"Impact of Profit Planning and Control on Banking Strategies and Managerial Decisions; With Reference to Standard Chartered Bank Nepal Limited"

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RECOMMENDATION

This is to certify that the thesis

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"Impact of Profit Planning and Control on Banking Strategies and Managerial Decisions; With Reference to Standard Chartered Bank Nepal Limited"

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

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"Impact of Profit Planning and Control on Banking Strategies and Managerial Decisions; With Reference to Standard Chartered Bank Nepal Limited"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree of Business Studies under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Shanker Raj Joshi** of Shanker Dev Campus, Tribhuvan University.

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Nabin Prasad Adhikari

Researcher

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LIST OF ABBREVIATION

A/C:	Accountancy
AD:	Anno Domini
ADB/N:	Agriculture Development Bank, Nepal
ALICO:	American Life Insurance Company
ATM:	Automated Teller Machine
B/G:	Bank Guarantee
BC:	Before Christ
BEP:	Break Even Point
BFIA:	Bank & Financial Institution Act
BIMSTEC:	Bay of Bangal Initiative for Multi-Sectarian Technical and Economic Co-operation
BOD:	Board of Director
BS:	Bikram Sambat
CBS:	Central Bureau of Statistics
CD Ratio:	Credit Deposit Ratio
CEO:	Chief Executive Officer
Co.:	Company
COD:	Cost of Deposit
CPI:	Consumer Price Index
CRR:	Cash Reserve Ratio
CV:	Coefficient of Variation

CVP:	Cost Volume Profit
DLC:	Direct Labor Cost
DLH:	Direct Labor Hour
EPP:	Education Protection Plan
etc.:	Etcetera
FC:	Fixed Cost
FCY:	Foreign Currency
FNCCI:	Federation of Nepalese Chambers of Commerce and Industry
FY:	Fiscal Year
GAAP:	Generally Accepted Accounting Standards
GDP:	Gross Domestic Product
GON:	Government of Nepal
GTE:	Guarantee
HBL:	Himalayan Bank Limited
i.e.:	That is
ICAN:	Institute of Chartered Accounts of Nepal
ICC:	International Chamber of Commerce
IDC:	Industrial Development Center
IFIC Bank:	International Finance Investment and Commerce Bank
INGO:	International Non Government Organization
Int'l:	International
IT:	Information Technology

Km.:	Kilometer
L/C:	Letter of Credit
LABP:	Loan, Advances and Bills Purchased
Ltd.:	Limited
MD:	Managing Director
Mgmt:	Management
MIS:	Management Information System
MOU:	Memorandum of Understanding
Mr.:	Mister
MRP:	Material Requirement Planning
Ms.:	Miss/Madams
NAC:	Nepal Airlines Corporation
NAS:	Nepal Accounting Standard
NBA:	Non Banking Assets
NBL:	Nepal Bank Limited
NEPSE:	Nepal Stock Exchange
NGO:	Non Government Organization
NICL:	Nepal Insurance Company Limited
NIDC:	Nepal Industrial Development Corporation
NLABP:	Deployment in other sector than LABP.
NLSS:	Nepal Living Standard Survey
No.:	Number

NOC:	Nepal Oil Corporation
NPR:	Nepalese Rupees
NRB:	Nepal Rastra Bank
NTC:	National Trading Limited
O/S:	Outstanding
OD:	Over Draft
p.a.:	Per Annum
PAN:	Permanent Account Number
PE:	Probable Error
PEs:	Public Enterprises
POS:	Point of Sale
PP:	Passport
PPC:	Profit Planning and Control
PPP:	Purchasing Power Parity
QCS:	Quick Collection Service
RBB:	Rastriya Banijya Bank
RMOD:	Resources Mobilized Other than Deposit
ROA:	Return on Assets
ROC:	Return on Capital
ROE:	Return on Equity
ROI:	Return on Investment
Rs.:	Rupees

SAFTA:	South Asians Free Trade Agreement
SC:	Standard Chartered
SCBNL:	Standard Chartered Bank Nepal Limited
SD:	Standard Deviation
SME:	Small and Middle Enterprises
SMS:	Short Message Sending
Sq.:	Square
SWIFT:	Society for Worldwide Inter-bank Financial Tele-communication
SWOT:	Strength, Weakness, Opportunity and Threats
TSA:	Technical Service Agreement
TU:	Tribhuvan University
UCPDC:	Uniform Customs & Practice of Documentary Credit
US:	United States
USA:	United State of America
USD:	United State Dollar
VC:	Variable Cost
VDC:	Village Development Committee
Vs:	Versus
WTO:	World Trade Organization
YOF:	Yield on Fund
YOL:	Yield on LABP
ZBB:	Zero Base Budgeting

CHAPTER-ONE

INTRODUCTION

1.1 Background of the Study

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

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

Nepal Rastra Bank, the central bank of Nepal, to fulfill the ever growing credit requirement has adopted the liberal policies and provided many facilities to the probable bankers of Nepal and abroad through new Commercial Bank Act-1974 A.D. Consequent of the policies provided by Government of Nepal to open commercial banks with foreign joint ventures in 2041 B.S., at present 31 Commercial Banks (including Agriculture Development Bank) (www.nrb.org.np) are helping not only in the field of deposit mobilization and lending but also to the areas like different products and service developments and employment generations and infrastructure developments too.

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

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

Profit planning and control is an important approach, mainly in profit-oriented enterprises. Profit planning is merely a tool of management; it is not an end of management or substitute of management. It facilitates the managers to accomplish managerial goals and managerial decisions in a systematic way. The management is efficient if it is able to accomplish the objective of the enterprise. It is effective, when in accomplish the objective with minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course of action in advance.

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

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

The profit planning and control mechanism is being widely practiced in manufacturing industries but it is relatively new in non-manufacturing/service, industries/sectors. However this concept is equally applicable to any kind of business concern for the best utilization of the scarce resources and effectively and efficiently achieving goal.

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

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

- The development and application of broad and long range objectives of the enterprise,
- The specification of enterprise goals,
- A long range profit plan developed in broad terms,
- A short range profit plan detailed by assigned responsibilities (divisions, product etc.),
- A systematic periodic performance reports detailed by assigned responsibilities and
- Follow-up procedures.

1.2 Nepalese Economy-Current Macroeconomic Situation

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 147,181 Sq. Km. and only about 27 percentage of the total land area is under cultivation. Ecologically this country is divided into three regions: i) The Himalayan Region ii) The Mountain Region and iii) The Terai Region, similarly politically divided into five development regions, fourteen zones and seventy-five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is significant. The commercialization of the agricultural activities has not yet taken place. There is a wide gap in the distribution of agricultural land. Most of the farmers are landless and the major portion of the land is in the hands of few landlords. Nepal is one of the least developed countries in the world where 30.85% of the population is below poverty line. Consequently, living standard of the people is worsening every year, through large amount of money is being spent from government and non-government organization to uplift the living standard of the people. This situation mainly occurs due to the slow growth of domestic product as compared to the rate of inflation. However, the process of economic development of a country is highly a complex phenomenon. It is influenced by political, social and cultural factors. Therefore economic analysis provides only partial explanation of this process.

Some current macroeconomic situations of Nepal are as follows.

1.2.1 Real Sector

According to the preliminary estimates of the Central Bureau of Statistics, the Nepalese economy has recorded a higher economic growth in FY 2007/08 after a period of seven years. The real GDP growth this year has increased by 5.6% at the basic prices and by 4.7% at the producers' price, while during the last fiscal year respective growth rates were only 2.6% and 3.2%. During the fiscal year, both the agricultural as well as non-agricultural sectors have witnessed the higher growth rates of 5.7% and 5.6% as compared to the lower growth rates of 0.9% and 4.1% respectively in FY 2006/07.

A substantial increase of 16.8% in the paddy production following the favorable weather condition and expansion in the production of vegetables and fruits have led to a higher growth of 5.7% in the agricultural sector, which contributes about one-third of GDP. According to the agricultural production index, food crop has gone up by 7.3%. In this group, paddy, maize and wheat grew by 16.8%, 3.2% and 3.8% respectively. Similarly, the production of vegetables and nurseries has increased by 9.6% and that of fruits and spices by 5.4%. In the non-agricultural sector, the growth of financial sector, wholesale and retail trade, hotels and restaurant, transport, storage and communication remained encouraging. A gradual improvement in the peace and security situation, establishment of additional banks and financial institutions and an increase in the tourist arrival led to the expansion of these sectors. In the non-agricultural sector, the financial intermediaries recorded a higher growth of 13.8% in FY 2007/08 compared to 11.4% last year. The other sub-sectors of the non-agricultural sector which attained the growth rate of more than 6% were hotels and restaurants, health and social work, transport and communication and wholesale and retail trade. However, the manufacturing sector, which contributes around 7% to GDP, grew meagerly by 0.2% only. Frequent industrial disputes, bands and strikes adversely affected the industrial sector's production.

While classifying GDP into the primary sector (agriculture and forestry, fisheries, and mining and quarry), secondary sector (manufacturing, electricity, gas, water and construction) and tertiary sector (rest of the service sector), the growths of the primary sector, secondary sector and tertiary sector was recorded as 5.6%, 1.8% and 6.9% respectively. In the previous year, the growths of these sectors were 1%, 4% and 4.1% respectively. In the FY 2007/08 contributions of these sectors to GDP were 33.1%, 15.5% and 51.4%, which were significantly from the contributions in the FY 2006/07. In the FY 2007/08, the GDP growth at current producers' price increased by 12.9% to Rs. 820.8 billion whereas the GDP growth at current producers' price was only 11.2% during the last fiscal year. Similarly, the GDP growth at the current basic price increased significantly by 13.8% (as compared to 10.5% last year) to Rs. 768.83 billion.

The real per capita GDP (at constant price of FY 2000/01) has grown by 2.6% to Rs. 20,816 in the FY 2007/08 from last year's level, while the nominal per capita GDP at current prices has increased by 10.4% to Rs. 30,361. Last year, the nominal per capita GDP was Rs. 27,497. In US Dollar terms, the per capita GDP at current price was US$ 470 in the FY 2007/08 compared to US$ 390 a year ago.

1.2.2 Financial Sector

The financial sector of the country has further intensified and deepened during the FY 2007/08. In this period, five commercial banks, twenty development banks, four finance companies and one micro-finance development bank were established. In addition, the number of commercial banks' branches has also increased in this period. With this, the outreach of the banking services has increased, with the average population served by one bank branch reduced to 46 thousand compared to 48 thousand a year ago and 58 thousand two years ago.

In the review period as at mid-July 2008, deposits of commercial banks increased by Rs. 87.07 billion (26%) and reach to Rs. 421.52 billion. Accordingly, capital mobilization of non-bank financial institution grew significantly in the review period. The higher deposit growth is attributed to the inflow of remittance income.

1.2.3 Inflation

During the FY 2007/08 the inflation level, which is measured by the change in consumer price index (CPI) as prepared by Nepal Rastra Bank, rose to 7.7% from the level of 6.6% last fiscal year. The rise in inflation was mainly due to substantial hikes in the prices of petroleum products in the FY 2007/08 together with escalating food prices observed in the market. (Source of current microeconomic situation of Nepal is: NEPSE, Annual Trading Report, 2007/08)

The share of manufacturing sector in the total GDP is 10%. The Government of Nepal has initiated liberal, open and market oriented economic policy since 1990s, immediately after the restoration of the democracy. The deteriorating law and order situation, political instability in the country in the past few years has adversely affected the country's economy. The government is required to make huge investment to develop the sufficient infrastructures like roads, powers, health and higher education etc. in order to make a favorable investment climate in the country. Because of the political unrest, Nepal has been facing very difficult situation. After a decade of insurgency, now the situation seems to be improved and business sector seems to be much hopeful about the economic growth. Most of the Nepalese are depends on the traditional agricultural sector and the population still reside in the rural areas being engaged in agriculture related survival economic activities. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructure, inadequate human and financial resources, land locked position of the country, the political instability and the geography of the country.

1.3 Meaning and Importance of Financial Institution

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

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

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

1.4 Major Financial Policy of Nepal

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

1.4.1 Monetary Policy

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

The few main features of new monetary policy are as follows:

- Primarily focused towards curbing acceleration in the pace of inflation.
- Economic growth targeted at 5% on the basis of budget of FY 2007/08.
- Average inflation based on consumer price index estimated to be 5.5% compared to that of 6.4% in FY 2006/07.
- Maintaining financial sector stability and to increase the financial intermediation.
- Addressing the fluctuation in short-term interest rates and the risks through Open Market operations. Maximum usage of the financial resources by the private sector.

1.4.2 Banking Policy

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

- Change in minimum capital requirement of the financial institutions while starting the financial institutions.
- List of documents to be presented for carrying out the financial transactions in Nepal.

- Minimum requirements of the directors and promoters.
- Commitment by the prospective directors of the proposed financial institutions with NRB for compliance of the entire rules and regulation formed by NRB.
- Probable conditions where NRB may reject the application for establishment of the financial institution.
- Provisions regarding the expansion of business of the financial institutions.
- Provisions regarding the preliminary expenses.
- Formats of the applications and commitments.

1.4.3 Credit Policy

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

1.4.4 Interest Rate Policy

Interest is paid for the sacrifice made by the income holder by differing consumption for the time being and imparting with liquidity and to reward the income holder for making savings. There exists a wide array of interest rate in the economy. This is either because of wider verities of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with money supply and credit. In the process of financial system liberalization, initiatives to deregulate interest rate structure in Nepal were taken since Mid-1980. The complete liberalization of the interest rate structure, however, took place in 1989 only whereby the commercial banks were set free to determine the deposit and lending rates. However, the existing number of commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market. Informal market rate for borrowing are much higher than the formal market rates. One noteworthy situation of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by the Nepal Rastra Bank. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities (Source of Financial policy is: Feasibility study report of purposed Civic Development Bank, 2008:27).

1.5 Development of Banking in Nepal

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

The stage wise development of banking can be presented as follows:

A. The First Phase of Banking Development

- Eight century, king “Gunkamdev” renovated the Kathmandu city by taking loan. At the end of same century merchant named “Shankhadhar” has started the New Year 'Nepal Sambat' after freeing all people of Kathmandu from the debt.
- In the 11th century, during Malla reigns, there was an evidence of professional Money Lender and buyer.
- Tejarath Adda was established in 1877 A.D. which provided loan at very low rate of 5%.

B. The Second Phase of Baking Development

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

C. **The Third Phase of Banking Development**

The process of development of banking system in Nepal was not satisfactory. Nepal was observing the events that were taking places in the world also. The country can't change it status by using only its own capital in the country without importing the new technology from foreign country and accordingly, law and policy have been enacted by the state to encourage the foreign investment on banking sector. From this, the real form to the development of the banking system started in Nepal. In order to established and develop other joint venture commercial banks and other financial institution, Nepal adopted liberal free economic policy. Accordingly, Nepal is allowed to established different joint venture banks under the collaboration with foreign banks.

D. The Fourth Phase of Banking Development

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

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

In order to establish and develop other joint venture commercial banks and other financial institution, Nepal adopted liberal free economic policy. After 2041 B.S., the government gradually liberalized and opened up the financial sector, resulting in the rapid entry of the foreign banks. Later, in 2041 B.S., with the grand opening of NABIL Bank Ltd., other commercial banks started emerging in the private sectors. As a result, now there are altogether 30 commercial banks operating at different parts of the country. At present, the banking sector is more liberalized and there are various types of bank working in modern banking system. This includes central, development and commercial banks. Evolution of the information technology has revolutionized the banking sector is saving lots of time and money by implementing IT. Technology has changed the traditional method of the services of bank. Invention of different software and hardware, which are very essential and available for functioning bank such as Banking Software, ATM, E-Banking, Mobile Banking and card like Debit Card, Credit Card, Prepaid Card etc. which helps the customer as well as banks to operate and conduct their activities more efficiently and effectively. This helps bank to generate more customers, goodwill and profit.

Table No. 1

Major Players in Nepalese Financial System

S. No.	Organization	Number
1	Central Bank	1
2	Commercial Bank	31
3	Development Bank	80
4	Finance Companies	79
5	Saving & Credit Co-operatives Limited (Banking Activities)	16
6	Micro Credit Financial Institutions	18
7	NGO's (Financial Intermediaries) licensed by NRB	45
8	Insurance Company	26
9	Employee Provident Fund	1
10	Citizen Investment Trust	1

(Source: www.nrb.org.np)

After Nepal adopted liberal economic policies in the early 1990's the banking sector has seen exponential growth. However domestic bank promoters belong to the business community a loan demanding sector. At present 31 commercial banks, apart from some development banks that have applied for up gradation to class 'A' commercial bank. However, the central bank has temporarily halted licensing commercial banks, claiming that it needs to revise the licensing policy.

1.5.1 Commercial Banking System in Nepal

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

The Government however had duty of stretching banking services to the nooks and corners of the country and also managing the financial system in a proper way. Thus Nepal Rastra Bank (NRB) was established on B.S. 2013/01/14 with full government ownership as a Central Bank under NRB Act-2012 B.S. Since then it has been functioning as the Government’s Bank and has contributed to the growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institutions. Accordingly, NRB has been trying to change itself and has introduced a host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove itself as an efficient supervisor. NRB really requires strengthening their policy making, supervision, and inspection mechanism.

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

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

Table No. 2

Growth of Commercial Banks In Nepal

(Rs. In Millions)

S. No.	Names of Commercial Bank	Operation Date (A.D.)	Head Office	Paid up Capital
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	380.40
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	NABIL Bank Ltd.	1984/07/16	Kathmandu	1449.10
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	2409.10
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	1653.60
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu	1860.30
10	Everest Bank Ltd.	1994/10/18	Kathmandu	1030.50
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	1182.20
12	Nepal Credit & Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi	1399.60
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan	1294.50
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar, Morang	1311.50
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski	1479.10
16	Kumari Bank Ltd.	2001/04/03	Kathmandu	1304.90
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	1613.50
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	1230.00
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1325.10
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1196.00
21	Prime Commercial Bank Ltd.	2007/09/24	Kathmandu	1263.70
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1419.70
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1105.30
24	DCBL Bank Ltd.	2008/05/25	Kathmandu	1740.40
25	NMB Bank Ltd.	2008/06/05	Kathmandu	1430.00
26	Kist Bank Ltd.	2009/05/07	Kathmandu	2000.00
27	Janata Bank Nepal Ltd.	2010/04/05	Kathmandu	1400.00
28	Mega Bank Nepal Ltd.	2010/07/23	Kathmandu	2330.00
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kathmandu	2000.00
30	Civil Bank Nepal, Ltd.	2010/11/26	Kathmandu	2000.00
31	Century Commercial Bank Ltd.	2011/03/10	Kathmandu	2000.00

Source: (www.nrb.org.np)

1.6 Profile 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.

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 1700 branches and outlets 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 over 80,000 people, representing 125 nationalities, worldwide. This diversity lies at the heart of the bank's values and supports the bank's growth as the world increasingly becomes one market. With 18 points of representation, 23 ATMs across the country and with more than 400 local staff, SCBNL 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.

SCBNL 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 corporate, multinationals, large public sector companies, government corporations, airlines, hotels, 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.

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. 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' and 'Seeing is Believing'.
(Source: SCBNL, Annual Report and Accounts, 2009-2010)

1.6.1 Broad Objectives and Goal

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

- **Vision**

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

- **Mission**

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

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

1.6.2 The Management

1.6.2.1 Board Composition

There have been a few changes to the board of directors in the fiscal year 2007/08. The directors serving SC Bank Nepal Limited namely, Mr. Jaspal Bindra and Mr. santanu Mitra were replaced by Mr. Anurag Adlakha and Mr. Sushen Jhaingan as chosen by Standard

Chartered Grindlays, Australina in February, 2008. Niranjan Kumar Twidewala completing the working period serving as the Director representing Public Shareholders handover his position to Mr. Arjun Bandhu Regmi in December, 2007 to provide the service for next 4 working years. Thus, there are 6 Board of Directors to serving in SC Bank Nepal Ltd.

- Chairman - Mr. Neeraj Swaroop, SCB
- Director - Mr. Anurag Adlakha, SCB
- Director - Mr. Sushen Jhingan, SCB
- Director - Mr. Sujit Mundul, CEO, SCBNL
- Public Director - Mr. Arjun Bandhu Regmi
- Independent Director - Mr. Ram Bahadur Aryal

As on the date of this report, the Board is made up of the Non-Executive Chairman, one Executive Director and four Non-Executive Directors of which one is professional/independent Director appointed as per the regulatory requirement. Director, Mr. Arjun Bandhu Regmi, representing the public shareholders, has submitted his resignation from the post of Public Director citing personal reasons and the same has been accepted in the 264^{th} Board meeting of the Bank held on 5^{th} July 2010. The Board is currently in the process of fulfilling the vacant post as per the provisions of the Companies Act.

1.6.2.2 Human Resources

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

With an aspiration to start and grow their career with an organization that strives to be a 'Great Place to Work' in a total of 81 new joiners started their journey with the bank in this fiscal year. As compared to last year, its staff strength was 429 as of mid July 2010 against 392 full time equivalent staff in mid July 2009. The current mix of male and female ratio was 63:37.

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

1.6.3 Branches and Extension Counters

SCBNL is operating from their 14 branches and 4 extension counters in all major cities. Name of the all branch office and their locations are as given below.

Table No. 3

Branches and Extension counters

Name	Address	Telephone No.	Fax No.
Branch			
Bhairahawa	PO Box 14, Buddha Chowk Colony, Burmeli Tole, Siddhartha Nagar	977-71-524029/429	977-71-524039
Biratnagar	PO Box 201, Hanumandas Road -8	977-21-528983	977-21-528982
Birgunj	Aadarsha Nagar-13	051-529494	977-51-529677
Lalitpur	PO Box 3990, Jawalakhel	977-1-5540544/566	977-1-5523266
Lazimpat	P.O. Box 3990, Kathmandu	977-1-4418456	977-1-4417428
Lakeside, Pokhara	P.O. Box 8, Baidam-6	977-61-461746/2102/805	977-61-462318
Newroad, Pokhara	P.O. Box 8, Newroad-9	977-61-536230	977-61-531761
Narayangarh	Lions Chowk, Bharatpur	056-571277/8	977-56-571279
Butwal	Milan Chowk, Municipality - 11, Rupandehi	977-71-546832	977-71-546882
Dharan	Panna Kamala Complex, 7/100Ka, Buddha Marga	977-25-520505/30980	977-25-530981
Hetauda	Bank Road - 4, Makwanpur	977-57-523019/4972	977-57-525695
Head office	P.O. Box 3990, New Baneshwar, Kathmandu	977-1-4782333/3753	977-1- 4780762
Nepalgunj	Surkhet Road- 13, Banke	977-81-520022/5514	977-81-525515
New Road, Kathmandu	1st Floor, 22, People's Plaza (Pako Wing) Pako	977-1-4157527/28	977-1- 4157530
Extension Counters			
	UN Counter, UN Building, Lalitpur	977-1-5537134	977-1-5540512
	B.P. Koirala Institute of Health Sciences, Dharan	977-25-530481	977-25-530481
	British Gurkhas, PPO-Pokhara	977-61-440517	977-61-440517
	Manipal Counter, Manipal Hospital, Fulbari	977-61-526416	

1.6.4 ATM Location

SCBNL is in a position to serve its customers through an extensive domestic network by representing 23 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.

Table No. 4

ATMs Locations

ATMs	Location Details
Maharajgunj, Kathmandu	Shubham Departmental Store
Boudha, Kathmandu	Near main entrance gate of Boudhanath stupa
Durbar Marg, Kathmandu	Hotel De'l Annapurna
Naya Baneshwor, Kathmandu	Standard Chartered Bank Nepal Ltd.
UN Building, Kathmandu	Standard Chartered Bank Nepal Ltd., UN Counter
Pulchowk, Lalitpur	Standard Chartered Bank Nepal Limited, Near UNDP Complex
New Road, Kathmandu	22, People's Plaza (Pako Wing) Pako
World Trade Center, Kathmandu	United World Trade Center, Tripureshwor
Thamel, Kathmandu	Kathmandu Arcadia Building, Near Yin Yang Restaurant
Thamel, Kathmandu	Kathmandu Guest House
Lazimpat, Kathmandu	Standard Chartered Bank Nepal Ltd.
Jawalakhel, Lalitpur	Standard Chartered Bank Nepal Ltd.
Mangal Bazar, Patan	Patan, Mangal Bazar, Lalitpur
BPKIHS, Dharan	BP Koirala Institute of Health Science
Lakeside, Pokhara	Hotel Snowland
New Road, Pokhara	Standard Chartered Bank Nepal Ltd.
Lakeside, Pokhara	Standard Chartered Bank Nepal Ltd.
Bhairahawa	Siddhartha nagar, Hotel Pawan Building
Itahari Chowk, Sunsari	Bhu Pu Gorkha Departmental Store
Narayanghat branch	Standard Chartered Bank Nepal Limited
Kamaladi, Kathmandu	Kasthamandap Bazaar (Parking Lot)
Newroad, Kathmandu	Bishal Bazaar

1.6.5 General Activities

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

Savings Account

Savings account is a transactional interest bearing account where in a deposit is placed with the bank for an unspecified period of time and the depositor can withdraw or transfer the funds whenever required through different means.

Features

- Interest bearing account.
- Facility of cheque book, ATM cards, online banking service, etc.
- Statements issued on a quarterly basis.
- Can be opened in local currency as well as foreign currency. The opening and transaction in a foreign currency account is subject to NRB regulations.

Benefits

- Convenience and security.
- Interest earned on savings.
- Access to ATM, online banking service, and select merchant outlets through POS terminals.
- Any branch banking service.
- Free cheque book for accounts maintaining the stipulated balance of NPR 100,000.

Current Account

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

Features

- Facility of cheque book, ATM cards, online banking service, etc.
- Statements issued on required frequency.
- Can be opened in local currency as well as foreign currency. The opening and transaction in a foreign currency account is subject to NRB regulations.

Benefits

- Convenience and security.
- Access to ATM and select merchant outlets through POS terminals for individuals.
- Access to online banking service.
- Any branch banking service.
- Free cheque book for accounts maintaining the stipulated minimum balance.

Fixed Deposit Account

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

Features

- Offered only to accountholders.
- Can be opened in local currency as well as foreign currency. The opening and transaction in a foreign currency account is subject to NRB regulations.

Benefits

- Security.
- Interest bearing account.
- An investment alternative, which is safe and allows funds to be placed for a fixed period with interest rate guaranteed for that period.
- Automatic renewal/disposal of principal & interest as per the instruction of the customer.

Kiddy Bank Account

Kiddy bank account is a variant of savings account, which can be opened in the name of children below 16 years of age, for their future savings.

Features

- Higher interest rate than that of the normal savings account.
- Withdrawals not allowed, hence any cheque book or ATM cards issued.
- No restriction in deposits.

Benefits

- Security.
- Higher Interest earned on savings.
- Lower minimum balance requirement.
- Can be linked to Education Protection Plan (EPP) under secure living.

Access Plus Account

Access plus account is a variant of savings account, specifically designed for young people (students/graduates/young professionals). Access plus account is a convenient way to start banking journey with Standard Chartered.

