CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial management is that managerial activity which is concerned with planning and controlling of the firm's financial resources. Through it was a branch of economics till 1890 as a separate activity or discipline it is of recent origin still. It has no unique body of knowledge of its own and draws heavily on economics for its theoretical concept even today. He further says it is of great interest to academician's new manages and practicing manages. (Panday, 2009:95)

Financial performance is defined as the process of financial decision making founded as the principal of maximizing shareholder wealth. In broadest terms its scope covers all financial matters that affect the financial outcomes of a firm. The secret of success in the competitive world lies in the ability of managers to foresee the direction of changes with respect to consumer preferences and development in technologies. (Pradhan, 2010:61]

The banking sector is largely responsible for the collecting household saving in term of different types of deposit and regulating them in the society by lending in different sector of economy. The banking sector has now reach to the most remote areas of the countries and has experiences in small scale industries under intensive banking program has enable the bank to share in the economic growth of the economy.

The domestic financial resources which lying as scattered form, can integrate in one place by the financial institutions and mobilizing this for economic development. The financial institution not only builds up the confidence to businessman for promoting their business but also encouraging to new comers for entrepreneurship. It is a resource for economic development; it maintains economic confidence of various segments and extends credit to people.

The financial institutions act as intermediaries by transferring the resources. Well managed financial institution including finance companies and banks play an important role for the development of any country. Specially, financial institutions collects scattered funds from different areas and invest to those who needs. Commercial and economic activities of the country, which can be known as fuel to the development practice of the country. It is the fact that unorganized financial system leads the country nowhere in the world. Therefore, the seventh body of nation, Nepal Rastra Bank plays an important role on keeping the financial system of the nation by providing them guidance and directives.

1.2 Statement of Problem

Government has been periodically updating the financial and monetary policies. Commercial banks are following those types of policies made by the government to contribute established the economic stability and liberalization. Commercial banks are interested to extended their branches at urban area like Kathmandu, Pokhara, Birgunj, Biratnagar, Narayangarh, Dharan, Dhangadhi etc. This trend cannot be contributing much the socio-economic development of the country where 90% of the population depend upon the reluctant to extent their operation in rural area. Despite of the circular of the central bank of country NRB, regarding compulsory investment of 10% of their total investment in rural areas but rural areas are treated as less priority from the profitable point of view of the banks. Even though, some small entrepreneur and investors are benefited from the service of commercial banks at rural areas. To enhance and mobilize the local resources at community level, the activities and service should have centered to the rural areas.

The study basically focuses our attention to reveal the struggle and success achieved by the commercial banks. The main motto of the bank is providing quality and prompts services to the customers, thus it is possible to maximize the profitability. In this study Nepal SBI Bank Limited (NSBL) and Standard Chartered Bank Nepal Limited (SCBNL) are taken as sample for the purpose of study. In Nepal performance of the bank is considered in operating profit, dividend distribution among shareholder and quality of credit. The study will ultimately finds out the reasons about the difference in financial performance of commercial banks.

The present study seeks to explore the efficiency, strength and weakness of Commercial Banks. Attempts are being made to explore the answers to following questions.

a. In what expect commercial banks achieved their goals in terms of profitability and returns on interest?
b. How commercial banks analyze and measure their financial position?
c. How far Commercial Banks have mobilized their resources?
d. How effectively the Commercial Banks are managing their liquidity, assets, liabilities and capital structure?

1.3 Objectives of the Study

The primary objective of this study has been to analyze comparatively position of the financial performance of the commercial banks and main objectives are as follows.

a. To analyze the liquidity position of commercial banks.
b. To examine financial performance of commercial banks.

c. To examine the resource mobilization of commercial banks.
d. To examine the profitability position of the commercial banks.

1.4 Significance of the Study

In Nepal many commercials and financial company have opened up within few years of period. Basically, commercial banks have given a new horizon to the financial sector of Nepal. They have achieved tremendous success in terms of market share and profitability due to their prompt service and professionalism.

An organization's financial and operating performance depends upon how well its activities have been managed and how well of its resources are utilized. Moreover, the present study will be more helpful to where the shareholders regarding the financial performance of their banks. This comparative analysis identify the productivity of their funds among others banks. Further the study has multidimensional significance in the particular area of concerned banks which have been undertaken that justify for finding out important points and facts to researcher, shareholders, traders, financial institutions, stock exchange, depositors, borrower, general public, management of bank government and other related stakeholders.

1.5 Limitations of the Study

In the context of Nepal, data problem is major problem for study. There is considerable place arguing about its accuracy and reliability. In this fast changing world, it is difficult to cope with the pace of changing due to arrival of unforeseen difficulties. Every study or research is always accompanied by some natural problems. Similarly, there are so many limitations, which weaken the generalization, e.g. time period and other variables which are as follows.

a. This study is based on the financial reports of the banks for the last five years.

b. Among the various commercial banks the study focused on above mentioned banks.
c. Time factor is major limitation of the study, because this study is completed within a span of time. This is covered the past fiscal year i.e., 2008/09 to 2012/13.
d. The effect of inflation (which is one of the most important factors for analysis of economic activities) has not been taken into consideration for the purpose of study.

