration of multiparty democracy, several commercial banks made a way to business in Nepal. At present, commercial bank holds a large share of economic activities of the country. Commercial banks induced the savers to hold their savings in the form of deposits, bringing the scattered resources in to the organized banking sector which can be allocated to the different economic activities.

Along with the hold of savings and bringing the scattered resources for allocating different economic activities, the best utilization of these resources must be focused for achieving its goal effectively and efficiently. Profits are the primary requirement for the success or failure of any business and render reliable service to its customers. To achieve profit a good organizational management is required termed as planning. Planning is the process of developing enterprises objectives and selecting future courses of action to accomplish them whose main objective is to increase the chance of making profit. Thus, profit planning is a comprehensive plan expressed in financial terms by which an operating program can be made effective for a given period of time. It is a tool of direction, co-ordination and control and as such it is the most important administrative device for these purposes.

As like in the other profit oriented business organizations, a commercial bank has also to make reasonable profit for its survival. Most of the commercial banks are formed as a company with joint stock and the shares being traded at stock exchanges. Therefore profit made by them has also remained as one of the vital parameter for measurement of the efficiency of these banks.

1.2 Evolution of Commercial Bank

The organization of term 'Bank' is under dispute among the economist. According to some authorities, the work 'Bank' is derived from the word 'Banco', 'Bancus' or 'Basque' all meaning to a bench. This refers that early bankers transacted their money lending activities on benches in the marketplace exhibiting the coins of different countries in different denomination for the purpose of changing and or lending money. Some writer opinions that the word 'Bank' came from the German word 'Banc' meaning Joint stock fund (Varshney, 1993: 25).

In its native form, banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 BC, the famous temples of Ephesus, Delhi and Olympia were use as depositories for peoples surplus fund and these temples were the centers for money lending transactions. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religion belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of venice, founded in 1157 A.D, was the first public banking institution. Following this, in 14th century the bank of Barcelona and the Bank of Genoa were established in 1401 A.D and 1407 A.D. respectively (Vaish, 1996:36).

In England, start of banking can be accounted for as for back as the religion of Edward iii. Those days, the Royal Exchanger used to exchange the various coins in to British money and also used to supply foreign money to the British men going out of the country. The banks of Lombard were famous in medieval Europe as the credit of planning the seed of modern banking in England goes to them when they settled in London in the locally now famous as the Lombard street.
The goldsmiths can be considered as the initial bankers in England as they used to keep strong rooms with watchman employed. People entrusted their cash to them. The goldsmiths use to issue duly, signed receipt of the deposits with the understanding to return the money on demand charging some fee for safekeeping.

These undertaking helped in gaining a further confidence of the public therefore, the money were kept with them for linger periods. They were thereby encouraged to lend some part of these funds, which became profitable business to them.

Therefore, they started offering interest on the deposits to attract more funds. In the course of time independent banking concerned was setup. The bank of England was established in 1694, under a special Royal charter. Further in 1833 legislative sanction was granted for establishment of Joint stock banks in London, which served as a big impetus to the development of joint stock banking (Vaish, 1996: 55-56). These banks took the initiative of extending current account facilities and also introduced the facilities of withdrawals through cheques.

In India, the ancient Hindu scriptures refer to the money lending activities in the vedic period. During the Ramayana and Mahabharat eras, banking had become a full-fledged business activities and during the smriti period (after the vedic period). The members of valish community carried on the business of banking; the great lawgiver of the time speaks of the earning of interest as the business of vishyas. The bankers in the smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposit, granting loans, acting as the treasurer, granting loans to the king in times of grave crises and bankers to the state and issuing and managing the currency of the country (Vaish, 1996: 58-69).

In Nepal although the monetary history dates back to 1st century (Lichhavi Dynasty), the banking history is comparatively very short. The development of organized banking has started in Nepal only from around the starting of 20th century of Bikram Sambat of Nepal Bank Limited established in B.S. 1994 with an authorized capital of Rs 1crore and paidup capital fo Rs1 lac 42 thousand is the first organized bank established in Nepal (NRB 2045).

Although during the prime minister-ship of Rana Prime Minister Ranodwip Singh an office called Tejarath Adda was established for granting loans to government officials and also to the general public against the security of gold, silver and other valuable. It couldn't be considered as bank in real sense as, if did not collect deposit later after establishment of Nepal Bank, the functions of Tejarath Adda were limited up to providing loans to government officials only (NRB, 2045).

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

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

Similarly, in the year 2042 B.S. second Joint venture bank, Nepal indosuet bank, and in the year 2043B.S. third joint venture bank, Nepal Grindlays bank (currently known as Standard Chartered Bank) were established (NRB 2045).

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

1.3 Commercial Bank as a Concept

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

Meaning of Bank in oxford Dictionary says an establishment for keeping money and valuable safety, the money being paid out on the customer's order(by means of cheques) (Hornby, 1992: 71).

The Random House Dictionary of an English Language defines the bank as 'an institution for receiving money and in some cases issuing notes and translating other financial business' (Stein & Undang 1985: 115-116).

Banks refer to an institution, and which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they arenot merely purveyor of money, but creator or manufacturer of money in the system (Vanish, Maclead) in this book theory of credit' has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit (Maclead, 1983: 111).

In the option of Sayers, Banks are the institutions whose debts usually are referred to as bank deposit and are commonly acceptable in Final settlement of other people's debt as the debt (Sayers, 1967). He has taken the bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the bank to the extent of his deposit amount.

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

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

- Should not establish with a specified objective of co-operative, agricultural, industrial or cony of such kind of specific purpose.
- Should accept customer deposit.
- Should advance loans and make investments.
- Perform commercial transactions.

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

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

1.4 Joint Venture Banks

"When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture" (Jauch & Glueck,1988: 232).

"A joint venture, an association of two or more individuals or parties having exceptional advantages in a specific operation, is undertaken to make the operation highly remunerative with their collective efforts" (Gupta, 1984:15).

"A joint venture is the joining of forces between tow or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial investment, production and trade)."

Functionally, JVBs offer the same services as commercial banks. The primary difference lies in the fact that JVBs are operated in collaboration between two or more banks in order to take the benefit of new methods and technologies possessed by other banks. They are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment schemes between Nepalese and foreign individuals or institutions. In such a case, Nepalese financial and non-financial institution as well as private investors and their parent bank each supply 50% of total investment. JVBs are formed in Nepal as full fledged commercial bank under the Economy Act, 2021 BS and operated under the Banijya Bank Act, 2032 BS.

From the establishment of first commercial bank in Nepal in 1994 BS, the banking sector has grown significantly. Nepal has witnessed a phenomenal growth in the last two decades. In 1980 AD, the government introduced '*Financial Sector Reforms'* and Nepal allowed the entry of foreign banks as joint ventures with up to a maximum of 50% equity participation. A meaningful step towards financial liberalization was undertaken in the year 1987/88 AD, with the objective of expediting the process of economic development under structural adjustments program and major reforms including liberalization of interest rate, strengthening of banking operation from direct to indirect monetary control instruments.

As of 2003 AD, there were 17 commercial banks in the country. Out of these, the number of JVBs in Nepal is listed below:

Table 1.1

Joint Venture Banks in Nepal

S.N.	Joint Venture Banks	Foreign Partner Banks	Date of Establishment (B.S.)	Date of Operation (B.S.)	Head Office
1	Bank of Kathmandu Ltd.*		2051/11/28	2051/11/28	Kathmandu
2	Everest Bank Ltd.	Punjab National Bank, India	2051/07/01	2051/07/01	Kathmandu
3	Himalayan Bank Ltd.	Habib Bank, Pakistan	2049/10/05	2049/10/05	Kathmandu
4	NABIL Bank Ltd.	National Bank Ltd., Bangladesh	2041/03/29	2041/03/29	Kathmandu
5	Nepal Bangladesh Bank Ltd.	IFIC Bank, Banglaesh	2050/02/23	2050/02/23	Kathmandu
6	Nepal Credit and Commerce Bank Ltd. (formerly Nepal Bank of Ceylon Ltd.)	Bank of Ceylon, Sri Lanka	2053/06/28	2053/06/28	Siddhartha-nagar
7	Nepal Investment Bank Ltd.* (formerly Nepal Indo-suez Bank Ltd.)		2042/11/16	2042/11/16	Kathmandu
8	Nepal SBI Bank Ltd.	State Bank of India, India	2050/03/23	2050/03/23	Kathmandu
9	Standard Chartered Bank Nepal Ltd. (formerly Nepal Grindlays Bank)		2043/10/16	2043/10/16	Kathmandu

Source: Banking and Financial Statistics, NRB

*= Presently Privately Owned

1.5 Focus of the Study

The study will be based on the profit planning of the commercial bank, i.e; Standard Chartered Bank. By the end of the FY 2064/65, there are total 25 commercial banks in Nepal and few of them are still on the pipeline. Keeping in view of the striving commercial banks, the thesis report, as case study, will analyze the matters, issues and problems related to profit planning of Standard Chartered Bank.

1.6 Introduction of Standard Chartered Bank

The Standard Chartered Group was formed in 1969 through a merger of two banks: The Standard Bank of British South Africa founded in 1863 and the Chartered Bank of India, Australia and China, founded in 1853. From the early 1990s, Standard Chartered has focused on developing its strong franchises in Asia, the Middle East and Africa using its operations in the United Kingdom and North America to provide customers with a bridge between these markets. Secondly, it would focus on consumer, corporate and institutional banking and on the provision of treasury services - areas in which the Group had particular strength and expertise.

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

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 17 points of representation, 18 ATMs across the country and with more than 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

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

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.

1.6.1 General Activities of SC Bank

As like in other business concerns, commercial banks are also very much connected about making profit because profit is the major elements of each and every business endeavour for their survival, further development and fulfilling social expectations. In modern business the effectiveness and efficiency of the business organizations and or their management are measured from the profit earned by them.

Banks deal with money and perform several financial, monitory and economic activities that are essential for economic development of a country. It is a service industry therefore its profit plans are of a different format than those in manufacturing units. Unlike the manufacturing unit, a bank has resources mobilization and deployment plan and it aims at maximizing the profit out of their activities.

Standard Chartered Bank being a commercial bank and also a business concern, performs various kind profitable business activities.

General Activities (Main Products Services)

Consumer Bank

i. Account in local & foreign currency
ii. Fund transfer services-local & international
iii. Credit cord services-issuance & Acceptance
iv. 24 hours ATM service
v. Safe deposit lockers
vi. Foreign exchange services
vii. Consumer finance-auto loan personal loans, home loan
viii. X-tra banking-365 days banking from kantipath branch

Corporate & Institutional bank

i. Trade finance
ii. Bonding
iii. Commercial lending(working capital)
iv. Term lending
v. Debt syndication
vi. Electronic banking
vii. Cash management

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

i. Account opening
ii. Cheque withdrawal
iii. Cheque cash deposit
iv. Traveller cheque issuance & encashment

v. Cheque books statement order/delivery
vi. Draft issuance
vii. Foreign currency exchange

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

1.7 The Management

1.7.1 Board of Directors

There have been a few changes to the board of directors in the fiscal year 2007/08. The directors serving SC Bank Nepal ltd namely, Mr. Jaspal Bindra and Mr. Santanu Mitra were replaced by Mr. Anurag Adlakha and Mr. Sushen Jhingan as chosen by Standard Chartered Grindlays, Australia in February, 2008.

Niranjan Kumar Twidewala completing the working period serving as the Director representing Public Shareholders handover his position to Mr. Arjun Bandhu Regmi in December, 2007 to provide the service for ncxt 4 working years.

The board members unanimously thank all the out joins directors for their valuable contribution to the successful operation of the bank and welcome the new directors to the board. Thus, there are 6 Board of Directors serving in SC Bank Nepal Ltd.

➢ Neeraj Swaroop	Chairman
➢ Sujit Mundul	Chief Executive Officer
➢ Anurag Adlakha	Director
➢ Sushen Jhingan	Director
➢ Ram Bahadur Aryal	Independent Director
➢ Arjun Bandhu Regmi	Director representing Public Shareholder

1.7.2 Human Resource

The bank recognizes that the most important factor for the success of the bank is its people. Hence to keep its competition edge the bank rewards them and invests in them appropriately. To maintain its competitive edge the bank puts on training staff a great emphasis. To improve the skills and knowledge of staff, the bank continues to provide development programs. Other than the various on the job training programs, a total of 57 management team were selected for upper management programme.

As at 15th July, 2008 the full time equivalent staff in the bank totalled 377 as compared to 351 of 16th July 2007. In this date staff working more than 20 years, 15 years and 10 years are 14, 85 and 29 appropriately. The bank has presently approximation of male to female staff is 61:39. In this fiscal year, a new joiner has doubled to 58 staffs as compared to last year 26.

1.8 Branch and ATM sites of SC Bank

1.8.1 Branches of SC Bank

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

1. Bhairahawa

PO Box 14, Budha Chowk Colony

Burmeli Tole, Bhairahawa, Siddhartha Nagar

Tel. 977-71-524029,524429

Fax. 977-71-524039

2. Biratnagar

PO Box 201 Main Road

Tel. 977-21-528983

Fax. 977-21-528983

3. Butwal

Milan Chowk

Rupendehi, Nepal

Tel. 977-71-546832

Fax. 977-71-546882

4. Dharan

Panna Kamala Complex

Ward No 7/100ka, Buddha Marga

Dharan-7, Sunsari, Nepal

Tel. 977-25-520505,530980

Fax. 977-25-530981

5. Head Office

PO Box 3990

New Baneshwor, Kathmandu, Nepal

Tel. 977-1-4782333, 4783753

Fax. 977-1-4780762

6. Hetauda

Bank Road, Hetauda-4

Makwanpur, Nepal

Tel. 977-57-523019, 524972

Fax. 977-57-525695

7. Lalitpur

PO Box 3990

Jawalakhel, Lalitpur, Nepal

Tel. 977-1-5540544,540566

Fax. 977-1-5523266

8. Lazimpath

PO Box 3990

Lazimpath, Kathmandu, Nepal

Tel. 977-1-4418456, 4417428

Fax. 977-1-4417428

9. Nepalgunj

Surkhet Road, Ward No. 13

Nepalgunj Banke, Nepal

Tel. 977-81-525514, 520022

Fax. 977-81-525515

10. Pokhara, Lakeside

PO Box 8

Lakeside Baidam, Pokhara, Nepal

Tel. 977-61-462102, 462805, 461746

Fax. 977-61-462318

11. Pokhara, New Road

PO Box 08, Pokhara, Nepal

Tel. 977-61-536230, 523875, 523876

Fax. 977-61-531761

12. Birgunj

Adarsha Negar-13

Birgung, Nepal

(Source: Annual Report 2007/08)

1.8.2 ATM Sites of SC Bank

Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network by representing 17 ATMS across the country. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. The ATM sites are as follows-

- Dharan -Koirala Institute of Health Science
- Boudha, Kathmandu -Boudha, Near Boudhanath Stupa
- Jawalakhel, Lalitpur -Standard Chartered Bank Nepal Ltd
- Kamladi, Kathmandu -Kashtamandap Departmental Store
- Lakeside, Pokhara -Hotel Snowland, Lakeside, Pokhara
- Lazimpath, Kathmandu -Standard Chartered Bank Nepal Ltd
- Maharajgunj ATM -Shubham Departmental Store
- Mangal Bazar, Patan -Patan, Mangal Bazar, Lalitpur, Nepal
- Naya Baneshwor, Kathmandu -Standard Chartered Bank Nepal Ltd
- New Road, Pokhara -New Road, Pokhara, Nepal
- New Road, Kathmandu -Bishal Bazar, New Road, Kathmandu
- Pulchowk, Lalitpur -Near UNDP Complex, Lalitpur, Nepal
- Thamel, Kathmandu -Arcadia Building, YinYang Restaurant
- Thamel, Kathmandu -Kathmandu Guest House
- World Trade Centre, Ktm -World Trade Centre, Tripureshwor
- Bhairahawa, Siddhartha Nagar -Hotel Pawan Building
- SCBNL Building -Lakeside, Pokhara

(Source: Annual Report 2007/08)

1.9 Community Work/Award Recognition/Achievements of SC Bank

1.9.1 Community Work

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

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

1.9.2 Award, Recognition and Achievements

- 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)

1.10 Board Objectives and Goals of SC Bank

SC bank has defined its objectives and goals in its mission an vision statement, which states as follows:

i) Vision

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

ii) Mission

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

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

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

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

iii) Corporate Philosophy of SC Bank

The Bank has been able to capitalize on opportunities presented by international trade transactions undertaken by State owned enterprises. Bringing in the expertise of the Standard Chartered Group in international trade, we have been able to provide a structured solution to facilitate the sugar export of 9000 metric tones to European union from Nepal, a deal of national importance. An innovative forfeiting transaction has been structured to facilitate import of capital equipments on deferred payment terms in the growing telecom sector. Amongst new products launched in the market, Quick Collections Services, Chequewriter have received a good response owing to their added convenience and efficiency to our corporate customers' banking needs.

Despite a challenging business environment, we have been able to maintain revenues from this segment without a rise in the provisioning requirement on non-performing assets. The Bank has been successful in nurturing a healthy risk asset portfolio with relentless efforts on maintaining sound credit quality.

1.11 Future Plans of Standard Chartered Bank Nepal Ltd.

The paradigm of prudent banking under the current circumstances dictates us to maintain the strong capital adequacy and liquidity position inherent in your Bank's balance sheet to provide the capacity and flexibility to address potential strains that the economy may undergo in the days ahead. Moreover, the capacity will make your Bank better equipped to take advantage of good credit opportunities when the economy starts reviving.