Features

- Withdrawal through branch counters restricted.
- No restriction on deposit.
- Facility of ATM cards, online banking service available.

Benefits

- Nominal minimum balance requirement.
- Easy and 24 hour access to funds through its ATM network.
- No account maintenance fees.
- 25% discount on draft/traveler's cheques/SWIFT transfers for education purpose.

Diva Account

Diva account is a variant of savings account, specifically designed for the modern woman who wants value for her money.

Features

- Interest bearing account.
- Facility of cheque book, ATM cards, online banking service, etc.
- Statements issued on a quarterly basis.

Benefits

- Nominal minimum balance requirement.
- Easy and 24 hour access to funds through its ATM network.
- Higher interest rate than normal savings account.
- Free ATM card for the first year.
- Exclusive discounts in select outlets.
- Free credit card for the first year (for accounts maintaining balance of NPR 25,000 and above).
- Free accidental death insurance (for accounts maintaining balance of NPR 25,000 and above).

Cards

Rupee Credit Cards (Visa & Master)

Benefits

- No need to have an account at SCBNL.
- Flexible payment option between 5% to 100%.
- 100% Cash advance facility both in Nepal & India.
- Easy to apply.
- Additional cards for spouse, children and parents with a spending limit per month.
- Wide acceptance in India and Nepal.
- Special offers and discounts on usage at various shopping outlets, hotels etc.

- Discount of 1% on purchase of fuel worth NPR 500/- & above from select merchant outlets.
- Reward points on retail purchases (except quasi cash transaction).
- e-Statement service.
- I-Banking service.
- 24 hour support service.

Eligibility

- Minimum age requirement: 18 years.
- Nepalese nationals.
- Monthly income of :

Visa Classic Credit Card	Salaried	NPR 8,000/-
Visa Classic Credit Card	Self Employed	NPR 10,000/-
MasterCard Gold Credit Card	Salaried/Self Employed	NPR 35,000/-

or

- Owner of a private car (registered in applicant's name) **or**
- Against land ownership certificate with building (financed property will not qualify).

or

- Account holder of SCBNL.

Criteria & documentation

Professionals & salaried individuals

- Annual salary certificate from the employer (at least 2 years of service).
- Copy of citizenship & latest photograph.

Partnership/Proprietorship/Self-Employed

- Business in operation for 3 years.
- Company registration document/s.
- Latest income tax return and management prepared and/or audited accounts.
- Copy of citizenship & latest photograph.

Not employed but has other source of income e.g.: Rental Income

- Lease agreement - valid for additional one year.
- Copy of citizenship & latest photograph.

No income documents required for those who would like to take a credit card against:

- Lien on fixed deposit/current or savings account with SCBNL.

- Maintenance of an average balance of NPR 100,000.00 in SCBNL bank account for a period of 6 months.
- If the applicant owns a car registered in his/her own name (copy of the blue book to be submitted).
- If the applicant possesses land & building registered in his/her own name (copy of land ownership certificate).

Charges

	Visa Classic Credit Card	MasterCard Gold Credit Card
Membership Fee	NPR 1,500 onetime fee	NPR 2,000 onetime fee
Annual Fee	NPR 750	NPR 1,000
Additional Card Fee	NPR 750 per card	NPR 1,000 per card

Noted that with every purchase make through domestic credit card (MasterCard & visa- valid in Nepal & India) the bank will contribute a certain amount to its `Seeing is Believing' initiative for eyesight restoration targeted at the poor and underprivileged people in Nepal. Till date, the bank and its staff have been instrumental in restoration of sight to more than 3,000 people in the country by sponsoring their cataract surgeries.

Prepaid Cards (NPR & USD)

Benefits

- No need to have an account at SCBNL.
- Electron/Un-embossed card accepted in ATM & POS terminals.
- Can be used for cash advance and retail purchases.
- Balance enquiry options.
- Personalized cards.
- Quick turnaround time-card issued within 10 to 15 minutes.
- Balance can be topped up within the card validity.
- Monthly statement issued.
- Easy to apply.
- e-Statement service.
- 24 hour support service.

<u>USD PREPAID CARD (Valid worldwide except Nepal & India) issued against</u>

- Travel quota- up to USD 2000.00
- Export account.
- FCY account.

- NRB permit/letter.
- No objection letter from Ministry of Education & Sports.

RUPEE PREPAID CARD (Valid in Nepal & India) issued against

- As per the applicants request for use in Nepal & India.
- For use in India – Limit determined as per Central Bank's rule.

Documentation

USD Prepaid Card

- Completed application forms.
- Passport and confirmed air ticket.
- Authority letters, NRB permit, as applicable.

Rupee Prepaid Card

- Completed application forms.
- Copy of citizenship/passport.
- For minors, a copy of Student ID and citizenship/passport of the parent/s.

Charges

	USD PREPAID CARD	NPR PREPAID CARD
Membership Fee	USD 10.00 or 0.75% whichever is higher	NPR 250.00
Replacement Card Fee	USD 25.00 (within Nepal) USD 35.00 (outside Nepal	NPR 250.00 (within Nepal) NPR 1500.00 (outside Nepal)

USD Credit Card

- Widely accepted and valid worldwide.
- Can be utilized for cash advance and retail purchase.
- 100% Repayment every month.
- SMS service.
- 24 Hour support service.
- e-Statements service.
- I-Banking service.

Eligibility

- Minimum age requirement: 18 years and maximum: 65 years.
- Nepalese citizen.
- Maintenance of a foreign currency (FCY) account with SCBNL.

Card will be issued against

- Lien on FCY account with SCBNL.

- Maintenance of an average balance of USD 3000.00 in SCBNL bank account for a period of 6 months.

Charges

	USD Gold Visa Credit Card
Membership Fee	USD 25.00
Annual Fee	USD 20.00
Additional Card Fee	USD 20.00

Service Charge: 1.5% per month calculated on daily basis on the outstanding balance.

InstraBuy

Everyone has a dream but very few dare to make it happen. INSTABUY is here to make dreams happen. InstaBuy enables to buy a product of choice from any merchant outlets in Nepal and India with Rupee Credit Card for minimum purchase amount of NPR 5,000. After the purchase request to transfer such amount to InstaBuy account by filling up an InstaBuy Application Form. Amount transferred into InstaBuy is required to be paid in equal monthly installment with lower rate of financial charge.

Features

- Lower rate of financial charge of 0.833% per month.
- Installment of choice - 6, 9, 12, 15 or 18 months.
- Any purchases except cash and quasi cash transactions.
- No documentation and no down payment.

Tenure (Exclusive 0% offer)

- 6 to 12 months installment period.
- Complete application form to transfer into InstaBuy.
- Application form available at all the branches of the bank and at all merchant outlets offering 0% scheme.

Reward Scheme

Reward Scheme is an additional feature of SCBNL Rupee Credit Card (Visa Classic & MasterCard Gold) whereby can earn points on every purchase made using Rupee Credit Card at any merchant outlets (except quasi cash transaction). The points will keep on accumulating with every purchase and will be able to redeem the points for gift vouchers or waiver of annual fees. The more spend the more earn.

- Get 1 reward point on every purchase of NPR 100 and more.
- Minimum 750 points required for redemption.

- Points valid for a period of one year.
- Points redeemable against gift vouchers of department store or waiver on annual fee.

24 HOUR SUPPORT SERVICES

Have lost card, need some assistance regarding card account? Do not worry SCBNL are open 24 hours 365 days a year to address concerns.

Home Loans

All dreams of owning home and at Standard Chartered are committed to helping turn that dream to reality. If aged at least 21 years and are under an employment having a take away pay sufficient to cover the installments, can approach to avail customized mortgage loan.

Products can avail

- House construction loan.
- Readymade house purchase.
- Plot purchase.
- Renovation/Extension of house.
- Loan against House (Home Advantage).
- Refinancing from existing financier.

Features

- Minimum 30% equity contribution.
- Maximum tenor of 18 years.
- Maximum loan amount up to NPR 20 million.

Benefits

- Convenient repayment plan (equal monthly installment spread over a maximum period of 18 years.
- Competitive interest rates.
- Quick processing time.
- Easy documentation.
- Personalized service.

Documentation Requirements

- Passport size photo of applicants/guarantor.
- Copy of citizenship document of borrowers/guarantor.
- Copy of land ownership document (lal purja).
- Copy of transfer deed (rajinama).

- Blue print of land.
- Building construction approval from Municipality/VDC along with drawing plans (applicable where building is involved).
- Char killa (four boundaries).
- Land revenue tax (malpot receipt).
- Income certifying document (salary letter, balance sheet, rental agreement etc.).
- Firm/company registration and PAN in case of business entity.

Auto Loans

At Standard Chartered believe in leading by example. SCBNL auto loan with its all-inclusive features is the ultimate solution to financing requirements. With its simple documentation process coupled with his speed of delivery and flexibility, drive vehicle today itself-be it brand new or used.

Products can avail

- New car/jeep financing.
- Used car/jeep financing.
- Commercial vehicle financing.
- Cash against existing vehicles.
- Refinancing from existing financier.

Features

- Minimum 10% equity contribution.
- Flexible loan tenure (up to maximum period of 7 years).
- Maximum loan amount to NPR 7 Million.

Benefits

- Convenient repayment plan.
- Competitive interest rates.
- Quick processing time.
- Easy documentation.
- Personalized service.

Documentation Requirements

- Copy of Citizenship (mandatory for Nepalese) or Passport (for foreigners) – applicable for all.
- PP size photograph (applicable for all).

- Copy of quotation of the vehicle for new vehicle.
- 2 valuation reports from banks approved values for used private vehicle.
- Salary certificate (for salaried employees).
- Certified statement of income (for professionals).
- Contracts/Agreements (for individuals with fixed income sources).
- Registration document at the concerned Nepal Government Office and Tax Office (for firms/companies).
- Memorandum of Articles and Association (if Private Limited).
- Partnership deed (for partnership firm).
- Board resolution (if private limited and institutions).

Personal Loans

Seek a way to better manage finances or financial commitments? Need cash for purchase of consumer durables/professional equipment, for social events, education? Quickly sharpen financial edge with a Standard Chartered personal loan. When the needs come knocking at door, can be sure to welcome it with cash in hand! With exciting plans, easy repayment options and competitive interest rates, Standard Chartered makes getting a personal loan a hassle free experience!

Features

- Maximum loan upto NPR 1 million (upto NPR 2.5 million for medical equipment financing).
- Flexible loan tenure (upto maximum period of 3 years).
- Hassle free.

Benefits

- Convenient repayment plan.
- Competitive interest rates.
- Quick processing time.
- Easy documentation.
- Personalized service.

Documentation Requirements

Salaried

- Copy of citizenship (mandatory for Nepalese).
- PP size photograph (applicable for all).

- A letter of undertaking and salary certification from employer.

Self employed/Professionals

- Copy of medical certificate.
- Certificate from professional association.
- Copy of company registration.
- Two years financial statements.

Cash/Near Cash Backed Loans

The loan against cash and near cash instruments (Government Bonds) is designed to offer the liquidity without compromising on the returns on deposits/bonds. While deposits/bonds continue to remain in name and earn interest avail loan against the security of these instruments. Avail loan against cash/NSB held in the name of any of family members. So if need money do not have to liquidate deposits/bonds. Just avail loan against cash, near cash (Bonds, Guarantees and Stand-by Letter of Credits) from SC Bank.

Features

- Most convenient and immediate line of credit.
- Available against government bonds, NPR and foreign currency deposits.
- Use it whenever want and pay interest only on usage.
- Lower processing fees and Interest rates.

Benefits

- Short/medium term funding (personal, professional and business purpose).
- Quick processing time.
- Personalized services.

Priority Banking

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

Features

- Personalized services.
- Commitment to service quality.
- Privacy at an exclusive priority banking unit.

Benefits

- Highest level of professional and personal services through dedicated relationship managers.

- Efficient, elegant and comfortable priority banking unit which provides privacy and confidentiality to its customers.
- SCBNL Master Gold Card is a symbol of premier recognition in the market.
- Preferential interest rates on home loans, auto loans and personal loans.
- Credit facilities against fixed deposits/government bonds and near cash backed securities.
- Under special conditions, home banking services is provided to our customers where they can avail an array of banking services without leaving the comfort of their home.

Secured Life Insurance

People are never too young or too old to benefit from financial protection. And insurance needs change with every milestone in life whether have just begun career, started a family, or reached the "golden stage" and planning for our retirement. At SC Bank know want the best for family and for self too. Expect a range of solutions that go beyond protecting financial well-being and giving and family the confidence to live life to its fullest. SCBNL offer a wide range of Life Insurance Products from American Life Insurance Co. (ALICO), one of the world's leading Insurance companies.

Products Available

- Three payment plan.
- Education protection plan.

Features

<u>Three Payment Plan</u>

- The uniqueness of this plan is that ALICO pays the face amount in 3 installments.
- 25% of the face value is paid at the end of the 1/3rd of the policy.
- Rest 25% is paid at the end of 2/3rd of the term of the policy.
- At maturity the remaining 50% of the face amount is paid with bonus.
- In the event of death, no deduction is made for the installments already paid. The policy purchaser is insured for the full amount till the last day.

<u>Education Protection Plan</u>

- On survival of the child at maturity face amount of the policy plus bonuses are paid.

<u>In Case of Customer's Death:</u>

- All future premiums under the policy will be waived and the policy continues in full force.

- Income for education equal to 1% of the face amount is paid every month to the child till maturity of the policy. At maturity receives the benefits stated above.

<u>On Death of Child Before Maturity:</u>

- Full face amount plus accrued bonuses are payable, subject to juvenile endorsement.

Benefits

- Cost effective way of protecting future.
- Hassle free.
- Saves time and reduce trouble.

Secured Asset

Standard Chartered offers a wide range of non-life insurance products from National Insurance Company Limited (NICL), a leading non life insurance company. SCBNL partnership with NICL will help get valuable properties like homes, vehicles, precious households goods insured conveniently- SCBNL carry out all the insurance transactions on behalf, saving time and trouble.

Home Insurance

Home Insurance is an affordable insurance product that provides protection against disasters and insures the home and the valuable possessions in it.

Features

- Comprehensive household insurance.
- Covers loss or damage to home, personal effects and third party injury.
- One (1) installment plan available for easy premium payment.

Benefits

- Cost effective way of protecting against unexpected loss of home and contents.
- Hassle free.
- Saves time and reduces trouble.
- Free personal accident policy cover up to NPR 500,000.00

Vehicle Insurance

Vehicle is an essential part of day to day life. Motor insurance is an inexpensive vehicle insurance that covers and vehicle in the event of accident, theft or fire.

Features

- Comprehensive insurance coverage.
- Covers unlimited third party coverage, riot, strike, malicious damage and terrorism.

- One (1) installment plan available for easy premium payment.

Benefits

- Cost effective way of protecting against unexpected loss of vehicle.
- Hassle free.
- Saves time and reduces trouble.
- Free personal accident policy cover up to NPR 500,000.00

Online Banking

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

Account Services

- Account information.
- Cheque book request.
- Request for statement.
- Status of issued cheques.
- Status of inward remittance.

Fund Transfers

- Within SCBNL accounts.
- To other bank accounts within Nepal.
- Standing order requests for periodic payments.

Credit Card Management

- Credit card transaction review.
- Credit card payments.
- Credit card limit increase request.

Personal Updates

- Change contact details.
- Changes address information.

Safe Deposit Lockers

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

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

Remittances

SCBNL provide an array of services to fulfill remittance requirements. Choose from any products to suit need

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

SME Banking

Every business starts as a dream. And inside every aspiring businessman lies a vision of the future. It's a world where ideas are planted, nurtured and left to flourish, limited only by the boundaries of imagination. Standard Chartered make it his goal to help realize the potential of business. Whether in retail, trading, manufacturing or services, SCBNL want to see succeed. SCBNL will support with customized financial solutions, responsive services and access to expert advice, backed by 150 years of experience and global network strength.

Product Available

- Deposit Management.
- Overdraft.
- Short Term Loan.
- Demand Loan.
- Term Loan.
- Letter of Credit.
- Trust Receipt Loan/Importer's Loan.
- Export Credit.
- Bank Guarantees.

Benefits

Get the right products, services and support for local and overseas businesses.

- Preferential pricing on business transactions.
- Advantage of international network and trade expertise.
- Professional advice, products and services through Relationship Managers.

Wholesale Banking

SCBNL is the leading wholesale bank in the country. SCBNL are very well known for innovation and capability to implement new products in the market.

SCBNL Product Offerings Includes (but not limited to):

<u>Transaction Banking:</u>

Cash Management

A. **Payments**

(1) Cross Border Payments.

a. Telegraphic Transfers.

b. International Bank Cheques/Drafts.

c. Quick Payment Services to Beneficiaries in India.

(2) Domestic Payments.

a. Local Bank Cheques/Drafts/Cashier's order.

b. Local Bank Transfers.

c. Book Transfers (account transfers between SC Bank accounts).

d. Payment through Correspondent Banks.

(3) Payroll Management.

a. Managing Payroll for Large Corporate and Institutional Clients.

(4) Payment System Integration.

a.Straight2Bank Channel (Internet channel) caters to different levels of customer payment sophistication, including simple online transaction and bulk payment including payroll management via internet. SCBNL in-country specialists are available to help customize a solution that enables to manage working capital in more efficient manner.

B. **Collections**

Extensive Clearing Network: Own branch network complemented by correspondent bank's network.

Guaranteed Credit: SCBNL can arrange for guaranteed credit (subject to prior agreement) for cheque collections.

Quick Collection Services (QCS): QCS enables to receive export receivables from India on a fixed date (subject to prior agreement). Domestic Collection Services enables to manage local receivables promptly.

Comprehensive MIS: SCBNL understand the importance of timely and accurate information regarding account receivables to help effectively manage receivables and debtors, and minimize losses caused by delayed receipts and defaults. People also manage buyer's requirement and improve inventory management. Through Standard Chartered Straight2Bank (internet Banking channel) multiple detailed report of accounts can be viewed in laptops and desktops in various formats. Tailored collection reports for local collections can also be sent to via e-mail.

Outsourcing of Collection

a. SCBNL supports complete collection cycle.

b. Courier pickup service which is available for cheques from office, dealers and distributors office.

c. Clearing of instruments whether local or foreign currency through the clearing houses, directly by Standard Chartered or through correspondent bank network.

d. Data capture of information.

e. Reconciliation activities.

Liquidity Management

Trade Solutions:

Imports:

i) Letter of Credit.

ii) Import Bills for Collection.

iii) Shipping Guarantees.

iv) Import Financing (Loan against Trust Receipt/Loan against Imports).

v) Import Invoice Financing.

vi) Performance Bonds and Other Guarantees.

Client Access

Let SCBNL award winning Straight2Bank capability take his business to the next level. This electronic option is embedded with comprehensive security features, flexible authorization matrix, and superior risk management MIS capability to put firmly in control of business environment.

Corporate and Institutional Lending

SCBNL offer various lending products to Corporate and Institutional Clients–product suit has been designed to meet both traditional lending requirements and modern days lending requirements.

SCBNL product suite includes (but not limited to):

Bridging Loans: A structured form of borrowing intended to financial transaction dependent upon a clear, reliable and identifiable source of repayment usually the sale of assets. They are intended for financing term borrowing requirements as opposed to overdrafts that are for financing of short term working capital requirements.

Short Term Money Market Loan: It provides either committed or uncommitted lines as flexible form of borrowing to finance day to day cash flow requirements generated for normal business activity. This is not intended for financing long term borrowing needs.

Drawing against Unclear Effects: For funds drawn on customer's account against cheques (normally in local currency) deposited to the same account but not yet processed and cleared through the cheque clearing system. Repayment will be automatic through the clearance of unclear cheques.

Overdraft: A revolving facility repayable on demand, made available in connection with a current account

Intra-day Overdraft: This is a liquidity line granted for financial institutions and corporate where the client is allowed to overdraw their account during the course of the day with repayment at the end of that business day.

Term Loan: A structured form of borrowing intended to finance specific transactions, usually specific assets and the funding requirements that this generates. These are intended for financing longer term borrowing requirements as opposed to overdrafts that are for the financing of short term working capital needs.

Revolving Term Loan: Term loan where drawings be made and repaid throughout the period of facility. No drawings can exceed the final maturity date.

Financial Markets

TRAIN: Standard Chartered TRAIN is an initiative that offers index linked structured deposits, swaps, notes and investor clients. TRAIN products are linked to proprietary indices developed with Standard Chartered and may be principle protected or principal at risk structures.

FX SPOT AND Forward: A Foreign exchange transaction that involves the buying and selling of one currency against another at an agreed rate of exchange and amount, with physical delivery of the two currencies on an agreed date, or within a pre-determined period in future.

FX Option (Vanilla): A derivative instrument of generic Spot and forward foreign exchange. This gives customers added flexibility when managing foreign exchange risk, whether for trading or yield enhancement purposes.

1.6.6 Community Work/Award Recognition/ Achievement

1.6.6.1 Community Work

The bank has been the pioneer in introducing 'customer focused' products and services in the country and aspired 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 nongovernmental 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'.

(Source: SCBNL, Annual report, 2009/10)

1.6.6.2 Award Recognition/Achievements

- November 2009 - **"Bank of the Year 2009 Nepal"** by 'The Banker' of the Financial Times.
- March 2006 – **"Best Commercial Bank 2004-05"**- awarded by The Boss Magazine- Specialty 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- Specialty Media Private Limited.
- July 2004 - Award for the "**Best Presented Accounts"** in the Financial Institutions Category in Nepal for the Year 2002-2003 and 2002-2001 awarded 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 GoN (previously 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).

1.6.7 Future Plan

SCBNL will continue to make appropriate investments in its franchise based on the operating environment. For the year 2010/2011, its key focus will be on Customer Service and SME. Bancassurance is another area where the bank will be making significant investment for generating fee income. Lending products like Auto, Mortgage, Credit Cards and Personal Loan will continue to be offered to its target segments and improvements in the turnaround time will receive its prime attention. The bank is also committed to providing easy banking solutions to its visually challenged customers within the existing framework and constraints. SCBNL also intend to enhance its online banking capabilities by adding additional features thereby obviating the need for customers to visit the bank for their basic banking requirements. Along with this, the bank will also be driving its e-statement agenda in order to ensure that customers receive their statements in a more efficient manner.

Inward remittances, an importance source of foreign currency earning, will continue to play a key role in the expansion of its consumer base. On the WB side, the bank will continue to offer “total solutions” to its clientele with new products and seamless services. Its endeavor will be to further deepen its relationships and achieve core banking status for all the corporate customers.

Nepal holds a huge potential to become a popular tourist destination. The year 2011, which is being celebrated as `Visit Nepal Year’, is expected to provide momentum to the tourism related activities. The steady economic growth of the two neighboring countries i.e. India and China is likely to offer opportunities for Nepal to act as a trade corridor. Suitable policy decisions to capitalize on these opportunities will help its agenda of achieving higher business growth. SCBNL will closely follow the opportunities for investment in infrastructural areas viz. hydropower, agriculture and other service sector industries.

In line with its revised brand promise, `Here for good’ the bank have full commitment to investing in its people, processes and systems with a view to improve the quality of its service for delighting its customers. The bank will consciously drive and maintain its high level of governance. For its shareholders the bank shall strive to continue providing them with superior returns.
(Source: SCBNL, Annual Report, FY 2009/10)

1.6.8 Provided Product and Service

SCBNL has been introducing many products. To illustrate, the bank has implemented up till the following products now.

1 Credit Card.

2 Tele Banking.

3 Any Branch Banking System.

4 Automatic Teller Machine (ATM).

5 e-Banking.

6 Deposit.

7 Loan and Advance.

8 Bill Purchase.

9 Bill Guarantee.

10 Remittance.

1.6.9 Dividend Bonus Condition

The 266th meeting of the Board of Directors of the Bank has proposed dividend to the shareholders of the bank for the year ended 16th July 2010 at the rate of 55% in cash and issue of bonus share of 15 for each 100 shares held.

1.6.10 Significant Accounting Policies

A. Basis of Preparation

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

B. Interest Income

Interest income of loans NRB recognized advance on cash basis as per the directive issued. Interest income on investments is recognized on accrual basis.

C. Commission Income

Income from export bills purchased is accounted for under commission income on account basis. Commission income exceeding Rs. 100,000 earned on guarantees covering more than a year is accounted for on accrual basis the period of the guarantee.

D. Loan and Advances, Overdraft and Bills Purchased

Loans and advances, overdraft 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 loss provisions.

E. Interest Expenses

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

F. Foreign Exchange Transactions

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

G. Staff Loans

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

H. 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, overdraft 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.

I. Investments

Investments in treasury bills, GoN 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 a cost adjusted for amortization of premiums of discounts.

J. Fixed Assets

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

K. Non-Capital Assets

Vehicle, 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.

L. Depreciation

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

M. Software Costs

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

N. 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.

O. Stationery

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

P. Provision for Taxation

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

Q. Rounding Off/Previous Year Figures

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

1.6.11 Function

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

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

1.6.12 Departmental Structure

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

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

1.7 Statement of the Problem

Institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates income. The differential interest income over the interest cost, which is popularly called as interest spread, can be considered as the contribution margin in the profit of the bank. The other operational expenses form a burden to the contribution margin which, the banks are attempting to compensate by other income generated out of non-fund based business activities of the bank. The present study has tried to analyze and examine the PPC side of commercial bank taking a case of SCBNL. Furthermore, the study has tried to answer the following research questions.

1. Does SCBNL has appropriate profit planning system?
2. Does the bank mobilize the deposit and other resources at optimum cost?
3. Dose the bank deploys the resources generating satisfactory yield?
4. Does the bank giving proper attention toward non-funded business activities thereby generating satisfactory amount of other income?
5. What are the overall PPC problems of SCBNL?
6. What suggestions can be recommended for their proper solution?

1.8 Objectives of the Study

The main objective of the research is to examine the profit planning and control system in Nepal. However, the specific objectives of the study are as follows:

1. To highlight the current profit planning premises adopted and its effectiveness in SCBNL.
2. To observe SCBNL's profit planning on the basis of overall managerial budget developed by the bank.
3. To analyze the variance of budgeted and actual achievements.
4. To study the growth of the business of the bank over the period.
5. To analyze the impact of PPC on banking strategies and managerial decisions.
6. To provide suggestion and recommendations for improvements of the overall profitability of the bank.

1.9 Significant of the Study

This research study is concerned with the impact of profit planning and control on banking strategies and managerial decisions with reference to SCBNL, with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the help of the best utilization of resources. Accomplishment of objectives in every organization depends upon the application of scarce resources most effectively. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. All the organizations running under commercial principle have to give regard to these most important single tools while managing their physical and financial targets. If the planning process of an organization is effective and result oriented, the pace of development naturally steps forward. Profit planning is the heart of management. It tells us profit is the most important indicators for judging managerial efficiency and do not just happened for this every organization has to manage its profit. Various functional budgets are the basic tools for proper planning of profit and control over them. This research study may be useful for those who want to know the PPC in the SCBNL may also be helpful for future researchers as a reference material.