1.6 Organization of the Study

This study has been organized in to five chapters. Each chapter deals with the specific aspect to the study of financial performance.

Chapter One	:	Introduction
Chapter Two	:	Review of Literature
Chapter Three	:	Research Methodology
Chapter Four	:	Presentation and Analysis of Data
Chapter Five	:	Summary, Conclusion and Recommendation

Chapter One

First chapter is the introductory chapter which deals with the general background of the study with the subject matter of study. This chapter consist the statement of the problem, focus of the study, objectives of the study, significance of the study, limitation of the study, research methodology and design of the study.

Chapter Two

Second chapter deals with review of the literature mainly include conceptual framework and review of related studies of the commercial banks. It comprises review of books, previous studies, published and unpublished article, policies and other related documents.

Chapter Three

This chapter deals with the methodology adopted to achieve the objectives of the study, research questions. It consists of the research design, population and sample sources of data, data collection method and analyzing tools.

Chapter Four

This chapter deals with presentation and analysis of relevant data and information with a define course of research methodology. This chapter is mainly concerned with analysis of different financial ratios which are related to the financial performance of commercial Banks. Analysis of different ratio and presentation of trend analysis depend up on data.

Chapter Five

Lastly, this chapter includes summary of the whole study, conclusion and recommendation for the improvement in future to the related banks and interested groups.

Bibliography and Appendixes will be incorporated at the end of study.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter highlights available literature that provides the base and inputs for this study. It comprises review of books, previous studies, published and unpublished article, policies and other related documents.

2.1 Conceptual Review

Banks are business organizations that accept and hold deposits from the public, transfer funds on order from their depositors, and use these funds to make loans or purchase securities. Banks earn profit when the interest earned on investments exceeds both the amount of interest paid out to depositors and other business costs. The term 'Bank' once describe only commercial banks, but now saving banks, saving and loan associations, and credit union provide nearly the same services. These institutions differ in some respects, however. For example, savings and loan associations specialize in housing finance, while credit unions focus primarily on customer credit. Still, every legitimate banking institution operates with the character from either the federal government or a stage government and is subject to a substantial numbers of regulations. These regulations include restrictions on lending and other activities.

2.1.1 Financial Performance

Profit is one of the indicators of sound financial performance for any types of business. It is usually the result of strong business management, cost control, financial management, and general efficiency of operation. Profit is essential for an enterprise for its survival and to maintain capital adequacy by profit retention. Profit is vital for any business concern including banks however profit cannot be the sole objective. Social responsibility and welfare is the crucial part of the business. Bank must be rewarded by the adequate interest to the depositors and charged the reasonable cost for investments. Bank is always dedicated for giving the assurance of best service to their beneficiaries.

Liquidity is one of the major elements belongs to banking. It is needed to honor cheques and lending profitable loans when an opportunity arises. Liquidity management requires the high levels of managerial skill. If having only some liquidity, it may be difficult to cash the cheques and will missed the unforeseen opportunities brings by the market. In other hand maintains excess liquidity is hold the capital in ideal and is the loss of income.

Investors more concerned with firms long term financial strength or solvency. While evaluating the financial performance, business conserving with resource mobilization failure to collect enough deposit and exhibit inefficiency of the bank. In this context some of the research works have been examined.

Banks have to collect sufficient resources for meet the demand of various emerging business and industries. The performance of the banks is depends on the proper credit management and sound relationship to the customers and clients. If the banks perform the effectiveness in loan recovery, overdue and defaulting loans minimization, will generate the high margin between interest income and interest expenses. From this it is possible to distribute significant bonus and dividend.

2.1.2 Financial Statement Analysis

The analysis of financial statement is done to obtain a better insight into a firm’s position and performance. Analysis of financial statement is a process of evaluating the relationship between the component parts of the financial statements to obtained better understanding of a firm's position and performance.

In order to make financial statement more meaningful, analysis of financial statement is prepared. Analysis of financial statement means a study of relationship among the various financial factors. It is a process of classifying and arranging mass data of financial statement. For obtaining a better understanding of the position of a business and its performance, classifying and arranging are needed. The objective of this process is to understand the financial position, profitability, operational efficiency and growth potential of the business.

A. Ratio Analysis

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression "and as" the relation between two or more things" (Pandey, 2009).

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a fir. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey, 2009).

Ratio is the expression of one figure in terms of another. It is the expression of the relationship between mutually independent figures. It is a simple mathematical expressions of the relation of one item with another independent figure alone convey no meaning unless they are compared each other. Accounting ratios shows the interrelationship existed among various accounting data.

Ratio refers to the numerical or quantitative relationship between two items or variables. In simple language, ratio is one number expressed in terms of another and can be worked out by dividing a number with other. So to speak, it is calculated by dividing by one item of the relationship with other.