Our main objective in the near term would be to protect our revenue lines by providing in the near term would be to protect our revenue lines by providing solutions to our customers through value added and structured products at competitive pricing.

In line with our brand promise to be The Right Partner, we believe that service will be a differentiator for us to maintain our competitive edge in an increasingly competitive banking industry. For this to build our service culture and processes we will continue to drive our Out serve initiative in a focused manner.

We will continue to invest in our people, processes and systems so as to improve our quality of service for customer delight. For our communities we will endeavor to make a real difference with longer-term projects in this area. We will consciously drive and maintain our high level of governance. For our shareholders we shall drive to continue providing them with superior returns.

1.12 Dividend Bonus Condition of SC Bank Nepal Ltd.

The 241st board hereby recommends that at end of fiscal year 2007/08 per share 80% of cash bonus will be provided and with two shares one share bonus will be facilitated.

1.13 Significant Accounting Policies of SC Bank

i. Basis of Preparation

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

ii. Interest Income

Interest income on loans and advances is recognized on cash basis as per the directive issued by Nepal Rastra Bank, which is not in accordance with Nepal Accounting Standards. Interest income on investments is recognized on accrual basis.

iii. Commission Income

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

iv. Foreign Exchange Transactions

Assets and liabilities denominated in foreign currencies are translated at mid-point exchange rates ruling at the Balance Sheet date. Income realized from the difference between buying and selling rates of foreign currencies is accounted for as trading gains. Net translation differences arising from the translation of foreign currency assets and liabilities is accounted for as revaluation gain. In conformity with the Directives of the Central Bank, 25% of the total revaluation gain amounting is transferred to Exchange Fluctuation Reserve by debit to Profit and Loss Appropriation Account.

v. Interest Expense

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

vi. Loans and Advances, Overdraft and Bills Purchased

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

vii. Staff Loans

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

viii. Loan Loss Provision

Provision for possible losses has been made to cover doubtful loans and advances, overdraft and bills purchased. The level of loan provision is determined from 1%

to 100% on the basis of classification of loans and advances, overdrafts and bills purchased in accordance with the directives of the Central Bank. Further, additional provisions for possible losses have been made as per the directives issued by Central Bank for the blacklisted/restructured customers.

ix. Investments

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

x. Fixed Assets

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

xi. Non-capitalized Assets

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

xii. Depreciation

Assets other than freehold land are depreciated at rates based upon their expected useful lives, using the straight line method. Costs on improvements and renovation of leasehold premises are depreciated over the remaining period of the lease.

xiii. Software Costs

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

xiv. Retirement Benefits

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

xv. Stationery

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

xvi. Provision for Taxation

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

xvii. Rounding off/previous year figures

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

1.14 Statement of the Problem

Profit Planning and Control model provides a tool for more effective supervision of individual operation and practical administration of a business as a whole. In our country, the industrialization is still in its infancy and therefore the concept of profit planning has not even been familiarized in the most of the business concerns. By proper planning a business can be managed more effectively and efficiently. Basically in a commercial Banks, its major activities would be mobilization of resources involving cost, profitable deployment of those resources and generating income. The present study has tried to analyze and examine the Profit Planning side of Commercial bank taking a case study of Standard

Chartered Bank. Furthermore, the study has tried to answer the following research questions.

1. Does Standard Chartered Bank has appropriate profit planning system?
2. Does the Bank mobilize the deposit and other resources at optimum cost?
3. Does the Bank give proper attention toward non-funded business activities thereby generating satisfactory amount of other income?
4. What are the overall profit planning problems of Standard Chartered
5. Bank and what suggestions can be recommended for their proper solution?

1.15 Objectives of the Study

The main objectives of the study are as follows:-

- To highlight the current profit-planning premises adopted and its effectiveness in Standard Chartered Bank.
- To observe Standard Chartered Bank's Profit Planning on the basis of overall managerial Budgets developed by Bank.
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the Bank over the period.
- To make necessary suggestions and recommendations.

1.16 Significance of the Study

The study will have a significant importance in the present context of banking business in Nepal with the major objectives of examining the proper applicability of profit planning system in the Bank. Hence, this report provides as a proper knowledge and experience for the data collection, presentation and analysis. The significance of study is given below:

- This report gives over all background of Standard Chartered Bank.
- This report would be helpful to those who seek information of profit planning of Standard Chartered Bank(loan parties, shareholders ,accountant, etc)
- It highlights the applicable tools of budgeting for proper planning of profit.

1.17 Limitations of the Study

- The study is made for partial fulfillment of the requirement of Masters in Business Administration, in a short duration of time. Therefore only Standard Chartered bank has been taken for the study.
- The study is limited to the profit planning aspect of the Bank, leaving other areas uncovered.
- The data and information over the period of five fiscal years commencing from FY 2060/61 to FY 2064/65 is used in the study.
- Balance sheets, Profit and Loss accounts, and other financial statements are considered basic source of data. Thus, the study will be mainly based on secondary data collected from various sources. And the relevance of secondary data relies on the authenticity of publications. However, some primary data will also be derived from the analysis of questionnaire prepared for the research study.
- For the literature review, various newspapers, journals, unpublished thesis works, and internet will be referred. However, the literature review will be limited to very few articles and research works due to unavailability of sufficient materials and adequate time.

1.18 Organization of the Study

The structure of the thesis report will comprise of five chapters which have been briefly described as follows:-

Chapter –I : Introduction

Introduction section provides an overall description of the study to be carried out. This chapter includes background of the study; meaning, functions and importance of Financial Institutions, Emergence of Commercial Banks in the economy, General view of profit planning, Introduction of Standard Chartered Bank. It discusses about the statement of the problem, objectives of the study, limitations of the study, theoretical framework and problem hypothesis. This chapter shall target to help the readers to understand and get the rhythm of the subject matter of the thesis report.

Chapter - II: Review of Literature

This chapter describes theoretical analysis and brief review of related and pertinent literature available. It includes conceptual review of Commercial Banks and review of empirical works. For this purpose, various books, journals and periodicals as well as internet shall be used.

Chapter - III: Research Methodology

This chapter describes the research methodology enjoyed in the study. It includes Research design, Sample selection, Sources of data, Data collection procedure, Tools for analysis of the study, and Limitations of the methodology.

Chapter - IV: Presentation and Analysis of data

This chapter illustrates the collected data into a systematic format such as graphs. It discusses the analysis of the data as well as interpretation of data.

Chapter - V: Summary, Major Findings and Recommendations

This chapter comprises the summary of entire thesis. It describes major findings of the thesis and provides broad conclusions. It also attempts to provide some suggestions and recommendations based on the analysis of study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

The term review of literature is very important for the researcher or investigator in the area of concerned problem. This is related to the present study with a view to find out what had already been explained and how the present research adds new dimension to the study. It is an integral and mandatory process in research work. Researching in same subject without any new findings does not make sense. So review of literature is an essential part of any research so as to eliminate any duplication of work.

2.2 Activities of Commercial Bank

Traditionally, the primary activities of a bank are essentially accepting deposits and making loans and advance. Commercial banks are found to be having been defined by their as per the commercial Banking act 2031, a 'bank' is a commercial bank established under this act and 'banking' transactions are activities of accepting deposit from the others for the purpose of lending or investing repayable on demand or after some stipulated time period by means of generally accepted procedure (Commercial Bank Act, 2031).

In the book how of banking Dr. H.L. Hart says "A banker is one who in the ordinary course of his business honors cheques drawn upon him by person from and whom he reserves money in his current account" (Hart, 1931: 98-101).

In the book of banking law and practice by Goulash & Gulshan has quoted H.P Sheldoris opinion as the functions of receiving money from his customs and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business.

Similarly, the same book has also quoted sir John pager's saying as " No person or body corporate or otherwise, can be a banker who doesn't;

i. Take deposit accounts
ii. Take current account
iii. Issue and pay cheques drawn on himself and
iv. Collect cheques for his customer" (Gulshan and Gulshan, 1994: 107).

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

The primary activity of a commercial bank has been categorized in two folds as below:

1. Mobilization of Resources
2. Deployment of Resources

2.2.1 Mobilization of Resources

Resources of a commercial bank constitutes, as like in other business institutions.

A) Owner's Fund or Capital Fund

Owners fund of the bank is the capital, which includes paid up capital, reserves, retained earning, share premium, non-redeemable preference share Apart from those maintained above other reserves and provision items allocated out of profit of the bank are also considered as the supplementary capital fund owners fund is the most dependable source of bank's liquidity.

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

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

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

B) Customer Deposits

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

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

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

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

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

Fixed deposit account is opened by the bank, in the none of the depositors keeping fixed deposits. Amount in such accounts are called time liabilities of the bank because the money is payable on the expiry of a fixed period of time which the depositors choose as per his convenience.

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

C) Other Liabilities

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

2.2.2 Deployment of Resources

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

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

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

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

A. Assets Portfolio for Liquidity

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

The central bank fixes the mandatory cash reserve ratio (CRR) from time to time current CRR fixed by NRB for commercial banks is as below

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

B. Investments

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

C. Loans, Overdrafts and Discounts(LDO):

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

Commercial banks generally tend for short-term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks are mostly the fund mobilized from the depositors, a commercial, bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selection the borrowers. Generally banks lending is guided by their lending policies. General, principal of a sound lending policy of a bank are as follows (Gulsham & Gulshan, 1994: 179).

a. **Safety:** Bank's lending should be secured by way of tangible securities and / or personal security(guarantee) of the borrower.
b. **Liquidity:** As the bulk of fund in the bank are short term fund received as deposits it is prudent to confine into short term advances which can be repaid quickly.
c. **Profitability:** The major income of a bank comes from the difference in interest earned from the borrower and interest paid to the depositors, which is termed as 'spread' the interest rate of lending depends upon the purpose of advance and the risk involved Greater the risk involved higher will be the rate of interest charged.
d. **Risk Diversification:** The famous saying "don't put all eggs in one basket" is the fundamental base of the principle or risk diversification. As there is risk in every advance, bank should spread the risk by lending to larger number of borrowers.

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

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

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

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

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

Concept of Spread

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

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

Loan Loss Provision

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

Other Income Generating Activities of the Bank

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

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

Concept of Burden

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

2.2.3 Role of Commercial Banks in the Development of the Economy

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

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

2.3 Profit Planning as a Concept

The term comprehensive profit planning and control has recently cam into extensive in the business literature. It has its synonyms like comprehensive budgeting, managerial budgeting and budgeting. The term is broadly defined as a systematic and formalized approach for performing significant phases of the management planning and control functions. Profit Planning and Control includes following matters.

1. The development and application of broad and long range objectives for the enterprises.
2. The specification of enterprises goals.
3. The development of strategies long-range profit plan in broad terms.
4. The specification of tactical short range profit plan detailed by assigned responsibility (Division, products, projects)
5. The establishment of a system and follow up periodic performance reports detailed by assigned responsibility and follow up procedures (Welsh, 1999).

In many of the better managed companies comprehensive PPC has been identified as a way of managing. It focuses directly up on a rational and systematic approach to management by objectives and realistic flexibility in performing the management process.

"The International Management Institutions conference on budgetary control held at Geneva at 1980 has defined profit plan as an exact and rigous analysis of the past an the probable and desired future experience with a view to substituting considered intention for opportunism in management" (International Institutions Geneva Conference, 1980)

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

Profit Plan represents an overall plan of operations covers a definite period of time and formulates the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to facilitate effective performance of the management process.

Now a days profit planning system is especially familiar to business organization but the practically of it, depends upon the size of the business. The common objectives of PPC system whether applied to business administration is to formulate policy as well as with the courses of events in the future. In conclusion PPC is directed towards the final objectives of the enterprises and generally, includes all of its important elements. It has main objectives attaining the optimum profit in the enterprises.

2.4 Components of Profit Planning and Control

2.4.1 Profit

2.4.1.1 Meaning and Concepts of Profit

Profit is the basic elements of profit plan so that concept of profit planning may not be complete and meaningful in absence of the clear-cut well-defined idea of profit. According to Oxford dictionary profit means:

- Financial gains
- Amount of money gained in business especially the difference between the amount earned and the amount spent
- Advantage or benefits gained from something (Horn, 1192)

According to some theories, profit are the factor payment for taking the risk for agreeing to take what is left over after contractual out lays have been made.

In the second type of profit theory are viewed as a wage for the service of innovation. Profits in this theory are field to dynamic development.

Profits around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long term survivability of the enterprises.

2.4.1.2 Long Range and Short Range Profit Planning

Long range and short range profit plan means strategic and tactical profit plans respectively. The two types of profit plans are developed in PPC.

"The strategic profit plan is broad and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses on one year time horizon the up coming year the development of strategic and tactical profit plans each year is a process that involve managerial decisions and ideally a high level of management participation" (Welsh, 1999).

2.4.2 Planning

2.4.2.1 Meaning and Concept of Planning

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

- (To do something) arrangement for doing or using something considered working in advance.
- Way of arrangement something especially when on a drawing scheme
- Go according to plan (Horn, 1992).

"Planning is deciding in advance what is to be done in future" (Bhusan, 1976). 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 determination of future events. It is first functions of margent and all other function 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 developing premises about the environment in which they are to be accomplished" (Welsh, 1999).

A plan is then a projected course of action. All planning involves anticipation of the future course of events and therefore bears element of uncertainty in respect to its success.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed efficiently towards the achievement of goals. Planning is essential to accomplished goals. It reduces uncertainty and provides direction to the employees by deterring the course of action in advance.

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

Planning is a mental process requiring the use of intellectual facilities, imagination foresight sound, judgement etc. whether the manager is of top level, medium level or lower level, he cannot be separated from the planning task i.e. their commonality is planning but planning differs as the level.

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

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

2.4.2.2 Long Range and Short Range Planning

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

2.4.2.3 Corporate Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives.

Corporate planning is one of the part of profit plan. It was first started in the USA in 1950 and it is however being used in one form in another in many companies there.

- 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 (Robertson, 1968).

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

- Achieving objectives
- Embodiment of goals and objectives in the enterprises.
- Formulating realistic and attainable objectives.
- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.
- Involvement of personnel in developing the goals of the enterprises.

2.4.3 Forecasting

The forecasting is to take future decision at present form, by the analysis of relevant faucets of past and present. Forecasting is not only imagination or guess matter it is related with certain assumption. It's main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible.

"It should be realized that budgeting is not merely forecasting although, forecasting is the form of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides a time schedule for future action to produce measure result" (Pandey, 1991).

When an estimate of future conditions is made on the systematic basis the process is referred to as forecasting. It's aim is tot reduce the areas of uncertainty that management decision making with respect to cost and capital investment.

2.4.4 Forecasting V/S Planning

Planning and Forecasting often are confusing of being the same but they are not same although related.

The nature that planning and forecasting have different functions deserves special mentions here. Forecasting is generally used to predict what will happen to given set of circumstances assumptions. Planning to other hand, involves the use of forecast, to help to make good decisions about most attractive alter natives for the organization. Thus a forecast seeks to describe what will happen where as a plan is based on the nation that by taking certain person how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction. Generally speaking forecasting and forecasts are inputs to the planning process.

2.4.5 Control

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

i. Have a power or authority over same body or same thing

ii. Regulate something
iii. Management, guidance, restriction
iv. Standard of comparison for checking the results of the experiment (Hornby, 1992; 151-158).

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

Control is an ambiguous word, it means the ability direct oneself and one's work. It can also mean domination of one person by another (management). Objectives are the basis of control in the first sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute management by self control for management by domination" (Drumeker, 1954: 244).

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time or commitment. Effective control requires feed forward. In other words it is assumed that objectives plans polices and standard have been develop and communicated to those manager who have the related performance responsibilities.

Therefore, control must necessarily rest upon the concept of feedback, which requires performances measurement and tiggers corrective action designed to ensure attainment of the objective. When plans become operational control must be exercised to measure progress. In some cases control also results in the revisions of prior plans and goals or in the formulation new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organizational structure.

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

i. Compare actual performance for the period with the planned goals and objectives.
ii. Prepare a performance report that shows actual results, planned results
iii. and any differences between the two(i.e. variations above or below planned results)
iv. Analyze the variations and the related operations to determine the underlying causes of the variations.
v. Develop alternative courses of action to correct any deficiencies and learn from the successes.
vi. Make a choice(corrective action) from the set of alter-natives and implement it.
vii. Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-planning (Welsh, 1999).

The Comparison of actual result with planned goals and standard Constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback the facts shown in a performance report cannot be changed, however the historical measurement may lead to improve control in the future. The significant concept here is that objective policies and standards fulfill two basic requirements in the overall control process namely.

1. Feed forward to provide a basis for control at the point of action.

2. Feedback-to provide a basis for measurement of the effectiveness of control after the action gas taken place more over feedback is instrumental in re-planning.

2.5 Budgetary Control

2.5.1 Meaning of Budgeting and Budget

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

"As regards to the term 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan objectives and goals established by the top level management in respect of some future period" (Gupta, 1992).

A budget is a forest, in detail of the results of an officially recognized programmed of operating efficiency.

"Budget is defined as a comprehensive and co-ordinates plan expressed in financial terms for the operations and resources of an enterprises for some specified period in the future" (Freemgen, 1976). According to his definition the essential elements of budget are;

- Plan

- Operations and Resources
- Financial Terms
- Specified future period
- Comprehensiveness
- Co-operation

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

2.5.2 Budgeting: As a Device of Profit

Budgeting is a forward planning. It serves basically as a device (tool) for management, control, it is rather pivot of any effective scheme of control. G.A Welsh in his book "budgeting PPC" has rightly printed out that "Budgeting is the principal tool of planning and control offered to management by accounting functions" (Welsh, 1999). John G. Glover and Coleman L. Maza have expressed a similar a view, in their opinion the prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental policies and objectives it is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them.