1.10 Limitations of the Study

The researcher has however tried to eliminate the limitations to the best possible extent. However, the specific limitations of the study are:

1. The study is made for partial fulfillment of the requirement of Masters in Business Studies, in a short duration of time. Therefore only SCBNL has been taken for this study.
2. Only the profit planning aspect of the bank has been analyzed, leaving other areas uncovered.
3. The study covers the related data of the bank only five years from FY 2005/06 to FY 2009/10.
4. The accuracy of the primary data highly depends on the opinion of respondents.
5. Reliability of the secondary data depends upon the accuracy of publication.
6. The accuracy of this study is based on the data available from the website of Standard Chartered Bank Nepal Limited, its various published documents and management of SCBNL.
7. The various published documents of the bank and the response made by the respondent during the informal discussion.

1.11 Organization of the Study

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

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

CHAPTER – TWO

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

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

2.2 Concept of Commercial Bank

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

The major functions of commercial banks are as follows:

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

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

2.2.1 Bank and Financial Institution Regulation

Bank and Financial Institution Regulation Act-2063 has been introduced to supervision and control to bank and financial institution. This act was published in Nepal Gazette on 2063/7/19 B.S. The main objectives of the act are as follows:

- To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.
- To provide qualitative services by the means of healthy competition among the banks.
- To provide guides lines about establishment, operation, management, rules, regulations and legal provisions.

2.2.1.1 Prescribed Regulations for Commercial Banks

a) Capital Adequacy

The capital adequacy is one of the major criteria to operate the commercial banks. Notional required capital will be as specified in the licensing policy.

b) Loan Loss Reserves

The commercial banks have to comply and maintain loan classification and provisioning as per the NRB regulations.

c) Reserve Requirements

Banks and agencies of banks are required to maintain some reserves like cash in vault; balances with NRB.

d) Reporting Requirements

Commercial banks have to submit final annual report to NRB within 90 days after fiscal year end. Unless and until specified, other requirements are to submit reports as per NRB regulations. Quarterly financial reports should be published in national newspaper.

e) Systems and Policy Documents

Transparent systems, credit policy guidelines, borrowing guidelines, operational guidelines, risk management guidelines and other appropriate policies and guidelines need to be prepared, approved and implemented.

f) Technology and Technical Service

Modern technology and technical services should be applied by commercial banks as approved by NRB.

2.2.2 Domestic Legal Provisions Regarding Banking Sector

Nepal Rastra Bank Act-2002 has given full authority to the NRB regarding regulation, inspection and supervision of the banks and financial institutions. Bank and Financial Institution Ordinance-2060, which is popularly known as Umbrella Act, has recently been enacted in unified form. Agricultural Development Bank Act-1967, Commercial Bank Act-1974, Finance Company Act-1986, Nepal industrial Development Corporation Act-1990 and Development Bank Act-1996 have been repealed with the promulgation of this ordinance. The ordinance governs the functional aspect of banks and financial institutions. Some of the important provisions in the ordinance regarding the banking sector have been analyzed in the chapter as follows: Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the ordinance. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary investigation and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with Nepali citizen or as subsidiary company with 100% share is eligible to furnish the application to establish a bank or financial institution. However, the ordinance is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75%. The ordinance prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction most submits an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution. If the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this ordinance and its regulation, directive, order or provisions of memorandum and article of association and there are sufficient grounds to believe that the entity is competent to operate financial transaction (www.bankinginnepal.com.np).

The NRB will classify the institutions into A, B, C, D groups on the basis of the minimum paid up capital and provide the suitable license to increase its authorized, issued and paid up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets and other transactions. At the same time they must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to be borne from off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity. The bank of financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the nonperforming asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management Fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions. The NRB is in full power to deny license for financial transaction if the conditions stipulated in ordinance are not met and it is also authorized to impose necessary conditions taking to account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act-2002 or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this ordinance to carry on the financial transaction of the license holder under the certain circumstances as stipulated in the ordinance.

A foreign bank or financial institution desiring to open its office with in the kingdom of Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open a office with the kingdom of Nepal taking into account the situation of competition existing the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign bank or financial institution (www.bankinginnepal.com.np).

2.2.3 Existing Rules and Regulations Relating to the Commercial Banks

a) Paid Up Capital

1. A commercial bank of national level, the paid up capital of such bank must be at Rs. 200 corore.
2. To have an office in Kathmandu, the bank is required to have either joint venture with foreign banks and financial institutions or a technical service agreement (TSA) at least for three years with such institutions.
3. The share capital of commercial banks will be available for the promoters up to 70% and 30% to general public. The foreign banks and financial institutions could have maximum of 75% share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepali promoters in national level banks, only 20% of total share capital will be made available to general public on the condition that the foreign bank and financial institution are going to acquire 50% of total share.
4. Banks to be established with foreign promoters' participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.
5. Banks that are already in operation and those who have already obtained letter of intent before the enforcement of these provisions have to bring their capital level with in seven years, i.e., by 16th July 2009 as per this recently declared provision. In order to increase in the capital such increase should be at a rate of 10% per annum at the minimum.

6. Among total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the time of receiving the letter of intent on the interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes into operation. Normally, with 4 months from the date of filling of the application, NRB should give it decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concern body.

b) Promoters Qualifications & Sale of Share

1. Action on the promoter's application will not be initiated by the NRB if it is proved that their collateral has been put on auction by the bank and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and five years have not elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process of license issuance if the above events are proved.
2. Out of the total promoters, one-third should be its chartered accountants or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, at least 25% of promoters group should have the work experience of the bank or financial institution or similar professional experience.
3. An individual, who is already serving as a director in one of the bank and financial institutions licensed by NRB, cannot be considered eligible to become the director in other banks or financial institutions.
4. Stockbrokers, market makers, or any individual or institution involved as an auditor of the bank and institution carrying on financial transactions cannot be a director.
5. Promoter group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of three year from the date has been registered in the stock exchange. Prior to the disposal of such shares, it is mandatory to get approval from the NRB.

6. The share allotted to the general public has to be issued and sold within three years from the date the bank has come into operation. Failing to fulfill such provisions, the bank cannot issue bonus share or declare and distribute dividends.
7. Shareholders of the promoters group and their family members can not have access to loans or facilities from the same institution (www.bankinginnepal.com.np).

2.3 Evolution of Commercial Bank

The organization of term “Bank” is under dispute among the economist. According to some authorities, the word “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 market place 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, 1993:145).

“The history of bank started from the merchants, goldsmith, and money lenders they are called ancestors of modern banking. Before 1848 BC goldsmiths used to store people's gold and other valuable goods and charge nominal charges against the deposits. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 BC” (Paul, 1996:12).

A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Basically banks performs various types of services i.e. collection of deposit from the public, supply loans to those investors who want to invest in business, industry and other sectors, overdraft, letter of credit, bills of discounting, promissory notes, merchant banking, agency function of tasks guarantee against any disable of payment, remittance services etc.

In the 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 people's 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. However, the banking as 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).

The history of modern financial system is not too long. In Nepal it was begun in 1937 A.D. with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was establishes to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank, it plays the role of central bank also with the establishment of NRB 1956 under the NRB Act-1955. The new NRB Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the bank. Then after GoN and NRB has established the Nepal Industrial Development Corporation (NIDC) capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in public sector in 1966, with the equity participation of Govt. of Nepal and Agricultural Development Bank Act-1967 by incorporating the assets & liabilities of the Co-operative Bank (Sharma, 2002:3).

The legislation of Commercial Bank Act-1974 set out regulation for licensing supervision and cancellation of license of commercial bank and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. GoN emphasized the role of the private sector for the investment in the financial sectors. The financial sector liberalization, started already in the early eighties with the liberalization of interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic & foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. The Nepal Arab Bank Ltd. (NABIL) is the first joint venture commercial bank of Nepal was established in 1984. The Nepal Investment Bank Ltd. & Standard Chartered Bank Nepal

Ltd. are two other joint venture commercial banks, were established in 1986 & 1987 respectively. With the passage of time, function of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life without a bank is it brick bank or click bank (internet banking) is beyond imagination (Dahal & Dahal, 2002:7).

2.3.1 Definition of Bank

A bank is an institution, which accepts deposit from the public and in return advances loans by creating credit. Therefore it should be differentiated from other financial institution, as they cannot create credit thought they accept deposited. As per Kent - "A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure." As per Banking Regulation Act of India -"Banking means the purpose of lending or investment of deposits of money from the public land or otherwise, and withdraw able by cheque, draft or otherwise."

2.3.2 Origin of the Word "BANK"

The origin of the word "Bank" is kinked to, Latin word "Bancus" meaning a bench, Italian word "Banca" meaning a bench. French word "Banque" meaning a bench. Moneylenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term "Bankruptcy" is derived thereof.

Banking has crossed various phases to come to the modern form. Some sort of banking activities had been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. In Greece, the temples of Delphi and other safer places acted as store houses for the precious metals before the days of coinage and in later times, they lent out money for public and private purposes at interest though they paid none themselves. Private money changers began with the task of reducing many metallic currencies more or less exactly to a common unit of value and went on to accept money on deposit at interest and to lend it out at higher interest permitting meanwhile drafts to be drawn on them.

Merchants, Goldsmith and Money Lenders are said to be the ancestors of modem banking.

Merchant: Business activities have been carried out since the time immemorial. Merchants had to remit money from one place to another, it was very difficult to carry physical money (coins) each time when trading was executed. The merchants were so popular and creditworthy that the letters issued by them were treated as good as money. They used to make trading activities based on these letters and settle the outstanding through actual coins on the periodic basis. These letters gave birth to modern negotiable instruments.

Goldsmith: Goldsmiths had very sound credit standing tint of his society. They used to have safe to keep valuables. Fear of theft and robbery led people keep their valuables in the custody of the goldsmith. Goldsmiths used to charge commission for safekeeping and used to return the valuables on demand. The depositors had to visit goldsmiths for part and full withdrawal of gold, silver and coins. Gold and silver used to remain with the goldsmiths for relatively a long time but coins had to be withdrawn from time to time. This gave birth to the bank note.

Money Lender: Moneylenders used to give loan to the needy public out of their own treasury. Later on, people started depositing their saving/deposits with the Money Lender. Goldsmith and Money Lender experienced that all the money deposited with them was not withdrawn at a time. Some used to deposit while some used to withdraw but a large amount used to remain with them. Then, they started offering interest on these deposits and started utilizing these funds to disburse the loans to the needy people. They used to keep a fraction of total deposit in the form of cash to honor withdrawal demands and the rest was lent.

2.3.3 Evolution of Banking Industry

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

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 was the first the public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The Bank of Venice and the Bank of Genoa continued to operate until the eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world In Nepal, modern banking starts from the establishment of Nepal Bank Limited.

2.3.4 Origin and Growth of Modern Bank

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

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

2.4 Activities of the Commercial Bank

As per the Commercial Bank Act-2031, a 'Bank' is a commercial bank established under this act 'banking transaction' are the activities of accepting deposits from the others for the purpose of lending or investing, repayable on demand or after some stipulated time period by means of generally accepted procedure. The functions of receiving money from his customers and repaying it by honoring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business. The major activities of a commercial bank are essentially accepting deposits and making loans and advances. In the present scenario banking activities are not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time span like remittance services, land development and housing projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided into two parts are as follows:

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

2.4.1 Collection of Resources

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

I. Internal Fund or Capital Fund

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

II. Deposits & Others Liabilities

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

2.4.2 Deployment of Resources

The prime purpose of collection of resources is to use it in productive sector this function of commercial bank called deployment of resources. Deployment of resources of the bank means use for the bank's fund in such a way that it ensures liquidity as well as gives some income for meeting its operating expenses and optimum return to shareholder. The overall performance of the banker reflects by such activity. Every financial institution tries to maximize its earning by using its excessive cash by lending it to the sensible borrowers in a manner which in no way impairs its capacity to pay on demand the acquired funds to their owners. Mobilization of resources in bank is a challenging job. Resources of banks are mobilized basically for two purposes one is for liquidity and another is for profitability. The importance of liquidity and profitability in a bank is dominant. Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Bank maintains liquidity in the form of cash and bank balance, money at call, investment in government security etc. In other hand banks always pays their attention to maximization their profitability. Depositors always expects better interest on their deposit, employees expects better salary, perks and bonus this is to because its shareholders expect a fair rate of return. If the bank cannot satisfy either of these parties, the success of the bank is always questioned. The profit is excess of incomes over expenses. To maximize profit, incomes should be reasonably excess over expenses. The major sources of income of a bank are interest income from loans and investments and fee based income.

A. Resources for Liquidity

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

B. Investment in Securities

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

C. Loan and Advances

Granting the loan and advance is a major function of bank. Overall profitability of bank depends on interest margin. Banking business essentially involves lending of loan and advances. In fact the deposits are accepted for loan and advance. Loan and advances dominate the asset side of the balance sheet of any bank. The income statement of bank occupy by interest. Hence, loan is known as risky assets. Risk of non repayment of loan is known as credit risk. Commercial banks generally lend for short term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selecting the borrowers. Generally banks lending is guided by their lending policies. General principles of a sound lending policy should be followed by a bank while taking decision towards the lending such as safety, liquidity, profitability, risk diversifications etc.

The types of loans may be collateral loan, demand loan, hire purchase, educational loan, foreign employment loan, social loan, housing loan, import and export loan, loan against fixed deposit, against securities, overdraft loan etc. There are some approval processes of bank loan. The entire amount is disbursed to the borrower account after completing the approval process which in repayable in terms and conditions of a banks i.e. periodicals installments basis or lump sum on the expiry of loans. Overdrafts are granted in current account of a customer. It is the permission given to overdraw from the account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only. NRB has made a mandatory provision on loan loss. NRB regulation on classification and provisioning is pass loan (principal overdue up to 3 months) is 1%, substandard loan (principal overdue up to 6 months) 25%, doubtful (principle overdue up to 1 year) 50%, and bad loan (principle overdue above 1 year) is 100%. Pass loan is called 'Performing' assets where as others are called 'Non-performing' assets. Provision requirement in case of loan given against personal guarantee only is additional 20% for pass substandard and doubtful loans. Provision for restructured, rescheduled and swapped loan is 12.5% only. The amount of loan loss provision is treated as the expenses items. Therefore, in order to improve the profitability, the banker should be more attentive toward timely realization of dues so that the amount of loan loss provision may be maintained at the least possible level (Dahal & Dahal, 2002:120).

D. Other Activities for Mobilization of Resources:

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

2.5 Role of Commercial Banks in Economic Development:

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

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

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

2.6 Impact of National and International Situation on Commercial Banks

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

2.7 Concept of Profit

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

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

2.8 Concept of Planning

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

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

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

According to Oxford Dictionary, planning means:

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

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

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

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

“Management planning and control system proved the comprehensive framework within which organizing, staffing, leading and controlling process is carried out. Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed effectively and efficiently towards the achievement of goals" (Lynch, 1984:139). Three major function of management are planning, execution and control and these are the key elements of the management process. Business management must plan to its activities is in advance carryout the plan and institute appropriate technique of observation and reporting to insure that deviation from plans are properly analyzed and handled.

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

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

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

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

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

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

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

2.8.1 Concept of Strategic, Tactical & Corporate Planning

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

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

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

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

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

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

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

Table No. 5

Distinction between strategic and tactical planning

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

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

2.8.2 Forecasting

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

As per Pandey (1991), it should be realized that budgeting is not merely forecasting although forecasting is form of the basis 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.

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

2.8.3 Planning Vs. Forecasting

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

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

2.9 Concept of Control

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

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

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

2.10 Meaning and Definition of Profit, Planning and Control

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

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

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

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

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

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

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

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

As per Ninemeire & Schmidgall (1984), profit plan is as estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operations, it presents a plan for spending income in a manner that does not result in a loss.
"Profit planning represents and overall plan of operations, covers a definite period of time and formulates the planning decision of management. It consists of the operating budget, the financial budget and the appropriation budget" (Kulkarni, 1981:310).

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

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

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

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

2.10.1 Objectives of Profit Planning and Control

The main objectives of the profit planning are as follows:

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

2.10.2 Importance of Profit Planning and Control

The major importance of profit planning is as follows:

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

2.10.3 Problems and Limitation of Profit Planning and Control

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

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

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

1. The profit plan is based on estimation: The strength or weakness of a profit planning program depends to a large degree of accuracy with which the basic estimates are made.

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

2.10.4 Process of Profit Planning

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

The major processes of profit planning are:

1. **Identification and evaluation of internal variables:** Identification involves separate consideration of variable that are not controllable and those that are controllable. Management planning must focus on how to manipulate the controllable and non controllable variables.
2. **Development of the broad objective of the enterprises**: It is responsibility of executive management. The statement of broad objective should express the mission, vision and ethical character of the enterprises. Its purpose is to provide enterprises identity continuity of purpose and identification.
3. **Development of specific goal for the enterprises:** The purpose of the goal phase of the profit planning process is to bring the statement of broad objective into sharper focus and to move from the realms of general information to move specific planning information. Executive management should exercise leadership in this planning phase. So that there will be a realistic and clearly articulated framework within which operations will be conducted toward common goal.

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

2.11 Profit Planning and Control in Nepalese Enterprises

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

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

2.12 Budgeting as Tools for PPC

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

"Budgeting is the principal tools of planning and control offered to management by accounting function" (Welsch, 1999:346). Budgeting as a tool of planning and control is closely related to the broader systems of planning and control in an organization. It serves as a guide to conduct operations and a basis for evaluating actual results. Budget as tools of management are an integral part of the broader system of planning and control. One of the primary objects of an annual budget is to measure the profit expectations for the next financial year with due regards to all the circumstances that can influence the trading prospects. Profits do not emerge of their own accord. They have to be influenced by management. The quality of management is often judged by the size of the profit figures at the end of the financial year. For its own protection and in the interest of business, management must plan to make profit and the accepted basis for this is the annual budget, properly supported by long-term strategic planning and operation planning.

Profit planning is a heart of management and budgeting is sole appropriate technique for this most for the Nepalese PEs have been suffering the problem of poor performance and sometimes losses also. Functional budget are the tools for planning and controlling the profit of any enterprise. In budgeting, plan the desired profit and in the time of execution the performance is verified and controlled by the budget. As per Khan and Jain (2003), Budgeting as a tool of planning and control is closely related to the broader system of planning in any organization will pursue and the fundamental policies that will guide it. In operational term budgeting involves four steps:

1. Setting the objectives,
2. Specify the goals,
3. Laying down the strategies, and
4. Preparation of budgets & profit plans.

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

2.12.1 Objectives of Budget

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

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

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

2.12.2 Budgets and Budgeting

Budgeting is an amalgamation of managerial techniques and approaches whereas the budget is a financial expression for a certain period for certain areas. Budget is a formal statement policy plans, objective and goal established by the top management in respect of some future period. It is more numerical than theory.

Budget provides media for self-discipline and control throughout the length, breadth and depth of the organization. It should be consider the classification of budget. Nowadays, many types of budget are in use; mainly segregate the budget in four types:

1. Expenditure Budget

2. Financial Budget

3. Profits Budget

4. Capital Budget

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

2.13 Sales Budget

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

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

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

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

2.13.1 Sales Forecasting and Sales Planning

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

2.13.2 Types of Sales Plan

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

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

Strategic sales plan is known as long range sales plan. Usually, it covers 3 to 5 or 10 years. As a practical approach, a company may schedule completion of the strategic planning term sales plan as one of the first steps in the overall planning process. It is usually developed as annual amounts. The long term sales plan uses broad grouping of products (product lines) with separate consideration of major and new products and services. Usually it requires depth analysis of future market potentials, which may be built up from a basic foundation such as population changes, state of economy, industry projections and finally company objectives. Long term management strategies would affect such areas as long term pricing, new directions in marketing efforts, expansion in distribution channels and cost patterns. The influence of managerial strategy decisions is explicitly brought to bear on the long term sales plan primarily on a judgment basis. In planning short range or tactical sales plan are should consider its long range plan. A general practice in planning for short term sale is to consider time period not more than 12 months future time period detailed by quarter and months for the first quarter. At the end of each months or quarter throughout the year the short-term sales plan is revised or reconstructed base on past period performance. It includes a detailed plan for each major product a groupings of minor products. It is usually developed in terms of physical units and in sales and for service in dollars. Now, on the basis of long range sales plan and short range sales plan is prepared. A short-range sales plan must take consideration of policies and strategies set by long-range sales plan. Tactical plans are usually subject to review and revision on a periodical basis based on period completed immediately. A short-range sales plan should be included considerable detail, where as long range plan should be included broad terms.

2.13.3 Developing of Sales Plan

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

Step-1: Guidelines or policies.

Step-2: Marketing plan.

Step-3: Sales forecast.

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

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

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

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

2.14 Production Budget

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

Production Requirement = Sales Volume + Inventory

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

1. **Direct Material and Purchase Component Budget:** It specifies the planned material and component requirement.
2. **Labor Budget:** It shows the planned quantity and cost of direct labor.
3. **Manufacturing Expenses or Factory Overhead Budget:** It includes the plans to all factories, costs other than direct material and labor.

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

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

2.14.1 Material Requirement Planning

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

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

2.14.2 Merchandise Budget

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

2.15 Material Purchase and Usage Budget

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

- To established effective inventory policy.
- To provide quantity data for purchase.

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

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

Planning raw materials and parts usually requires the following for sub budgets:

a) Material and Parts Budget

b) Material and Parts Purchase Budget

c) Cost of Materials and Parts Usage Budget (Welsch, 2006:240).

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

2.16 Material and Parts Inventory Budget

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

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

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

2.17 Direct Labor Budget

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

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

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

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

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

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

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

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

2.18 Overhead Budget

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

2.19 Cost Behavior

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

1. **Fixed Expenses:** These expenses are constant in total, from month to month, regardless of fluctuations in output or volume of work done.
2. **Variable Expenses:** These expenses are changes in total, directly with changes in output or volume of work done. The output must be measured in terms of some activity base, such as units completed, DLH, sales amount or number of service calls, depending as the activities on the responsibility centers.
3. **Semi-Variable Expenses:** These expenses that are neither fixed nor variable because they posses some characteristics of both. As output changes semi variable expenses changes in the same direction but not in proportion to the change in output.

2.19.1 Administrative Expenses Budget

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

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

2.20 Flexible Budget

The concept of flexible budget is that all expenses are incurred because of passage of time, output activity or combination of time and output activity. Therefore, it is complementary to tactical profit plan. It helps to provide an expenses plans. They should be adjusted to actual output for comparison with actual expenses in periodic performance report. It is the budget, which estimate costs and profit at several levels of activity. It depends upon the cost behavior as analyzed in the above analysis.

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

a) Fixed

b) Variable

c) Semi-variable (Welsch, 2006:345).

2.21 Capital Budget

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

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

- Consideration of investment proposal including alternatives.
- Application of profits, cash flows and analysis of cost benefit of the project.
- Estimation of available funds and utilization of funds.
- The objective is to maximize the profits with the utilization of available funds.

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

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

2.21.1 Evaluation of Investment Decisions

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

A. Discounted Cash Flow Method:

i. Net present value

ii. Internal rate of return

iii. Profitability index

B. Non-Discounted Cash Flow Method:

i. Payback period

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

2.22 Cash Budget

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

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

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

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

1. Give the probable cash position at the end of each period.
2. Identify cash excess organization shortage by time periods.
3. Establish the need for financing and or the availability of idle cash for investment.
4. Establishing a sound basis for continuous monitoring of the cash position (Welsch, 2006:434).

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

1. Estimates of cash receipts,
2. Estimates of cash disbursement and
3. Cash balances each month of budget periods.

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

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

2.23 Profit Budget

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

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

2.24 The Concept Integrated with Profit Planning

2.24.1 Cost Volume Profit Analysis

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

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

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

2.24.2 Break Even Analysis

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

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

Break-even point can be carried out in two ways:
i Algebraic or formulae approach
ii Graphical or chart approach

Some of the following assumptions are as follows:

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

Also the break even analysis can indicate the following economic characteristic of a company:

- Fixed expenses variable expenses and total expenses at varying volumes.
- The profit and loss potential before and after income taxes at varying volumes.
- The most i.e. the relationship of budget sales to break even sales.
- The break even sales amount the preferred dividend or danger point i.e. the point below which preferred dividends are not earned.
- The dead point i.e. the sales amount at which the company earns only the going rate of investment.
- The common dividend or unhealthy points i.e. the sales amount below which earning are insufficient to pay the preferred dividends and expected dividend on the common stock.

2.25 Performance Reports

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

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

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

i. Tailored to the organizational structure and locals of controllability.

ii. Designed to implement the management by exceptions principle.

iii. Repetitive and related to short plan periods.

iv. Adopted to implement the management by exceptions information.

v. Accurate and designed to pin point significant distinctions.

vi. Prepared and presented promptly.

vii. Constructive in tones.

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

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

2.26 Budget Variance

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

“Variance analysis or comparison of actual results with budgeted goals has been emphasis as an integral part of control process. A basic feature of performance reports is the reporting of variances between actual and planned goals. If variance is significant a careful management study should be made to determine the underlying cause. There are numerous ways to investigate variances to determine the underlying cause” (Welsch, 2006:69).

Some of the primary approaches are the following:

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

It is frequently applied in the following situations:

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

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

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

2.27 Activity Costing

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

2.28 Zero Base Budgeting

Under zero budgeting, every budget is constructed as the promise that every activity in the budget must be justified. ZBB defines as an operative planning and budgeting process which require each manager to justify his entire budget in detail from search and shifts the burden of responsibility of each manger to justify when he should spend any money at all. It envisages a review of the total expenditure with a view to justify his entire budget. The entire program is reviewed and justified from zero base. It involves three phase of management planning, budgeting and review. Traditional budgeting generally no review organization justifications is required in ZBB.

2.29 Review of Research Studies

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

D. R. Shakya (1995)

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

Objectives:

- To evaluate the trend of deposit and loans and advances of NABIL and SCBNL.
- To evaluate the liquidity, profitability, capital structure, activity and capital adequacy position of NABIL and SCBNL.
- To suggest and recommend some measure on the post company performance, evaluation and findings for the improvement of financial performance of NABIL and SCBNL in future.

Findings:

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

U. D. Karki (2002)

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

Objectives:

- ❖ To determine comparative systematic budgeting capacity.
- ❖ To identify comparative revenue and cost efficiency.
- ❖ To know the comparative fund mobilization and lending policy.

Findings:

- ❖ Total revenue and total cost of RBB is higher than HBL but its profit is lower.
- ❖ Volume of loans and advances is increasing every year in both the banks and provision for bad debts are higher in RBB than in HBL.
- ❖ Ratio of interest income to total income is almost more than 86% in RBB and more than 80% in HBL. It shows that RBB is more dependent in interest income than HBL.
- ❖ Return on paid up capital is always negative in RBB. Net profit is also negative in RBB.
- ❖ Ratio of loans and advances to customers deposit shows that more than 60% of customers deposit in utilized in RBB where as in HBL it is around 50%.
- ❖ Interest spread is higher in RBB than in HBL.
- ❖ Regression analysis showed that volume of profit is directly related with the size of loans and advances. There is only 0.5% profit in every loan of NPR 100 in RBB and 3.7% in HBL.
- ❖ Interest coverage ratio of both banks in more than 1 except in the FY 1995/96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio of HBL is higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
- ❖ No proper planning strategy seems to be developed. Although HBL is operating at profit but RBB is running with heavy cumulative loss.
- ❖ As the accounting system of RBB is careless that it has not been audited from the FY 1993/94 and it is difficult to take decision about data analysis.
- ❖ In case of RBB, its deposit, total revenue, loan and advances are increasing every year whereas the profits are negative or highly fluctuating, which is mainly due to high fluctuating in cost.