Ratio analysis is the numerical relationship between any two variables of financial statements, which should serve some meaningful purpose. Ratios are expressions of logical relationship between items in the financial statements of a single period. Analysts can compute many ratios from the same setup financial statements. A ratio can show relationship between two items on the same financial statement or between two items on different financial statements (e.g. balance sheet and income statement). The only limiting factor in choosing rations is the requirement that the items used to construct a ratio have a logical relationship to one another.

2.2 Concept of Commercial Bank

Commercial banks are financial intermediaries that channel funds from savers to borrowers in ways that are more attractive and those available to savers and borrowers who deal with each other directly. Banks thus increase the total amount of funds saved and invested. They encourage savings by providing deposit accounts that are available in almost any size and maturity, and with low credit and interest rate risks. They encourage investment by making loans, similarly of almost any size of maturity, and accepting a variety of risk. To lessen the possibility of loses, banks charges more interest on loans then they pay out in deposit interest. This difference is often referred to as the interest rate spread.

Commercial banks are those financial institutions which deal in accepting deposits of person and institutions and extant credit. They provide working capital need of the trade industries and even to agriculture sectors. Moreover commercial bank also provide technical and administrative assistance to the industries, trade and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sector of the economy.

Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loan to business enterprises regardless of the scope its other services. (American Institute of Banking, 2010)

Principally, commercial banks accept deposits and provide loans, primary to business firms, there by facilitating the transfer of funds in the economy.

Commercial banks are the heart of financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services the procedures to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through which monitory policy is affective. These facts show that the commercial banking system of the nation is important to the function of the economy. (Smith, 2006)

A commercial bank is one which exchanges money, deposits money, accepts deposits grants loans and performs commercial banking functions and which is not a bank meant for co-operation, agriculture, industries or for such specific purpose. (Commercial Bank Act, 2031)

2.2.1 Functions of Commercial Banks

The business of banking is board in modern business age. The number and variety of services provided by commercial banks will probably expand. Recent innovations in banking include the introduction of debit - credit cards, accounting services for business firms, e-banking, remittance etc. The major functions of commercial banks are explained in brief are as follows;

a. Creating Money

The major function of commercial banks, which separates it from other financial institution, is the ability to create money which is accomplished by the lending and investing activities. The power of commercial banking system to create money is a great economic significance as it results in the elastic credit system that is necessary for economic progress at a relatively steady rate of growth.

b. Payment Mechanism

Commercial banks make payment by written orders of depositors. Nowadays various payment mechanisms are developed. Bank can pay cash through ATM by using debit/ credit card.

c. Accepting Deposits & Expand Credit

The main and most common function of the commercial banks is accepting deposits from their customers and lending the deposits to their worthy borrower. The deposit pulling the national saving and make capital for investment. The depositors are rewarded by interest in their deposit. The available fund is lending in productive sector so that the entrepreneur, businessman and other related parties are benefited. The performance of the bank is also depends on quality of credit.

d. Facilitating for Foreign Trade

Beside above said the other primary function of commercial banks is providing foreign exchange needed by business organization to pay for foreign trade. Banks also provide different type of guarantee to the business firms and individual. It promoted foreign trade through Letter of Credit (LC) and demand draft.

e. Safekeeping of Values

The safekeeping of values is one of the oldest services provided by commercial banks. The protection of values falls into two areas or department of bank: safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on rental basis that may be useful provides a place for securities, deeds, insurance policies and personal items of value only to the owner. In other hand, safekeeping differs from safe deposit box services in that the bank has custody of the values and acts as an agent for the customer.

f. Remittance

Nowadays the most common function of the commercial bank is remittance. Commercial banks remit money from one place to another through fax transfer, online money transfer, visa card, master card and demand draft.

g. Trust Services

In this competitive situation commercial banks provide all kind of services to their customers. Nowadays bank does financial transaction on behalf of their customers such as bill payment, payment to government bodies, securities.

2.2.2 Commercial Banks in Nepal

Nepal Rastra Bank (NRB) is the central bank in Nepal. NRB formulates policies to control the function carried by the banks NRB has made it mandatory for commercial banks to operate general banking and lending. At present, NRB has introduced some fundamental charges in its interest rate policy. It has allowed the commercial banks to determine interest rate on its deposits as well as credit on the basis of cost and availability of financial resources. This policy framework has introduced and element of competitiveness in the financial sector.

The commercial banks are contributing in the economic development. It is resources and means of economic development and maintains economic confidence of various segments and extends credit to people.

In Nepal "Nepal Bank Limited" was first commercial bank, established in 1994 BS under the Nepal Bank Act 1993. Then after, under the Banijya Bank Act 2021, the government lunched "RastriyaBanijya Bank". It has full investment capital employed by government. Again the government established the third bank "Agriculture Development Bank". This bank is fully owned by government for the purpose of developing agriculture sector and up lift priority sector.