Budgeting is a device of a planning and controls that serve as a guide to conduct operation and a bank's for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budget data also in the light of changes in conditions. Company controls operating through its budgeting and responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary and control reporting by responsibility area.

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

- Explicit statement of expectations
- Communication
- Co-ordination
- Expectation as a frame work for judging performable.

2.5.3 Essentials of an Effective Budgeting

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

A. Sound Forecasting

Forecasts are the foundations of budgets, the executives discuss these forecasts and when most profitable combinations of forecasts are selected, they become budgets. The sounded are the forecasts better result would come out of the budgeting system.

B. An Adequate and Planned Accounting System

There should be proper flow of accurate and timely information in the enterprises which is, must for the preparation of budget. Only having an adequate and planned accounting system in the firm can ensure this.

C. Efficient Organization with Definite Lines of Responsibility

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

D. Formation of Budget Committee

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

E. Availability of Statistical Information

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

F. Availability of Statistical Information

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

G. Support to Top Management

If a budget program is to be made successful, the sympathy of each member of the management teams towards it should start preferably form top i.e Chairman. The Enthusiasm for budget operation as well as direction for its should initiate and came from top.

H. Good Reporting Systems

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

I. Motivational Approach

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

2.6 Fundamental Concepts of Profit Planning

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

a. Management involvement and commitment
b. Organizational adaptation
c. Responsibility accounting
d. Full communication
e. Realistic expectations
f. Timeliness
g. Flexible application.

h. Zero base budgeting
i. Activities costing
j. Behavioral View point.
k. Management control using PPC
l. Follow up
m. Management by exception

Each of these fundaments is discussed briefly in the following paragraphs. And it is tried to proof to what extent they are playing the role to make PPC a meaningful and comprehensive approach.

2.6.1 Managerial Involvement and Commitment

Managerial support, confidence, participation's and performance orientations include marginal involvement all levels of management specially top level management should consider following points in order to make PPC program successful.

i. Understand the nature and characteristics of Profit Planning and Control
ii. Be convinced that this particular approach to manage is preferable for their situation.
iii. Be willing to devote the effort required to make it possible.
iv. Support the program in all its ramifications.
v. View the results of the planning process as performance commitments.

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

2.6.2 Organization Adaptation

In the word of welsh a success of the PPC program must rest on sound organizational structure, for the enterprises, and a clear-cut designation of lines of lines of authorities and responsibilities of all or the department of an enterprise. The responsibility of or the obligation of each departmental manager should be well clarified what ever may be the nature and sense of organizational structure. One should always bear in mind the fact that no organizational structure can be taken as ends or tools to attain the goal. In conclusion the organizational involvement includes-

a. Delegation of authority and responsibility to each functional sub units.
b. Sub-divide the whole organization in to different functional submits.
c. Each sub units should prepare its own annual or periodic plan
d. Based upon plan prepared by subunits a master plan is to be prepared by higher management.

2.6.3 Responsibility Accounting

The accounting system of any organization should build the responsibility structure of the firms. This is called responsibility accounting. An organization planning is based on historical data which are largely generated by the accounting system an control, includes the measurement of actual results against objectives, goals and plans by an account. Therefore, PPC requires responsibility accounting system.

2.6.4 Full Communication

Communication can be defined as "An interchange of thought or information to bring about a mutual understanding between two or more parties."

Communication can be either of dialogue messages or understanding form working together. Although most of the management gives least importunate on communication but it is the most important thing for any organization observation and control. Most of the organization faces cost of problem due to bad communication system (Welsch, 1999).

The goals and objectives set by management should be well communicated in all levels management PPC program can only be successful when the communication is done in fully manner.

2.6.5 Realistic Expectation

In PPC the management must be realistic and avoid either undue conservation or irrational optimism. The care with which budget goals and objectives are set for such items as sales, production, cash flow and so on determines the success of PPC program. So for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

2.6.6 Timeliness

'Time and tide wait for none' whether an individual or an entity is idle or busy time passes at the same rate. If the planning function is to be effectively carried out, on relation is to the concept of planning horizons and the other is to the timing of planning activities.

Planning horizons refers to the period of time in to the future for which management should plan. Decision made to the organization obviously can affect. Only the future, no present decisions can effects or change the past, since all managerial decisions are futuristic each management is faced with the basic question of time dimension. The effective implementation of PPC concepts requires that the management of establish a definite time dimension for certain type of decision. And timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases if he planning process (Welsh, 1999).

2.6.7 Flexible Application

"The stress that a PPC program must not dominate the business and that flexibility in applying the plan must be forthright management policy. So that strait tackiest are not imposed and all favorable opportunities are seized even though. They are not covered by the budget. Rightly in practically will be the harmful boundary in an association in an occasion for the enterprise. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of that organization" (Welsh, 1999).

2.6.8 Zero Base Budgeting

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

2.6.9 Activity Costing

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

2.6.10 Management Control Using PPC

"The primary purpose of control is to ensure attainment of the objective, goals and standards of the enterprises. Control has many facts such as direct observation, oral express, policies and procedures, reports of actual results and performance reports. PPC focuses on performance reporting and evaluation of performance to determine the cause of both high and low performance. The essential characteristics of a PPC performance reports are as follows" (Welsh, 1999).

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

Emphasis is given to comparison actual results and planned results, the performance results should be designated the responsible manager and show actual results.

2.6.11 Behavioral View Point

"An ounce of behavior is better tat a quintal of the theorem" what so ever be the theory and theorem, the organization only when it improves its behavior, is best or in another way welsh has suggested that the motivation of human resources through dynamic leadership is control to effective management. Many psychologist an educators and businessmen find that, there are many known and unknown, misconception and speculations concerning the responses of the individual and the group in the varying situation. So, the PPC programs bring many of these behavior problems in the sharp focus and trying to resolve.

2.6.12 Management by Exception

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

1. Actual results
2. Budgets or planned results and
3. The difference between the two

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

2.6.13 Follow Up

This fundamental hold that both goal and substandard performance should be carefully investigated the purpose being three folds.

a. In the case of substandard performance to lead in a constructive manner to immediate corrective action.

b. In the case of outstanding performance, to recognize it and perhaps provide for a transfer of knowledge to similar operation and
c. To provide a basis for better planning and control in the future (Welsh, 1999).

2.7 Profit Planning and Control Process

"A PPC program includes more than the traditional idea of a periodic or master budget rather it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps" (Welsh, 1999). These steps are out lined in this study in the following manner.

a. Identification and evaluation of external variables.
b. Development of the broad objectives of the enterprise.
c. Development of specific goals for the enterprise.
d. Development and evaluation of company strangely.
e. Executive management planning instruction.
f. Preparation and evaluation of project plans.
g. Development of strategies and tactical profit plan.
h. Implementation of profit plans.
i. Use of periodic performance reports.
j. Follow up.

2.7.1 Identification and Evaluation of External Variables

The variable identification phase of PPC process focuses on

1. Identifying and
2. Evaluating the effects of the external variables.

Management planning must focus on how to manipulate the controllable variables and how to work with the existing situation of non-controllable variables. Variables which have a direct and significant impact on the enterprises, are called relevant variables may have their different relevancy according to the market nature. For the enterprises purpose the external relevant variable are population, G.N.P competitive activity product line, and industry sales. And so far internal variables are concerned employees capital, research productivity, pricing, operating costs, advertisement etc. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises. The comprehensive PPC approach is based on the exception that, these significant aspects of operations will be critically analyzed and evaluated periodically and in an orderly manner (Welsh, 1999).

2.7.2 Development of the Broad Objectives of the Enterprise

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

a. To define of the purpose of the co.
b. To clarify the philosophy character of the co.
c. To create particular climate with in the decision
d. To set down a guide for managers so that the decision they make will reflect the best interest of the business with fairness and justice to these concerned.

2.7.3 Development of Specific Goals for the Enterprises

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

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

2.7.4 Development and Evaluation of Company Strategy

Company strategies are the basic thrust ways and tactics that will be used to attain planned objectives and goals. Some examples of basic strategy are as follows-

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

2.7.5 Executive Management Planning Instruction

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

2.7.6 Preparation and Evaluation of Project Plans

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

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

2.7.7 Development of Strategies and Tactical Profit Plan

When the managers of the various responsibility centers in the enterprises receive the executive management planning instruction and the project plans, they can begin intensive activities to develop their respective strategic or tactical profit plans. The strategic and tactical profit plans are usually developed concurrently. Certain format and procedural instructions should be provided by a centralized source, normally the financial functions to establish the general format, amount of debit and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers, in to the overall profit plans.

All of this activity must be co-ordinate among the centers in conformity with the organization structure.

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

2.7.8 Implementation of Profit Plans

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

2.7.9 Use of Performance Reports

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

2.7.10 Follow Up

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

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

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

2.8 Advantages and Disadvantages of PPC

The usefulness of Comprehensive PPC may offer more benefits, which may be summarized as below-

1. It forces early Consideration of basic policies.
2. It requires adequate and sound organization structure that is there
3. must be a definite assignment of responsibility fro each function of the enterprises.
4. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
5. It compels all members of management from the top down to participate in the establishment of goals and plans, It requires that management put down in figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of labor, material and capital.
8. It instills at all levels of management the habit of timely careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduce cost by increasing the span of control because, fewer supervisors are needed.

10. It frees executive from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking
11. It tends to remove the cloud of uncertainty that exists in many organizations, especially among, lower levels of management relatives to basic policies and enterprise objectives.
12. It pinpoints efficiency and inefficiency.
13. It promotes understanding among members of managers or theirs co-workers problems
14. It forces a periodic self-analysis of the company.
15. It forces management to give adequate attention to the effect of general business conditions.
16. It aids in obtaining bank credit; banks commonly require a projection of future operation and cash flows to support large loans.
17. It checks progress or lack of progress toward the objectives of the enterprise.
18. It forces reorganization and corrective action (including rewards).
19. It rewards high performance and seeks to correct unfavorable performance.
20. It forces management to consider expected future trends and conditions.

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

1. It is difficult, infact impossible, to estimate revenues and expenses in
2. company realistically.
3. Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
4. It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.

5. Budgeting places to great a demand on management time, especially to revise budgets constantly. Too much proper work is required.
6. It takes away management flexibility.
7. It creates all kinds of behavioral problems.
8. It places the management in a straitjacket.
9. It adds a level of complexity that is not needed.
10. It is too costly asides from management time.
11. The managers, superiors and other employees hate budgets.

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

2.9 Basic Assumptions and Limitations of Profit Plan

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

In developing and using a profit plan and control (PPC) program, the following limitations should be kept in mind.

a. "The profit plan is based on estimates."

b. A PPC program must be continually adapted to fit changing circumstances.
c. Execution of a profit plan will not occur automatically, the profit plan is not a substitute for management (Welsh, 1999).

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

2.10 Development of Profit Plan

Development of profit plan in commercial bank begins, with the preparation of various functional budgets. These functional budgets are in fact the picture of various activities of the bank to be performed during a particular period of time. Therefore the functional budgets of a bank are activity based as such budget for deposit collection, budget or lending and investments, budget for non-fund based business, budgets for expenditures and revenues.

The development of profit plans process that involves managerial/decisions and ideally high level of management participation. The following are the budget, which are developed in a bank while making a profit plan.

2.10.1 Resources Mobilization Plan or Budget

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

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the bank customer's deposits are of two kind, viz.

i. Interest free deposits i.e. current deposits, margin deposits etc and
ii. Interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposit etc. the interest free deposits are cost free but are generally volatile in nature those can be withdrawn without restriction from the bank thus cannot be invested in to higher income yielding assets.

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

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

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

Banks resources other than customer's deposits are the borrowing from other banks and the capital fund. Generally, banks borrow from other banks to meet temporary requirement of liquidity. Which may occur sometimes during the course of banking operation caused due to unexpected which drawls of deposit or deferment in loan repayments by the borrower by some reason or other such activities are managed from the head office with the least possible cost.

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

Further, the bankers may choose by themselves whether or not increase the owners' capital by raising the other item included in capital funds besides paid up capital and general reserves. It is always better to have a higher capital funds base of a bank. Because, creation of bank's assists and the size of lending to any particular borrower are tied-up the capital adequacy requirement by the central bank, as per NRB directives, banks should have to build their capital base at least of 12% by the end of FY 2.60/60. And a bank can take the size of exposure per borrower equivalent to maximum of 25% of its core capital in fund based and 50% of that is non-fund based exposure. (NRB Directives, 2001).

2.10.2 Resources Deployment Plan or Budget

The planning for deployment of resources starts from assessment of nature of resources to be mobilized. That is the assets which are allocated on the basis of the nature is called asset allocation approach as M.C Vaish writes in his book money banking trade and public finance. "The fundamental criterion are which must be followed in allocating fund for acquiring different types of assets. That is turnover rate of different sources of supply of fund. Determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund like saving deposits, fixed deposits and paid up capital. Could be to buy long dealed high yielding securities demand deposit which care more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank" (Vaish, 1999).

Therefore the budgeted deposit of mix is the major determining factor of the planning of assets portfolio.

A Bank should make the planning for deployment of its resources in such a way that it ensures required liquidity as well optimize the yield on the fund of bank. Therefore, banks resources deployment process involves following.

a. Deployment in liquid assets.
b. Deployment in lower income yielding assets.
c. Deployment in higher yielding assets.

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

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

Major portion the income of the bank comes as interest income from the resources deployed to loan advances and bills discounting(LDO). As the most part of the resources are for LDO, banks make its lending budgets in advance as per their lending policies. Lending targets are fixed at various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separate profit center.

2.10.3 Planning for Non-Funded Business Activities

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

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

2.10.4 Expenditure Planning

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

a. Interest expenses.
b. Personnel expenses.
c. Office operating expenses.
d. Expenses meeting the loss in exchange fluctuation.
e. Non-operating expenses.
f. Expenses for provision for loan loss.
g. Expenses for provision for staff bonus.
h. Expenses for provision of income tax.

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

Interest expense in a bank depend on the average cost of deposit(cod) mobilized by the bank. Lower the cod lower the interest expenses and thus higher the profitability. Therefore, from profitability point of view banks plan their cod at lowest possible level. The nature of interest expenses is that variable expense. The net earning from interest income of a bank deducting the interest expense for the deposit mobilized is called spread which is similar to the contribution margin in sales of commonalities by a manufacturing unit.

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

2.10.5 Revenue Plan

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

Revenues of a bank are generated in the following forms:

a. Interest income.
b. Commissions and Discounts.
c. Dividend.
d. Other income.
e. Foreign Exchange income.
f. Non-operating income.

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

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

As the average rate of interest on LDO is comparatively higher that other of income yielding assets, from the profitability point of view, higher asset allocating into LDO, higher will be the income.

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

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

2.11 Implementation of the Profit Plan

2.11.1 Completion of Annual Profit Plan

"The development of an annual profit plan ends with the planned income statement the balance sheet and the planned statement of charges in financial position. The statements summaries and integrate the details of plans developed by management for the period. They report the primary impact of detailed plans on the financial characteristics of the firm before redistributing the completed profit plan, it is generally desirable to recast certain schedules, so that technical accounting mechanics and jargon are avoided as much as possible.

The redesigned budget schedules should be assembled in an logical order. Reproduced and distributed before, the first day the upcoming budget period. The profit plan completion date is an important issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budgeted calendar" (Welsh, 1999).

2.11.2 Implementing the Profit Plan

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives.

Participation enhances communication. If this principal is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities while taking in to an account the problem of security. After distribution of the profit plan a series of profit plan conferences should be held. The top executives discuss comprehensively the plan expectations and steps in implementation. As this top level meeting the importance of action flexibility and contributes control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use conferences should be held so as to convey the profit plan to each level of management.

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

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

2.11.3 Performance Report

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

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

a) Features of Performance Reports

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

- Tailored to the organizational structure and focus of controllability
- (that is by responsibility centers).
- Designed to implements the management by exception principal.
- Repetitive and related to short term period.
- Adapted to the requirements of the primary users.

- Simple understands & reports only essential information.
- Accurate and designed to pinpoint significant distinctions.
- Prepared and presently promptly.
- Constructive in tone.

b) Aspects of Performance Reports

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

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

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

2.12 Planning Expenses in Non Manufacturing Enterprise

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

Some companies cut expenses without considering the effects as benefits others do not commit sufficient resources to the maintenance of assets such as equipment and buildings. Inevitably, such short-range decisions although temporarily reducing expenses, soon cause of the higher costs because of breakdown, inefficient machines.

Frustrated employees, a forty-machine tolerance major repair costs and repair, costs and shortened asset lives cost control should be firmly tied to

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

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

Cost Behavior

a) Fixed expenses

These expenses that, are constant in total from month, regardless of fluctuations in output or volume of work done because any expenses can change. This concept must be applied-

- To a realistic or relevant range of output and
- In relation to a given set of condition (management policies time constraints and characteristics of the operation).

Examples of fixed expenses are salaries, property tax, insurance and depreciation (straight line).

b) Variable Expenses

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

c) Semi-Variable Expenses

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

2.13 Controllable and Non-Controllable Expenses

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

The banks are non-manufacturing enterprise they should develop expense budget for company administrative expenses.

2.13.1 Planning Administrative Expenses

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

2.13.2 Capital Expenditures

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

A capital expenditure is the uses of funds (i.e. cash) to obtain operational assets that will

a. Help earn future revenues or
b. Reduces future costs.

Capital expenditures include such fixed (i.e. operational) assets as priority plant, equipment, major renovations and patents. Typically, capital expenditure projects involve large amounts of cash other resources and debt that are tied up for relatively long period of time.