- ❖ Analysis of profit planning and control is basically an internal affair. It needs to analyze the insight positions. As insight is not flashed out due to the cause of secrecy attempt is made to analyze on the basis of data published.
- ❖ Government seems less conscious in the present situations of RBB.

U. K. Tiwari (2003)

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

Objectives:

- ❖ To highlight the current profit planning premises adopted and its effectiveness in SCBNL Bank.
- ❖ To analyze the variance of budgeted and actual achievements.
- ❖ To study the growth of the business of the bank over the period.
- ❖ To provide suggestion and recommendation for improvements of the overall profitability of the bank.

Findings:

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

R. Thapa (2004)

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

Objectives:

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

Findings:

- Nepal SBI Bank does not prepare long-term strategic profit plan. It only prepares short-term profit plan which is usually referred as budget. Time period of this budget covers one fiscal year.
- The budget is not based on past performance but on target growth, which is very optimistic in both the budgeted years.
- Highly experience expatriate staff at the top level with extensive exposure in international banking environment.
- Hue volume of business origination form successful business man of Indian origin.
- Extensive network of branch/company in India of its parent company State Bank of India.
- Very friendly and cordial ties between Nepal and India in all aspects.
- Increasing Volume in cross border trade between India and Nepal.
- Lack of clear cut mission and goals of the company.
- Inadequate coordination between departments.
- Lack of corporate belongingness.
- Inadequate autonomy in the credit decision making to the credit department.
- Unnecessary interference of the governing board in the functioning organization.
- Its mission and objectives have not been clearly defined and delegated to the lower level.
- The bank has not been able to maintain a minimum level of coordination between the departments and staff.
- The profit budget is extremely ambitious. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.

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

Y. Gautam (2008)

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

Objectives:

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

Findings:

- ❖ HBL has three types of core planning team to make plan, policy, program and budget.
- ❖ HBL has adopted two types of planning formulation methodology. One is seminar at head office and other is seminar at regional level of offices.
- ❖ The main objective of profit plan of HBL is to achieve 4% profit on outstanding.
- ❖ Major concentration of resource mobilization of bank was at deposit mobilization. In FY 2058/059, it was 87.35% and in FY 2062/063, it was 86.63% of total resource mobilization.
- ❖ Budget achievement of deposit collection in FY 2062/063 was 104.33%.
- ❖ Budget and actual deposit collections from FY 2059/060 to 2062/063 were overlapping in amount.
- ❖ The estimate target set for deposit mobilization by the bank is found to be considerably maintaining every year.
- ❖ Form the data analysis of deposit budget and actual achievements by coefficient of variance, it was found that the actual deposits were variable than budgeted one.
- ❖ Resource mobilization other than deposit collection amounted to 13.37% of total resource in average.

- Resource other than deposit collection is not satisfactorily mobilized.
- Bank's resource deployment for non-yielding liquid assets (cash and bank balance) was in fluctuating trend every year and supporting to meet liquidity requirement of the bank.
- Major portion of the resources have been deployed in LABP and investments. LABP covers around 50% of deployment and around 40% is covered by investment sectors.
- The estimated targets for deployment towards LABP have been well met in average. It did not meet the target in FY 2058/059 and FY 2060/061 with negative figures of achievements.
- From the analysis of budgeted and actual LABP with the help of co-efficient of variance, it is found that the actual LABP is more variable than the budgeted one.
- Likewise, deployment in investment also did not meet the achievement in FY 2058/059 and FY 2060/061 than the budgeted figure. From analysis of budgeted and actual investments with the help of co-efficient of variance, it is also shows that the management is not planning their investment with considering other variables.
- The data analysis of LABP and deposit with the help of correlation coefficient shows that the deposit and LABP are perfectly correlated. It also shows that LABP is more variable than the deposit.
- Interest expenses amount is the highest among total expenses items of the bank every year. In FY 2062/063, it was 39.48% of total expenses.
- The interest expenses of the bank are found fluctuating every year. The interest expenses show positive but not perfect correlation with deposits.
- Cost of deposit of the bank is found to be fluctuating and is in decreasing trend. The CoD of FY 2062/063 is 2.45%.
- Other expenses other than provision for doubtful debts are in increasing every year.
- The bank has not maintained loan loss provision as per the requirement of the bank. It was 0.87% in FY 2062/063.
- Interest income amount of the bank is the highest contributor in the total revenue. It is 77.4% of total revenue in FY 2062/063.
- The amount of interest in increasing every year corresponding to increase in LABP. There is a perfect correlation between interest income and LABP.

- Yield on LABP (ratio of interest income on total LABP expressed in percentage) was the lowest level of 10.31% in FY 2060/061 and at the highest level of 12.62% in FY 2058/059. Yield on LABP in FY 2062/063 is 10.69%.
- Other income of the bank is also in increasing trend.
- The interest spread or the amount of interest margin is found to be increasing each year.
- Net burden of the bank is in fluctuating trend. In FY 2062/063, it was growth was negative 9.73%.
- The net profit of the bank is constantly in increasing trend.
- The average current ratio of the bank has found to be always lower than standard ratio 2:1, which shows dissatisfactory liquidity position of the bank but then bank has its working capital level is satisfactory.
- The cash to current assets ratio of the bank has found to be satisfactory. It is always higher than standard rate of 5%.
- Cash ratio is always satisfactory. It has ratio of 2.46:1 in FY 2062/063.
- Generally, the debt equity ratio of the bank is higher because they mobilize fixed deposit much more times of their capital fund. HBL is also not exception to it. The ratio was 9.36:1 in FY 2062/063.
- Interest coverage ratio of the bank is higher than 1, which is satisfactory.
- Return on equity (ROE) of the bank is also satisfactory result. The bank has deployed most of the fund on non-business and fixed assets. Therefore, the ratio is very lower than the standard rate of 10%.
- EPS, MPS and P/E ratio are in increasing trend. It has 59.26 per share income in FY 2062/063 and P/E ratio of 18.57 times.
- Cash flow analysis of the bank shows the sources of cash flow are adequately met by the bank for the cash outflow.
- Deposit mobilization is the major contributor for cash inflow in the bank.
- Loan and advances in the major cash outflow factor of the bank.

L. Maharjan (2009)

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

Objectives:

- ❖ To highlight the current profit-planning premises adopted and its effectiveness in SCBNL.
- ❖ To observe SC Bank 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.

Findings:

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

H. P. Timilsena (2010)

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

Objectives:

- ❖ To focus the current profit-planning system of, and its effectiveness in SCBNL.
- ❖ To focus the variance of budgeted and actual achievements.
- ❖ To study the growth of the business of the bank over the period.

❖ To provides suggestions and recommendations for improvement of the overall profitability of the bank.

Findings:

❖ Major concentration of resources mobilization of SCBNL is at deposit mobilization. Therefore they are incurring higher cost toward deposit mobilizations.

❖ From the data analysis of deposit budget and actual achievements, by coefficient of variance, it was found that, the actual deposit is more variable than the budgeted one.

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

❖ LABP of the bank has found to be with an average growth was over the period of last five years was as high as 30.62%

❖ From the analysis of Budgeted and Actual LABP with the help of co-efficient of variance, it was found that, the actual LABP was more variable than the budgeted one.

❖ From the regression analysis of budgeted and actual deposit, remaining the trend same as before, the estimated LABP by the end of FY 2009/10 shall be of Rs.15753035

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

❖ CD Ratio (credit to deposit ratio, ratio of LABP on total deposit expressed in percent term) of the bank is high. The average CD ratio of the bank for the period of last five years was as high as 41.58%.

❖ The data analysis of LABP and deposit, with the help of Karl Person's co-efficient of correlation shows that, the deposit and the LABP are positive perfectly correlated.

❖ The data analysis of deposit and LABP with the help of coefficient of variation shows that LABP was more variable than the deposit.

❖ Outstanding letter of credit liability of the bank shows the growth which was non-constant.

❖ Outstanding guarantee liability of the bank was increasing trend every year.

❖ Interest expenses amount was the highest among total expenses items of the bank every year.

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

- The interest holds highest percentage of expenses amount as deposit was the major resources of the bank. The COD of SCBNL was in the range of 1.13% to 1.65%. The average COD over the period has been found to be at 1.472%.
- Interest income amount of the bank was highest among other income items in the total revenue.
- The amount of interest increasing every year corresponding to increase in LABP. There is a perfect and positive correlation between interest income and LABP.
- The amount of interest spread of SCBNL is in increasing trend where as the increment percentage is fluctuating trend over the study period.
- Net burden of the bank is in increasing and decreasing trend during the study period, but the growth of other expenses is higher than the other income.
- SCBNL has the highest current ratio of 0.60 in FY 2007/08 with an average current ratio of 0.526. The average ratio of the bank found to be always lower than standard ratio of 2:1, which shows unsatisfactory liquidity position of the bank.
- Debt equity ratio of the banks was varies from maximum of 16.65 times in FY 2004/05 to the minimum 14.84 in FY 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.
- Debt to assets ratio of the bank varies from maximum of 118.72% in FY 2008/09 to the minimum 110.94% times during the study period. The analysis indicates that the bank has the wise debt assets ratio, which means the creditors have invested more in the bank than the owner.
- From the profitability ratio, it was found that the ROA (Return on Assets) was positive and this trend followed the same trend over the study period. As return on assets was high during FY 2005/06 with 2.55% and return on equity is higher in same fiscal year with 37.55%. This shows that overall efficiency of the SCBNL and better utilization of total resources available was higher and strong.
- From the cost volume profit analysis, the break even income level of the bank was found to be Rs. 739,035.74 and BEP LABP and BEP Deposit to be 5,671,801.54 and 13,640,696.33 respectively.
- The closing balance as on previous year was Rs. 2050243214 whereas it has increasing by 53.01% to Rs. 3137163535 in current year according annual report 2008/09.

- ❖ The money at call and short notice was Rs. 436386100 in previous year it was Rs. 141988600 in current year. It is clear that there is decreased in current assets i.e. money at call and short notice by 132.54%.
- ❖ The other assets as on previous year were Rs. 672603852 whereas it has decreased by 107.06% to Rs. 47533047 in current year.
- ❖ The fixed assets as on previous year were Rs. 14116435 whereas it has increased by 75.11% to Rs. 24719699 in current year.
- ❖ The share capital and discharge of liabilities as on previous year was Rs. 901800 whereas it has decreased by 12.35% to Rs. 790400 in current year.
- ❖ The interest expense as on previous year was Rs. 474628760 whereas it has increased by 9.95% to Rs. 521840234 in current year.

2.30 Research Gap

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

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

CHAPTER – 3

RESEARCH METHOLODY

3.1 Introduction

The term 'Research' is believed to be derived from the French word 'Researcher' meaning to search again. The research work is undertaken following a systematic way, which is called the research methodology. As per Kothari (1990), it is the way to solve systematically about the research problem. This study has intense relation with the application of planning and control in a commercial bank with a specific reference to Standard Chartered Bank Nepal Limited regarding the objectives to analyze, examine and interpret the application of profit planning in the bank. The research methodology includes, research design, data collection procedures and research variable and tools used.

3.2 Research Design:

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

3.3 Population 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. SCBNL, and data have been analyzed for whole 5 years of its operation, the population and sample term is not relevant for this study.

3.4 Data Collection Procedures and Sources of Data

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

3.5 Research Variables

Loans/advances overdrafts and bills discounted, customer deposits, total resources, total deployment, outstanding balance of letter of credit and bank guarantees, interest expenses, other expenses, interest income, other income etc. of SCBNL are the research variables of this study.

3.6 Tools and Techniques Employed

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

3.6.1 Financial Tools

Ratio Analysis and CVP analysis has been used in this study as financial analytical tools. Ratio analysis is main focus as financial tools throughout the study. As per Kothari (1990), ratio analysis is such powerful tool of financial analysis that thought the help of it economic and financial position of business unit can fully x-rayed.

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

a. **Ratio Analysis:** By ratio analysis study the arithmetical ration ship of two data. In this study, applied Liquidity Ratio, Capital Structure Ratio, Activity Ratio and Profitability Ratio of the bank.

b. **Cost Volume Profit Analysis:** Study the relationship among cost, volume, price and profit of the bank.

3.6.2 Statistical and Mathematical Tools

To analyze the data presented in this study by applying following statistical and mathematical tools:

1. Percentile Increment
2. Arithmetic Mean Average
3. Standard Deviation
4. Coefficient of Variance
5. Regression Analysis
6. Test of Goodness of Fit of the Regression Estimate
7. Correlation of Coefficient
8. Probable Error
9. Coefficient of Determination

1. Percentile Increment

This statistical tool gives the percentage change of previous year to current year. This tool helps to find out the increment in the study variable. Simply, the word percentage means per hundred. In other word, the fraction with 100 as its denominator is known as percentage and numerator of this fraction is known as rate of percent.

2. Arithmetic Mean Average

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observation.

3. Standard Deviation

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite.

4. Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis other variables in other words regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable.

5. Correlation of Coefficient

Correlation analysis is a statistical tool. It is used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus correlation is statistical device, which helps us in analysis the co-variation of two or more variables. Karl Pearson's Coefficient of correlation is widely used in practice. The Pearson's coefficient of correlation is widely used in practice.

Following general rules are applied to interpret the coefficient of correlation: When $r= +1$, it means there is a perfect positive relationship between the variables. When $r= -1$, it means there is a perfect negative relationship between the variables. When $r= 0$, it means that there is no relationship between the variables i.e. the variable are uncorrelated.

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

CHAPTER-FOUR

DATA PRESENTATION AND ANALSYSIS

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 special reference of Standard Chartered Bank Nepal Limited. To accomplish these objectives, the various functional budget analysis and related data are presented in systematic way in tabular forms and graphs charts. And data are analyzed using statistical tools such as mean, standard deviation, coefficient of variance, correlation of coefficient and regression methods and budgetary tools such as ratio analysis, cost volume profit analysis. For this purpose, data of 5 years period from FY 2005/06 to FY 2009/10 of SCBNL are used.

4.2 Strategic Profit Plan

The strategic profit plan of SCBNL 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. For 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 where the revenues and expenditure involved is the net income. Therefore, the strategic profit plan of SCBNL consist 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

4.3 Resources Mobilization Plan

All the commercial banks have identical accounting year of 12 months beginning from 1st of Shrawan to the end of Ashad of the next year. The resource means required fund for the bank operation. Banks prepares the business budget for every year, which includes the revenue, expenditure and profit plan for the year.

The strategic profit plan reflected in its business budget that shows the resource mobilization plan of bank. Here, the term resources have been used for the fund required by the bank for its activities. Banks mobilizes its resources from the following sources:

1. Deposit Collection
2. Loans and Borrowing
3. Share Capital

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

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

Table No. 6

Status of Resources Mobilization

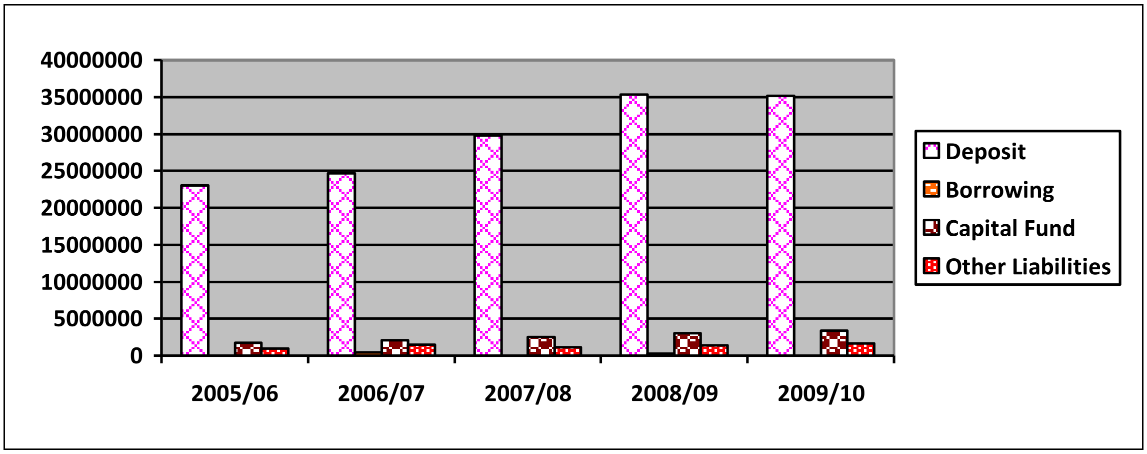
(Amount in Rs. '000')

Fiscal Year	Deposit		Borrowing		Capital Fund		Other Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2005/06	23,061,032	89.50	0	0	1,754,139	6.80	952,181	3.70	25,767,448
2006/07	24,647,021	86.19	400,000	1.40	2,116,353	7.40	1,433,315	5.01	28,596,784
2007/08	29,743,999	89.22	0	0	2,492,547	7.48	1,099,242	3.30	33,335,885
2008/09	35,350,824	88.23	300,000	0.75	3,052,470	7.62	1,363,277	3.40	40,066,668
2009/10	35,182,721	87.49	0	0	3,369,710	8.38	1,660,889	4.13	40,213,416

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

From the above table 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 88.13%, 1.08%, 7.52% and 3.91% respectively. During the FY 2006/07, FY 2008/09 and FY 2009/10 the percentage of deposit is decreased and other resource has been increased in this period. Capital fund seems to be increasing in all the period of study, in this situation bank should have issued the share. In FY 2005/06, FY 2007/08 and FY 2009/10 borrowing is nil, with increased percentage of capital fund and fluctuating percentage of other liability these may be due to efficiency of management of bank so more customers managed to deposit. The data of table are presenting in bar diagram for the analysis purpose.

Diagram No. 1: Bar Diagram Showing Status of Resources Mobilization



From the above table & bar diagram it is clear that the customer deposit collection contributes the major share in resource mobilization. During the FY 2007/08 the deposit amount is increased as other resource has decreased except the amount of capital funds. And in the FY 2009/10 the deposit amount would be decreasing, borrowing is nil as well as capital fund & other liabilities will be increase. Therefore the total sources of resource mobilization contribute in two parts i.e.

1. Customer Deposit Collection.
2. Other Resources than Customer Deposit.

4.3.1 Deposit Collection

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

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

1. Interest Free Deposit Accounts.

a) Current Deposit A/C

b) Margin Deposit A/C

c) Other Deposit A/C

2. Interest Bearing Deposit Accounts.

a) Saving Deposit A/C

b) Call Deposit A/C

c) Fixed Deposit A/C

4.3.1.1 Deposit Collection Budget

The following table shows the budgeted and actual figures of the deposit collection under this category over the period of study. Since the budged figure for deposit collection from FY 2005/06 to FY 2009/10 could not be available so, this study has assumed the budgeted amount for the corresponding years using time series.

Table No. 7

Status of Budgeted and Actual Deposits Collection

(Amount in Rs. '000')

Fiscal Year	Budgeted	Actual	Achievement
2005/06	23,595,392.80	23,061,032	97.74
2006/07	25,840,259.30	24,647,021	95.38
2007/08	28,085,125.80	29,743,999	105.91
2008/09	30,329,992.30	35,350,824	116.55
2009/10	32,574,858.80	35,182,721	108.01

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows the status of budgeted and actual deposits collection of SCBNL. The achievement range is fluctuating. It is 95.38% to 116.55% throughout the five year study period. The reason behind it is the increasing of faith of customer toward bank because of its investment on highly performance assets in deposit collection sector, increasing the bank customer, increasing the business activities, increasing in income generation activities etc. The volatile political situation coupled with low economic growth, widening trade deficit, high inflation and liquidity crunch in the banking system continued to remain the major challenges. Liquidity crunch is mainly attributed to the slowdown in remittances, funds getting locked up in non productive sectors and weakening of confidence resulting in lower deposit collection/mobilization. The data of table are presenting in bar diagram for analysis purpose.

Diagram No. 2: Bar Diagram Showing Budgeted and Actual Deposits Collection

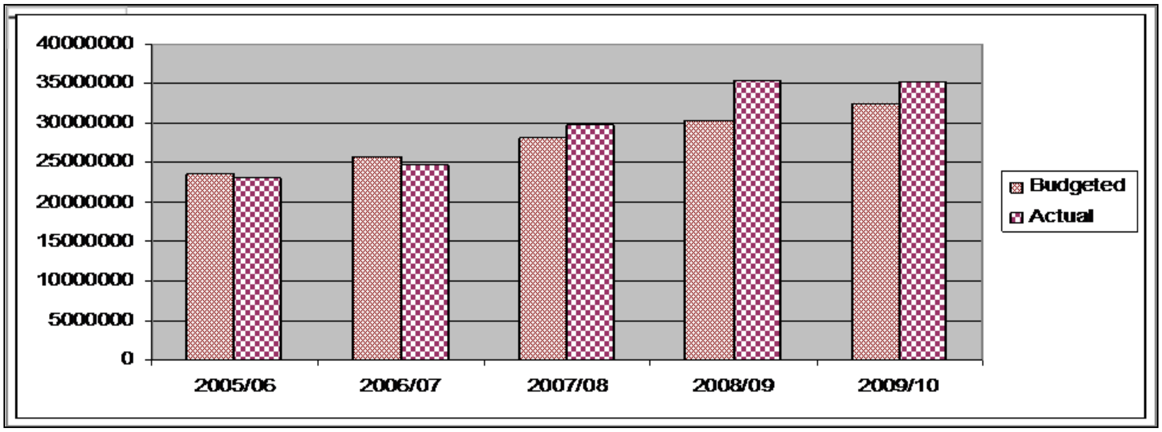
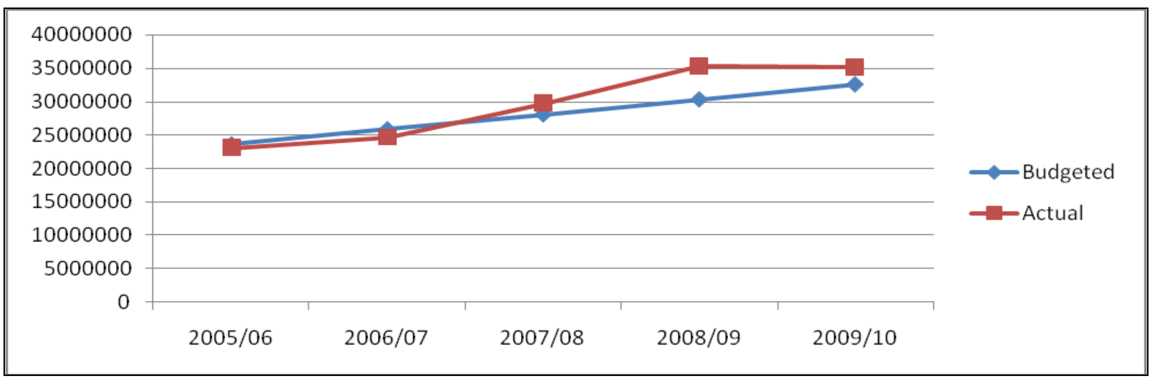


Diagram No. 3: Scatter Diagram Showing Budgeted and Actual Deposits Collection



Above table and diagram show that the deposit collection target is achieved recording 97.74% in FY 2005/06 and 95.38% in FY 2006/07 and then afterwards this gives the picture of high level of achievement made by the bank toward deposit collection sector. The bar diagram shows the achievement level higher than the budgeted level. Similarly, in the scatter diagram, the actual line is running higher than the budgeted line. The above pictures give the high level of performance of the bank in deposit collection sector.

To find the relationship between the budgeted deposit collections with that of actual for different year by the help of statistical tools, these are arithmetic mean, standard deviation and coefficient of variation. The detail can calculation of these, statistical tools is shows in appendix 1. Now, presenting the summarize results from appendix 1.

Table No. 8
Summary Showing Budgeted and Actual Deposits Collection

(Amount in Rs. '000')

Statistical tools	Budgeted Deposits (X)	Actual Deposits (Y)
Mean ($\bar{X}$)	28.085,125.80	29,597,119.40
Standard Deviation (σ)	3,174,720.65	5,129,318.63
Coefficient Variation (C.V.)	11.30	17.33
Correlation of Coefficient (r)	0.9635	
Probable Error (PE)	0.009659	

(Source: Appendix: 1)

The above table shows that actual deposits are little more variable than budgeted deposits. Since the coefficient of variations of actual deposits is more than that of budgeted deposits. On the other hand budgeted deposits are more consistence and heterogeneous than actual deposits. A greater coefficient of variation is said to be more heterogeneous.

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

The detail calculation of 'r' and probable error 'PE' was made in appendix 1. From that appendix the calculated value of 'r' and 'PE' are 0.9635 and 0.009659 respectively. This figure of 'r' shows that there was positively perfect correlation between budgeted deposits and actual deposits.

Since r was greater than six times of probable error ($0.9635>6\times0.009659$), the value of 'r' was more significant so it is no doubtful that actual deposits will not go the same direction that at budgeted.

Now, the coefficient of determination, which explains the change in y variable i.e. actual deposits by x variable i.e., budgeted deposits can be calculated as r^2 therefore, the co-efficient of determination $(r)^2 = (0.9635)^2 = 0.9283$.

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

$$(Y - \bar{Y}) = r \times \frac{\sigma y}{\sigma x} \times (X - \bar{X})$$

The following value as calculated above.

(Amount in Rs. '000')

Statistical tools	**Budgeted Deposits (X)**	**Actual Deposits (Y)**
Mean ($\bar{x}$)	28,085,125.80	29,597,119.40
Standard Deviation (σ)	3,174,720.65	5,129,318.63
Correlation of Coefficient (r)	0.9635	

Then,

or, (Y – 29,597,119.40) = 0.9635 × 5,129,318.63/3,174,720.65 × (X – 28,085,125.80)

or, (Y – 29,597,119.40) = 1.5567 × (X – 28,085,125.80)

or, Y – 29,597,119.40 = 1.5567X – 43,720,211.44

or, Y = 1.5567X – 14,123,092.04

From the above equation, it was clear that actual deposits are in increasing trend by the help of this regression line equation. Ascertain the expected deposits achievement with given value of targeted deposits say (x) ascertain the expected deposits achievement for FY 2010/11.