In this present context, the role and importance of the commercial banks loomed larger. In this connection, Nepalese economy has witnessed several changes in the financial system in the last few years so for example financial liberalization. When the government permitted the establishment of foreign banks, three joint venture banks (JVB) that is Nepal Grindlays Bank Limited, Nepal Indosuez Bank Limited and Nepal Arab Bank Limited established by the end of first half of the 1980's. After restoration of democracy, elected government adopted the liberalization and market oriented policy. As a result a number of JVBs increase dramatically via, HBL, NSBL, NBBL, EBL etc. The management of those JVB is mainly held by foreign banks. They are providing modern banking technology, efficient modern services to the country, professional management and trust and prompt services to their customer.

2.3 Review of Books

Financial management is the broadest of three areas, the one with the greatest member of job opportunities, financial management is important in all types of business, including banks and other financial destitutions as well as industrial and retail firms. Financial management is also important in government operation from schools to hospitals to highway department. (Brigham, 2010: 451)

Financial management involves the solutions of three major decisions. Together they determine the value of a company to its shareholders. Assuming that our objectives is to maximize this value, the firm should step for an optimal combination of the three enter related decisions solved joint the decision to invest is a new capital product, for example, necessitates financing the investment. (Van Horne, 2009:115)

The financing decision in tern unbalances and is imbalanced by the divided decision, for retained earnings used in internal financing.

Financial account is concerned with the recording of financial transaction of the business and provides information in financial terms to parties or people wanting information about the state of the business. It is that part of accounting which is employed to communicate the financial information of a business unit. The object of financial accounting is to find out the profitability and to provide information about the financial position of the business concern.

Anybody wishing to start a business would have to decide (1) the nature of long term investment or lines of business, and sorts of buildings, machinery and equipment (2) the long term financing to pay for investment should be financial with owners' equity or debt and (3) managing everyday financial activities such as collecting from customers and paying to suppliers etc. These are simply the most important question. There are other questions as well financial management is basically concerned with the study of the ways to deal with these decisions. (Pradhan, 2009: 2-3)

2.4 Review of Related Article

Reviews of some available related articles are presented in this section. "Monetary Policy and Deposit Mobilization in Nepal" has written that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks are the most active financial intermediary for generating resources in the form of deposits of private sectors. (Bajracharya, 2010)

The measures are part of the banking sector reforms being introduced by the (NRB), central bank sources said. Earlier, the foreign exchange spread rate, which is the difference between buying and selling rates of foreign currencies, had to be one percent, as the directives of the central bank since 1992.

No longer, commercial banks will now exercise greater autonomy in deciding the foreign exchange spread rate on the basis of market competition. Also, the central bank has accorded greater autonomy to the commercial banks. In a major move to enhance autonomy in commercial banks to make them more competitive, the central bank has lifted with effect from today, the foreign exchange spread rate and waved the interest rate spread restriction on to determine the interest rate spread on borrowing.

It has been mandatory until recently to have an interest rate spread between the parties and the commercial banks to be 0.5% on borrowing. Form now, the banks on the basis of market realities will determine this rate.

However, to protect depositor's interest, the bank will have to continue to abide by the central bank directives on interest rate spread on deposit. (NRB, 2011)

Similarly, another article entitled "Lending Operation of Commercial Banks of Nepal and its Impacts on GDP" of Sunity Shrestha, by her study found that there had been positive impacts on GDP by the lending of Commercial banks in various sectors of economy except through services sector investment. (Shrestha, 2010)

In poor country, both types of banks will coalesce & co-exist complementing each other and contributing to the nation's accelerated development along with the domestic banks and the government. They will eventually crow out the domestic's banks from the more profitable urban areas and lucrative urban sectors, unless remedying by the determination of the government.

Prof. M.K. Shrestha in his article "Commercial Banks Comparative Performance Evaluation" conclude that joint venture banks are new operationally more efficient having superior performance. (Shrestha, 2009)

Policy Issues and Development in Nepalese Banking System concludes that the central bank should instead drive for an approach towards indirect monetary control rather than loan on quantitative individual bank coiling. Indirect monetary policy through open market operation i.e. recent Treasury bill auction and opening up of interbank market and targeting broad financial variables like net foreign assets or for that matter Net Domestic Assets should even out small irritants in the banking system. (Rimal, 2010)

“A Comparative Performance Study”, concluded that deposit growth of commercial banks was not consistent, low growth in local banks than JVBS. The mobilization of rural saving was better in case of local banks, credit expansion was decreased in local banks than JVBS, credit deposit ratio was better in JVBS. Nonperforming loan was greater in local banks and profitability was greater in JVBS. Local banks were forced to open and continue their branches at the rural areas. Therefore, the competition among the local and JVBS was not healthy. (Bajracharya, 2010)

2.5 Review of Unpublished Thesis

Shakya (2005) in his thesis report “Financial Analysis of Joint Venture Banks in Nepal” with special reference to NABIL, and NGBL, had made an attempt to analyze financial health of NABIL and NGBL. This study main objectives are as follows:

1. To analyze the liquidity and profitability position of sample banks.
2. To examine the more risky position in term of capital structure position of sample banks.
3. To examine the relationship between deposit and loan & advance of sample commercial banks.