The capital expenditure budget or plan is an important part of a comprehensive profit plan. It is directly related t a company's operative assets especially landing equipment and other operational assets and cash.

Because of the long span and major resource commitments, major capital expenditure typically are budgeted as separate projects. Each project is unique to a specific assets or group of assets (i.e. investment) the amount and source of it funding, and its timing (both construction of acquisition time and subsequent use or service time). Major project are usually named and numbered. Typically, they are separately analyzed, planned, approved or rejected, completed if (approved).

Therefore, the captain expenditures budget is primarily composed of a series of identified projects related to specific time dimensions.

2.13.3 Benefits of a Capital Expenditure Budget

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

a. Idle operating capacity
b. Excess capacity and
c. Investments in capacity that will earn less than on adequate return on the funds invested.

2.13.4 Capital Expenditure Decision

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

a. Investments decisions: Selecting the best alternatives based on their economic worth to the company called investing worth.
b. Financing decisions: Determining the amounts and source of funds needed to pay for the selected alternatives. This cash constraint may necessarily limit the projects and proposals that can be initiated.

2.13.5 Capital Expenditure involved two kinds of Assets.

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

1) Planning Cash Flows

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

2) Cash Planning

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

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

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

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

The primary approach to the problem is based on past collection experience the average period between the date of sale and the date of two related cash collections. The average responsible for the credit and collection should regularly determine for example the efficiency of collection. The treasures will seldom encounter much difficult in planning miscellaneous cash inflows from income sources such as royalties, rent interest and dividends received on investment.
Cash payments are made primarily for materials, direct labor, expenses, capital additions, retirement of debt and dividends paid to stockholders. The budgets for these items provide the basis for computing the planned cash outflows. The cash receipts and disbursements approach requires elimination of non-cash items, such as depreciation, from the appropriate expense budgets already prepared. Experience and company policy on purchase discounts must be taken in to account in estimating the time lag between the in occurrence of accounts payable and the subsequent cash payment of these payables.

Planning the cash flows of a company should include consideration of how to improve cash flow improving cash flow basically involves increasing the amount of available cash on a day to day basis. To accomplish tiny object gives the management should focus on

a. The cash collection process to the speed up cash collections.
b. The cash payment process to slow down the payment of cash and
c. The investment policies for the immediate investment of idle cash balances to maximize interest earnings improving the cash collection and payment processes and the investment policies for otherwise idle cash will exchange a company's liquidity position.

Liquidity refers to the availability of cash to efficiency meet the day to day cash demands of a company.

2.14 Planning Cash in a Non-Manufacturing Company

In companies of all type cash management is vitae. In Bank, service-company in retail and wholesale enterprise cash management is needed. Because daily cash demand, large and costly inventories frequently must be maintained also extensive credit is used to maintain the inventories. A complete plan of operations is essential in developing a realistic cash budget. A line of credit with lending agencies is frequently dependent on a realistic sales plan supported by a comprehensive profit plan.

The planned statements of cash flow (i.e. the cash budget is necessarily prepared near the end of the annual planning cycle along with the planned income statement and balance sheet. Preparing the cash plan (or budget) primarily involves two activities.

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

The cash receipts and disbursement approach basically involves the use of detailed data from the budgeted cash account. The financial approach starts with net income (annual basis) which is adjusted to a cash basis to compute "cash flow from continuing operations". The remaining cash and uses must be determined by using that data from the various budgeted already prepared. The cash receipts and disbursements approach is usually used for the tactical short-term plan because it provides more details. The financial statement method is usually used for board analysis of the cash position and for strategic long range planning.

Controlling cash flows is a daily task in many companies. Cash performance reports month by weekly and even daily identify involving cash flow problems that often need immediate attention.

2.15 Summary

The development of an annual profit plan ends with the planned income statement, the planned balance sheet and the planned statement of cash flows. These statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company.

As this point in profit planning, the budget director has an importance overall system, the budget director has been described as an adviser to the various managers to help developing for each responsibility centre. Now the parts must be assembled into a complete profit plan. This is the responsibility of the budget director, the other essential budget are

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

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

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

2.16 Review of Previous Research Work

The profit planning in the context of particularly, commercial bank serums to be done by few that the researcher had done on this subject for research and analysis. So for this study, researcher had reviewed especially on two of previous research work on same subject by Binod Kumar Sharma (2002) and Uday Kishor Tiwari (2003) for the purpose of partial fulfillment of the requirement for Master Degree in Business Administration. Both have studied the profit planning in commercial bank with a case study of Nepal Bangladesh Bank and Standard Chartered Bank Nepal Ltd.

Binod Kumar Sharma (2002) has studied the profit planning aspect of Nepal Bangladesh Bank. His major findings are:

1) 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 the budget covers one fiscal year
2) Nepal SBI has not made any in-depth analysis of its strength and weakness.
3) Its mission and objectives have not been clearly defined and delegated to the lower levels.
4) The bank has not been able to maintain a minimum level of coordination between the departments and staffs.
5) 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.
6) Budgets are prepared just to fulfill the formalities but these are not used effectively for the profit planning process.

Uday kishor Tiwari (2003) has recommended following major points in his study for the consideration to improve the existing situation of SC Bank.

1. Bank is awarded by 'Bank of the year 2002, Nepal.'
2. Bank Management policy is very strong. It keep minimum number of employees but highly to maintain the job.
3. The Bank adopts usually new technology.
4. The Bank provides 24Hrs service and ATM service for the customer.
5. Customer deposit collection is the main resource mobilization, LABP holds the highest outlet of resource deployment.
6. There is no significant relationship between budgeted and actual LABP Actual LABP, Bank Guarantee, outstanding liabilities, are in increasing trend.
7. The analysis of cash flow statement shows the strong position of bank.

2.17 Research Gap

Most of the past research studies about profit planning systems are basically related to the profit planning system of manufacturing organization or production oriented activities. There were few studies so far that have related to profit planning system of a commercial bank i.e., SBI Bank and SC Bank respectively.

This study will try to indicate the role of budgets for effective formulation and implementation of profit planning system as well as to see the bank practicing budgeting. This study will try to show the comparative structure of interest as per study period and how the profit range been changed till the study period i.e. 2003/04 to 2007/08. Along with it the statistical tools will be used to analyze the financial position of SC Bank.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view (Kothari, 1990:10). In other words, research methodology describes methods and processes applied in the entire part of the study. One of the major objectives of this study is to analyze, examine, highlight and interpret the financial as well as statistical tools to analyze the data in order to reach a conclusion. Therefore, appropriate research methodology is required.

This chapter deals with the research design, nature and sources of data, data collection procedure and tools and technique of analysis. The study follows the research methodology as described below.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. Research design includes definite procedures and technique which guide to sufficient way for analyzing and evaluating the study. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tool has also been applied to examine facts and descriptive techniques have been adopted to evaluate the Profit Planning of Nepal. Both the primary and secondary data have been used in order to achieve the above objective.

3.3 Sources of Data

Secondary sources of data have been used exclusively for the purpose of this study, viz. the annual reports published by these banks at the end of each fiscal year. Similarly, articles, journals related to the financial performance study, previous research reports etc. were also taken into account while collecting information. Bulletins and reports published periodically by various government bodies have also been helpful in undertaking this research study.

3.4 Population and Sample

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

3.5 Data Collection Procedure

As the study is analytical-cum-descriptive in nature, research is based on the historical data of the banks available in the annual reports of the bank. The annual reports were collected from the respective bank i.e; Standard Chartered Bank as well as the internet (www.standardchartered.com/np). Books, periodicals, journals, articles on the related subject were extensively reviewed in the library. Quotations from various authors on the related topic have been placed throughout the chapters.

3.6 Research Variables

Loans/advances overdrafts and Bills Discounted (LDO), customer deposits, total resource, total deployment, outstanding balance of Letter of Credit and Bank Guarantees, Interest Expenses, Interest Income, other income etc. Standard Chartered Bank are the research variable.

3.7 Time Period of Profit Plan

As per NRB directives all the commercial banks have identically to follow the accounting year of twelve months beginning from first sharwan to end of ashadh which covers the last nine months of a year (B.S) to the first three months of succeeding year (B.S). SC bank prepares the profit plan for twelve months of upcoming year, which includes the business budget, expenditure and profit plan for the year.

This study covers five years period from FY 2060/61(2003/004A.D) to FY 2064/65(2007/08A.D) for its analysis.

3.8 Method of Analysis

Data analysis consists of organizing, tabulation and performing statistical analysis. Data analysis is done in order to change the unprocessed data into understandable and presentable from. For secondary data the results have been derived by using the data for the period starting from fiscal year 2003/04 to 2007/08. In case of primary data various statistical, accounting, Mathematical and financial tools have been used for classification, tabulation and analysis of the data.

3.8.1 Financial and Accounting Tools

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

a) Ratio Analysis

By ratio analysis, we study the arithmetical relationship of two data. In this study, we have applied liquidity ratio, capital structure ratio, activity ratio and profitability ratio of the bank.

b) Cost Volume Profit Analysis

We study the relationship among cost, volume, price and profit of the bank.

3.9 Statistical and Mathematical Tools

Both the primary and secondary data were organized and tabulated with the help of MS Excel software. For the analysis of data, we have applied the following statistical and mathematical tools.

1. Percentage Increment.
2. Mean.
3. Standard Deviation.
4. Coefficient of variance.
5. Regression analysis.
6. Correlation of coefficient.
7. Probable error.
8. Coefficient of determination.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data and information of planning system and budgeting procedure in a commercial bank with the specific context of SC Bank Nepal Ltd. To accomplish these objectives, the various functional budgets analyze and related data are presented in a systematic way in tabular forms and graph charts. To obtain best result, the data and information have been analyzed according to the research methodology as mentioned in Chapter 3.

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis (Wolff & Pant, 2004).

4.2 Existing Profit Plan System

4.2.1 Strategic Profit Plan of SC Bank

The strategic profit plan of SC Bank is reflected in its business budget. The business budget is a realm able estimation of business actives to be achieved by the bank within a particular fiscal year for which the budget is prepared. The practice of formulating formal business budget has been started only from FY 2055/056 in SC Bank for the initial few years the board used to set some broad targets and was not made public. But since FY 2055/056 the management group of the bank has been entrusted for this responsibility. Therefore, the deleted recorded of business and revenue/Expenditure projection budget could be found from 2055/056 and onwards only. The business in terms of resources mobilization and deployments the branch offices are considered as a separate profit centers and the business targets are allocated to them. The resources mobilization activities are generally the cost bearing activities and the revenues are generated mostly from deployment of the resources. The surplus revenue generated over the expenditure involved is the net income. Therefore, the strategic profit plan of SC bank consists the following plans.

1. Plan for resources mobilization.
2. Plan for deployment of the resources.
3. Plan for non-funded business activities.
4. Revenue plan.
5. Expenditure plan.

4.2.2 Resources Mobilization Plan of SC Bank

Here, the term resources have been used for the fund required by the bank for its activities. Banks mobilizes its resources from the following sources.

i. Deposit Accounts
ii. Loans and Borrowing
iii. Share Capital

Among the above three sources the Deposit accounts/collection is the major source of resources mobilization, which is in fact, one of the most important activities of a commercial bank. Loans and Borrowing are obtained from local banks, foreign banks, central bank and other financial institutions, generally for a short period of time.

The capital fund is raised from shareholder's equity. This is the net-worth of the bank commercial banks. Commercial bank's capital fund has been divided into two categories viz. core capital and supplementary capital.

Following table shows the resource mobilization by the bank is the period by study.

Table 4.1

Status of Resources Mobilization

(Amount in Rs '000')

Fiscal Year	Deposit		Borrowings		Capital Fund		Other Liability		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2003/04	21,161,442	89.51	78,283	0.33	1,495,739	6.33	906,596	3.83	23,642,060
2004/05	19,363,470	88.89	27,551	0.11	1,582,415	7.26	808,243	3.71	21,781,679
2005/06	23,061,032	89.49	-	-	1,754,139	6.80	952,181	3.69	25,767,352
2006/07	24,647,021	86.18	400,000	1.39	2,116,353	7.40	1,433,315	5.01	28,596,689
2007/08	29,743,999	89.23	-	-	2,492,547	7.48	1,099,242	3.29	33,335,788

(Sources: SC bank, Annual Report 2003-2008)

From the above, it is clear that the customer deposit collection contributes the major share in resources mobilization. The average portion of deposits, borrowings, capital fund and other liability to total resource mobilization for five years is 88.66%, 0.62%, 7.05% and 1.91% respectively. During the year 2005/06 and 2006/07 deposit decreased so other resources has been increased as borrowing increased in these period. Capital fund seems to be fluctuating in all the period of the study, in this situation bank should have issued the share. In 2007/08 borrowing is nil, with decreased % of capital fund and other liability these may be due to efficiency of management of bank so more customers managed to deposit.

4.2.2.1 Deposit Collection

Customer Deposit is the most important source of resources mobilization of the bank. As per the data of FY 2007/08 the contribution of customer deposit increased by 20.68% as compared to last year.

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

1) Interest Free Deposit Accounts

a. Current Deposit A/c
b. Margin Deposit A/c
c. Other Deposit A/c

Table 4.2

Status of Interest Free Deposits of SC Bank

(Amount in RS '000')

Fiscal Year	Current Deposits		Margin Deposits		Other Deposits		Total
	Amount	%	Amount	%	Amount	%	
2003/04	5,816,936	96.62	203,186	3.38	-	-	6,020,122
2004/05	4,356,337	94.60	248,795	5.40	-	-	4,605,132
2005/06	4,681,937	95.97	509,422	4.03	-	-	5,191,359
2006/07	4,794,534	90.79	486,101	9.21		-	5,280,635
2007/08	6,174,561	92.87	474,044	7.13	-	-	6,648,605

(Sources: SC Bank, Annual Report 2003-2008)

Above table shows that major portion of the interest free deposits is occupied by current deposits at the average of 94.17% for five years and the remaining portion is occupied by margin deposits at the average of 5.83% for five years. There seems to be fluctuating in current deposits during the study period. During 2004/05, 2006/04 the current deposit has decreased to 94%, 90% due to which margin deposits has been increased.

2) Interest bearing deposit accounts

a) Saving Deposit A/c
b) Call Deposit A/c
c) Fixed Deposit A/c

Table 4.3

Status of Interest Bearing Deposits of SC Bank

(Amount in RS '000')

Fiscal Year	Saving Deposits		Fixed Deposits		Call Deposits		Total
	Amount	%	Amount	%	Amount	%	
2003/04	12,771,826	84.35	1,428,795	9.44	940,999	6.21	15,141,620
2004/05	13,030,929	88.29	1,416,383	9.60	311,025	2.11	14,758,337
2005/06	14,597,674	81.69	2,136,307	11.95	1,135,691	6.36	17,869,672
2006/07	15,244,385	78.81	3,196,489	16.51	925,511	4.78	19,366,385
2007/08	17,856,134	77.32	3,301,014	14.29	1,938,456	8.39	23,095,604

(Source: Deposit collection budget of SCB Nepal Ltd)

Above table shows that major portion of the interest bearing deposits is occupied by Saving Deposits at the average of 82.09% for the last five years and then fixed deposits by 12.36% and call deposits by 5.55% at the average. Fixed Deposit has been increased continuously during the study period which shows that the bank has got sufficient find to invest in the market.

During this study, the researcher could not get the budgeted data inspite of requesting in the administration of Head-Office, Standard Chartered Bank Nepal, NRB. So, the researcher has not done the comparison of collection of budgeted and actual deposits.

Following table shows the data of actual deposit mobilized by the bank as of the end of each fiscal year from 2003/04 to 2007/08.

Table 4.4

Growth of Deposit of SC Bank Nepal Limited

(Amount in Rs '000')

Fiscal Year	Deposit Amount	Growth in Rs.	Growth (%)
2003/04	21,161,442	-	-
2004/05	19,363,470	(1,797,972)	(8.49)
2005/06	23,061,032	3,697,562	19.10
2006/07	24,647,021	1,585,989	6.88
2007/08	29,743,999	5,096,978	20.68

(Source: SC bank Nepal Limited, Annual Report 2003-2008)

During the FY 2004/05 there seems to be decrease in deposits as compared to other year, this may have occurred due to economic down and on following year it picked up slowly.

4.2.3 Resources Deployment Plan

Deployment of the resources refers to the reasonable allocation of the resources of the 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.

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

i. Deployment for Liquidity

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

ii. Deployment for Income Generating Activities

Bank deploys the major portion of the resources is deployed for income generating activities popularly called s fund based exposure. Fund based exposure are taken by the bank in following two portfolio.

a) Loan, Advances and Bills Purchased (LABP)
b) Other investment

LABP includes all loans, advances, overdrafts, bills purchased/discounted, provisioning and other types of loans availed to the borrowers of the bank in return of which the bank earns interest income. Other investments include investment in shares, Treasury bill (TB), placement of fund on call market etc.

iii. Deployment for the Assets

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

Table 4.5

Status of Resource Deployment of SC Bank

(Amount in Rs. '000')

Fiscal Year	Cash & Bank Balance		LABP		Investment		Other Assets		Net Fixed Assets		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2003/04	2,023,164	9.44	6,410,242	29.92	11,360,328	53.03	1,493,492	6.97	136,234	0.64	21,423,460
2004/05	1,111,117	5.69	8,143,208	41.71	9,702,553	49.70	493,697	2.53	71,413	0.37	19,521,988
2005/06	1,276,241	5.36	8,935,418	37.55	1,2838,555	53.97	638,565	2.68	101,302	0.43	23,790,081
2006/07	2,021,021	7.53	10,502,637	39.14	13,553,233	50.50	633,055	2.36	125,591	1.47	26,835,537
2007/08	2,050,243	6.58	13,718,597	44.06	13,902,819	44.65	1,349,319	4.33	117,272	0.38	31,138,250

(Source: SC Bank Nepal Limited, Annual Report 2003-2008)

Above table shows the deployment of the banks available resources at various portfolios among which the LABP & Investment holds the biggest outlet of resources deployment. Due to decrease in cash & bank balance in 2004/05, LABP & Investment tends to increase.