When X= 34,819,725.30 (Thousand)

The expected deposits achievement

or, Y = 1.5567 × 34,819,725.30 – 14,123,092.04

or, Y = 40,080,774.33 (Thousand)

Table No. 9

Growth of Deposits

(Amount in Rs. '000')

Fiscal Year	Deposits	Growth	Growth %
2005/06	23,061,032	0	0
2006/07	24,647,021	1,585,989	6.88
2007/08	29,743,999	5,096,978	20.68
2008/09	35,350,824	5,606,825	18.85
2009/10	35,182,721	-168,103	-0.48

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows the growth trend of deposits collection of SCBNL FY 2005/06 is base year for the growth calculation. In FY 2006/07 the deposits collection is increased by the 6.88% in comparison with FY 2005/06 and in FY 2007/08 increased by the 20.68% in comparison with FY 2006/07. The amount of deposits collection is in increasing trend where as the percentage was fluctuating as a result in FY 2008/09 the percentage has decreased in 18.85% from 20.68% of FY 2007/08 and the growth rate in FY 2009/10 has negative with decreased to (0.48%) with comparison of FY 2008/09 since the amount of deposits also decreased. The reason behind the increased deposit collection it is the faith of customer toward bank because of its investment on highly performance assets in deposit collection sector, increasing the bank customer, increasing the business activities, increasing in income generation activities etc. And the decreased the deposit collection the volatile political situation coupled with low economic growth, widening trade deficit, high inflation and liquidity crunch in the banking system which is the effect of global recession, continued to remain the major challenges. Liquidity crunch is mainly attributed to the slowdown in remittances, funds getting locked up in non productive sectors and weakening of confidence resulting in lower deposit collection/mobilization. The main cause of this situation may be fiscal policy (budget speech) of GoN comes very late, the cash is stores in government fund and idle for long time so banks are unable to collect the targeted deposits.

4.3.2 Resources Deployment Plan

Allocation of available resources into different sector is called deployment of resources plan. Development of the resources refers to the reasonable allocation of the resources is required comfortable liquidity for investment as well as in income generating activities.

Besides these, some investments have to be made in fixed assets and other operating assets for the bank. The deployment of available resources can be objectively categorized as below:

A. Deployment for Liquidity.

B. Deployment for Income Generating Activities

C. Deployment for Other Asset

A. Deployment for Liquidity

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

B. Deployment for Income Generating Activities

The major function of a commercial bank is to collection of deposit and invests them in different sectors. Banks deploys the major portion of the resources is deployed for income generating activities popularly called as fund based exposure. Fund based exposure are made by the bank in following two 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 available to the borrowers of the bank in return of which the bank earns interest income. Others investments include investment in shares, Treasury Bill (TB), placement of fund on call market etc.

C. **Deployment for Other Assets**

Assets needs in the organization to show the performance of business such assets may be fixed or current. This asset can't give returns directly but without these other activities can't be run smoothly. Fixed assets are written off at certain period of time as expenses.

Deployment includes resources towards the non yielding assets such as fixed assets along with other capital expenditure, subject to write off in future, income receivables; advance payments, sundry debtors etc.

Table No. 10

Status of Resources Development

(Amount in Rs. '000')

Fiscal Year	Cash & Bank Balance		LABP		Investment		Other Assets		Net Fixed Assets		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2005/06	1,276,241	5.36	8,935,418	37.56	12,838,555	53.97	638,565	2.68	101,302	0.43	23,790,081
2006/07	2,021,021	7.53	10,502,637	39.14	13,553,233	50.50	633,055	2.36	125,591	0.47	26,835,537
2007/08	2,050,243	6.58	13,718,597	44.06	13,902,819	44.65	1,349,319	4.33	117,272	0.38	31,138,250
2008/09	3,137,164	8.25	13,679,757	35.99	20,236,121	53.24	820,687	2.16	137,293	0.36	38,011,022
2009/10	1,929,307	5.01	15,956,955	41.40	19,847,511	51.49	691,547	1.79	118,540	0.31	38,543,860

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the deployment available resources of the bank portfolios, LABP and investment holds the biggest outlet of resources deployment. The proportion of cash and bank balance is fluctuating trend. It is 5.36%, 7.53%, 6.58%, 8.25% and 5.01% in FY 2005/06 to FY 2009/10 respectively. It means that the bank use their fund to maintain liquidity position 5.01% to 8.25% out of total resource deployment. The use of resources in the LABP is second highest proportion of total resources deployment. The trend of LABP is fluctuating over the study period. It is 37.56%, 39.14%, 44.06%, 35.99% and 41.40% in FY 2005/06 to 2009/10 respectively. The trend of fluctuating trend of LABP is political situation and business environment of the country. Likewise the bank uses highest proportion of their fund in investment. The trend of investment is also in fluctuating. It is 53.97%, 50.50%, 44.06%, 53.24% and 51.49% in FY 2005/06 to FY 2009/10 respectively. Investment is the major area of deployment of the resource of the bank. Increased in investment will increased the return so bank should try to invest in secured sector. SCBNL use the resources in other assets and net fixed assets in nominal percentage out of total deployment. The range of other assets is 1.79% to 4.33% and a net fixed asset is 0.31% to 0.47% out of total deployment over the study period. Therefore, in this study segregated the deployment into following two categories.

a) Deployment in LABP (LABP)

b) Deployment in other sector than LABP (NLABP)

4.3.2.1 LABP Budget

Following table shows the budgeted amount of LABP and the same achieved actually. Since the budged figure of LABP from FY 2005/06 to FY 2009/10 could not be available so, this study has assumed the budgeted amount for the corresponding years using time series.

Table No. 11

Status of Budgeted and Actual Deployment for LABP

(Amount in Rs. '000')

Fiscal Year	Budgeted	Actual	Achievement
2005/06	9,542,020.40	8,935,418	93.64
2006/07	11,239,634.30	10,502,637	93.44
2007/08	12,937,248.20	13,718,597	106.04
2008/09	14,634,862.10	13,679,757	93.47
2009/10	16,332,476	15,956,955	97.70

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the status of budgeted and actual deployment for LABP of SCBNL. The achievement percentage of LABP is fluctuating trend. It is 93.64%, 93.44%, 106.04%, 93.47% and 97.70% in FY 2005/06 to FY 2009/10 respectively. The range of achievement over the study period is 93.44% to 106.04%. It shows that bank is nearest to the targeted LABP in every year but the achievement trend is not same increment trend. The main reason for fluctuation is investor's own security and their business security. For the study purpose the figure of LABP are presents in the bar diagram and scatter diagram as below.

Bar Diagram No. 4: Bar Diagram Showing Budgeted and Actual Deployment for LABP

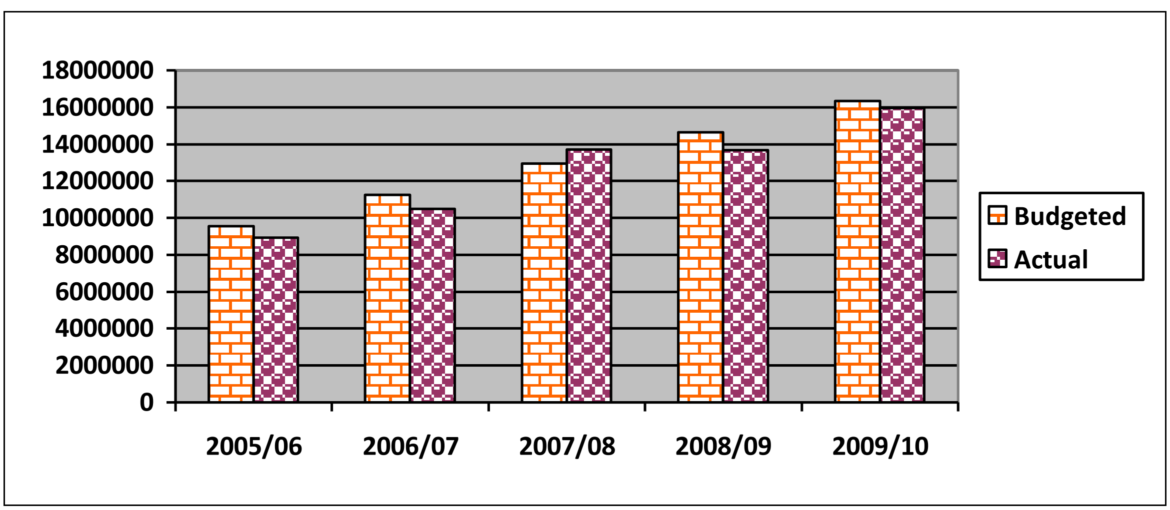
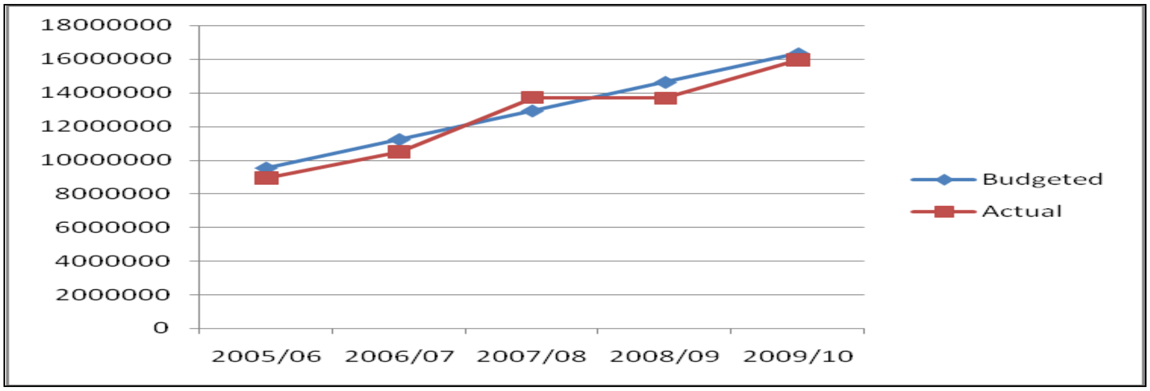


Diagram No. 5: Scatter Diagram Showing Budgeted and Actual Deployment for LABP



Above diagram shows the trend of budgeted and actual deployment of resources in the sector of LABP. The trend of budgeted deployment is in increasing trend and the trend of actual deployment is fluctuating. The Actual LABP has not meet for 100% or more than the budget amount for the some accept FY 2007/08. Even thought this gives the picture of high level of achievement made by the bank toward LABP. The bar diagram shows the achievement level nearest to the budgeted level. Similarly, in the scatter diagram, the actual line was running nearest to the budgeted line.

To find the relationship between the budgeted LABP with that of actual for different year by the help of statistical tools that is arithmetic mean, standard deviation and coefficient of variation. The detailed calculations of the statistical tools are shown appendix 2. Now, presenting the summarize results from appendix 2.

Table No. 12
Summary Showing Budgeted and Actual LABP

(Amount in Rs. '000')

Statistical tools	Budgeted LABP (X)	Actual LABP (Y)
Mean ($\bar{X}$)	12,937,248.20	12,558,672.80
Standard Deviation (σ)	2,400,788.60	2,510,212.52
Coefficient Variation (C.V.)	18.56	19.99
Correlation of Coefficient (r)	0.9702	
Probable Error (PE)	0.007931	

(Source: Appendix: 2)

Above table shows that actual LABP were more variable than targeted LABP. Since the coefficient of variations of actual was greater than the targeted LABP. Actual LABP were of more variable nature. On the other hand budgeted LABP were more consistent and homogeneous than actual LABP. A greater coefficient of variation is said to be more heterogeneous. Here SCBNL actual LABP were the nature of more variability than budgeted LABP.

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

The detail calculation of 'r' and probable error 'PE' was made in appendix 2. From that appendix the calculated value of 'r' and 'PE' are 0.9702 and 0.007931 respectively. The figure of 'r' shows that was positively perfect correlation between budgeted and actual LABP.

Since r is greater than six times of probable error ($0.9702>6\times0.007931$), the value of 'r' is more significant so it was no doubtful that actual LABP will not go the same direction that at budgeted.

Now, the coefficient of determination, which explains the change in y variable i.e. actual LABP by x variable i.e., budgeted LABP can be calculated as r^2 therefore, the co-efficient of determination $(r)^2 = (0.9702)^2 = 0.9413$.

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

It helps to examine whether increased in budget increased in actual achievement or vice-versa, which meant that there should be positive correlation between budgeted figure and achievement figures. Significance of correlation of (r) was tested with probable error 'PE'. The value of probable error 'PE' = 0.007931.

$$(Y - \bar{Y}) = r \times \frac{\sigma y}{\sigma x} \times (X - \bar{X})$$

The following value as calculated above.

(Amount in Rs. '000')

Statistical tools	Budgeted LABP (X)	Actual LABP (Y)
Mean (x)	12,937,248.20	12,558,672.80
Standard Deviation (σ)	2,400,788.60	2,510,212.52
Coefficient Variation (C.V.)	18.56	19.99
Correlation of Coefficient (r)	0.9702	

Then,

or, (Y – 12,558,672.80) = 0.9702 × 2,510,212.52/2,400,788.60 × (X – 12,937,248.20)

or, (Y – 12,558,672.80) = 1.0144 × (X – 12,937,248.20)

or, Y – 12,558,672.80 = 1.0144X – 13,123,804.48

or, Y = 1.0144X – 11,865,131.68

From the above equation, it is clear that actual LABP are in increasing trend by the help of this regression line equation. Ascertain the expected LABP achievement with given value of target LABP say (x) ascertain the expected LABP achievement for fiscal year 2010/11.

When X= 18,030,089.90 (Thousand)

The expected LABP achievement

or, Y = 1.0144 × 18,030,089.90 – 11,865,131.68

or, Y = 6,424,591.52 (Thousand)

Table No. 13
Growth of LABP

(Amount in Rs. '000')

Fiscal Year	LABP	Growth	Growth %
2005/06	8,935,418	0	0
2006/07	10,502,637	1,567,219	17.54
2007/08	13,718,597	3,215,960	30.62
2008/09	13,679,757	-38,840	-0.28
2009/10	15,956,955	2,277,198	16.65

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows the growth trend of LABP collection of SCBNL FY 2005/06 is base year for the growth calculation. The increment rate is 17.54% in FY 2006/07 in comparison with FY 2005/06. The rate of growth is increased in FY 2007/08 it is 30.62% since the amount of LABP is increased. In the FY 2007/08 it has improved than FY 2006/07. The growth rate in FY 2008/09 has negative and decreased (0.28%) with comparison of FY 2007/08 since the amount of LABP is also decreased. In FY 2009/10 the LABP is increased in 16.65%. The trend of fluctuating trend of LABP is political situation and business environment of the country.

4.3.2.2 Resources Deployment in Other Portfolio than LABP (NLABP)

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

Following table shows the budgeted and actual figures of the resources deployed over the period of study. Since the budgeted figures of NLABP from FY 2005/06 to FY 2009/10 was not available, time series model was used to find the budgeted amount of resource deployed.

Table No. 14

Status of Budgeted and Actual Deployment in NLABP

(Amount in Rs. '000')

Fiscal Year	Budgeted	Actual	Achievement
2005/06	14,999,842.80	14,854,663	99.03
2006/07	15,976,541.80	16,332,900	102.23
2007/08	16,953,240.80	17,419,653	102.75
2008/09	17,929,939.80	24,331,265	135.70
2009/10	18,906,638.80	22,586,905	119.47

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the status of budgeted and actual deployment for NLABP of SCBNL. The achievement percentage of NLABP is fluctuating trend. It is 99.03%, 102.23%, 102.75%, 135.70% and 119.47% in FY 2005/06 to FY 2009/10 respectively. The range of achievement over the study period is 93.44% to 106.04%. The range of achievement over the period is 99.03% to 135.70%. This indicate that the bank achieve its target. For the study purpose the figure of NLABP are presents in the bar diagram and scatter diagram as below.

Diagram No. 6: Bar Diagram Showing Budgeted & Actual NLABP

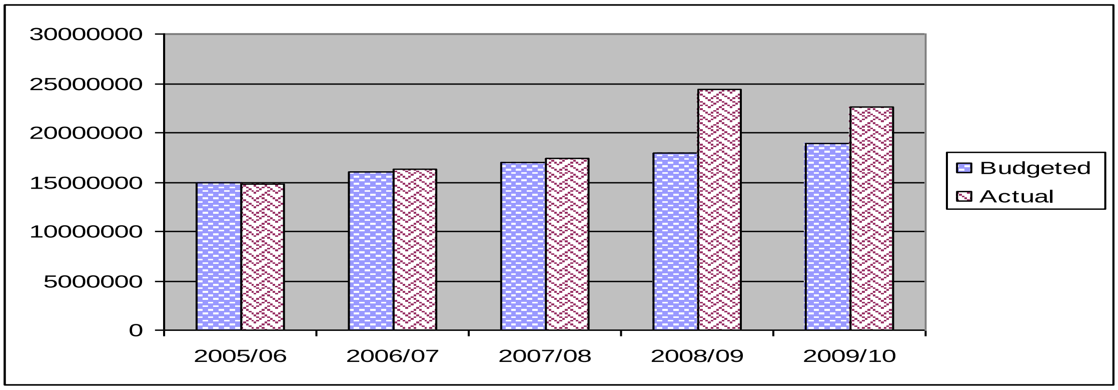
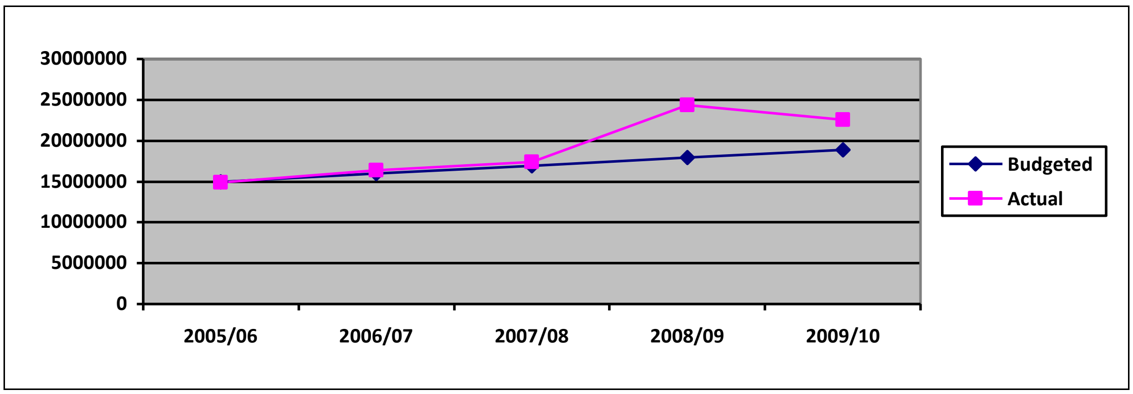


Diagram No. 7: Scatter Diagram Showing Budgeted & Actual NLABP



The bar and scatter diagram shows the picture of satisfactory achievement in the deployment in NLABP portfolio.

To find the relationship between the budgeted NLABP with that of actual for different year by the help of statistical tools that are arithmetic mean, standard deviation and coefficient of variation. The detailed calculation of the statistical tools was made in appendix 3. Now, presenting the summarize results from appendix 3.

Table No. 15
Summary Showing Budgeted and Actual NLABP

(Amount in Rs. '000')

Statistical tools	Budgeted NLABP(X)	Actual NLABP (Y)
Mean ($\bar{x}$)	16,953,240.80	19,105,077.20
Standard Deviation (σ)	1,381,260.97	3,688,571.70
Coefficient Variation (C.V.)	8.15	19.31
Correlation of Coefficient (r)	0.8996	
Probable Error (PE)	0.025734	

(Source: Appendix: 3)

Above table shows that actual NLABP were more variable then targeted NLABP. Since the coefficient of variations of actual was greater than the targeted NLABP. Actual NLABP were of more variable nature. On the other hand budgeted NLABP were more consistent and homogeneous than actual NLABP. A greater coefficient of variation said to be more heterogeneous.

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

The detail calculation of 'r' and probable error 'PE' was made in appendix 3. From that appendix the calculated the value of 'r' and 'PE' are 0.8996 and 0.025734. The figure of 'r' shows that there was positively perfect correlation between budgeted and actual NLABP.

Since r was greater than six times of probable error ($0.8996>6\times0.025734$), the value of 'r' was more significant so it is no doubtful that actual NLABP will not go the same direction that at budgeted.

Now, the coefficient of determination, which explains the change in y variable i.e. actual NLABP by x variable i.e., budgeted NLABP can be calculated as r^2 therefore, the co-efficient of determination $(r)^2 = (0.8996)^2 = 0.8093$.

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

$(Y - \bar{Y}) = r \times \frac{\sigma y}{\sigma x} \times (X - \bar{X})$

The following value as calculated above.

(Amount in Rs. '000')

Statistical tools	**Budgeted NLABP(X)**	**Actual NLABP (Y)**
Mean ($\bar{x}$)	16,953,240.80	19,105,077.20
Standard Deviation (σ)	1,381,260.97	3,688,571.70
Coefficient Variation (C.V.)	8.15	19.31
Correlation of Coefficient (r)	0.8996	

Then,

or, (Y – 19,105,077.20) = 0.8996 × 3,688,571.70/1,381,260.97 × (X – 16,953,240.80)

or, (Y – 19,105,077.20) = 2.4023 × (X – 16,953,240.80)

or, Y – 19,105,077.20 = 2.4023X – 40,727,210.67

or, Y = 2.4023X – 21,622,133.47

From the above equation, it is clear that actual NLABP are in increasing trend by the help of this regression line equation. Ascertain the expected NLABP achievement with given value of target NLABP say (x) ascertain the expected NLABP achievement for FY 2010/11.

When X= 19,883,337.80 (Thousand)

The expected NLABP achievement

or, Y = 2.4023 × 19,883,337.80 – 21,622,133.47

or, Y = 26,143,608.93 (Thousand)

Table No. 16
Growth of NLABP

(Amount in Rs. '000')

Fiscal Year	NLABP	Growth	Growth %
2005/06	14,854,663	0	0
2006/07	16,332,900	1,478,237	9.95
2007/08	17,419,653	1,086,753	6.65
2008/09	24,331,265	6,911,612	39.68
2009/10	22,586,905	-1,744,360	-7.17

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows the movement of SCBNL. The base year calculate the growth rate is FY 2005/06. The increment rate is 9.95% in FY 2006/07 in comparison with FY 2005/06. The rate of growth is declining in FY 2007/08 is 6.65%. Since the amount of NLABP could not be increased as last year. In FY 2008/09 it has increased 39.68% than FY 2007/08. In FY 2009/10 it has negative and decreased to (7.17%) with comparison of FY 2008/09 since the amount of NLABP is also decreased. The trend of fluctuation of NLABP is cause by political instability and lack of security causing adverse business environment of the country.

4.3.2.3 Actual Deposit Collected Vs. Actual LABP

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

Table No. 17

Status of LABP Verses Actual Deposits

(Amount in Rs. '000')

Fiscal Year	Actual Deposits	Actual Outstanding LABP	LABP to Deposit ratio (CD ratio)
2005/06	23,061,032	8,935,418	38.75
2006/07	24,647,021	10,502,637	42.61
2007/08	29,743,999	13,718,597	46.12
2008/09	35,350,824	13,679,757	38.70
2009/10	35,182,721	15,956,955	45.35

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the status of actual deposit balance and actual outstanding LABP. It was significant to analyze the relationship between deposits and outstanding LABP. The actual deposit and actual outstanding LABP both are in fluctuating trend through the study period. The average CD ratio over the study period is 42.31%. The utilization of deposit collection in terms of LABP is fluctuation trend. The LABP deposit ratio ranges from 38.70% to 46.12%. This indicate that the bank invest in LABP out of total deposit range over the study period. In FY 2005/06 CD ratio is 38.75% than FY 2006/07 and FY 2007/08 it has increased to 42.61% and 46.12% respectively because high amount of deposit has been provided as credit. In FY 2008/09 it has decreased to 38.70% because less amount of deposit has been flown in credit. Similarly, in FY 2009/10 it has increased to 45.35% because high amount of deposit has been provided as credit and so on. Fluctuation trend has been observed due to the variation in deposit collection and credit flow of different period. They have been affected due to the different factors of political instability, NRB directives, income tax rate variation etc. Above shows the LABP cover more than 38% of customer deposits. Deposits are deployed in major two sectors one is LABP and another is investment. There is inverse relationship between LABP and investment, if deployment in LABP increases, deployment in investment decreased and vice-versa. The main reason of fluctuation is deployment policy of the bank. It could be said that the bank was succeed in real banking business. Bank was able to use average 42.31% only of its resources collection from customers. The bank should focus on utilization of collected resources in income generating activities. For the analysis purpose the figure of actual LABP and actual deposit was presenting in the bar and sector diagram as below.

Diagram No. 8: Bar Diagram Showing Actual Deposits and Actual Outstanding LABP

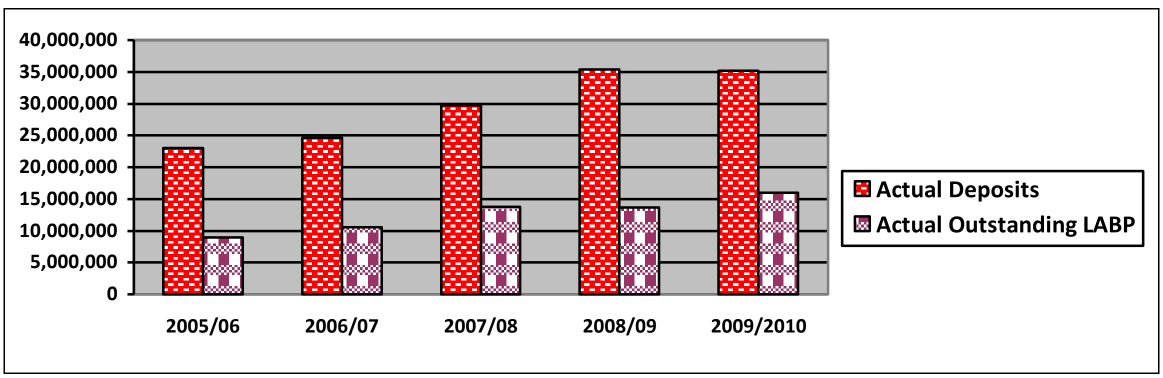
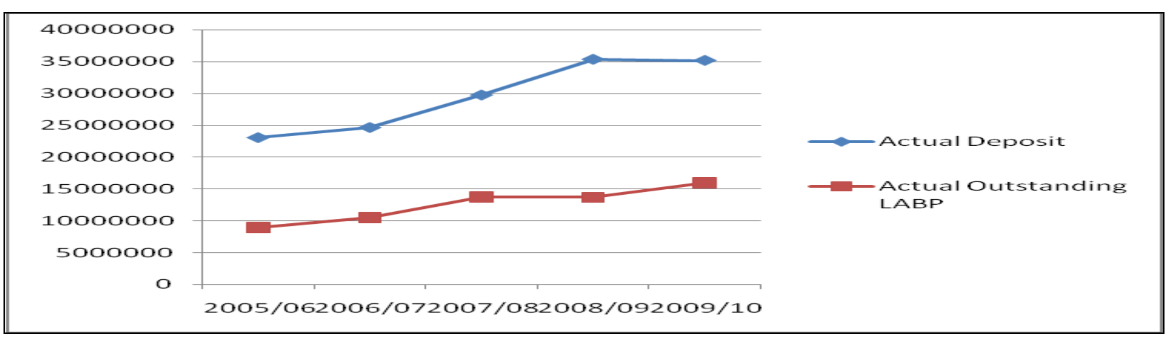


Diagram No. 9: Scatter Diagram Showing Actual Deposits and Actual Outstanding LABP



The above bar diagram and scatter diagram showing the position of actual deposit collection and actual outstanding balance of LABP. The position of actual deposit was higher than the actual LABP. Both are in fluctuating trend throughout the study period. Nevertheless, it is satisfactory for the bank. To analyze and find the variability of deposit and outstanding LABP using some statistical tools to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error. The details calculation was made in appendix 4. Now, presenting the summarize results from appendix 4.