The findings of this study were:

1. NGBL’s liquidity and profitability position was comparatively better than that of NABIL.
2. The capital structure position of NGBL was more risky than that of NABIL in average.

3. There existed highly positive correlation between total deposits, loans and advances of both NABIL and NGBL.
4. NABIL's capital adequacy position was more satisfactory than that of NGBL in average, but Nail's position was deterioration each year.

Kandel (2010) in his thesis entitled "Financial Performance of Nepalese Commercial Banks" his study objectives are,

a. To examine the financial performance of relative commercial banks.
b. To evaluate financial performance in terms of statistical and financial tools then examine financial performance of relative commercial banks.
c. To find out the trend analysis of total deposit, loan and advance, total income and expenses, net profit

The major findings are:

All four banks except HBL have their mean value of cash and bank balance in respect of total deposit is more than 10%, which is satisfactory level. Going through the mean value, all banks have sufficient cash and bank balance to meet their current deposit. HBL is C.V. is less than others, it shows higher consistency on its cash and bank balance. NBL and NIBL have higher portion of saving deposit whereas BOK and HBL has moderate but the NSBL has lower portion of saving deposit in relation with total deposit.

Jha(2011)**,** mainly focuses on comparative analysis of financial performance of commercial banks. The sample size only three banks which are NIBL, NGBL and HBL. Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc. have been used for analysis.

Main objectives of the study are:

1. To analysis the loan providing system.
2. Profitability analysis the selected banks.
3. To analysis the earning capacity in average.

The research findings and recommendation of the study are as follows:

1. General loan loss provision to total loan in case of Nabil has the highest among NIBL, NGBL and HBL.
2. NGBL has been investing most of its deposits in foreign investments.
3. NGBL has the highest EPS and cash dividend per share in average.
4. Nail's other operating income is appeared higher than other banks.

Shakya (2012)**,** focus on "Financial analysis of joint venture banks and the sample size only two banks which are NABIL and HBL". Researcher used different type of statistical tools i.e. mean, standard deviation, correlation, regression analysis etc have been used for analysis.

Main objectives of the study are:

1. Analysis the cash and bank balance to total deposit ratio.
2. Liquidity position of sample banks.
3. To analysis the Loans and advances to total deposits ratio.

The research findings and recommendation of the study are as follows:

1. The cash and bank balance to total deposit ratio of NABIL Bank Limited is in fluctuating trend whereas the same ratio of HBL is in decreasing trend.

2. HBL's liquidity position is comparatively better than that of NABIL Bank Limited.

3. Loans and advances to total deposits ratio is in fluctuating trend in case of Nabil bank and the same for HBL is firstly in increasing trend then following the declining trend.

Limbu (2012)entitled his dissertation; “Liquidity Management of Everest Bank Limited” highlighted that aggregate performance and condition of Everest bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

The main objectives of the research study are as follow.

1. To evaluate various financial ratio & liquidity position of the EBL.
2. To analyze the portfolio of lending of selected sector of banks
3. To determine the impact of deposit in liquidity and its effect on lending practices.
4. To offer suitable suggestions based on findings of this study.

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses’ higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of EBL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

Lamichhane (2012) in his thesis entitled "Financial Performance Evaluation of Nepalese Commercial Banks" shows following objectives:

1. To analyze the financial strength and weakness of commercial banks.
2. To examine financial performance of concerned banks.
3. To examine the resource mobilization of commercial banks.
4. To examine the liquidity, profitability and capital structure position of the banks.

The major findings are:

i. NIBL and SCBNL have higher portion of saving deposit where as NBL and HBL has moderate but the NSBL has lower portion of saving deposit in relation with total deposit.
ii. SCBNL has lower portion of fixed deposit to its total deposit, where NSBL has more fixed deposit to its total deposit and rest three banks have moderate rate of fixed deposit to their total deposit.

iii. HBL and NBL have higher portion of current deposit to their total deposit, where as NIBL and NSBL have moderate and the SCBNL have lower portion of current deposit in relation with total deposit.
iv. SCBNL have utilized 54% of their deposit in investment, where HBL, NBL and NSBL have only range of 30% to 35%. Only 21% of total deposit of NIBL is utilized in investment.
v. All banks have high range of debt capital i.e. more than 90% of total assets. NSBL have high value of C.V. which shows more fluctuating and aggressive position of the bank.
vi. NSBL have more interest expenses in respect of their interest income (i,e more than 50%), whereas HBL, NBL and NSBL have moderate interest expenses and SCBNL have lower interest expenses in respect of interest income.
vii. Total Deposit trend values are increasing trend in all banks over the projection and study period.
viii. Net Profit trend values are increasing trend in all banks over the projection and study period.

2.6 Research Gap

There were so many researches who conducted their research on different headings. Previous researcher researched on different headings like: Financial Performance, liquidity management, lending policy of different commercial bank and development bank. However, I didn't found previous research made on comparative analysis of financial performance analysis of Nepal SBI Bank Limited and Standard Charter Bank Nepal Limited. Researcher tries to analyze the relationship between sample banks in different variables and to evaluate the financial performance with using latest data from FY 2008/09 to 2012/13.