But in this study we have segregated only the deployment into following two categories:

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

4.2.3.1 LABP budget of SC Bank Nepal Limited

Since, the researcher could not get the budgeted data so the comparison between actual and budgeted amount was not done in this study.

Growth of LABP of SC Bank Nepal Limited

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

Table 4.6

Growth of LABP of SC Bank Nepal Limited

(Amount in Rs. '000')

Fiscal Year	LABP	Growth in Amount	Growth (%)
2003/04	6,410,242	-	-
2004/05	8,143,208	1732966	27.03
2005/06	8,935,418	792210	9.73
2006/07	10,502,637	1567219	17.54
2007/08	13,718,597	3215960	30.62

(Source: SC Bank Nepal Limited, Annual Report 2003-2008)

4.2.3.2Resources Deployment in Other Portfolio than LABP (NLABP)

Deployment in other portfolio than LABP includes cash & bank, investment in fixed assets and other assets. Since, the researcher could not get the budgeted data so the comparison between actual and budgeted amount was not done in this study.

Growth of NLABP of SC Bank Nepal Limited

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

Table 4.7

Growth of NLABP of SC Bank Nepal Limited

Amount in Rs. '000'

Fiscal Year	NLABP	Growth in Amount	Growth (%)
2003/04	15,013,218	-	-
2004/05	11,378,780	3634438	24.21
2005/06	14,854,663	3475883	30.55
2006/07	16,332,900	1478237	9.95
2007/08	17,419,653	1086753	6.65

(Source: SCBNL Annual Reports, 2003/04-2007/08)

4.2.3.3 Actual Deposit Collected vs. Actual LABP Status of SCBNL

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

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

Table 4.8

Status of LABP Verses Actual Deposit of SCBNL

(Amount in Rs. '000')

Fiscal Year	Actual Deposit	Actual outstanding LABP	LABP to deposit ratio (CD ratio)
2003/04	21,161,442	6,410,242	30.29
2004/05	19,363,470	8,143,208	42.25
2005/06	23,061,032	8,935,418	38.75
2006/07	24,647,021	10,502,637	42.61
2007/08	29,743,999	13,718,597	46.12

(Source: SCBNL Annual Report 2003-2008)

From above table it can be found that both the deposit and LABP is increasing. The average CD ratio is 40.00%. It is significant to analyze the relationship between deposits an outstanding LABP. In order to find out the variability, of actual deposit and actual outstanding LABP of different years we have to calculate arithmetic mean, standard deviation, coefficient of variation techniques and correlation of coefficient.

The detail calculations of these statistical tools are presentable in appendix no. 1. Now summarizing the results from appendix 1, we have

Table 4.9

Summary of Actual Deposits and Actual Outstanding LABP

(Amount in Rs. '000')

Statistical Tools	**Actual Deposit**	**Actual Outstanding LABP**
Mean(x)	23,595,392.80	9,542,020.40
Standard Deviation (σ)	3,550,495.98	2,469,787.59
Coefficient Variation(C.V)	15.08%	25.88%

The above results show that actual deposits are more variable than actual outstanding LABP. Hence the coefficient of variation of actual deposits is higher than that of actual outstanding LABP.

Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding deposits and actual outstanding LABP. There should be positive correlation between actual outstanding deposits and actual outstanding LABP. In other words, actual deposits increase as the actual LABP increase or vice versa.

To find out correlation between actual deposits and actual outstanding LABP, we can take the help of Karl Pearson's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between actual deposits outstanding and actual LABP outstanding or not.

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

After this significance of 'r' is tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is presented in appendix. From this appendix, we have calculate value of 'r' and P.E. respectively as 0.92500 and 0.042.

Since r >6 P.E (0.92500>6*0.042), the value of 'r' is significant, there is perfect correlation between actual deposits and actual LABP.

The data of actual deposits and actual LABP outstanding can also be presented in graphical form as below. The graph shows the actual deposits and actual outstanding LABP are in increasing trend.

Figure 4.1

Bar Diagram of LABP v/s Deposit

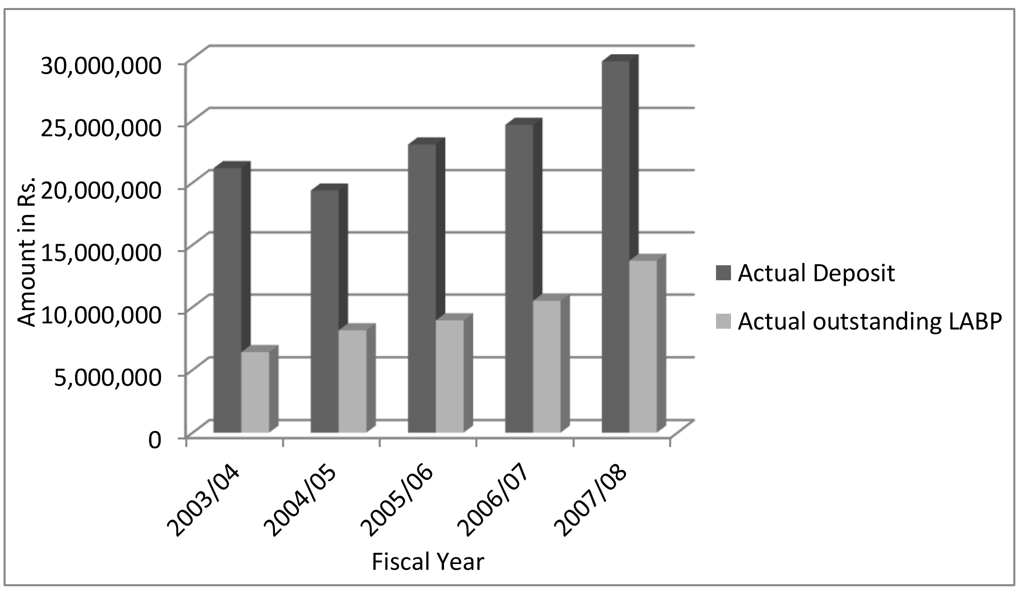
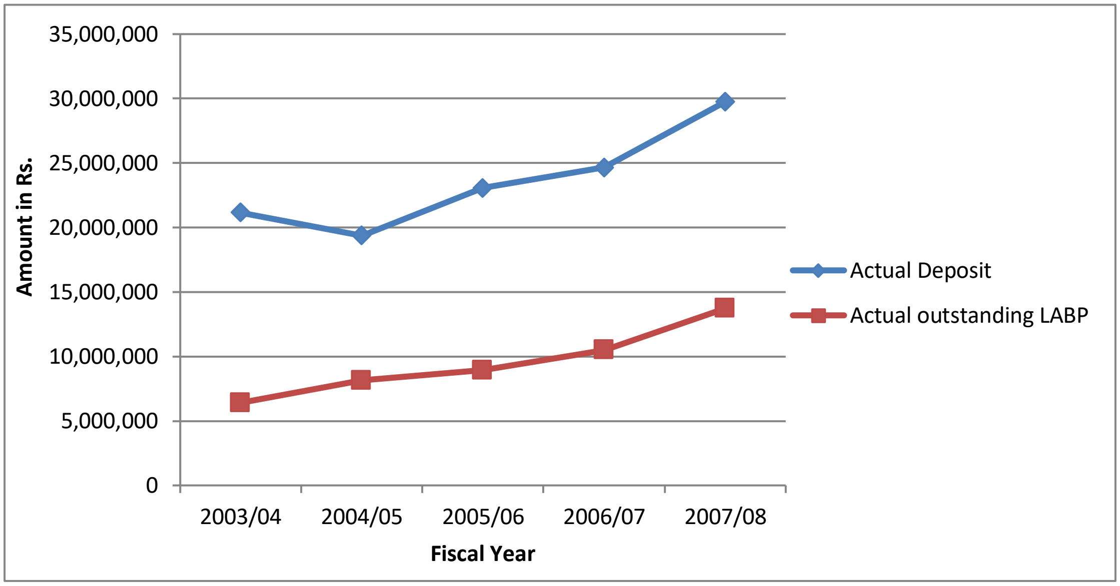


Figure 4.2

Scatter Diagram of LABP v/s Deposit



4.2.4 Plan for Non-Funded Business Activities of SCBNL

Apart from the activities like advancing loans, overdraft, bills discounting and investments where funds are involved for income generation, there are other business activities too preferred by the bank which do not involve fund yet they are income generative. Such transactions are called non-funded business of the bank. In such transactions, the bank has to take contingents liabilities on behalf of their customer for a fee and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expense burden of the bank.

Generally, income generating non-funded business of the bank is of following two types.

a) Letter of Credit Business
b) Bank Guarantee Business

Since, these are the contingent liabilities; it appears down the line of balance sheet of the bank.

4.2.4.1 Letter of Credit

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

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

Table 4.10

Growth of L/C business of SCBNL

Fiscal Year	Outstanding L/C Amount	Increased(Decreased) Amount	Growth(%)
2003/04	1,669,867	-	-
2004/05	1,456,762	(213,105)	(12.76)
2005/06	1,837,398	380,636	26.13
2006/07	1,861,944	24,546	1.34
2007/08	1,857,994	(3,950)	(0.21)

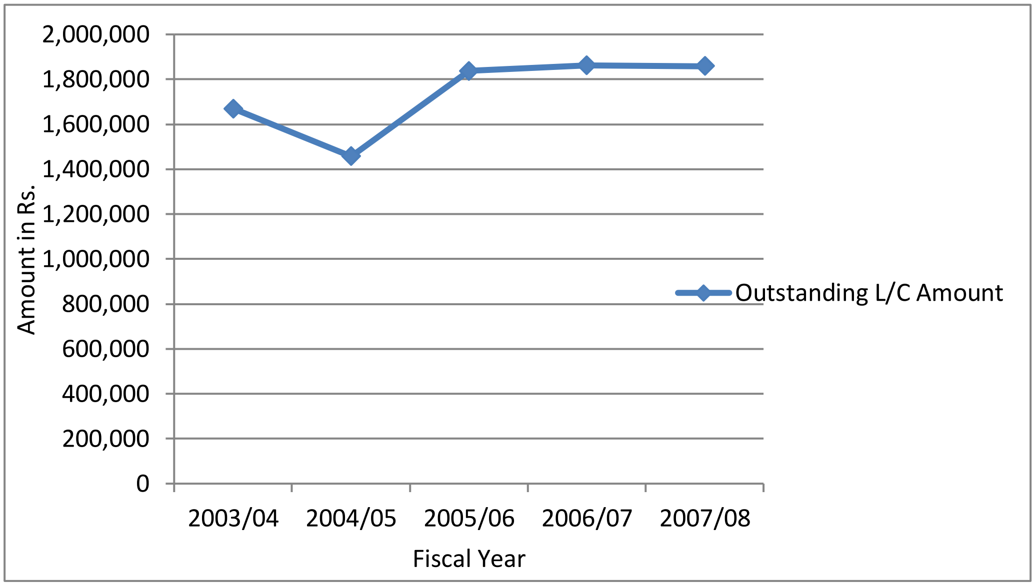
(Source: SCBNL Annual Report 2003-2008)

Above table shows, that the letter or credit outstanding fluctuated each year. It had a record growth of 26.13% in the year 2005/06 and decreasing growth rate 12.76% in the year 2004/05.

The growth rate in L/C business of the bank year has been presented in the scatter diagram as below:

Figure 4.3

L/C business of SCBNL



4.2.4.2 Bank Guarantee

Bank issues the bank guarantee on behalf of their customer for bidding and performing any activities by the letter in favour of the employer of the activities. It is a guarantee letter issued by at the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity.

Following table shows the outstanding bank guarantee liability as of the end of fiscal year of our study and change in subsequent year.

Table 4.11

Yearly Growth in Bank Guarantee Liability

Amount in Rs. '000'

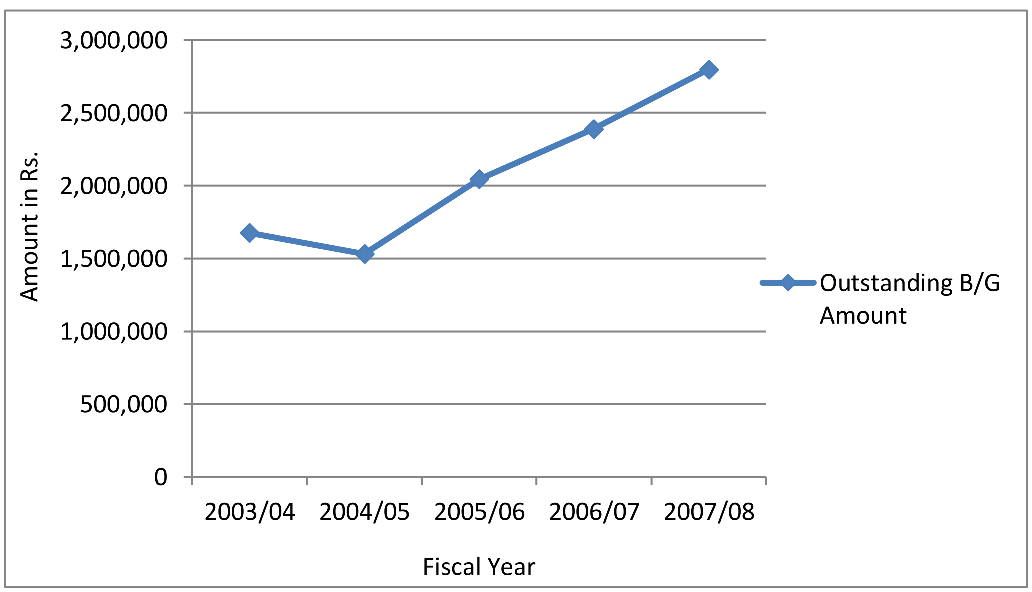
Fiscal Year	Outstanding B/G Amount	Increased(Decreased) Amount	Growth(%)
2003/04	1,675,401	-	-
2004/05	1,531,069	(144332)	(8.61)
2005/06	2,046,063	514994	33.64
2006/07	2,389,969	343906	14.38
2007/08	2,800,467	410498	17.17

(Source: SCBNL Annual Report 2003/2008)

Above table shows that, the bank guarantee outstanding liability is increasing since 2005/06. In FY 2004/05 there was a negative growth rate of 8.61% which then continuously improved by increasing in further years of the study. This tends to mean that the bank management has succeed to increase the customers' deposits in the bank.

Figure 4.4

Yearly Bank Guarantee Business of SCBNL



4.2.5 Expenditure Planning of SC Bank Nepal Ltd.

Planning for expenses is most essential to maintain reasonable levels to support the objectives & planned programs of the bank. Expenses planning focus on the relationship between expenditure & the benefits derived from these expenditures. SC bank has started preparing Expenditure and Revenue Budget.

The following table shows the status of expenditure incurred by the bank for the study period.

Table 4.12

Yearly Cost Structure of SCBNL

(Amount in Rs. '000')

Year Expense	2003/04	2004/05	2005/06	2006/07	2007/08
Interest expenses	275,809	254,127	303,198	413,055	471,730
Employee expenses	134,685	148,586	168,231	199,778	225,256
Office operational expenses	279,695	256,649	221,087	228,451	230,571
Non-operating expenses	-	-	-	-	-
Provision for staff bonus	85,955	88,683	93,937	101,610	119,337
Loan Provision	-	-	-	-	-
Total Expenses	**776,144**	**748,045**	**786,453**	**942,894**	**1,046,894**

The above table shows that each type of expenses each year is in fluctuating trend. As the expense for interest payment is the highest portion total cost for each year. Here is the segregation of total expenses into interest expense and expense other than interest (other expenses) for the study.

4.2.5.1 Interest Expenses

Interest expenses are the expenditure incurred for making payment of interest to the deposit mobilized by the bank. As the customer deposit holds a major share on total resources of the bank, interest expenses is also highest among other in total expenses of the bank.

We are analyzing the interest expenses to the total deposit mobilized by the bank in following table.