Table No. 18
Summary Showing Actual Deposits and Actual Outstanding LABP
(Amount in Rs. '000')

Statistical tools	Actual Deposit (X)	Actual Outstanding LABP (Y)
Mean ($\bar{X}$)	29,597,119.40	12,558,672.80
Standard Deviation (σ)	5,129,318.63	2,510,212.52
Coefficient Variation (C.V.)	17.33	19.99
Correlation of Coefficient (r)	0.9236	
Probable Error (PE)	0.019818	

(Source: Appendix: 4)

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

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

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

After this significance of 'r' was tested with probable error of 'r' the detail calculation of 'r' and probable error of 'r' was made in appendix 4. From this appendix, the calculate value of 'r' and P.E. are 0.9236 and 0.019818 respectively. Since r > 6 P.E. (0.9236>6 x 0.019818), the value 'r' was significant; there was perfect correlation between actual deposits and actual LABP.

4.3.3 Plan for Non-Funded Business Activities

Apart from the activities like advancing loans, overdrafts, bills discounting and investments, here funds are involved for income generating, there are other business activities too preferment by the bank which do not involve fund yet are income generative. Such transactions are called non funded business of the bank. In such transactions, the bank has to take contingents liabilities on behalf of their customers for a fee and/or commission, which are the income of bank other than the interest income. Such income greatly contributes in reducing the expense burden of the bank. Generally income generating non-funded business of the bank is of following two types.

(a) Letter of Credit Business

(b) Bank Guarantee Business

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

4.3.3.1 Letter of Credit

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

Table No. 19

Growth of Letter of Credit Business

(Amount in Rs. '000')

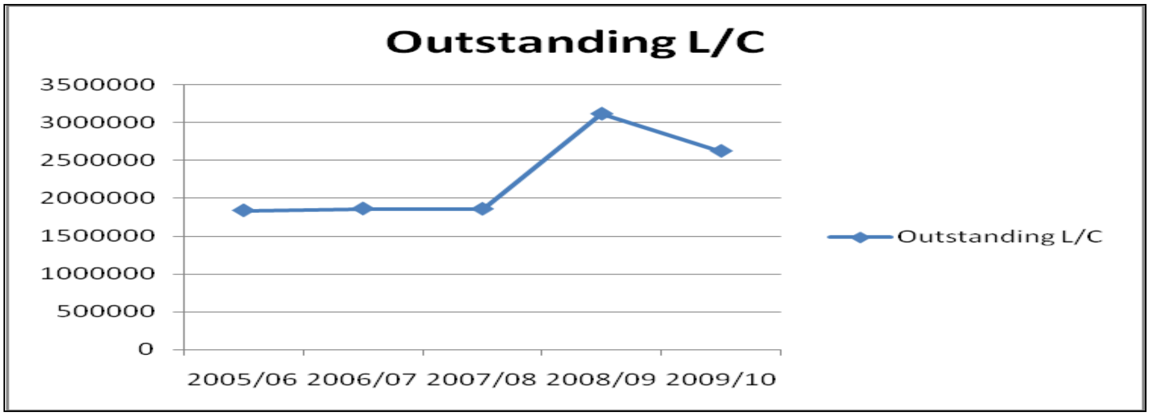
Fiscal Year	Outstanding L/C	Growth in Rs.	Growth %
2005/06	1,837,398	0	0
2006/07	1,861,944	24,546	1.34
2007/08	1,857,994	-3,950	-0.21
2008/09	3,120,879	1,262,885	67.97
2009/10	2,627,212	-493,667	-15.82

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the movement of letter of credit of SCBNL. The trend of such business was very fluctuating. The base year to calculate the growth rate is FY 2005/06. It has a record growth of 67.97% in the FY 2008/09 and decreasing growth rate (15.82%)

in FY 2009/10. Fluctuation in L/C has been recorded from the study. L/C being the facility provided by bank can be influenced by bank policy and strategies, NRB direction, economic policy, current political and economic situation of the country, current fluctuation on foreign exchanges rate etc. For the more analysis presented the L/C business in scatter diagram.

Diagram No. 10: Scatter Diagram Showing Letter of Credit



The above scatter diagram shows the position of letter of credit business. Trend of business is decreasing in FY 2007/08 and FY 2009/10. In FY 2008/09 it reached higher position of the letter of credit.

4.3.3.2 Bank Guarantees

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

Table No. 20

Yearly Growth in Bank Guarantee Liabilities

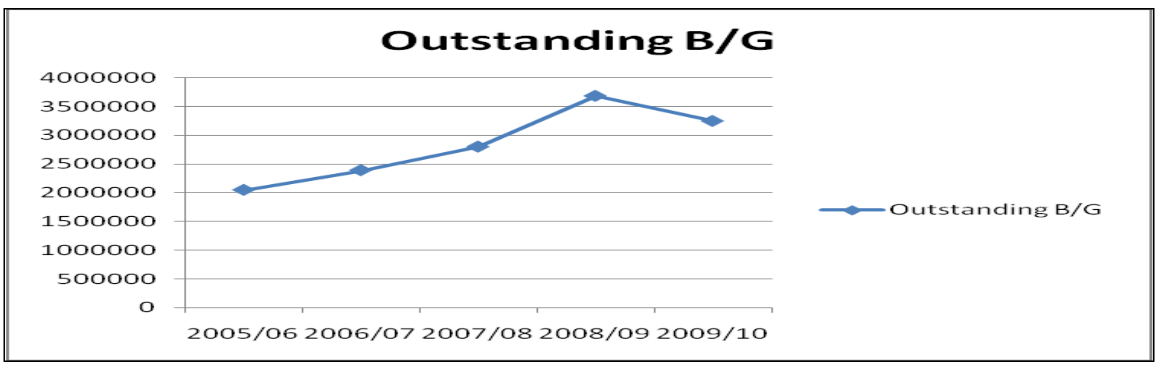
(Amount in Rs. '000')

Fiscal Year	Outstanding B/G	Growth in Rs.	Growth %
2005/06	2,046,063	0	0
2006/07	2,389,969	343,906	16.81
2007/08	2,800,467	410,498	17.18
2008/09	3,687,373	886,906	31.67
2009/10	3,248,829	-438,544	-11.89

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows that the bank guarantee was in fluctuating. The base year growth rate is FY 2005/06. Maximum growth rate of banks guarantee is 31.67% in FY 2008/09. The rate of growth bank guarantee business in FY 2006/07, FY 2007/08 and FY 2008/09 are 16.81%, 17.18% and 31.67% with comparison with FY 2005/06, 2006/07 and 2007/08 respectively. The growth rate of FY 2009/10 had a negative with decreased to (11.89%). Presently living in an increasingly dynamic economic environment, apart from being the witness of upheavals of past couple of years, the year 2009/10 has also experienced an isolated Greek crisis metamorphosed into a pan-euro zone crisis – which resulted in the financial sector across the globe, questioning the sovereign debt fundamentals. The timely intervention & prudent approach of regulators seems to be a step in the right direction. Extraordinary liquidity provision, combined with guarantees for bank liabilities, had addressed fears about banks' survival. The global financial crisis made it conspicuous that the financial world is extraordinarily interconnected and interdependent. For this analysis purpose plotted the data in scatter diagram and some conclusion drawn below.

Diagram No. 11: Scatter Diagram Showing Bank Guarantee



The scatter diagram shows the status of bank guarantee business of SCBNL. The trend of the business was slightly increasing over the four study period and decreased in FY 2009/10.

4.3.4 Expenditure planning

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

Table No. 21

Yearly Cost Structure

(Amount in Rs. '000')

Year / Expenses	2005/06		2006/07		2007/08		2008/09		2009/10		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Interest Expenses	303,198	38.55	413,055	43.81	471,730	45.06	543,787	44.58	575,741	43.04	2,307,511
Employee Expenses	168,231	21.39	199,778	21.19	225,256	21.52	253,056	20.74	312,964	23.40	1,159,285
Office Operating Expenses	221,087	28.11	228,451	24.23	230,571	22.02	276,327	22.65	295,305	22.08	1,251,741
Non-Operating Expenses	0	0	0	0	0	0	0	0	0	0	0
Provision for Staff Bonus	93,937	11.95	101,610	10.77	119,337	11.40	146,721	12.03	153,637	11.48	615,242
Loan Provision	0	0	0	0	0	0	0	0	0	0	0
Total Expenses	786,453		942,894		1,046,894		1,219,891		1,337,647		5,333,779

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows the trend of all expenses amounts are increasing trend but the percentage of the all expenses is in fluctuating trend. The major expenses of bank are interest expenses out of total expenses. Interest expenses covered 38.55%, 43.81%, 45.06%, 44.58% and 43.04% in FY 2005/06 to FY 2009/10 respectively. The increase and decrease in interest expenses would be affected accordance of the deposit collection amount during the year. Interest expenses fully depends upon the customer deposits so higher the customer deposit, it should be higher the interest expenses as well.

Similarly, employee expenses proportion to total expenses is 21.39%, 21.19%, 21.52%, 20.74% and 23.40% in FY 2005/06 to FY 2009/10 respectively. The increase in cost of staff is mainly due to company's policy to regular increase in salary every year to existing staff with certain percentage and additional new staff on expansion. The bank has created provident fund as per the Income Tax Act-2058 as a separate entity. The bank has been provided bonus to staff of the net profit before tax as per Bonus Act-2030. This showed that the bank has motivated those employees who are the key to success of the bank.

The proportion of office operating expenses is 28.11%, 24.23%, 22.02%, 22.65% and 22.08% in FY 2005/06 to FY 2009/10 respectively. The increased in cost of office operating expenses is mainly due to expansion and open new branches.

The proportion of provision for staff bonus is 11.95%, 10.77%, 11.40%, 12.03% and 11.48% in FY 2005/06 to FY 2009/10 respectively. The staff bonus is based on net profit of the bank therefore, if bank earns more profit, staff bonus is increased subsequently.

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

Total expenditure can be objectively segregated into two categories.

1) Interest Expenses

2) Expenses other than Interest (Other Expenses)

4.3.4.1 Interest Expenses

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

Table No. 22

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

(Amount in Rs. '000')

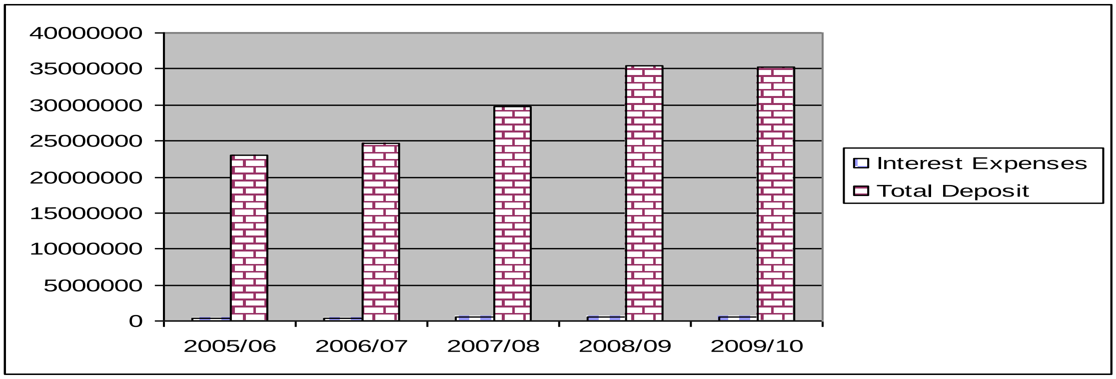
Fiscal Year	Interest Expenses	Total Deposits	Ratio for Cost of Deposits
2005/06	303,198	23,061,032	1.31
2006/07	413,055	24,647,021	1.68
2007/08	471,730	29,743,999	1.59
2008/09	543,787	35,350,824	1.54
2009/10	575,741	35,182,721	1.64

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows the total deposit and interest expenses of respective year. It was observed that cost of deposit (COD) is fluctuating trend. It is 1.31%, 1.68%, 1.59%, 1.54%, and 1.64% in FY 2005/06 to FY 2009/10 respectively. The deposit amount is fluctuating trend and an interest expense is increasing trend. The customer deposit was one of the major sources for resources mobilization by the bank. For the deposit taken by the bank it has to pay interest. There are various kinds of deposit account from interest free deposit to varying interest deposit accounts. The bank has maintained less minimum cost of deposit. The reason for minimum cost of deposit is due to the bank policy to collect the deposit with low interest rate. The average COD for the period of the study is

1.55%. It indicate that the profitability position of the bank because lower COD refer to better position if the bank. The status of total deposit and the COD shown in the bar diagram as below.

Diagram No. 12: Bar Diagram Showing Interest Expenses to Total Deposits



The bar diagram shows the status of interest expenses and total deposit amount in the respective year. The amount of total deposit is fluctuating trend likewise and interest expenses were increasing trend accordingly. In order to find the variability of total deposits and actual interest expenses of different years the arithmetic mean, standard deviation and coefficient of variation and correlation of coefficient were calculated. The detail calculation of statistical tools was made in appendix 5.

Table No. 23

Summary Showing Total Deposits and Interest Expenses

(Amount in Rs. '000')

Statistical tools	Total Deposits (X)	Interest Expenses (Y)
Mean $(\overline{X})$	29,597,119.4	461,502.2
Standard Deviation (σ)	5,129,318.63	97,296.71
Coefficient Variation (C.V.)	17.33	21.08
Correlation of Coefficient (r)	0.9568	
Probable Error (PE)	0.011402	

(Source: Appendix: 5)

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

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

The detail calculation of 'r' and probable error 'PE' was made in appendix 5. From that appendix the calculated value of 'r' and 'PE' are 0.9568 and 0.011402 respectively. The figure of 'r' shows that is positively perfect correlation between total deposits and interest expenses incurred.

Since r was greater than six times of probable error ($0.9568>6\times0.011402$), the value of 'r' was more significant interest expenses will not go the same direction that at total deposit.

Now, the coefficient of determination, which explains the change in y variable i.e. interest expenses by x variable i.e., total deposit can be calculated as r^2 therefore, the co-efficient of determination $(r)^2 = (0.9568)^2 = 0.9155$.

4.3.4.2 Expenses Other than Interest Expenses (Other Expenses)

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

(i) Expenses for Employees,

(ii) Operational Expenses,

(iii) Non-Operating Expenses,

(iv) Loan Loss Provision,

(v) Office Operational Expenses.

4.3.5 Revenue Planning

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

A. Income From Commission & Discounts

B. Income From Interest Earnings

C. Income From Exchange Transaction

D. Other Operating Income

E. Other Non-Operating Income

Table No. 24

Yearly Income Structure

(Amount in Rs. '000')

Year / Income	2005/06		2006/07		2007/08		2008/09		2009/10		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Interest Income	1,189,603	69.05	1,411,982	71.29	1,591,196	70.80	1,887,221	71.00	2,042,109	70.20	8,122,111
Commission and Discount	222,929	12.94	221,207	11.17	276,432	12.30	288,031	10.84	338,298	11.60	1,346,897
Exchange Earning	283,472	16.45	309,087	15.61	345,653	15.38	427,468	16.08	458,564	15.80	1,824,244
Other Operating Income	25,442	1.48	28,785	1.45	32,594	1.45	33,191	1.25	34,479	1.18	154,491
Other Non-Operating Income	1,433	0.08	9,492	0.48	1,683	0.07	22,098	0.83	36,268	1.25	70,974
Total Revenue	1,722,879		1,980,553		2,247,558		2,658,009		2,909,718		11,518,717

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows that the revenue is increasing every year. Income from interest is the highest among the others in total revenue for each year. The average proportion of interest is 70.50% of total revenue.

The proportion of interest income was 69.05%, 71.29%, 70.80%, 71% and 70.20% in FY 2005/06 to FY 2009/10 respectively. It seems every year share of income from interest amount is increasing for the bank. Overall, generation of interest income of SCBNL is satisfactory. The interest income is based on the amount of LABP amount. SCBNL gives loan, advance and bill purchase in higher rate of interest and gives lower rate of interest to its depositors.

The proportion of commission & discount is 12.94%, 11.17%, 12.30%, 10.84% and 11.60% in FY 2005/06 to FY 2009/10 respectively. The above table shows that commission & discount is in fluctuating trend but it is nominal fluctuation. This can be regarded as normal fluctuation only.

Exchange earning is also major part of total revenue collection. The proportion of exchange earning is 16.45%, 15.61%, 15.38%, 16.08% and 15.80% in FY 2005/06 to FY 2009/10 respectively. The proportion of exchange earning is decreasing trend but the amount of exchange earning is increasing trend. The reason of increase or decrease in foreign exchange income is due to decrease or increase in USD rate.

Other operating income and other non-operating income contributes to total income are very negligible proportion. Proportion of other operating income is 1.48%, 1.45%, 1.45%, 1.25% and 1.18% in FY 2005/06 to FY 2009/10 respectively. Similarly other non-operating income is 0.08%, 0.48%, 0.07%, 0.83% and 1.25% in FY 2005/06 to FY 2009/10 respectively out of the total revenue over the study period. It was negligible proportion in total income.

4.3.5.1 Interest Income

An interest income contributes the major portion to total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore this is popularly called yield on fund (YOF). Bills discounting is also one form of advances therefore, of this study purpose grouped the outstanding loan, advances, overdraft and the bills discounted together call LABP and included the bills discounting commission too into the interest income amount (YOF). First let's see the growth rate of interest income during the study period from FY 2005/06 to FY 2009/10.

Table No. 25

Yearly Growth in Interest Income

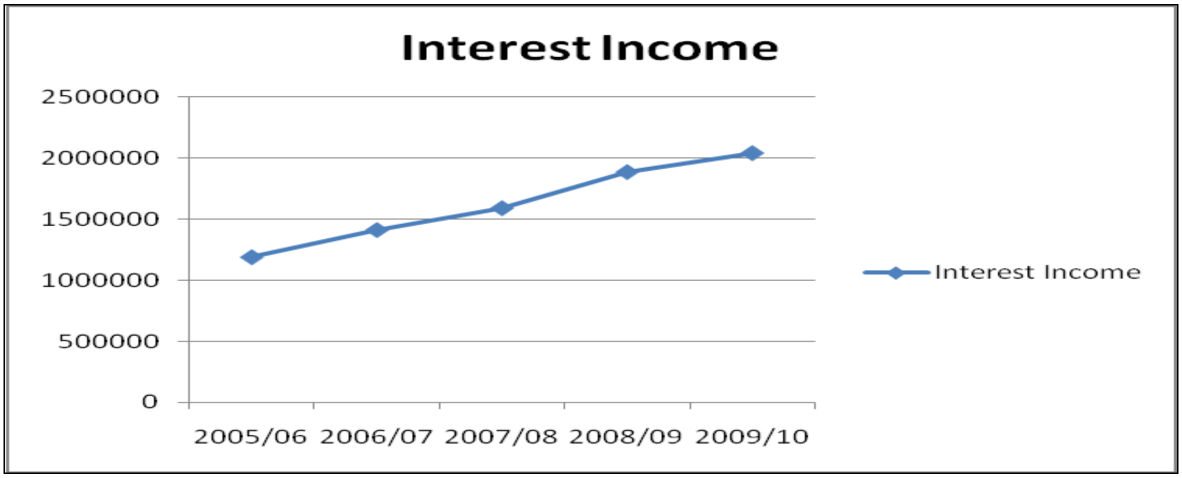
(Amount in Rs. '000')

Fiscal Year	Interest Income	Growth	Growth %
2005/06	1,189,603	0	0
2006/07	1,411,982	222,379	18.69
2007/08	1,591,196	179,214	12.69
2008/09	1,887,221	296,025	18.60
2009/10	2,042,109	154,888	8.21

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the status of interest income amount was increasing whereas the growth rate was fluctuating trend. The base year to the calculation of growth rate was FY 2005/06. The range of interest income growth was 8.21% to 18.69%. Bank has recorded fluctuating growth rate percentage of interest income in different F/Y. It can be influenced by the bank policy, volatility of interest rates, government policies and failed investment funds for reputation etc. For analysis purpose we have plotted the data in scatter diagram.

Diagram No. 13: Scatter Diagram of Interest Income



Above scatter diagram clearly shows that the interest income of different FY of the study period has mostly increasing trend.

Table No. 26

Status of Interest Income to Total LABP

(Amount in Rs. '000')

Fiscal Year	Interest Income	Total LABP	Average Yield on LABP
2005/06	1,189,603	8,935,418	13.31
2006/07	1,411,982	10,502,637	13.44
2007/08	1,591,196	13,718,597	11.60
2008/09	1,887,221	13,679,757	13.80
2009/10	2,042,109	15,956,955	12.80

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the comparative status of interest with the total LABP and average yield on LABP. The interest income is in increasing trend where the total LABP and average YOL is fluctuating trend. It is 13.31%, 13.44%, 11.60%, 13.80% and 12.80% in FY 2005/06 to FY 2009/10 respectively over the study period. The average YOL for the period of study is 12.99%. The increased or decreased in yield is mainly due to increased or decreased in interest rate. Due to poor market system, political situation and other instability the bank has increased or decreased its interest rate to mobilize its deposits.

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

Table No. 27

Summary Showing Total LABP and Interest Income

(Amount in Rs. '000')

Statistical tools	Total LABP (X)	Interest Income (Y)
Mean ($\overline{X}$)	12,558,672.8	461,502.2
Standard Deviation (σ)	2,510,212.52	97,296.71
Coefficient Variation (C.V.)	19.99	21.08
Correlation of Coefficient (r)	0.9544	
Probable Error (PE)	0.012018	

(Source: Appendix: 6)

Above results show that total LABP was more variable than interest income. Hence the coefficient of variation of total LABP was higher than of interest income. There should be positive correlation between total LABP and interest income. In other words the interest income increased as the total LABP increased or vice versa. To find out the relationship between interest income and total LABP take help of Karl person's coefficient correlation and it is denoted by 'r' examine whether positive correlation between interest income and actual outstanding LABP or not.

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

After this significance of 'r' was tested with probable error of 'r' detail calculation of 'r' and probable error of 'r' was made in appendix 6. From this appendix the calculated value of 'r' and P.E. are 0.9544 and 0.012018 respectively. Since, r>6P.E. (0.9544>6x0.012018) the value of 'r' was significant there was perfect correlation between actual LABP and actual interest income. Now coefficient of determination $(r)^2 = (0.9544)^2 = 0.9109$.

The data of actual LABP and interest income incurred presented in bar and scatter diagram below.

Diagram No. 14: Bar Diagram Showing Interest Income and LABP

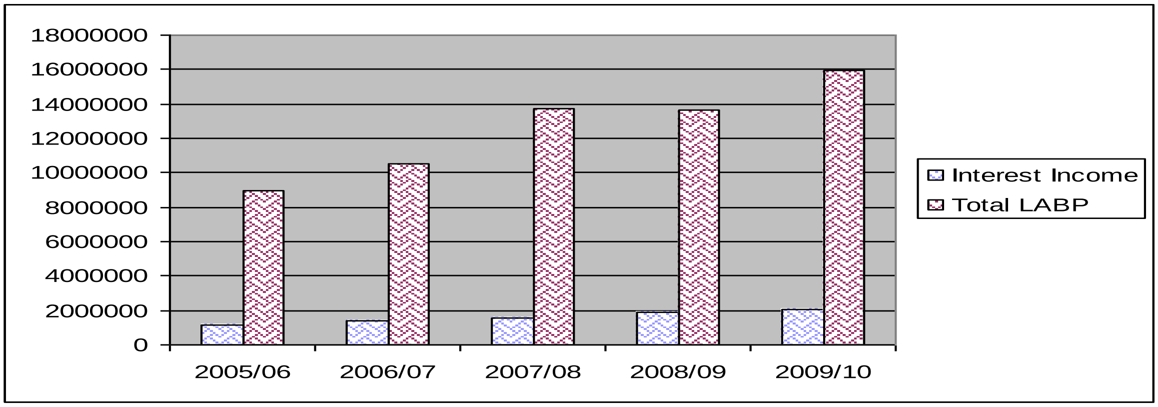
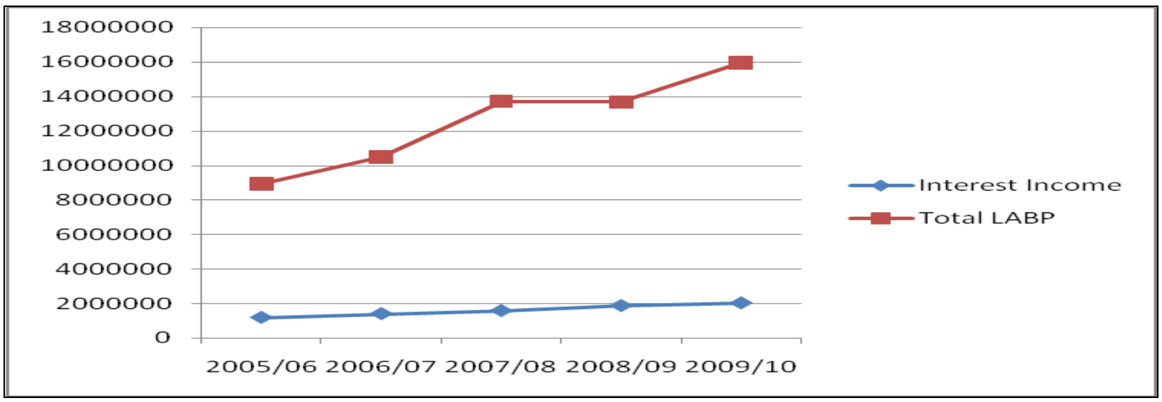


Diagram No. 15: Scatter Diagram Showing Interest Income and LABP



From above bar and scatter diagram to conclude that the LABP and interest income was in increasing trend.

4.3.6 Income Other than Interest Income

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

4.3.6.1 Net Interest Income

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

Net Interest Income = Interest Income – Income Expenses

Table No. 28

Yearly Net interest Income

(Amount in Rs.)

Fiscal Year	Interest Income	Interest Expenses	Net interest income	% of Interest Spread
2005/06	1,189,603	303,198	886,405	0
2006/07	1,411,982	413,055	998,927	12.69
2007/08	1,591,196	471,730	1,119,466	12.07
2008/09	1,887,221	543,787	1,343,434	20.00
2009/10	2,042,109	575,741	1,466,368	9.15

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

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

The above table shows that the status of interest income, interest expenditure and net interest income of the bank for the study period. The base year for calculate the growth rate is FY 2005/06. The increment rate is 12.69%, 12.07%, 20.00% and 9.15% in FY 2005/06 to FY 2009/10 respectively. The above table indicates that the amount of interest income, interest expenses and net interest income are increasing trend. But growth rate of interest spread is fluctuating it is mainly due to political situation, bank interest rate, NRB direction and current situation of the country.