CHAPTER THREE

RESEARCH METHODOLOGY

Research Methodology is the way to solve systematically about the research problem. Research is essentially a systematic inquiry seeking facts through objectives verifiable method in order to discover the relationship among them and to deduce from them broad principal. The research methodology refers to the various sequential steps to be adopted by researcher in studying of problem with certain objective in view. Research methodology should be paid due attention and concentration to reach right and relevant conclusions. Thus, the term research refers to a critical, careful and exhaustive investigation or enquiry or examination or experimentation having as its aim the revision of accepted conclusion, in the light of newly discovered facts.

3.1 Research Design

Research design is planned structure and strategy of investigation conceived to obtain answer to research objective through analysis of data. The first step of the study is to collect necessary information and data concerning the study. Therefore, research design means the definite procedure and technique, which guides the study and propounds ways or doing research. In this way a descriptive and analytical survey was done. The justification for the choice of these methods is preferred because it includes reliable data and information covering a long time and avoids means complex variables.

The research has its basic objective to evaluate the financial performance of commercial banks and provide them some recommendation. The literature has been reviewed specially from the post thesis conducted and the same aspects of the commercial Banks. The data for the research are of secondary types.

3.2 Population and Sample

There are 30 commercial banks operating in the country. In this study only two banks are taken as samples namely: Nepal SBI Bank Limited and Standard Chartered Bank Nepal Limited through judgmental sampling method.

3.2.1 General Introduction of Sample Bank

In this study, two commercial banks are analyzed as a sample of thirty commercial banks which are operated in Nepal.

a) Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Ltd. (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public. Authorized capital of NSBL is Rs. 2,000,000,000.00. It's issued and paid up capital is Rs. 1,661,602,896 and Rs. 1,653,623,877 respectively. Earning per share and cash dividend per share of this bank is Rs. 23.69 and Rs. 5.00 respectively at the end of the financial year 2011/12.

b) Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited (SCBNL) 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. Authorized capital of SCBNL is Rs. 2,000,000,000. It's issued and paid up capital is Rs.1,398,483,600 each. Earning per share and cash dividend per share of this bank is Rs. 77.65 and Rs. 55.00 respectively at the end of the financial year 2011/12.

3.3 Sources of Data

The data presented in the study are secondary type. The annual reports of the concerned banks are the major sources of the data for the study. However, besides the annual reports of the subjected banks the following source of data shall also be used in the respective corner of the study.

1. NRB reports
2. Various publications dealing in the subject matter of the study
3. Various articles published in the News papers

Besides the above, any kind of other sources such as assertions, interviews, remarked by the specialist of those are capable improvising valuable data and conclusion, shall be considered in the study.

3.4 Data Collection Procedure:

Beside the above stated sources of data, a detailed review of literature has been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Centre Library and internet. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then only, results are concludes and interpretation are made.

3.5 Data Processing and Analysis

The collected data obtained from secondary sources, are not in desirable structure to analysis rather than the collected from the primary sources. So first of all, data will be separated as relevant and irrelevant then all relevant data have been compelled and processed in appropriate forms. All the obtained data were used to analysis. The data were described by presenting in the line of theoretical basis with using different tools and technique of financial analysis. Similarly, the collected data are presented and arranged in tabular forms, percentage, ratio, statistical tools and accounting tools.

3.6 Tools Used

Data collected from various sources are managed, analysis and presented in proper as well as systematic tables and formats. Such table and formats are explained and interpreted as necessary. The analysis of data is done with the help of financial and statistical tools.

3.6.1 Financial Tools

Keeping in mind to fulfill the objectives of the present study, some selected financial tools are applied to analysis the relevant data. Ratio is the one of the most common and main indicator to evaluate financial performance. Thus the following ratio is used to evaluate financial performance.

1. Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short-term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 2009).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance.

To find-out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identity the liquidity position.

A. Current Ratio

Current ratio shows the relationship between current assets and current liabilities. It indicates the banks short term solvency. It is calculated dividing the current assets by current liabilities. Thus;

$$Current\ Ratio = \frac{Current\ \ Assets}{Current\ \ Liabilitie\ s}$$

Current assets are those assets, which are cash or can be converted into cash within a year. It includes cash and bank balance, money at call or short notice, loan and advances, investment in government securities, bills purchased and discounted etc. Similarly current liabilities are those obligation, which are payable within a year. It includes deposit, short term loan and borrowing, bills payable, provision for tax and staff bonus, and dividend payable etc.