Table 4.13

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

Fiscal Year	Interest Expenses Amount	Total Deposit Amount	Cost of deposit in percentage
2003/04	275,809	21,161,442	1.30
2004/05	254,127	19,363,470	1.31
2005/06	303,198	23,061,032	1.31
2006/07	413,055	24,647,021	1.68
2007/08	471,730	29,743,999	1.59

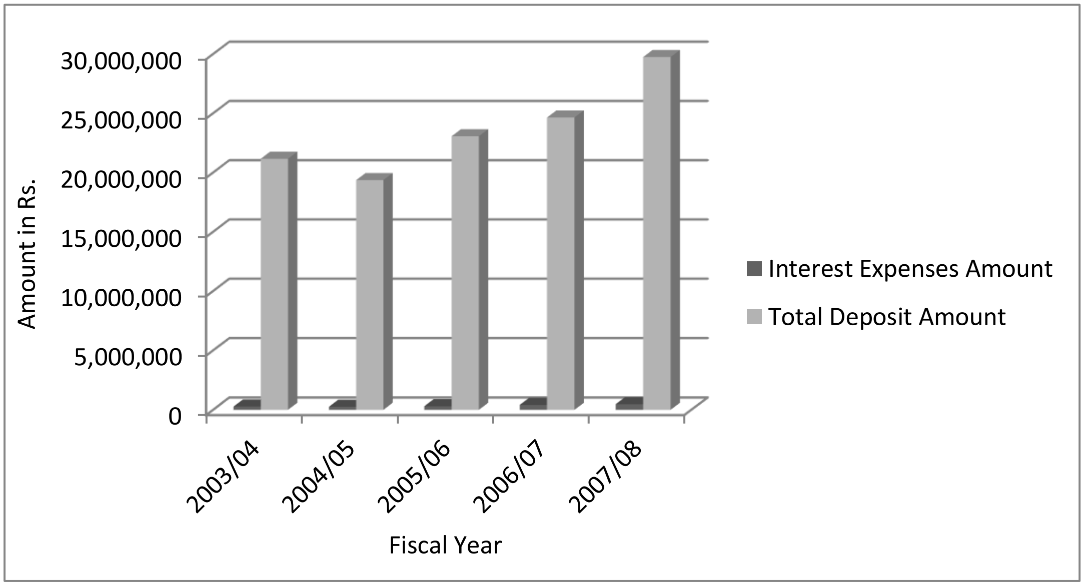
(Source: SCBNL, Annual Report 2003-2008)

As said earlier, the customer deposit is one of the major sources for resources mobilization by the bank. For the deposit taken by the bank it has to pay interest. There are various kinds of deposit account from interest free deposit to varying interest deposit accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (COD) of the bank. For a bank lower COD refers to better position in terms of profitability.

From above table we can see that the yearly COD of SC bank ranges from 1.30 to 1.68% in various year. The average COD for the period of this study is 1.438. The status of total deposit and the COD is shown in the bar diagram as below-

Figure 4.5

Bar Diagram Showing Years Deposit & Interest Expenses of SCBNL



It is significant to analyze the relationship between deposits and interest expenses. The figure of actual deposits amount and interest amount a can be presented in tabular form. In order to find out the variability of actual deposits and actual interest expenses of different years, we have to calculate arithmetic mean, standard deviation, coefficient of variation technique and correlation of coefficient the detail calculations of these statistical tools are presented in appendix no.4. Now summarising the results from appendix we have-

Table 4.14

Summary of Actual Deposit & Interest Expenses Amount

(Amount in Rs. '000')

Statistical Tools	Actual Deposit	Interest Expenses
Mean(x)	23595392.8	343583.8
Standard Deviation (σ)	3550495.98	84231.41
Coefficient Variation(C.V)	15.05%	24.52%

The above results show that actual deposits are more variable than actual interest expenses. Hence the coefficient of variation of actual deposits is higher than that of actual interest expenses.

Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding deposits and actual interest expenses. There should be positive correlation between actual outstanding deposits and actual interest expenses. In other words, actual deposits increase as the actual interest expenses increase or vice versa.

To find out correlation between actual deposits and actual interest expenses, we can take the help of Karl Pearson's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between actual deposits outstanding and actual interest expenses or not.

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

After this significance of 'r' is tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is presented in appendix. From this appendix, we have calculate value of 'r' and P.E. respectively as 0.9537 and 0.027.

Since r >6 P.E (0.9537>6*0.027), the value of 'r' is significant, there is perfect correlation between actual deposits and interest expenses.

From the calculation shown in appendix 2, we have obtained the value of 'r' being 0.9537, now the coefficient of determination, which explains by x variable i.e. deposit can be calculated as the square of 'r'.

Therefore, the coefficient of determination $(r)^2 = (0.9537)^2 = 0.909$

4.2.5.2 Expenses other than Interest Expenses

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

i. Expenses for employees
ii. Operational expenses
iii. Non-operating expenses
iv. Loan loss provision
v. Office operational expenses

4.2.6 Revenue Planning of SCBNL

SC Bank Nepal Limited generates its revenue from 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 SC bank can be broadly categorized into two types viz. Interest income earned from the loan advances and overdrafts provided to the borrowers, investment in HMG bonds etc. Interest income holds major share in total income portfolio of the bank. Other income consists the income other than interest income, which are as follows:

i. Income from commission & Discounts
ii. Income from interest earnings

iii. Income from exchange

iv. Other operating income

v. Other non-operating income.

Table 4.15

Yearly Income Structure of SCBNL

Amount in Rs. '000'

Revenue Year	2003/04	2004/05	2005/06	2006/07	2007/08
Interest income	1,042,176	1,058,678	1,189,603	1,411,982	1,591,196
Exchange earning	273,050	273,044	283,472	309,087	345,653
Commission & discount	198,948	178,651	222,929	221,207	276,432
Other operating income	26,531	29,293	25,442	28,785	32,594
Other non-operating income	(10,756)	2,957	1,433	9,492	1,683
Total Expenses	**1,529,949**	**1,542,623**	**1,722,879**	**1,980,553**	**2,247,558**

(Source: SCBNL, Annual Report 2003-2008)

The above table shows that the revenues are increasing each year, income from interest is the highest among the others in total revenues for each year.

4.2.6.1Interest Income

An interest income contributes the major portion to total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore, this is popularly called yield on fund(YOF). Bills discounting is also one form of advances. So in this study we have grouped the outstanding loan, advances, overdraft and the bills discounted together called LABP and have included the bills discounting commission too in to the interest income amount(YOF). First lets see the growth rate of interest income during the study period from 2003/04 to 2007/08.

Table 4.16

Yearly Growth in Interest Income

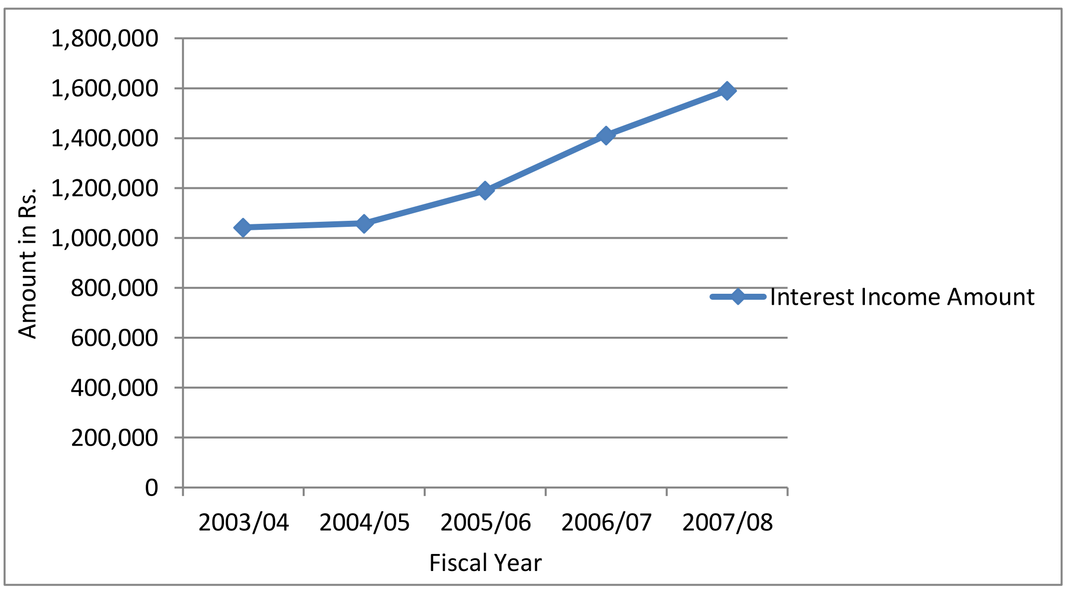
(Amount in Rs. '000')

Fiscal Year	Interest Income Amount	Increased(Decreased) Amount	Growth(%)
2003/04	1,042,176	-	-
2004/05	1,058,678	16,502	1.52
2005/06	1,189,603	130,925	12.37
2006/07	1,411,982	222,379	18.69
2007/08	1,591,196	179,214	12.69

(Source: SCBNL Annual Report 2003/2008)

Figure 4.6

Increasing Trend of Interest Income



Now we shall analyze the comparative status of total YOF with the total LABP with the help of following table and bar scatter diagram.

Table 4.17

Status of Interest Income to Total LABP

(Amount in Rs. '000')

Fiscal Year	Interest Income	Actual LABP	Average yields on LABP%
2003/04	1,042,176	6,410,242	16.26
2004/05	1,058,678	8,143,208	13.00
2005/06	1,189,603	8,935,418	13.31
2006/07	1,411,982	10,502,637	13.44
2007/08	1,591,196	13,718,597	11.60

(Source: SCBNL, Annual Report 2003-2008)

From above table we can see that yearly YOF of SC Bank ranges 11.60% to 16.26% in various years. The average YOF for the period of study is 13.52%.

It is significant to analyze the relationship between outstanding LABP and interest income (YOF). The figures of LABP amount and interest income amount have been presented in tabular form above. In order to find out virility of actual LABP and actual interest income of different years we have to calculate arithmetic mean, standard deviation, coefficient of variation technique and correlation of coefficient. The detail calculation of these statistical tools is presented in appendix no. 3. Now summarizing the results from appendix 3, we have,

Table 4.18

Summary of Actual LABP & Interest Income Amount

(Amount in Rs. '000')

Statistical Tools	**Actual LABP**	**Interest Income**
Mean(x)	9542020.4	1258727
Standard Deviation (σ)	2469787.59	212468.73
Coefficient Variation(C.V)	25.88%	16.88%

The above results show that actual outstanding LABP are more variable than actual interest income. Hence the coefficient of variation of actual outstanding LABP is higher than that of actual interest income.

Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding LABP and actual interest income. There should be positive correlation between actual outstanding LABP and actual interest income. In other words, actual LABP increase as the actual interest income increase or vice versa.

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

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

After this significance of 'r' is tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is presented in appendix. From this appendix, we have calculate value of 'r' and P.E. respectively as 0.9664 and 0.019.

Since r >6 P.E (0.9664>6*0.019), the value of 'r' is significant, there is perfect correlation between actual outstanding LABP and actual interest income.

From the calculation shown in appendix 3, we have obtained the value of 'r' being 0.9664, now the coefficient of determination, which explains the change in y variable i.e. interest income by x variable i.e. LABP can be calculated as the square of 'r'.

Therefore, the coefficient of determination $(r)^2 = (0.9664)^2 = 0.9339$

Figure 4.7

Bar Diagram of Yearly LABP and Interest Income

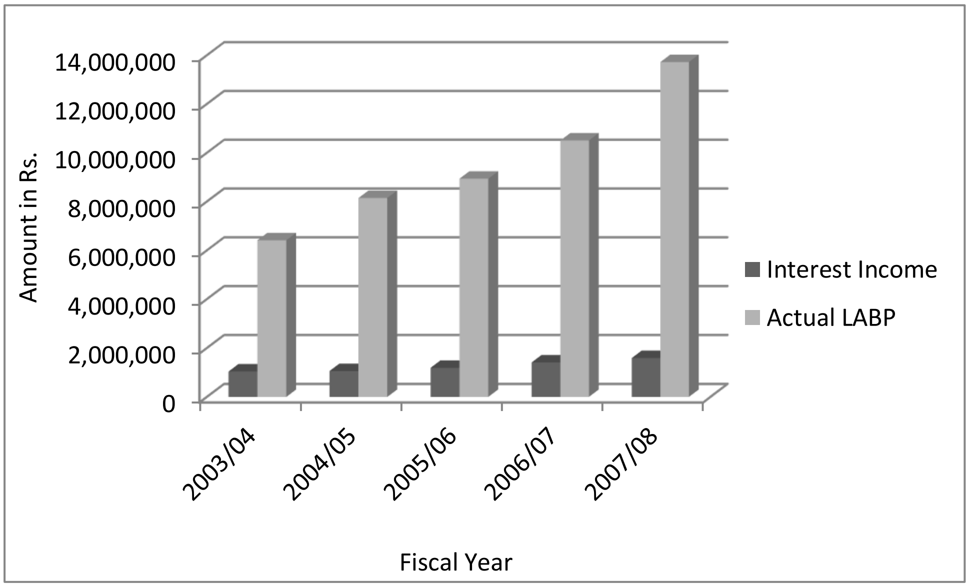
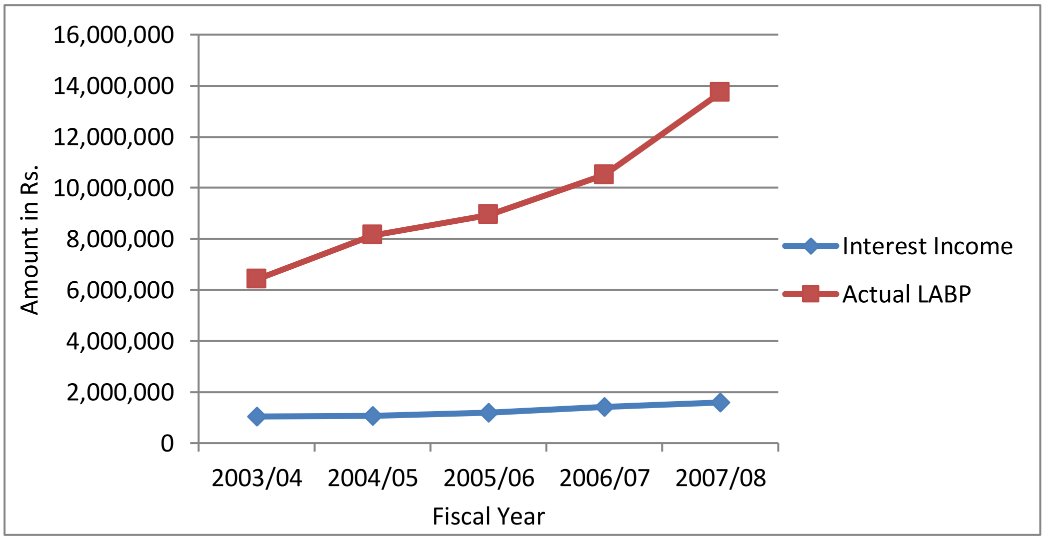


Figure 4.8

Scatter Diagram of Yearly LABP & Actual Income



Above diagram shows, both the actual LABP and interest income are incurred in increasing trend inspite of economic situation of country which we can take as a positive aspect.

4.2.6.2 Income Other than Interest Income

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

4.2.7 Net Income from Interest

Net income from interest is the difference amount obtained by subtracting total interest expenses amount from the total interest earned. In other words, it is the margin of interest or net interest income of the bank.

Following table gives the status of interest income expenditure and speed of the bank for the study period.

Table 4.19

Yearly Net Income of SCBNL

(Amount in Rs. '000')

Fiscal Year	Interest Income	Interest Expenses	Net Income from Interest
2003/04	1,042,176	275,809	766,367
2004/05	1,058,678	254,127	804,551
2005/06	1,189,603	303,198	886,405
2006/07	1,411,982	413,055	998,927
2007/08	1,591,196	471,730	1,119,466

(Source: SCBNL, Annual Report 2003-2008)

The study shows that SC Bank has been successfully able to convince its customers to deposit in the bank and also take loan from the bank, this has been shown by the increasing trend of Net Income from interest study.

Figure 4.9

Bar Diagram of Interest Income, Interest Expense and Net Income from Interest

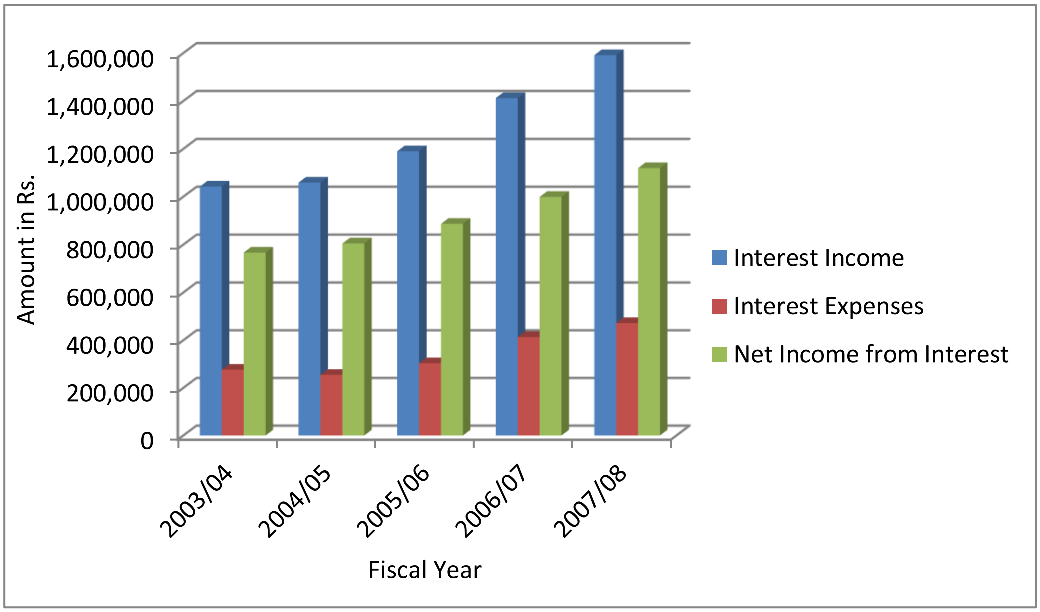
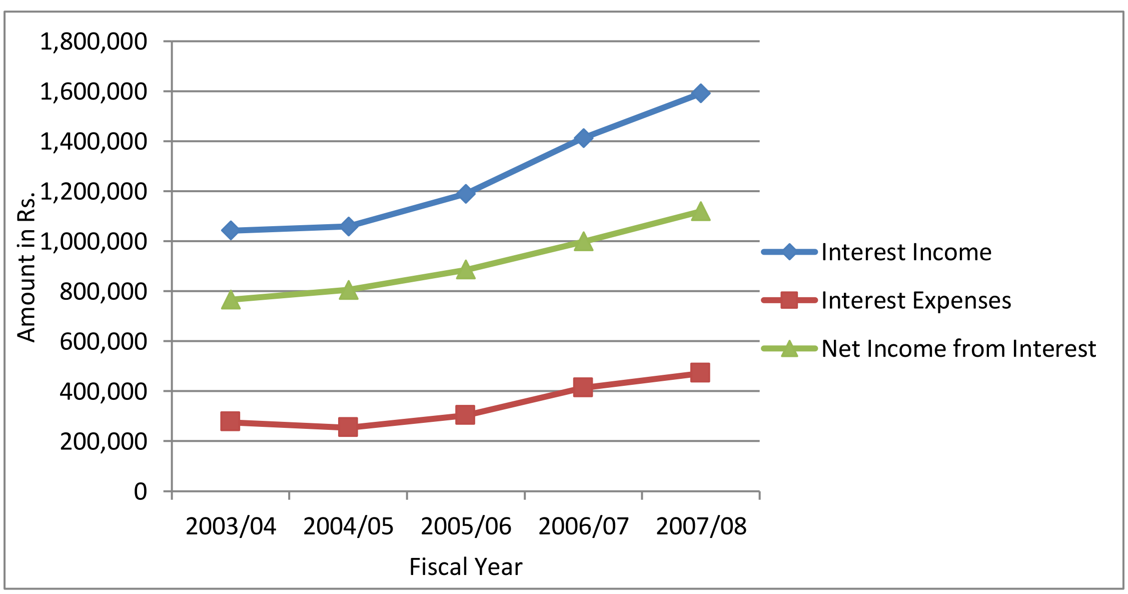


Figure 4.10

Scatter Diagram of Interest Income, Interest expenses and Net Income from Interest



The diagram shows that there is a continuous increase in deposits and the customers also has been taking loans from the bank, this shows the bank management has shown its efficiency effectively.