Diagram No. 16: Bar Diagram Showing Interest Income, Interest Expenses and Net Interest Income

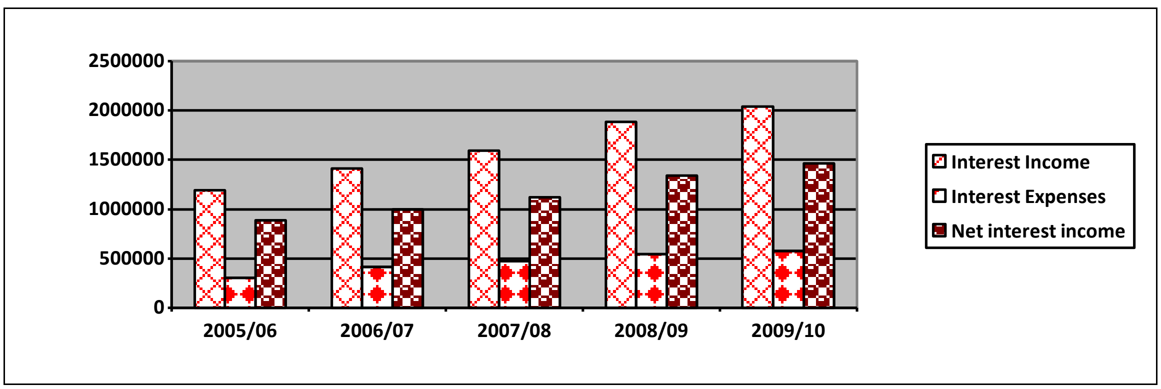
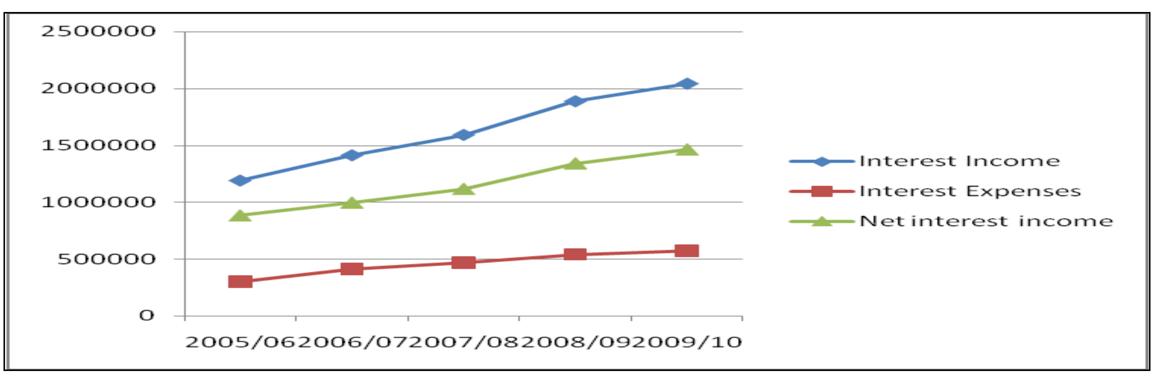


Diagram No. 17: Scatter Diagram Showing Interest Income, Interest Expenses and Net Interest Income



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

4.3.6.2 Burden

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

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

Table No. 29

Status Showing Net Burden

(Amount in Rs. '000')

Fiscal Year	Other Expenses	Other Income	Net Burden	% of Net Burden
2005/06	389,318	25,442	363,876	0
2006/07	428,229	28,785	399,444	9.77
2007/08	455,827	32,594	423,233	5.96
2008/09	529,383	33,191	496,192	17.24
2009/10	608,269	34,479	573,790	15.64

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

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

Above table shows the other expenses and other income of the bank during the study period. The figure of net burden is increasing trend. The base year to calculate the net burden is FY 2005/06. Percentage change in net burden in compare last year for every year of bank is fluctuating. It is 9.77%, 5.96%, 17.24% and 15.64% in FY 2005/06 to FY 2009/10 respectively. The major objective of this study is to find out whether other resources of income are maintaining the other expenses part or not. It is observed that the net burden of the bank is positive. The growth of net burden of the bank is in fluctuating trend over the study period.

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

Diagram No. 18: Bar Diagram Showing Other Expenses, Other Income and Net Burden

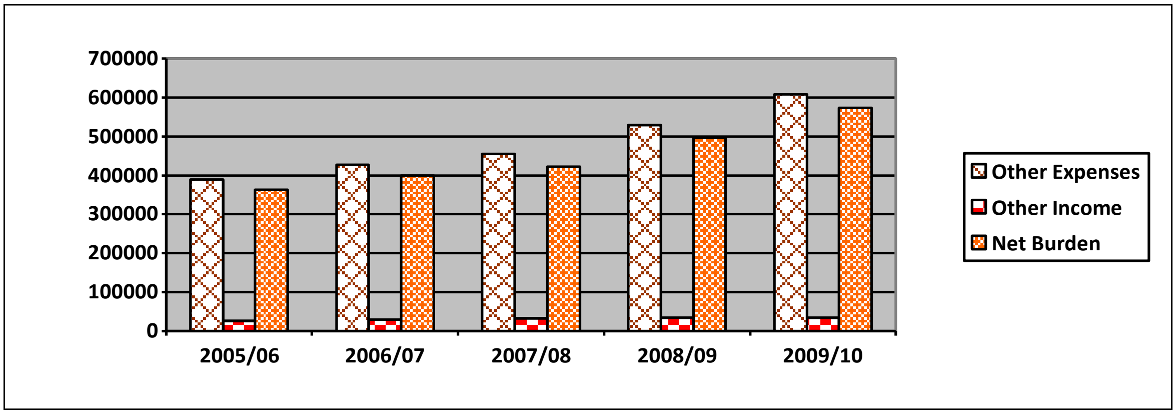
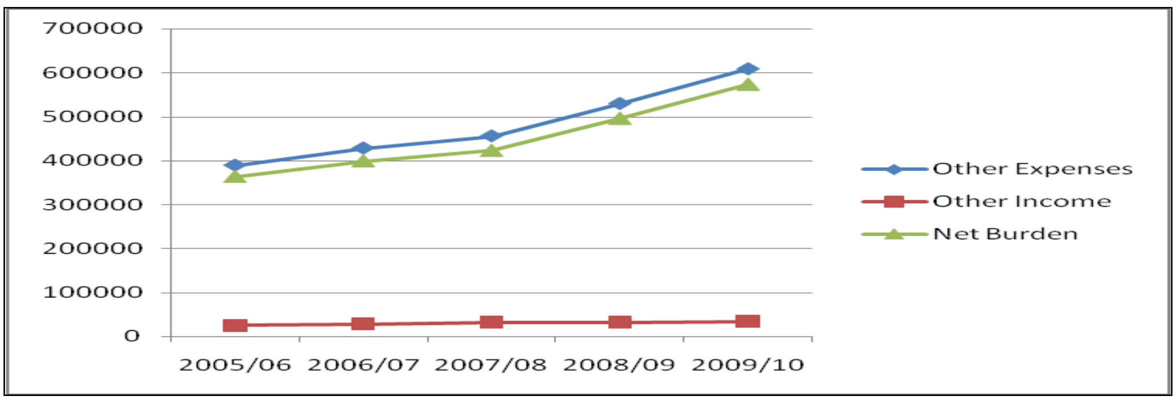


Diagram No. 19: Scatter Diagram Showing Other Expenses, Other Income and Net Burden



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

4.3.7 Net Profit

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

Table No. 30

Status Showing Net Profit

(Amount in Rs. '000')

Fiscal Year	Net Interest Income	Net Burden	Net Profit	% of Net profit
2005/06	886,405	363,876	522,529	0
2006/07	998,927	399,444	599,483	14.73
2007/08	1,119,466	423,233	696,233	16.14
2008/09	1,343,434	496,192	847,242	21.69
2009/10	1,466,368	573,790	892,578	5.35

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the status of net profit of SCBNL since the figure in profit column are positive from the profit zone every year. The trend of net profit is increasing every year where as the growth rate of profit is fluctuating trend. The growth rate is 14.73%, 16.14%, 21.69% and 5.35% in FY 2006/07 to FY 2009/10 respectively. This shows that SCBNL has earned net profit higher in current year then in preceding year. It shows the real success of the bank and bank's strategy for the expansion of its business. For this analysis purpose the status of net profit presenting in the bar diagram and scatter diagram below.

Diagram No. 20: Bar Diagram Showing Net Profit

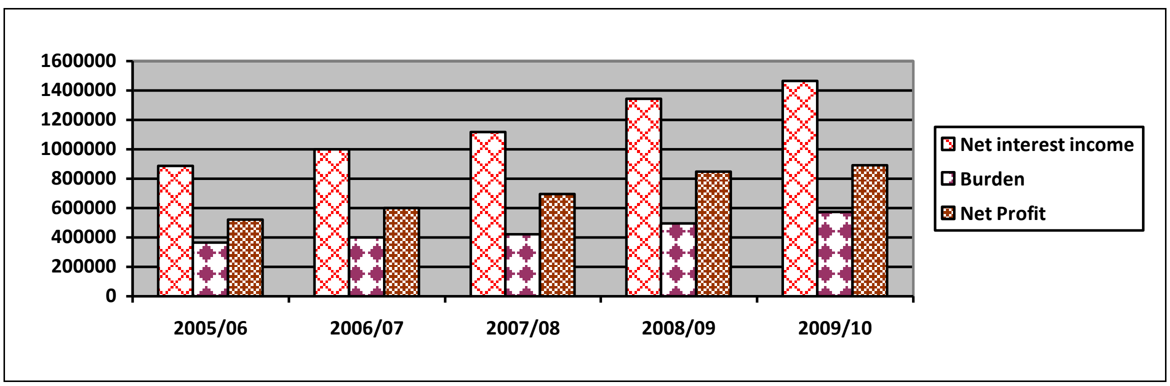
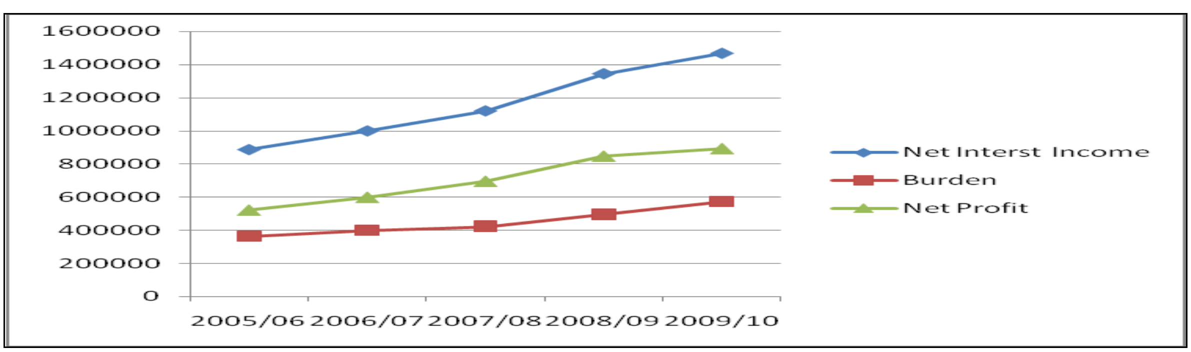


Diagram No. 21: Scatter Diagram Showing Net Profit



The above diagrams indicate that bank's spread much higher than burden due to which net profit for the bank is increasing every year.

4.4 Performance Evaluation

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

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

1) Ratio Analysis
2) Cost Volume Profit Analysis

4.4.1 Ratio Analysis

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

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

4.4.1.1 Liquidity Ratio

The ability of a firm to meet its obligation in the short terms is known as liquidity. It reflects the short-term financial strength of the firm. Now, use current ratio to measure relationship of current assets and current liabilities of 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. Whereas the current liabilities are those short term obligations, which can be pay within a year. Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and repaid expenses. Current liabilities refer to the short-term maturity objection, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, and provisions, accrued and accrued expenses. The current ratio is expressed as follows:

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

Table No. 31

Status Showing Liquidity Ratio

(Amount in Rs. '000')

Fiscal Year	Current Assets	Current Liabilities	Current Ratio in Terms of Time
2005/06	12,188,930	23,061,032	0.53:1
2006/07	14,284,810	25,047,021	0.57:1
2007/08	17,966,378	29,743,999	0.60:1
2008/09	18,872,470	35,650,824	0.53:1
2009/10	19,555,722	35,182,721	0.56:1

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the liquidity ratio of SCBNL from FY 2005/06 to FY 2009/10. Higher the current ratio better the liquidity position, for the many type of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less then 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. SCBNL has higher current liabilities than current assets over the study period. The bank's current ratio is 0.53, 0.57, 0.60, 0.53 and 0.56 in FY 2005/06 to FY 2009/10 respectively with average ratio is 0.558. The standard of current ratio is 2:1. The current ratio of the bank is less than standard ratio in the all fiscal years. It shows that the performance strategy of the bank is aggressive. The bank may be unable to pay its current obligation in time as and when they become due.

4.4.1.2 Activity Ratio (Employee Productivity)

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

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

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

Table No. 32

Status Showing Activity Ratio (Employee Productivity)

(Amount in Rs. '000')

Fiscal Year	Deposit Collection	LABP	No. of Employee	Deposit Employee	% of Deposit	LABP Employee	% of LABP
2005/06	23,061,032	8,935,418	345	66,844	0	25,900	0
2006/07	24,647,021	10,502,637	351	70,219	5.05	29,922	15.53
2007/08	29,743,999	13,718,597	377	78,897	12.36	36,389	21.61
2008/09	35,350,824	13,679,757	392	90,181	14.30	34,897	-4.10
2009/10	35,182,721	15,956,955	429	82,011	-9.06	37,196	6.59

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

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

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

Above table shows the relationship of major activities of bank with its human resources. The number of employees increasing every year likewise the major activities of SCBNL was increasing trend. In the above table shows deposit collection, LABP deployed and No. of employees. The amount of deposit per employee and growth rate was in fluctuating trend. The base year to calculate the growth rate was FY 2005/06. Maximum growth rate of deposit per employee was 14.30% in FY 2008/09. The rate of percent change in deposit in FY 2006/07 and FY 2007/08 are 5.05%, and 12.36% with the comparison with FY 2005/06 and FY 2006/07 respectively. It has recorded the negative with decreased percentage of deposit is (9.06%) in FY 2009/10. The trend of LABP per employee and percent of LABP per employee was fluctuating trend. The base year to calculate the percent change in LABP per employee was FY 2005/06. It has record change in LABP per employee was 21.61%, 15.53% and 6.59% in the FY 2007/08, FY 2006/07 and FY 2009/10 respectively. It has record negative with decreased percentage change in LABP per employee is (4.10%) in FY 2008/09. The main reason of decreasing of deposit per employee in FY 2009/10 is huge expansion of staff and also decrease in deposit collection. Accept FY 2008/09 than other FY of the study period the LABP per employee is in increasing trend which indicates that the productivity of SCBNL is remarkable.

4.4.1.3 Capital Structure Ratios (Leverage Ratio):

Capital structure ratios of leverage, ratios measure the proportion of outsider's capital in financial the firm's assets and are calculate 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 finance its assets and it also indicates increasing obligations and known as risky firm. A firm most have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in maturing date. The following ratios are used to measure the long-term solvency position 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.

A. Total Debt to Shareholder Equity

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

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

Table No. 33

Status Showing Total Debt to Shareholder's Equity

(Amount in Rs. '000')

Fiscal Year	Total Debt	Shareholder's Equity	Ratio in Times
2005/06	29,198,040	1,754,139	16.65
2006/07	33,334,458	2,116,353	15.75
2007/08	36,983,025	2,492,547	14.84
2008/09	48,186,092	3,052,470	15.79
2009/10	46,530,935	3,369,710	13.81

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

The above table shows that debt to equity ratio of the bank varies from maximum of 16.65 times in FY 2005/06 to the minimum of 13.81 times in FY 2009/10 with an average of 15.37 times during the study period. As per the guidelines given by NRB, the deposit collection and borrowing of the bank was restricted to 10 times of capital fund. But the current guidelines have not restricted limit for long-term debt collection by the bank. The debt equity ratio of the bank was high which implied to more debt in comparison to capital fund. The bank's one of the major function is to accept customer deposit, it is obvious that the bank will have higher debt equity ratio.

B. Total Debt to Total Assets Ratio

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

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

Table No. 34

Status Showing Total Debt to Total Assets

(Amount in Rs. '000')

Fiscal Year	Total Debt	Total Assets	% of Ratio
2005/06	29,198,040	25,767,352	113.31
2006/07	33,334,458	28,596,689	116.58
2007/08	36,983,025	33,335,788	110.94
2008/09	48,186,092	40,066,570	120.27
2009/10	46,530,935	40,213,320	115.71

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows that the debt to total assets of the bank varies from maximum of 120.27% in FY 2008/2009 to the minimum 110.94% in FY 2007/08 with an average of 115.36% during the study period. The analysis indicates that the bank has the wish debt assets ratio, which means the creditors have invested more in the bank than the owners.

4.4.1.4 Profitability Ratio:

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

Profit is 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 if 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.

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

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

Table No. 35

Status Showing Profitability Ratio

(Amount in Rs. '000')

Fiscal Year	Net Profit	Total Assets	Return on Assets	Shareholder's Equity	Return on Equity
2005/06	658,756	25,767,352	2.56	1,754,139	37.55
2006/07	691,668	28,596,689	2.42	2,116,353	32.68
2007/08	818,921	33,335,788	2.46	2,492,547	32.85
2008/09	1,025,114	40,066,570	2.56	3,052,470	33.58
2009/10	1,085,872	40,213,320	2.70	3,369,710	32.22

(Source: SC Bank Nepal Ltd., Annual Report 2005/06-2009/10)

Above table shows the status of return on assets and return on equity of SCBNL. It indicates net profit and total assets is increasing trend. The indication shows ROA level of the bank is fluctuating trend, it ranges between 2.42% to 2.70% throughout the study period. It is not because of low profit but bank has invested its capital fund in fixed assets. The bank should invest their borrowings and deposits to income generating activities which will increase its net profit and ROA. Likewise the return on equity is 32.22% to 37.55% it is fluctuating trend through study period. It is observed that the net income and equity capital amount is increasing every year. Any organization having more than 10% ROE is good so the bank has been maintaining its ROE level in very satisfactorily position. The lowest ROE over the study period is 32.68%. ROE of SCBNL were remarkable so that the profitability of SCBNL is strong and sound. Its profit ratio indicates of the higher overall efficiency of the SCBNL and better utilization of total resources available.

4.4.2 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 planning in the business there are three factors of costs volume of profit analysis which are interconnected and dependent on one another for example profit depends up on sales, selling price to a greater extend will depend upon the cost, cost depend up on the volume of productions.

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

CVP analysis of SCBNL is selected on following assumptions.

- Activity base is selected in terms of Rs. '000'
- Cost volume structure is based on the accounting data of FY 2005/06 to FY 2009/10 and CD ratio and YOF is taken for the 5 years average.
- In case of bank net burden is treated as fixed cost, which is calculated in the basis of total other cost and totals other income of FY 2009/10. And interest margin (spread) is calculated on the basis total interest income and total interest expenses of FY 2009/10.

Cost Volume Profit Analysis of SCBNL **Amount in "000"**

Total Interest Income	= Rs. 2,042,109
Total Interest Expenses	= Rs. 575,741
Total Other Expenses	= Rs. 608,269
Total Other Income	= Rs. 34,479
Average Yield on Fund (YOF)	= 12.99%
Average CD ratio	= 42.31%

Net Burden = Total Other Expenses - Total Other Income

= 608,269 – 34,479

= Rs. 573,790

Interest margin (spread), = Total Interest Income - Total Interest Expenses

= 2,042,109 – 575,741

= Rs. 1,466,368

i) We can calculate the BEP in terms of interest income of SCBNL:

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

= 573,790/1,466,368 x 100

= 39.13%

BEP in Rs. = Interest Income x BEP%

= 2,042,109 x 39.13%

= Rs. 799,077.25

SCBNL's break-even interest income level is Rs. 799,077.25

ii) Margin of safety for the FY 2009/10, can be calculated as below:

Margin of Safety = Total Interest Income - BEP Income

= 2,042,109 – 799,077.25

= Rs. 1,243,031.75

$$Margin\ Safety\ Ratio = \frac{Margin\ of\ Safety}{Total\ Interest\ Re\text{-}value} \times 100$$

= 1,243,031.75/2,042,109 × 100

= 60.87%

iv) BEP in terms of Volume of LABP can be calculated as below:

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

= 799,077.25/0.1299

= Rs. 6,151,479.99

v) BEP in terms of Volume of deposits can be calculated as below:

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

= 6,151,479.99/0.4231

= Rs. 14,539,068.75

4.5 Cash Flow Analysis

Following table presents cash flow statement of the bank for last 2 years, which gives the satisfactory picture of cash inflow to meet the required cash outflow within the bank for period.

Table No. 36

Cash Flow Statement

S.N.	Particular	This Year	Previous Year
A	**Cash Flow from Operating Activities**	**-2,249,622,421**	**6,948,938,465**
1	**Cash Receipts**	**2,359,799,519**	**2,128,177,260**
1.1	Interest Income	1,605,148,047	1,480,241,128
1.2	Commission and Discount Income	338,094,639	238,616,592
1.3	Income from Foreign Exchange Transaction	373,038,919	352,358,259
1.4	Recovery of Loan Written off	9,038,441	23,770,030
1.5	Other Income	34,479,473	33,191,251
2	**Cash Payments**	**2,076,472,587**	**1,963,910,721**
2.1	Interest Expenses	535,333,144	521,840,234
2.2	Staff Expenses	306,659,170	254,218,116
2.3	Office Operating Expenses	286,794,401	250,890,193
2.4	Income tax Payment	481,702,672	440,908,086
2.5	Other Expenses	465,983,200	496,054,092
	Cash Flow before Changes in Working Capital	**283,326,932**	**164,266,539**
	Decrease/ (Increase) of Current Assets	**-1,896,058,135**	**754,573,650**
1	Decrease / (Increase) in Money at Call and Short Notice	386,089,000	141,988,600
2	Decrease/ (Increase) of Short Term Investment	0	0
3	Decrease / (Increase) in Loan and Bills Purchase	-2,321,942,516	44,154,587
4	Decrease / (Increase) in Other Assets	39,795,381	568,430,463
	(Decrease) /Increase of Current Liabilities	**-636,891,218**	**6,030,098,276**
1	(Decrease) / Increase in Deposits	-168,102,257	5,606,824,917
2	(Decrease) / Increase in Certificate of Deposits	0	0
3	(Decrease) / Increase in Short Term Borrowings	-283,722,093	285,544,727
4	(Decrease) / Increase in Other Liabilities	-185,066,868	137,728,632
B	**Cash Flow from Investment Activities**	**955,706,293**	**-5,990,481,198**
1	Decrease/ (Increase) in Long term Investment	388,610,057	-6,333,302,071
2	Decrease/ (Increase) in Fixed assets	19,845,714	-24,719,699
3	Interest Income from Long Term Investment	541,722,472	365,061,547
4	Dividend Income	5,528,050	2,479,025
5	Others	0	0
C	**Cash Flow from Financing Activities**	**534,000**	**790,400**
1	Increase / (Decrease) in Long Term Borrowing (Bond, Debenture etc.)	0	0
2	Increase / (Decrease) in Share Capital	534,000	790,400
3	Increase / (Decrease) in Other Liabilities	0	0
4	Increase / (Decrease) in Re-finance/Facilities received from Nepal Rastra Bank	0	0
D	**Income/Expense from change in exchange rate in Cash and Bank Balance**	**85,525,113**	**127,672,654**
E	**Current year's cash flow from all activities**	**-1,207,857,015**	**1,086,920,321**
F	**Opening Cash and Bank Balance**	**3,137,163,535**	**2,050,243,214**
G	**Closing Cash and Bank Balance**	**1,929,306,520**	**3,137,163,535**

(Source: SC Bank Nepal Ltd., Annual Report 2009/10)

4.6 Major Findings

The major findings of this research study on "Impact of Profit Planning and Control on Banking Strategies and Managerial Decisions; With reference to Standard Chartered Bank Nepal Ltd." are as follows:

1. Management and Personnel

a) It was observed that the bank was adopting a policy to keep minimum but deserved and qualified number of employees as possible. But it has unnecessary long ladder at various levels without specific job description comparison to other banks.

b) The strategic planning and managerial decisions making process was highly centralized, however, top management takes the feed forwards for annual planning and strategy building through manager conferences and strategic meeting organized ones in every year.

c) Advanced and practical oriented training for career development to the employees was lacking.

d) Bank has the policy to employ academically highly qualified (first class MBA) fresh candidates at Management trainee, which may be considered as good aspect for future manpower building, but the bank neglects the product of Tribhuvan University who have passed MBS.

2. Branch Office;

a. SCBNL was currently operating with its 18 points of representation making its presence at almost all of the cities of the country.

b. Controlling functions of the branches are so far being carried out directly by Head Office, which may be difficult in the days to come because of its wide geographical stretch. However, the effective management team of SCBNL was good enough to regulate the entire branches from the head office.

3. Objectives of the Banks:

a. To provide complete financial solutions to the customers.

b. To become top commercial bank among 31 commercial banks (including Agriculture Development Bank) of Nepal.

4. Resources Mobilizations

a. Major concentration of resources mobilization of SCBNL was at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.

b. Deposit mobilized by the bank was found to be fluctuating trend.

c. The targets set for deposit mobilization by the bank have been well met every year.

d. The volatile political situation coupled with low economic growth, widening trade deficit, high inflation and liquidity crunch in the banking system continued to remain the major challenges. Liquidity crunch is mainly attributed to the slowdown in remittances, funds getting locked up in non productive sectors and weakening of confidence resulting in lower deposit collection/mobilization.

e. From regression analysis of the budget and actual achievements, by coefficient of variance, it was found that, the actual deposits are more variable than the budgeted one.

f. From regression analysis of the budgeted and actual deposits, remaining the trend same for the coming year too, the deposit to be mobilized by the bank by the end of FY 2010/11 shall reach up to 40080774.33 (Thousand).

5. Resources Development

a. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) was fluctuating trend, which was detrimental to profitability objectives; however it was not supportive to meeting liquidity requirements of the banks.

b. Major portion of the resources have been deployed in LABP.

c. The targets for deployment by the bank have well met every year.

d. LABP of the bank has found to be with an average growth was over the period of last five years was as high as 30.62%.

e. From the analysis of budgeted and actual LABP with the help of co-efficient of variance, it was found that, the actual LABP was more variable than the budgeted one.

f. From the regression analysis of budgeted and actual deposit, remaining the trend same as before, the estimated LABP by the end of FY 2010/11 shall be of Rs. 6424591.52 (Thousand).

g. CD Ratio (Credit to Deposit Ratio, Ratio of LABP on Total Deposit expressed in percent term) of the bank is high. The average CD ratio of the bank for the period of last five years was as high as 46.12%.

h. The data analysis of LABP and deposit with the help of Karl Person's co-efficient of correlation shows that, the deposit and the LABP are positive perfectly correlated.

i. The data analysis of Deposit and LABP with the help of coefficient of variation shows that LABP was more variable than the Deposit.