B. Cash and Bank Balance to Total Deposit Ratio:

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash and bank balance" by deposit. This ratio can be calculated using the following formula:

$$Cash\ and\ Bank\ Balance\ to\ Total\ Deposit\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposits}$$

C. Cash and Bank Balance to Current Deposits Ratio:

This ratio computed to disclose the soundness of the financial company to pay total calls made of current deposits. It can be expressed as:

$$Cash\ and\ Bank\ Balance\ to\ Current\ Deposits\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ Deposits}$$

D. Saving Deposit to Total Deposit

Saving deposit is the short term liabilities with fixed interest charges. This ratio is calculated to find out the proportion of saving deposit with respect of total deposits. Higher the ratio shows lower the liquidity position of the bank and vice-versa. The following formula can be used to calculate this ratio;

$$Saving\ Deposit\ to\ Total\ Deposit\ Ratio = \frac{Saving\ Deposit}{Total\ Deposit}$$

E. Fixed Deposit to Total Deposit

Fixed deposit is the high interest bearing long term liabilities. The ratio shows that the portion of fixed deposit in total deposit. The ratio is can be obtained by following formula;

$$Fixed\ Deposit\ to\ Total\ Deposit\ Ratio = \frac{Fixed\ Deposit}{Total\ Deposit}$$

F. Current Deposit to Total Deposit

Current deposit is non-interest bearing deposit hence it is cost free. It has risk that the depositor can withdraw the deposit at any time; it might be creating the problem of liquidity. The ratio shows that the portion of current deposit in total deposit. The ratio is can be obtained by following formula;

$$Current\ Deposit\ to\ Total\ Deposit\ Ratio = \frac{Current\ Deposit}{Total\ Deposit}$$

2. Activity/Efficiency Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency of the bank management and utilizations of their available resources. These ratios are also called turnover ratio. They indicate the assets management which are being commented or turnover into incomes. The following ratios are calculated under the activity ratio.

A. Loan and Advances to Total Deposit Ratio

This ratio indicates which banks are successful to mobilize the outsider's funds. It is calculated to see percentage of total deposit invested in loan and advancers. The ratio is calculated by using the following formula;

$$Loan\ and\ Advances\ to\ Total\ Deposit\ Ratio = \frac{Loan\ and\ Advance}{Total\ Deposit}$$

Greater the ratio implies the better utilization of outsider's fund (Total Deposit). A high ratio of loan and advances is considered to be the sign of efficient bank and better mobilization of collected funds and vice-versa.

B. Loan and Advances to Fixed Deposit Ratio

Fixed deposits are the long-term interest bearing obligations and loan and advances are the major sources or investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, whereas the former on includes all the deposits. The following formula is used to obtain this ratio:

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Fixed Deposit}}$$

Here, the denominator includes all assets of balance sheets items. In other words, this includes current assets, net fixed assets, other investment in share, debenture, bond etc. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

C. Total Investment to Total Deposit Ratio

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the formula;

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

The numerator consists of investment on government securities, investment on debenture and bonds, shares of others. A high ratio indicates that the bank's efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

3. Leverage Ratio

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which creates financial leverage (Brealy, R. & Myers, S. 2010). These ratios are also called solvency ratios or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm leverage ratios are calculated. This ratio highlights the long-term financial position of the firm leverage ratios are calculated. This ratio highlights the long term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios:

A. Total Debt to Net-Worth Ratio

This ratio is calculated to find out the proportion of the outsider's fund and owner's fund to finance for the total assets. It is also called proportion of outsider's claim and insider's claim on total assets of the bank. Generally, very high ratio is unfavorable to the business because the debt gives third partied legal claims on the company, these claims are for interest payment at regular intervals, plus repayment of the principal by the agreed time. On the other hand, very low ratio is also unfavorable from the shareholder's point of view. They want this ratio to be high so that they can have better returns with smaller capital. It is calculated as follows:

$$Total\ Debt\ to\ Net\text{-}worth\ Ratio = \frac{Total\ Debt}{Net\ Worth}$$

B. Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

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

C. Total Assets to Net worth Ratio

It shows the portion of total assets occupied by the net worth. In other word, total contribution of the shareholder's equity to total assets. It is computed as:

$$Total\ Assets\ to\ Net\ worth\ Ratio = \frac{Total\ \ Assets}{Net\ Worth}$$

4. Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. This ratio measures how efficiently the company manages its fund to earn profit. This ratio is regarded as the most essential element for the banks growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm’s profit. It is regarded as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company to be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio betters the financial performance of the bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a) Net Profit to Total Assets Ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks ion utilizing its overall resources. This is found by using the following formula:

$$Net\ Profit\ to\ Total\ Assets = \frac{Net\,Profit}{Total\ Assets} \times 100$$

The numerator indicates the position of income left to the interval equities after all coasts, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicates that high profit margin and high turnover assets and vice-versa.

b) Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the formula;

$$\textit{Total Interest Expenses to Total Interest Income Ratio} = \frac{\textit{Total Interest Expenses}}{\textit{Total Intrest Income}} \times 100$$

The numerator consists of total interest expenses on total deposits, borrowing and other deposits, while denominator consist the total interest income from all loan and advances. A high ratio indicates high interest expenses on total interest income.

c) Net Profit to Total Deposits (Return on Total Deposits)

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of deposit. It is calculated by the formula;

$$\textit{Net Profit to Total Deposit Ratio} = \frac{\textit{Net Profit}}{\textit{Total Deposit}} \times 100$$