4.2.8 Burden

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

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

Table 4.20

Table Showing Burden of SCBNL

(Amount in Rs. '000')

Fiscal Year	Other Expenses	Other Income	Net Burden
2003/04	608,160	26,531	581,629
2004/05	672,963	29,293	643,670
2005/06	450,837	26,776	424,061
2006/07	496,268	38,021	458,247
2007/08	331,186	33,176	298,010

(Source: SCBNL, Annual Report 2003-2008)

Figure 4.11

Bar Diagram Showing Annual Burden of SCBNL

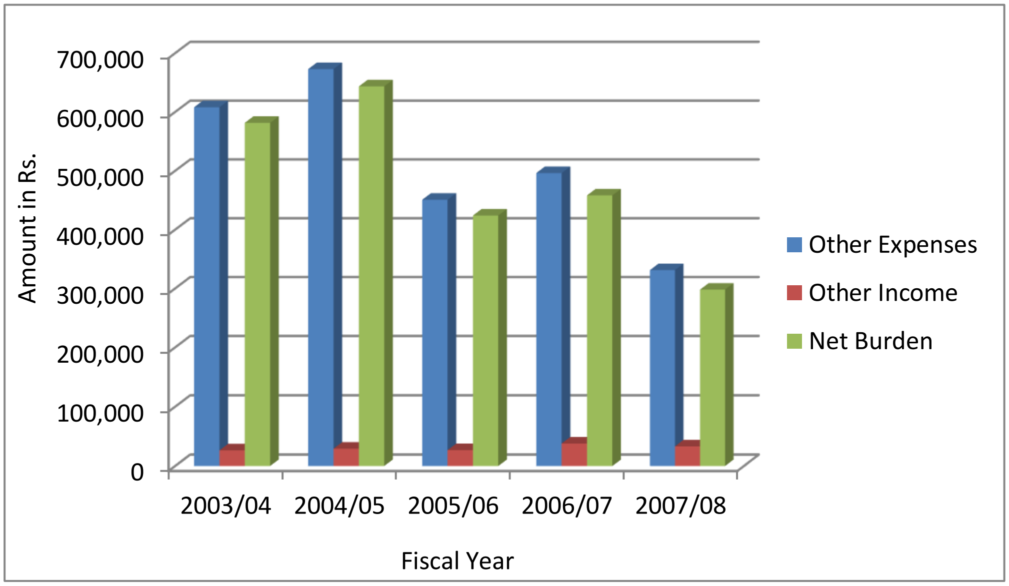
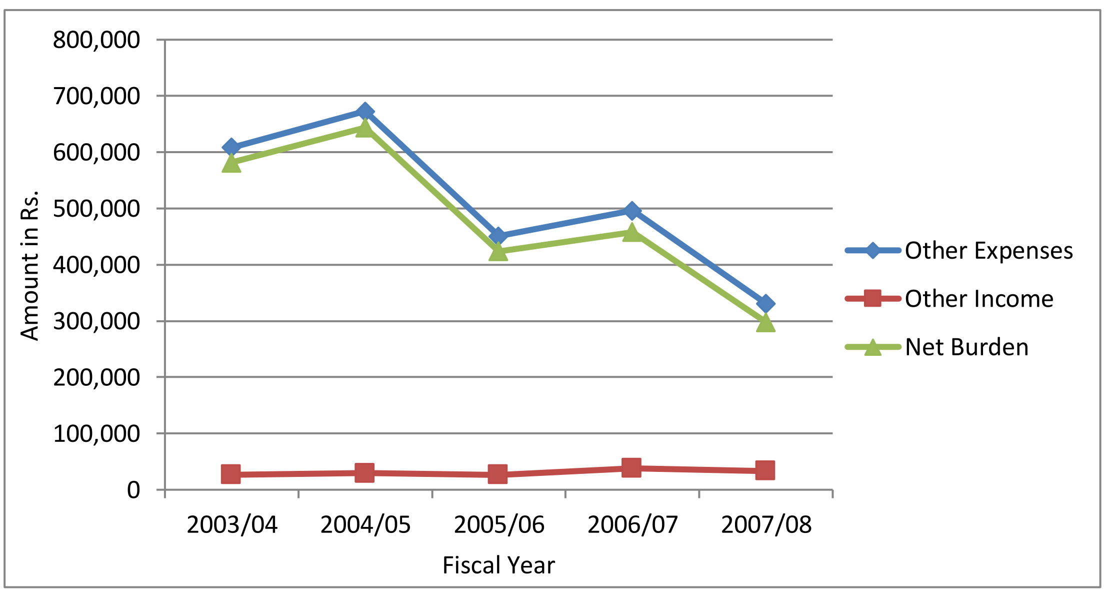


Figure 4.12

Scatter Diagram of Annual Burden of SCBNL



4.2.9 Net Profit

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

Following table and graphs shows the status of spread, burden and Net Profit of various year of the study.

Table 4.21

Yearly Net Profit Status of SCBNL

(Amount in Rs. '000')

Fiscal Year	**Net Income from Interest**	**Burden**	**Net Profit**
2003/04	766,367	581,629	184,738
2004/05	804,551	643,670	160,881
2005/06	886,405	424,061	462,344
2006/07	998,927	458,247	540,680
2007/08	1,119,466	298,010	821,456

(Source: SCBNL, Annual Report 2003-2008)

From the analysis of fiscal year 2003/04 to 2007/08, the maximum Net Profit obtained is in fiscal year 2007/08 as compared to other four years.

Figure 4.13

Bar Diagram Showing Annual Interest Income, Burden and Profit of SCBNL

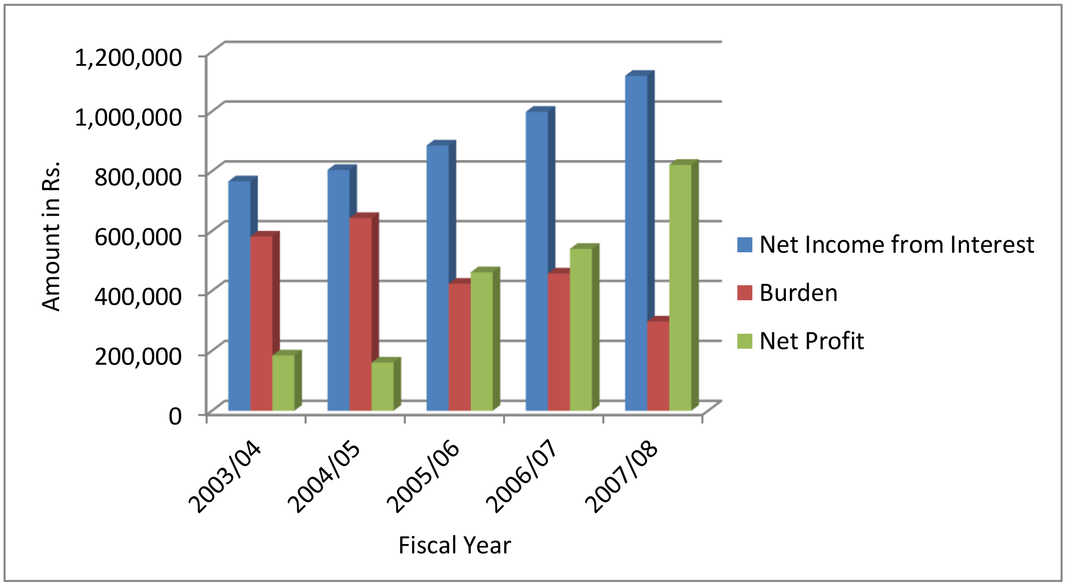
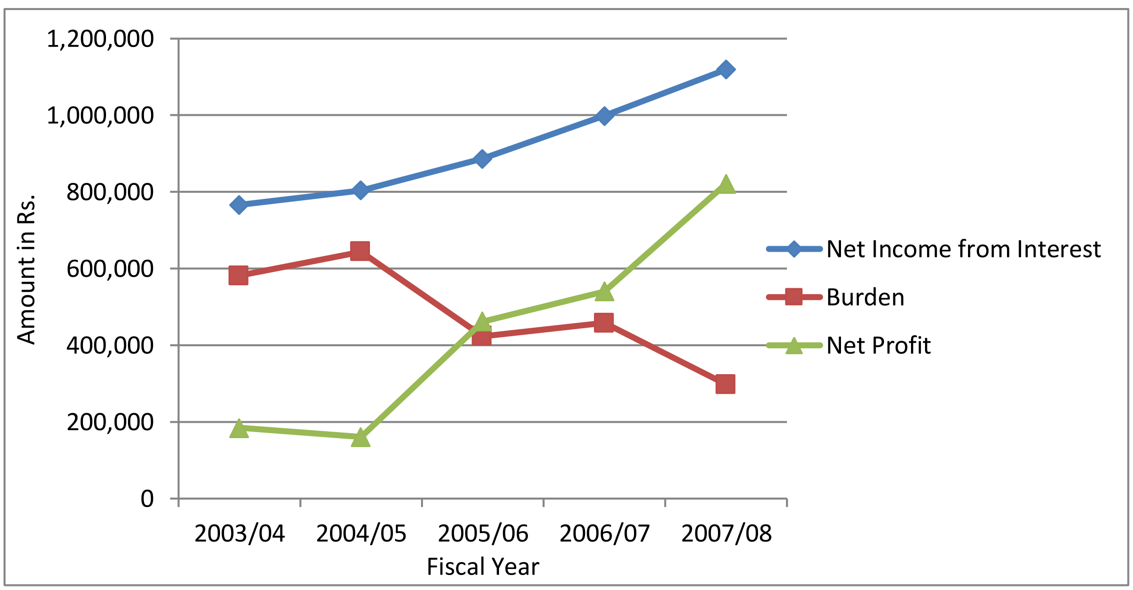


Figure 4.14

Scatter Diagram of Net Profit of SCBNL



4.3 Performance Evaluation of SC Bank Nepal Ltd.

"Performance Evaluation for internal management use is important part of a comprehensive planning and control system" (Welsh, 1999).

All companies regardless of their site have reporting requirements to show their overall performance.

Performance reporting is an important phase of control process. We can use various technique and criteria to evaluate performance of SC Bank, which are as follows-

a) Ratio Analysis

b) Cost Volume Profit Analysis

4.3.1 Ratio Analysis

An arithmetical relationship between two figures is known as a ratio. Ratio analysis is a financial device to measure the financial positions, major strengths and weakness of firm. To evaluate the performance of an organization by creating the ratios from the figures of difference account consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups.

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

4.3.1.1 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, we use current ratio to measure relationship of current assets and current liabilities of SCBNL.

The current ratio, one of the most commonly cited financial ratio, measure the firms ability to meet its short-term obligations. Current ratio is the ratio of current assets to current liabilities. Current assets are cash and other "nearness to cash" which can be converted into cash within one accounting period, where as the current liabilities are those short term obligations which can be paid within a year.

Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and repaid expenses.

Current liabilities refer to the short-term maturity objective, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions, accrued expenses. The current ratio is expressed as follows:

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

Table 4.22

Calculation of Liquidity Ratio

(Amount in Rs. '000')

Fiscal Year	Current Assets	Current Liabilities	Current Ratio in terms of time
2003/04	10,652,006	21,944,315	0.48
2004/05	11,514,016	19,391,021	0.59
2005/06	12,188,930	23,061,032	0.53
2006/07	14,284,810	25,047,021	0.57
2007/08	17,966,378	29,743,999	0.60

(Source: SCBNL, Annual Report 2003-2008)

The above table shows that the current liabilities of SCBNL have always exceeded the current assets for the study period 2003/04 to 2007/08. The bank has the low current ratio of over the study period from 0.48 to 0.60.

4.3.1.2Activity Ratio (Employee Productivity 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 LABP per employee, deposit per employer and non-funded activities per employer.

Table 4.23

Calculation of Employee Productivity Ratio of SC Bank

Amount in Rs. '000'

Fiscal Year	Deposit Collected	LABP Deployed	No. of Employee	Deposit per employee	LABP per employee
2003/04	21,161,442	6,410,242	263	80,462	24,374
2004/05	19,363,470	8,143,208	302	64,117	26,964
2005/06	23,061,032	8,935,418	345	66,844	25,900
2006/07	24,647,021	10,502,637	351	70,219	29,922
2007/08	29,743,999	13,718,597	377	78,897	36,389

(Source: SCBNL, Annual Report 2003-2008)

Above table shows that deposit per employee is an increasing trend but LABP per employee is in fluctuating trend.

4.3.1.3 Capital Structure Ratios (Leverage Ratio)

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

a. Total debt to shareholders equity ratio,
b. Total debt to Total Assets ratio.

1) Total Debt to Shareholders Equity

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

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

Table 4.24

Calculation of Debt to Shareholder's Equity of SC Bank

(Amount in Rs. '000')

Fiscal Year	Total Debt	Shareholder's Equity	Ratio in times
2003/04	26,477,974	1,495,739	17.70
2004/05	24,276,732	1,582,415	15.34
2005/06	29,198,040	1,754,139	16.65
2006/07	33,334,458	2,116,353	15.75
2007/08	36,983,025	2,492,547	14.84

(Source: SCBNL, Annual Report 2003-2008)

The above table shows that debt to equity ratio of the bank varies from maximum of 17.70 times in the year 2003/04 to the minimum 14.84 in the year 2007/08 times during the study year. The analysis indicates that the bank has the wise debt equity ratio, which means the creditors have invested more in the bank than the owner.

2) Total Debt to Total Assets Ratio

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

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

Table 4.25

Total Debt to Total Asset Ratio

(Amount in Rs. '000')

Fiscal Year	Total Debt	Total Assets	Ratio in %
2003/04	26,477,974	23,642,060	111.99
2004/05	24,276,732	21,781,679	111.45
2005/06	29,198,040	25,767,352	113.31
2006/07	33,334,458	28,596,689	116.57
2007/08	36,983,025	33,335,788	110.94

(Source: SCBNL, Annual Report 2003-2008)

The above table shows that debt to assets ratio of the bank varies from maximum of 116.57% in the year 2006/07 to the minimum 110.94 in the year 2007/08 times during the study year. The analysis indicates that the bank has the wise debt assets ratio, which means the creditors have invested more in the bank than the owner.

4.3.1.4 Profitability Ratio

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

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

Table 4.26

Calculation of Profitability Ratio

Fiscal Year	Net Profit	Total Assets	Shareholder's Equity	Return on Assets	Return on Equity
2003/04	537800	23,642,060	1,495,739	2.27	35.95
2004/05	536245	21,781,679	1,582,415	2.46	33.88
2005/06	658756	25,767,352	1,754,139	2.55	37.55
2006/07	691668	28,596,689	2,116,353	2.41	32.68
2007/08	818921	33,335,788	2,492,547	2.45	32.85

(Source: SCBNL, Annual Report 2003-2008)

Table 4.26 shows the results of return on assets, total deposit and Net worth of SC bank, which is remarkable. It indicates net profit of SC Bank is in an increasing trend. The profitability ratio of SC Bank is sound and strong. Its profit ratio indicates of the higher overall efficiency of the SC Bank and better utilization of total resources available.

4.3.2 Cost Volume Profit Analysis

The relationship between cost volume and profit is known as cost volume profit analysis. It is an analytical tool for studying the relationship between volume, cost and profit. It is also an important tool used for the profit planning in the business. There are three factors of costs volume of profit analysis which are inter-connected and dependent on one another, for example profit depends upon sales, selling price to a greater extent will depend upon the cost, cost depend upon the volume of productions.

Cost volume profit analysis is great helpful in managerial decision managing specially cost, control and profit planning.