6. Non-Funded Business Activities

a. Outstanding letter of Credit liability of the bank shows the growth which was non-constant.

b. Outstanding guarantee liability of the bank was not consistent.

c. Presently living in an increasingly dynamic economic environment, apart from being the witness of upheavals of past couple of years, the year 2009/10 has also experienced an isolated Greek crisis metamorphosed into a pan-euro zone crisis – which resulted in the financial sector across the globe, questioning the sovereign debt fundamentals. The timely intervention & prudent approach of regulators seems to be a step in the right direction. Extraordinary liquidity provision, combined with guarantees for bank liabilities, had addressed fears about banks' survival. The global financial crisis made it conspicuous that the financial world is extraordinarily interconnected and interdependent.

7. Expenditure

a. Interest expenses amount was the highest among total expenses items of the bank every year.

b. The interest expense amount of the bank was found increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.

c. The interest holds highest percentage of expenses amount as deposit was the major resources of the bank. The COD of SCBNL was in the range of 1.31% to 1.68%. The average COD over the period has been found to be at 1.55%.

d. Other expenses amount of the bank was also in increasing term every year.

8. Revenue

a. Interest income amount of the bank was the highest among other income items in the total revenue.

b. The amount of interest income was increasing every year corresponding to increase in LABP. There was a perfect and positive correlation between interest income and LABP.

c. Average yield on LABP (ratio of interest income to total LABP expressed in percent term) was at the maximum level of 13.80% in the FY 2008/09, which minimum level of 11.60% during FY 2007/08. The average yield on LABP for the last five years has remained at 12.99%.

d. The amount of other income of bank was also in increasing trend accept commission and discount and other non operating income, which are fluctuating trend.

e. The interest spread or the amount of interest margin was found to be increasing every year.

f. The amount of net burden of the bank was increasing every year.

g. The amount of net profit was increasing trend as the rate of growth of spread was higher than that of burden; the profitability of the bank was increasing.

9. Ratio Analysis

a. SCBNL has the highest current ratio of 0.60 in FY 2007/08 with an average current ratio of 0.558. The average ratio of the bank found to be always lower than standard ratio of 2:1, which shows unsatisfactory liquidity position of the bank.

b. Generally the debt equity ratio of the banks was higher because they mobilize fixed deposit much more times of their capital fund. SCBNL was also not exception to it. The average debt equity ratio of the bank was approximately 15.37:1.

c. From the study of total number of manpower and total volume of overall activities of the bank, it is found that the volume of business per employee was increasing every year, which suggests increasing productivity of manpower.

d. From the profitability ratio, it was found that the ROA (Return on Assets) was positive and this trend followed the same trend over the study period. As return on assets was high during 2009/10 with 2.70% and return on equity was high during 2005/06 with 37.55%. This shows that overall efficiency of the SCBNL and better utilization of total resources available was higher and strong.

e. Debt to assets ratio of the bank varies from maximum of 120.27% in the FY 2008/09 to the minimum 110.94% in FY 2007/08 and average 115.36% during the study period. The analysis indicates that the bank has the wise debt assets ratio, which means the creditors have invested more in the bank than the owner.

f. From the cost volume profit analysis, the break even income level of the bank was found to be Rs. 799,077.25(thousand) and BEP LABP and BEP deposit to be 6,151,479.99 (thousand) and 14,539,068.74 (thousand) respectively.

10. Cash Flow Analysis

Following findings from the cash flow analysis are done.

a. Cash flow from investing activities shows the change in following activities.

I. **Changes in balance with bank.** The closing balance as on previous year was Rs. 3,137,163,535 whereas it has decreasing by 38.50% to Rs. 1,929,306,520 in according annual report FY 2009/10.

II. **Changes in money at call and short notice.** The money at call and short notice was Rs. 141,988,600 in previous year it was Rs. 38,608,900 in current year. It is clear that there is increased in current assets i.e. money at call and short notice by 171.92%.

b. Cash flow from financing activities and operating activities shows the change in following activities.

I. **Decreases in share capital and discharge of liabilities.** The share capital and discharge of liabilities as on previous year was Rs. 790,400 whereas it has decreased by 32.44% to Rs. 534,000 in current year.

II. **Interest expenses increases this year.** The interest expense as on previous year was Rs. 521,840,234 whereas it has increased by 2.59% to Rs. 535,333,144 in current year.

The data presentation, analysis and major findings for this study show above. The forthcoming chapter includes the summary, conclusions and recommendation.

CHPATER –FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

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

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

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

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 A.D. 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 banks enjoy the status of the largest international bank currently operating in Nepal.

This study has tried to cover the various aspects of budgeting and profit planning in the bank from the time of its inception of the end of FY 2009/10. In the first introductory chapter, his study report has tried to give brief introduction of banking and its relation to the economy, brief profile of the concerned bank, general concepts to the profit and profit planning, the problem statement, objective of the study and its scope, limitations and significance.

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

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

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

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

5.2 Conclusion

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

- Bank management policy was very strong. It keep minimum number of employee and highly qualified for maintain the job.
- The bank operation with 18 representations and 23 ATMs in various locations in the country.
- The banks provide 24 Hrs. services and ATMs service for the customers.
- The banks adopt always new technology.
- The banks provide funds for health and education.
- The bank was adopting new accounting policy, which was prescribed by Nepal Rastra Bank.
- Customer deposit collection was the main resource mobilization of the bank.
- Loan, allowance and bill purchasing hold the highest outlet of resources deployment.
- Bank's actual deposit was more variable than actual outstanding LABP. Hence the coefficient of variance of actual deposit was higher than actual outstanding liability LABP.
- LABP highest outlay of resource deployment among the various portfolios.
- Actual LABP was in increasing trend.
- There was perfect correlation between actual deposits and actual LABP.
- There was no continuity in letter of credit amount, it increase and decrease every year.
- Bank guarantee was fluctuating trend.
- Interest expenses were highest portion among in other cost.

- Coefficient of variation of actual interest expenses was higher than of actual deposits.
- The highest revenue comes from the interest income among the other revenue.
- Actual LABP was more variable than interest income.
- The average current ratio of the bank has found to be always lower than standard ratio of 2:1, which shows dissatisfactory liquidity position of the bank.
- The average current ratio of the bank was 0.558 times. So the bank has shows dissatisfactory liquidity position of the bank.
- The average debt equity ratio of the bank was15.37 times and the average debt to total assets was 115.36% during the study period.

5.3 Recommendations

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

A. In the Internal Management and Personnel Part:

1. For the development of human resources HR department should be restructuring to align with the strategic goal of the bank. For effectively measure and rewards employee performance and identifies potential Separate Performance Management System should be introduced.
2. Level wise specific job description and responsibility assignment should be mentioned clearly.
3. Profit planning & control technique should be used for making long term banking strategies and managerial decisions.
4. Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time of the chief executive officer for the productive use.
5. 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.
6. 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.

7. 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.
8. 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.
9. Every business concerns have one another obligation i.e. corporate social responsibility so SCBNL need more involvement in social activities in the coming days.
10. People in rural areas of Nepal still out of banking service so SCBNL is suggested to take bold steps to expand and promote its network to reach such area with their products and services.

B. In the Business Part

1. The bank should make the strategic planning to select risk assets growth by maintaining the quality of assets, increasing its market share in retail & Small/Medium Enterprises lending and international trade with a higher focus on treasury operations, risk assets portfolio diversification and better productivity though improvements in internal efficiencies, diversification of the deposits portfolio with bias towards saving deposits with a view to further reduce dependency on large institutional deposits and reduce funding cost.
2. The average cost of deposits of the bank was high, therefore bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost because due to the high cost of deposits, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risky for the bank.
3. Banks CD ratio was high, which was rather a compulsion for the bank to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquidity 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.

4. LABP of the bank has increasing significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures required (such as trained man power, logistics etc) are not adequate. Therefore with such poor infrastructures, it is not advisable to go aggressively in LABP. The bank should keep adequate required infrastructure to support its objectives.
5. The Nepal Rastra Bank has put the restriction 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.
6. Expenses cannot be avoided and always are growing with increasing activities, but it should be optimize and should be related with the income generating activities. Bank should minimize those expenses, which was not related to income earning. Other expenses than interest form a burden to the gross profit margin (interest margin) of the bank; therefore lowering the other expenses the bank shall enhance its profit.
7. Net profit of the bank was the amount, which was obtained by subtracting the amount of net burden from the amount of gross interest margin. Therefore, SCBNL 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.
8. The bank has opened its branches at only major cities of the country. Hence, the bank should take initiation to open its branches at urban areas to grab the market and provide better banking services to people.
9. The bank shall make broad based credit policy and deposit products in coming years to yield maximum profit.
10. The deposits, loans, securities from foreign donors come through the deposit in SCBNL; this may be the biggest advantage of SCBNL to increase in the deposit percentage.
11. Bank should implement its activities with prior planning there must be budgeting system which enables it to achieve its objectives.

With the above mentioned summary, conclusions, major findings and recommendations suggested, the report is concluded.

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Appendix-1

Status of Budgeted and Actual Deposits Collection

Amount in Rs. '000'

Fiscal Year	Budgeted Deposits (X)	Actual Deposits (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x2	y2	xy
2005/06	23595392.8	23061032	-4489733	-6536087.4	20157702411289.00	42720438500438.70	29345287290664.20
2006/07	25840259.3	24647021	-2244866.5	-4950098.4	5039425602822.25	24503474169682.50	11112310069863.60
2007/08	28085125.8	29743999	0	146879.6	0.00	21573616896.16	0.00
2008/09	30329992.3	35350824	2244866.5	5753704.6	5039425602822.25	33105116624061.20	12916298707435.90
2009/10	32574858.8	35182721	4489733	5585601.6	20157702411289.00	31198945233922.60	25077859828372.80
Total	**140425629**	**147985597**	**0**	**0.00**	**50394256028222.50**	**131549548145001.00**	**78451755896336.50**

Where,

$\overline{X}$ = Mean of X

$\overline{Y}$ = Mean of Y

$$\text{Mean of Budgeted Deposits } (\overline{X}) = \frac{\textit{Sum of Budgeted Deposits}}{\textit{No. of Year}}$$

$$= \frac{140425629}{5}$$

$= 28,085,125.80$

Mean of Actual Deposits ($\overline{Y}$) $= \dfrac{\textit{Sum of Actual Deposits}}{\textit{No. of Year}}$

$= \dfrac{147985597}{5}$

$= 29597119.40$

S.D. of Budgeted Deposits (σ_x) $= \sqrt{\dfrac{1}{n}\Sigma x^2}$

$= \sqrt{\frac{1}{5} 50394256028222.50}$

$= 3,174,720.65$

S.D. of Actual Deposits (σ_y) $= \sqrt{\dfrac{1}{n}\Sigma y^2}$

$= \sqrt{\frac{1}{5} 131549548145001}$

$= 5,129,318.63$

C.V. of Budgeted Deposits $= \dfrac{\sigma_x}{\textit{Mean of } x} \times 100\%$

$= \dfrac{3174720.65}{28085125.80} \times 100\%$

$= 11.30$

C.V. of Actual Deposits $= \dfrac{\sigma_y}{\textit{Mean of } y} \times 100\%$

$= \dfrac{5129318.63}{29597119.40} \times 100\%$

$= 17.33$

Correlation (r) $= \frac{\Sigma xy}{n\sigma_x\sigma_y}$

$$= \frac{78451755896336.50}{5\times3174720.65\times5129318.63}$$

$$= 0.9635$$

Probable Error (PE) $= \frac{1-r^2}{N}\times0.6745$

$$= \frac{1-0.9635^2}{N}\times0.6745$$

$$= 0.009659$$

Appendix-2

Status of Budgeted and Actual LABP

(Amount in Rs. '000')

Fiscal Year	Budgeted LABP(X)	Actual LABP (Y)	x = X - $\overline{X}$	y = Y - $\overline{Y}$	x2	y2	xy
2005/06	9542020.40	8935418	-3395227.8o	-3623255	11527571813892.80	13127975345723.00	12301775423443.40
2006/07	11239634.3	10502637	-1697613.90	-2056036	2881892953473.21	4227283210881.64	3490354952977.62
2007/08	12937248.2	13718597	0.00	1159924.2	0.00	1345424149745.64	0.00
2008/09	14634862.1	13679757	1697613.90	1121084.2	2881892953473.21	1256829783489.64	1903168120990.38
2009/10	16332476	15956955	3395227.80	3398282.2	11527571813892.80	11548321910836.80	11537942197685.20
Total	**64686241**	**62793364**	**0.00**	**0.00**	**28818929534732.10**	**31505834400676.80**	**29233240695096.60**

Where,

$\overline{X}$ = Mean of X

$\overline{Y}$ = Mean of Y

Mean of Budgeted LABP ($\overline{X}$) $= \frac{Sum\ of\ Budgeted\ LABP}{No.\ of\ Year}$

$$= \frac{64686241}{5}$$

$= 12{,}937{,}248.20$

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

$$= \frac{62793364}{5}$$

$= 12{,}558{,}672.80$

S.D. of Budgeted LABP (σ_x) $$= \sqrt{\frac{1}{n}\Sigma x^2}$$

$$= \sqrt{\frac{1}{5}28818929534732.10}$$

$= 2{,}400{,}788.60$

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

$$= \sqrt{\frac{1}{5}31505834400676.80}$$

$= 2{,}510{,}212.52$

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

$$= \frac{2400788.60}{12937248.20} \times 100\%$$

$= 18.56$

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

$$= \frac{2510212.52}{12558672.80} \times 100\%$$

$= 19.99$

Correlation (r) $= \frac{\Sigma xy}{n\sigma_x\sigma_y}$

$= \frac{29233240695096.60}{5\times2400788.60\times2510212.52}$

$= 0.9702$

Probable Error (PE) $= \frac{1-r^2}{N}\times0.6745$

$= \frac{1-0.9702^2}{5}\times0.6745$

$= 0.007931$

Appendix-3

Status of Budgeted and Actual NLABP

(Amount in Rs. '000')

Fiscal Year	Budgeted NLABP (X)	Actual NLABP (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x2	y2	xy
2005/06	14999842.8	14854663	-1953398	-4250414.2	3815763746404.00	18066020871561.60	8302750597451.60
2006/07	15976541.8	16332900	-976699	-2772177.2	953940936601.00	7684966428199.84	2707582699062.80
2007/08	16953240.8	17419653	0	-1685424.2	0.00	2840654733945.64	0.00
2008/09	17929939.8	24331265	976699	5226187.8	953940936601.00	27313038920868.80	5104412398072.20
2009/10	18906638.8	22586905	1953398	3481827.8	3815763746404.00	12123124828852.80	6801395460864.40
Total	**84766204**	**95525386**	**0**	**0.00**	**9539409366010.00**	**68027805783428.80**	**22916141155451.00**

Where,

$\overline{X}$ = Mean of X

$\overline{Y}$ = Mean of Y

Mean of Budgeted NLABP ($\overline{X}$) $= \frac{Sum\ of\ Budgeted\ NLABP}{No.\ of\ Year}$

$= \frac{84766204}{5}$

$= 16{,}953{,}240.80$

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

$$= \frac{95525386}{5}$$

$$= 19{,}105{,}077.20$$

S.D. of Budgeted NLABP (σ_x) $$= \sqrt{\frac{1}{n}\Sigma x^2}$$

$$= \sqrt{\frac{1}{5}9539409366010}$$

$$= 1{,}381{,}260.97$$

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

$$= \sqrt{\frac{1}{5}68027805783428.80}$$

$$= 3{,}688{,}571.70$$

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

$$= \frac{1381260.97}{16953240.80} \times 100\%$$

$$= 8.15$$

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

$$= \frac{3688571.70}{19105077.20} \times 100\%$$

$$= 19.31$$

Correlation (r) $= \dfrac{\Sigma xy}{n\sigma_x\sigma_y}$

$$= \frac{22916141155451}{5 \times 1381260.97 \times 3688571.7}$$

$$= 0.8996$$

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

$$= \frac{1-0.8996^2}{5} \times 0.6745$$

$$= 0.025734$$

Appendix-4

Status of Actual Deposits and Actual LABP

(Amount in Rs. '000')

Fiscal Year	Actual Deposits (X)	Actual LABP (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x2	y2	xy
2005/06	23061032	8935418	-6536087.4	-3623255	42720438500438.70	13127975345723.00	23681910045269.50
2006/07	24647021	10502637	-4950098.4	-2056036	24503474169682.50	4227283210881.64	10177579523922.70
2007/08	29743999	13718597	146879.6	1159924	21573616896.16	1345424149745.64	170369202526.32
2008/09	35350824	13679757	5753704.6	1121084	33105116624061.20	1256829783489.64	6450387318527.32
2009/10	35182721	15956955	5585601.6	3398282	31198945233922.60	11548321910836.80	18981450493571.50
Total	**147985597**	**62793364**	**0.00**	**0.00**	**131549548145001.00**	**31505834400676.80**	**59461696583817.40**

Where,

$\bar{X}$ = Mean of X

$\bar{Y}$ = Mean of Y

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

$$= \frac{147985597}{5}$$

$$= 29{,}597{,}119.40$$

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

$= \dfrac{62793364}{5}$

$=$ 12,558,672.80

S.D. of Actual Deposits (σ_x) $= \sqrt{\dfrac{1}{n}\Sigma x^2}$

$= \sqrt{\dfrac{1}{5} 131549548145001}$

$=$ 5,129,318.63

S.D. of Actual LABP (σ_y) $= \sqrt{\dfrac{1}{n}\Sigma y^2}$

$= \sqrt{\dfrac{1}{5} 31505834400676.80}$

$=$ 2,510,212.52

C.V. of Actual Deposits $= \dfrac{\sigma_x}{Mean\ of\ x} \times 100\%$

$= \dfrac{5129318.63}{29597119.40} \times 100\%$

$=$ 17.33

C.V. of Actual LABP $= \dfrac{\sigma_y}{Mean\ of\ y} \times 100\%$

$= \dfrac{2510212.52}{12558672.80} \times 100\%$

$=$ 11.99

Correlation (r) $= \frac{\Sigma xy}{n\sigma_x \sigma_y}$

$$= \frac{59461696583817.40}{5 \times 5129318.63 \times 2510212.52}$$

$$= 0.9236$$

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

$$= \frac{1-0.9236^2}{5} \times 0.6745$$

$$= 0.019818$$

Appendix-5

Status of Actual Deposits and Interest Expenses

(Amount in Rs. '000')

Fiscal Year	Actual Deposits (X)	Interest Expenses (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x2	y2	xy
2005/06	23061032	303198	-6536087.4	-158304.2	42720438500438.70	25060219737.64	1034690086987.08
2006/07	24647021	413055	-4950098.4	-48447.2	24503474169682.50	2347131187.84	239818407204.48
2007/08	29743999	471730	146879.6	10227.8	21573616896.16	104607892.84	1502255172.88
2008/09	35350824	543787	5753704.6	82284.8	33105116624061.20	6770788311.04	473442432270.08
2009/10	35182721	575741	5585601.6	114238.8	31198945233922.60	13050503425.44	638092424062.08
Total	**147985597**	**2307511**	**0.00**	**0.00**	**131549548145001.00**	**47333250554.80**	**2387545605696.60**

Where,

$\bar{X}$ = Mean of X

$\bar{Y}$ = Mean of Y

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

$$= \frac{147985597}{5}$$

= 29,597,119.40

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

$= \frac{2307511}{5}$

$= 461,502.20$

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

$= \sqrt{\frac{1}{5} 131549548145001}$

$= 5,129,318.63$

S.D. of Interest Expenses (σ_y) $= \sqrt{\frac{1}{n}\Sigma y^2}$

$= \sqrt{\frac{1}{5} 47333250554.80}$

$= 97,296.71$

C.V. of Actual Deposits $= \frac{\sigma_x}{Mean\ of\ x} \times 100\%$

$= \frac{5129318.63}{29597119.40} \times 100\%$

$= 17.33$

C.V. of Interest Expenses $= \frac{\sigma_y}{Mean\ of\ y} \times 100\%$

$= \frac{97296.71}{461502.2} \times 100\%$

$= 21.08$

Correlation (r) $= \frac{\Sigma xy}{n\sigma_x\sigma_y}$

$$= \frac{2387545605696.60}{5\times5129318.63\times97296.71}$$

$= 0.9568$

Probable Error (PE) $= \frac{1-r^2}{N}\times0.6745$

$$= \frac{1-0.9568^2}{5}\times0.6745$$

$= 0.011402$

Appendix-6

Status of Actual LABP and Interest Expenses

(Amount in Rs. '000')

Fiscal Year	Actual LABP (X)	Interest Expenses (Y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x2	y2	xy
2005/06	8935418	303198	-3623254.8	-158304.2	13127975345723.00	25060219737.64	573576452510.16
2006/07	10502637	413055	-2056035.8	-48447.2	4227283210881.64	2347131187.84	99609177609.76
2007/08	13718597	471730	1159924.2	10227.8	1345424149745.64	104607892.84	11863472732.76
2008/09	13679757	543787	1121084.2	82284.8	1256829783489.64	6770788311.04	92248189180.16
2009/10	15956955	575741	3398282.2	114238.8	11548321910836.80	13050503425.44	388215680589.36
Total	**62793364**	**2307511**	**0.00**	**0.00**	**31505834400676.80**	**47333250554.80**	**1165512972622.20**

Where,

$\bar{X}$ = Mean of X

$\bar{Y}$ = Mean of Y

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

$$= \frac{62793364}{5}$$

$= 12,558,672.80$

Mean of Interest Expenses ($\overline{Y}$) $= \dfrac{\textit{Sum of Interest Expenses}}{\textit{No. of Year}}$

$= \dfrac{2307511}{5}$

$= 461,502.2$

S.D. of Actual LABP (σ_x) $= \sqrt{\dfrac{1}{n}\Sigma x^2}$

$= \sqrt{\frac{1}{5}31505834400676.80}$

$= 2,510,212.52$

S.D. of Interest Expenses (σ_y) $= \sqrt{\dfrac{1}{n}\Sigma y^2}$

$= \sqrt{\frac{1}{5}47333250554.80}$

$= 97,296.71$

C.V. of Actual LABP $= \dfrac{\sigma_x}{\textit{Mean of x}} \times 100\%$

$= \dfrac{2510212.52}{12558672.80} \times 100\%$

$= 19.99$

C.V. of Interest Expenses $= \dfrac{\sigma_y}{\textit{Mean of y}} \times 100\%$

$= \dfrac{97296.71}{461502.20} \times 100\%$

$= 21.08$

Correlation (r) $= \frac{\Sigma xy}{n\sigma_x\sigma_y}$

$= \frac{1165512972622.20}{5 \times 2510212.52 \times 97296.71}$

$= 0.9544$

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

$= \frac{1-0.9544^2}{5} \times 0.6745$

$= 0.012018$

Standard Chartered Bank Nepal Limited

Trend Analysis

Calculation of Trend Line of Deposits

(Amount in Rs. '000')

Fiscal Year	Actual Deposits (Y)	X	X^2	XY	Yc = a+bX
2003/04	21161442	-2	4	-42322884	19105659.8
2004/05	19363470	-1	1	-19363470	21350526.3
2005/06	23061032	0	0	0	23595392.8
2006/07	24647021	1	1	24647021	25840259.3
2007/08	29743999	2	4	59487998	28085125.8
Total	**117976964**	**0**	**10**	**22448665**	

Where a = average deposit   b = rate of change on deposit

Hence, the equation of a straight trend is y = a + bx

Here,

The normal equation for estimation a and b are

$\Sigma Y = Na + b\Sigma x$ ………………………………. (i)

$\Sigma XY = a\Sigma x + b\Sigma x^2$ ……………………………. (ii)

By, substituting the value of the table in normal equations, we get,

$\Sigma Y = Na + b\Sigma x$

117976964 = 5a + 0b

a = 23595392.80

$\Sigma XY = a\Sigma x + b\Sigma x^2$

22448665 = 0a + 10b

b = 2244866.50

Fiscal Year	Deviation	Trend Line	Trend Value
2008/09	3	Yc = a+bX	30329992.3
2009/10	4	Yc = a+bX	32574858.8
20010/11	5	Yc = a+bX	34819725.3

Standard Chartered Bank Nepal Limited

Trend Analysis

Calculation of Trend Line of LABP

(Amount in Rs. '000')

Fiscal Year	Actual LABP (Y)	X	X^2	XY	Yc = a+bX
2003/04	6410242	-2	4	-12820484	6146792.6
2004/05	8143208	-1	1	-8143208	7844406.5
2005/06	8935418	0	0	0	9542020.4
2006/07	10502637	1	1	10502637	11239634.3
2007/08	13718597	2	4	27437194	12937248.2
Total	**47710102**	**0**	**10**	**16976139**	

Where a = average deposit   b = rate of change on deposit

Hence, the equation of a straight trend is y = a + bx

Here,

The normal equation for estimation a and b are

$\Sigma Y = Na + b\Sigma x$ ………………………………. (i)

$\Sigma XY = a\Sigma x + b\Sigma x^2$ …………………………… (ii)

By, substituting the value of the table in normal equations, we get,

$\Sigma Y = Na + b\Sigma x$

$47710102 = 5a + 0b$

$a = 9542020.40$

$\Sigma XY = a\Sigma x + b\Sigma x^2$

$16976139 = 0a + 10b$

$b = 1697613.90$

Fiscal Year	Deviation	Trend Line	Trend Value
2008/09	3	Yc = a+bX	14634862.1
2009/10	4	Yc = a+bX	1632476
2010/11	5	Yc = a+bX	18030089.9

Standard Chartered Bank Nepal Limited
Trend Analysis
Calculation of Trend Line of NLABP

(Amount in Rs. '000')

Fiscal Year	Actual NLABP (Y)	X	X^2	XY	Yc = a+bX
2003/04	15013218	-2	4	-30026436	13046444.8
2004/05	11378780	-1	1	-11378780	14023143.8
2005/06	14854663	0	0	0	14999842.8
2006/07	16332900	1	1	16332900	15976541.8
2007/08	17419653	2	4	34839306	16953240.8
Total	**74999214**	**0**	**10**	**9766990**	

Where a = average deposit   b = rate of change on deposit

Hence, the equation of a straight trend is y = a + bx

Here,

The normal equation for estimation a and b are

$\Sigma Y = Na + b\Sigma x$ ……………………………… (i)

$\Sigma XY = a\Sigma x + b\Sigma x^2$ …………………………… (ii)

By, substituting the value of the table in normal equations, we get,

$\Sigma Y = Na + b\Sigma x$

$74999214 = 5a + 0b$

$a = 14999842.80$

$\Sigma XY = a\Sigma x + b\Sigma x^2$

$9766990 = 0a + 10b$

$b = 976699$

Fiscal Year	Deviation	Trend Line	Trend Value
2008/09	3	Yc = a+bX	17929939.8
2009/10	4	Yc = a+bX	18906638.8
2010/11	5	Yc = a+bX	19883337.8