- Activity of SCBNL is selected on following assumptions.
- Cost volume structure is based on the accounting data of fiscal year 2003/04 to 2007/08 and CD ratio and YOF is taken for the cost of 5 average years.
- In case of bank, net burden is treated as fixed cost, which is calculated in the basis of total other cost and total other income of fiscal year 2007/08. And interest margin(spread) is calculated on the basis total interest income and total interest expenses of fiscal year 2007/08.

Cost Volume Profit Analysis of SC Bank Nepal Limited.

Amount in Rs. '000'

Total Interest Income	=	Rs. 1,591,196
Total Interest Expense	=	Rs. 471,730
Total Other expense	=	Rs. 331,186
Total Other Income	=	Rs. 33,176
Average Yield on Fund	=	13.52%
Average CD Ratio	=	40.00%
Net Burden	=	Total other expenses-Total other income
	=	Rs (331,186 - 33,176)
	=	Rs. 298,010
Interest Margin (Spread)	=	Total Interest Income-Total Interest Expense
	=	Rs (1,591,196- 471,730)
	=	Rs. 1,119,466

a) We can calculate the BEP in terms of interest income of SC bank as below:

$$\text{BEP(\%)} = \frac{\text{Net Burden}}{\text{Spread}} \times 100\%$$

$$= \frac{\text{Rs.298,010}}{\text{Rs.1,119,466}} \times 100\%$$

$$= 26.62\%$$

BEP in Rs. = Interest Income ×BEP%

= Rs. 1,591,196×26.62%

= Rs. 423,576

b) We find out SC Bank's break even interest income level is Rs. 423,576

c) Margin of safety for the year 2007/08 can be calculated as below:

Margin of Safety = Total Interest Income-BEP income

= Rs. 1,591,196 - Rs. 423,576

= Rs. 1,167,620

Margin of Safety Ratio (for 2007/08)

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

$$= \frac{\text{Rs.1,167,620}}{\text{Rs.1,591,196}} \times 100\%$$

$$= 73.38\%$$

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

$$\text{BEP LABP} = \frac{\text{BEP Interest Income}}{\text{Average YOF}}$$

$$= \frac{\text{Rs.423,576}}{0.1352}$$

= Rs 3,025,543

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

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

$$= \frac{\text{Rs } 3{,}025{,}543}{40.00\%}$$

$$= \text{Rs. } 7{,}563{,}858$$

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

4.4 Cash Flow Analysis

Following table presents cash flow statement of the bank for last two years which gives satisfactory picture of cash in flow to meet the required cash outflow within the bank for the period.

Table 4.27

Cash Flow Statement

Previous Year	Particulars	Current Year
1,092,749,033	**A. Cash Flow from Operating Activities**	**(45,233,838)**
1,572,010,974	**1. Cash Receipts**	**1,862,221,002**
1,071,701,495	1.1 Interest Income	1,295,672,504
224,164,421	1.2 Commission & Discount Income	272,068,274
237,103,978	1.3 Income from Foreign Exchange Transaction	255,436,198
1,020,334	1.4 Recovery of Loan Written off	5,867,246
38,020,746	1.5 Other Income	33,176,780
1,631,699,607	**2. Cash Payments**	**1,621,292,559**
397,832,097	2.1 Interest Expenses	474,628,760
200,045,248	2.2 Staff Expenses	223,667,612
207,528,139	2.3 Office Operating Expenses	206,769,247
330,025,738	2.4 Income tax payment	385,040,406
496,268,385	2.5 Other Expenses	331,186,534
(59,688,633)	**Cash Flow before Changes in Working Capital**	**240,928,443**
(1,351,802,697)	**Decrease/Increase of Current Assets**	**(4,364,232,028)**
216,119,500	1. Decrease/Increase in Money at call & short notice	(436,386,100)

-	2. Decrease/Increase in Short-term Investment	-
(1,589,803,459)	3. Decrease/Increase in Loan & Bills Purchase	(3,255,242,077)
21,881,262	4. Decrease/Increase in Other Assets	(672,603,851)
2,504,240,363	**Decrease/Increase of Current Liabilities**	**4,078,069,747**
1,585,988,674	1. Decrease/Increase in Deposits	5,096,978,038
-	2. Decrease/Increase in Certificate of Deposits	-
380,417,495	3. Decrease/Increase in Short Term Borrowings	(348,711,311)
537,834,194	4. Decrease/Increase in Other Liabilities	(670,136,980)
(421,102,274)	**B. Cash Flow from Investment Activities**	**(16,662,637)**
(714,678,023)	1. Decrease/Increase in Long term Investment	(323,460,547)
(33,230,334)	2. Decrease/Increase in Fixed Assets	(14,116,435)
326,549,868	3. Interest Income from Long Term Investment	319,814,530
256,215	4. Dividend Income	1,099,815
-	5. Others	-
1,150,360	**C. Cash Flow from Financing Activities**	**901,799**
-	1. Decrease/Increase in Long term Borrowings(Bonds)	-
1,150,360	2. Decrease/Increase in Share Capital	901,799
-	3. Decrease/Increase in Other Liability	-
-	4. Decrease/Increase in Refinance/Facilities received from NRB	-
71,982,526	**D. Income/Expense from change in exchange rate in Cash/Bank Balance**	**90,216,822**
744,779,645	**E. Current Year's cash flow from all activities**	**29,222,146**
1,276,241,423	**F. Opening Cash and Bank balance**	**2,021,021,068**
2,021,021,068	**G. Closing Cash and Bank balance**	**2,050,243,214**

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

CHAPTER – V

SUMMARY, MAJOR FINDINGS & RECOMMEDATIONS

5.1 Summary

The prosperity of every developing country can only be ensured by its economic growth. The role of Commercial Banks in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idle resources from the savers, commercial bank pools 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, materials and service providers to such industries and trades, which as a chain effect, promotes saving into the banks and more saving means more funds available in the banks for further investment. In this way, as the chain moves rolling on, the economic of the nation also grows.

To remain as the major contribution factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability. As the banks are formed as joint stock companies promoted by shareholder's investment, it must give reasonable return on the fund of the shareholders. Further by the profit made by the bank, it may choose to increase its capital base to make it stronger and more sustainable for facing nay future threat that may come up. A profit earning organization can better feed to their employee, there by enhancing the morale of the employees and motivate them for better performance.

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

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

With 17 points of representation, 18 ATMs across the country and with more than 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

During the research work, an extensive review literature's books, past thesis journal have been made and internal materials from relevant web also consulted. The works were compiled into the chapter two titled as 'Review of Literature' of this study report.

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

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

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

5.2 Major Finding of the Study

The major findings of this research study on profit planning in commercial bank, a case study of Standard Chartered Bank Nepal Limited are as follows:

1) Management & Personnel

i) It is observed that the bank is adopting a policy to hire new employees as per requirement of management.

ii) The decision making process is highly centralized however, management takes the feed forwards for annual planning and strategy building through manager conferences and strategy building through manager conferences and strategic meeting organized twice in every year at the head office.

iii) Bank has the policy to employ academically highly qualified (first class M.B.S) fresh candidates at management trainee, which may be considered as good aspect for future manpower building.

2) Branch Office

SC Bank is currently operating with 12 branch offices and 17 ATM sites making its presence at almost most important cities of the country.

3) Objective of the Bank

Objective of the bank are expressed in literate form as investing in infrastructure sector which will require project financing, resource mobilization and hedging capabilities.

4) Resource Mobilization

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

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

5) Resources Deployment

i) Bank's resource deployment for non-yielding liquid assets (cash & bank balance) is increasing every year, which is detrimental to profitability objectives, but it is supportive to meeting liquidity requirements of the bank.

ii) Major portion of the resources have been deployed by LABP.

iii) The data analysis of deposit and LABP with more variable than the deposit.

6) Expenditure & Revenue

i) Interest expenses amount is the highest among total expense items of the bank every year.

ii) The total deposit of the bank is found increasing every year corresponding to the increase in interest expenses the total deposit is perfectly and positively correlated with total interest expenses.

iii) Interest income amount of the banks is the highest among other income items in the total revenue.

iv) The interest spread or the amount of interest margin is found to be increasing every year during the study period.

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

7) Ratio Analysis

Ratio analysis involves the method of calculating and interpreting financial ratio in order to assess the firm's performance and status. The following of the findings from the ratio analysis are shown:

i) SCBNL has the highest current ratios of 0.60 in year 2007/08 with an average current ratio of 0.55 .

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

iii) The debt equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owners. The table shows that debt to equity ratio of the bank varies from maximum of 17.70 times in the year 2003/04 to the minimum 14.84 in the year 2007/08 times during the study year. The analysis indicates that the bank has the wise debt equity ratio, which means the creditors have invested more in the bank than the owner.

iv) In the same way the total debt to assets shows the relationship between creditor fund and owner's fund. Therefore, debt to assets ratio of the bank varies from maximum of 116.57% in the year 2006/07 to the minimum 110.94 in the year 2007/08 times during the study year. The analysis indicates that the bank has the wise debt assets ratio, which means the creditors have invested more in the bank than the owner.

v) The Profitability ratio shows that it is a useful measurement for all financial researchers invested in the assets. As Return on assets is high during 2005/06 with 2.55% and return on equity is high in same fiscal year with

37.55%. This shows that overall efficiency of the SC Bank and better utilization of total resources available is higher and strong.

8) Cash Flow Analysis

Following findings from the Cash Flow Analysis are done

i. Cash Flow from investing activities this is better than previous year due to changes in following activities
   a) Changes in balance with bank.
   b) Changes in Money at call and short notice.
   c) Changes in Fixed assets.
   d) Changes in Other assets.

ii. Cash flow from financing activities and operating activities of this year is less than previous year due to changes in following activities
   a) Decrease in Share Capital and discharge of liabilites
   b) Interest expenses increases this year.

5.3 Recommendations

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

A. In the Internal Management and Personal Part:

1. Level wise specific job description and responsibility assignment should be mentioned clearly.
2. Bank management should adopt the policy of appropriate authority delegation all the level management in order to save the valued time chief executive officer for the productive use.
3. Profit Planning & control technique should be used for making long term banking strategies and managerial decisions.
4. Employee training & career planning at advance level should be given more focus in order to keep the man power updated with the changing practices and the technologies.
5. It is suggested to the bank to form a specific strategic planning and research department, which shall be responsible for developing new innovative products, further development and up-gradation of existing products, which in turn ensure better profitable business for the bank.
6. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head Office.
7. Since objectives of the bank are much more specific and highly optimistic the management should launch the new innovative products, which will give quality service to the customers and yield better profit.

B. In the Business Part

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

2. Bank CD ratio is high, which is rather a compulsion to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquid and is more risky for the bank and calls for more provision for loan loss. In this way, the profitability of the bank also get hampered on the long run. Therefore, the bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.
3. LABP of bank is increasing significantly but the part of proper loan assessment and monitoring aspects arenot well developed and the infrastructures.
4. The NRB has the restriction on the difference of average rate of interest income and average rate of interest expenses of the bank(i.e Spread) not to exceed 5%. Therefore, the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.
5. Net Profit of the Bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin. SC Bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses. At the same time it should take a policy to make the interest margin at the maximum extent as allowed by the central bank's norm.
6. The deposits, loans, securities from foreign donors come through the deposit in SC Bank, this may be the biggest advantage for SC Bank to increase in the deposit percentage.

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

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Appendix- 1(A)

Status of Actual Deposits and Actual LABP

Fiscal Year	Actual Deposit (X)	Actual LABP (Y)	X-Mean of X =x	Y-Mean of Y =y	x^2	y^2
2003/04	21,161,442	6,410,242	-2433950.8	-3131778.4	5924116496820.64	980803719941
2004/05	19,363,470	8,143,208	-4231922.8	-1398812.4	17909170585159.84	195667613039
2005/06	23,061,032	8,935,418	-534360.8	-606602.4	285541464576.64	367966471685
2006/07	24,647,021	10,502,637	1051628.2	960616.6	1105921871035.24	922784252195
2007/08	29,743,999	13,718,597	6148606.2	4176576.6	37805358202678.44	1744379209566
TOTAL	117,976,964	47,710,102	0	0	63030108620270.8	3049925614936

Mean of Deposit $= \dfrac{\text{Sum of Deposit}}{\text{No.of Years}}$

$$= \frac{117976964}{5} = 23595392.8$$

Mean of LABP $= \dfrac{\text{Sum of LABP}}{\text{No.of Years}}$

$$= \frac{47710102}{5} = 9542020.4$$

S.D of Actual Deposit(X) $= \sqrt{\dfrac{x^2}{\text{n}}}$

$$= \sqrt{\frac{63030108620270.8}{5}} = \sqrt{12606021724053.16}$$

$$= \quad 3550495.98$$

S.D of Actual LABP(Y) $= \sqrt{\dfrac{y^2}{\text{n}}}$

$$= \sqrt{\frac{30499256149360.56}{5}} = \sqrt{6099851229872.112}$$

$= 2469787.59$

C.V of Actual Deposit $= \frac{\sigma}{\text{mean of x}} \times 100$

$= \frac{3550495.98}{23595392.8} \times 100 = 15.05\%$

C.V of Actual LABP $= \frac{\sigma}{\text{mean of x}} \times 100$

$= \frac{2469787.59}{9542020.4} \times 100 = 25.88\%$

Correlation(r) $= \frac{\sum xy}{n\ \sigma x\ \sigma y}$

$= \frac{40556741457814.4}{5 \times 3550495.98 \times 2469787.59} = 0.92500$

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

$= \frac{1-(0.92500)^2}{5} \times 0.6745 = 0.042$

Appendix- 2(A)

Status of Actual Deposits and Interest Expenses

Fiscal Year	Actual Deposit (X)	Interest Expenses(Y)	X-Mean of X =x	Y-Mean of Y =y	x^2	y^2
2003/04	21,161,442	275,809	-2433950.8	-67774.8	5924116496820.64	45934235155
2004/05	19,363,470	254,127	-4231922.8	-89456.8	17909170585159.84	8002519066
2005/06	23,061,032	303,198	-534360.8	-40385.8	285541464576.64	1631012841
2006/07	24,647,021	413,055	1051628.2	69471.2	1105921871035.24	4826247629
2007/08	29,743,999	471,730	6148606.2	128146.2	37805358202678.44	16421448574
TOTAL	117,976,964	1,717,919	0	0	63030108620270.8	3547465162

Mean of Deposit $= \frac{\text{Sum of Deposit}}{\text{No.of Years}}$

$$= \frac{117976964}{5} = 23595392.8$$

Mean of Interest Expenses $= \frac{\text{Sum of Interest Expenses}}{\text{No.of Years}}$

$$= \frac{1717919}{5} = 343583.8$$

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

$$= \sqrt{\frac{63030108620270.8}{5}}$$

$$= \sqrt{12606021724053.16} = 3550495.98$$

S.D of Interest Expenses(Y) $= \sqrt{\frac{y^2}{n}}$

$$= \sqrt{\frac{35474651626.44}{5}}$$

$$= \sqrt{7094930325.29} = 84231.41$$

C.V of Actual Deposit $= \frac{\sigma}{\text{mean of x}} \times 100$

$$= \frac{3550495.98}{23595392.8} \times 100$$

$$=15.05\%$$

C.V of Interest expenses $= \frac{\sigma}{\text{mean of y}} \times 100$

$= \frac{84231.41}{343583.8} \times 100$

$= 24.52\%$

Correlation(r) $= \frac{\sum xy}{\text{n } \sigma x \, \sigma y}$

$= \frac{1426093781447.30}{5 \times 3550495.98 \times 4231.41}$

$= 0.9537$

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

$= \frac{1-(0.9537)^2}{5} \times 0.6745$

$= 0.027$

Appendix- 3(A)

Status of Actual LABP and Interest Income

Fiscal Year	Actual LABP (X)	Interest Income (Y)	X-Mean of X =x	Y-Mean of Y =y	x^2	y^2
2003/04	6,410,242	1,042,176	-3131778.4	-216551	9808037199417.92	468943356
2004/05	8,143,208	1,058,678	-1398812.4	-200049	1956676130393.76	400196024
2005/06	8,935,418	1,189,603	-606602.4	-69124	367966471685.76	477812737
2006/07	10,502,637	1,411,982	960616.6	153255	922784252195.56	234870950
2007/08	13,718,597	1,591,196	4176576.6	332469	17443792095667.56	110535635
TOTAL	47,710,102	6,293,635	0	0	30499256149360.56	225714796

Mean of LABP $= \frac{\text{Sum of LABP}}{\text{No.of Years}}$

$= \frac{47710102}{5} = 9542020.4$

Mean of Interest Income $= \frac{\text{Sum of Interest Income}}{\text{No.of Years}}$

$= \frac{6,293,635}{5} = 1258727$

S.D of Actual LABP(X) $= \sqrt{\frac{x^2}{n}}$

$= \sqrt{\frac{30499256149360.56}{5}}$

$= \sqrt{6099851229872.112} = 2469787.59$

S.D of Interest Income(Y) $= \sqrt{\frac{y^2}{n}}$

$= \frac{225714796364}{5}$

$= \sqrt{45142959272.8} = 212468.73$

C.V of Actual LABP $= \frac{\sigma}{\text{mean of x}} \times 100$

$= \frac{2469787.59}{9542020.4} \times 100 = 25.88\%$

C.V of Interest Income $= \frac{\sigma}{\text{mean of y}} \times 100$

$= \frac{212468.73}{1258727} \times 100 = 16.88\%$

Correlation(r) $= \frac{\sum xy}{n\ \sigma x\ \sigma y}$

$= \frac{2535753093062}{5 \times 2469787.59 \times 212468.73} = 0.9664$

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

$= \frac{1-(0.9664)^2}{5} \times 0.6745 \quad = 0.019$