Here net profit means profit after interest and taxes and total deposits means those total amount deposited in various accounts i.e. current, saving, fixed, call and short term deposits and others. Generally, higher indicates better utilization of total deposits and vice-versa.

d) Return on Net Worth Ratio

This ratio shows the capacity of the bank to utilize its owner’s fund. It helps to judge whether the company has earned satisfactory return for its shareholder or not. Higher ratio represents the sound management and efficient mobilization of owner equity. It is calculated by the formula;

$$Return\ on\ Net\ Worth = \frac{Net\ Profit}{Net\ Worth} \times 100$$

Here, net worth focuses not only the paid up capital but also include general reserves, capital reserves, ordinary share, preference share, premium on share and other surplus and reserve which may distribute among shareholders as dividend.

e) Interest Earned to Total Assets Ratio

This ratio shows the percentage of interest earned in relation to total assets of the bank. It signifies the mobilization of the bank assets in interest generating purpose.

Higher ratio signifies better efficiency in utilizing the resource in interest generating sector. It is calculated by using following formula;

$$Interest\ Earned\ to\ Total\ Assets\ Ratio = \frac{Total\ Intrest\ Income}{Total\ Assets} \times 100$$

The numerator comprises total interest income from loans and advances, cash credit and overdrafts, government securities, inter bank and other investment. A high ratio is an indicator of high earning power, better performance of the banks on its total working fund and vice-versa.

f) Return on Investment Ratio

This ratio measures the percentage of return on total investment. It is calculated by following formula;

$$Return\ on\ Investment = \frac{Net\ Profit}{Total\ Investment} \times 100$$

The numerator consists of investment on government securities, investment on debenture and bonds, share in other companies and other investment. A high ratio indicates bank’s efficiency is more beneficial on its investment.

3.6.2 Statistical Tools

The relationship between different variables related to study topic would be drawn out using statistical tools. The tools to be used are as follows,

I. Arithmetic Mean ($\bar{X}$):

Average is statistical constants, which enable us to comprehend in a single effort of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{\sum X}{N}$$

Where,

$\overline{X}$ = Arithmetic Mean

N = Numbers of observation

$\sum x$ = Sum of observation

II. StandardDeviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. It is used as absolute measure of dispersion or variability. It is calculated as:

$$\pm = \sqrt{\frac{\sum (X - \overline{X})^2}{N - 1}}$$

Where,

σ = Standard Deviation

III. Coefficient of Variation (C.V.)

The co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage it is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the other and vice versa. It is calculated as:

$$C.V = \frac{\pm}{\overline{X}} \times 100$$

Where,

σ = Standard deviation

$\overline{X}$ = Mean

IV. CorrelationCoefficient (r)

Correlation Coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used to describe the degree to which one variable in the linearly related to other variables. It refers the closeness of the relationship between two or more variable. In other words, it is an analysis of covariance between two or more variables.

It is the statistical measure of the relationship. If any, between series of numbers representing data of any kind, from returns to test scores. If two series move in opposite direction, they are positively correlated; if the series move in opposite direction, they are negatively correlated.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively correlated series. Symbolically, correlation coefficient can be expressed as follows:

Correlation Coefficient (Simply, r) = $\dfrac{n\sum xy - \sum x \sum y}{\sqrt{\left[\left\{n\sum x^2 - \left(\sum x\right)^2\right\}\left\{n\sum y^2 - \left(\sum y\right)^2\right\}\right]}}$

Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

i. A positive or negative relationship exists.

ii. The relationship is significant on insignificant.

iii. Establish cause and effect relation if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.

2. When, r = -1, then is perfect negative correlation.

3. When, r = 0, then is no correlation.

4. When, 'r' lies between 0.7 to 0.999 (-0.7 to -0.999), then is high degree of positive (or negative) correlation.

5. When, 'r' lies between 0.5 to 0.6999 there is moderate degree of correlation.

6. When, 'r' is less than 0.5, there is low degree of correlation.

V. Probable Error (P.E.)

The probable error of the Coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e. the value of ‘r’ is significant.

VI. Trend Analysis

Trend analysis or Time series analysis enables us to forecast the future behavior of the variables under study, changes in the values of different variables and past behavior of a variable. In the data related to time span, there are three components of time series like secular trend or long term fluctuation, short term or periodic variations and random or irregular fluctuation, in this study, time series of loan disbursement and collection are shown in the figures. The experts to deal with variants, which changes, in value with time are, used time series. Variations of such quantities are analyzed by presenting on the graphs.

$Y = a + bx$

The above trend equation can be calculated using following two normal equations:

$\sum Y = na + b\sum X$……………………… (i)

$\sum XY = a \sum X + b\sum X^2$……………........... (ii)

Where,

Y = Variable

X = Time span

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter is the heart of the study. It includes the analysis and interpretation of data as stated in research methodology. To find out the strength and weakness of the commercial banks in terms of their financial performance various ratios, variables and their statistical value have been calculated in this chapter. It is related to the quantitative analysis of various financial and statistical tools to study & analyze the financial management of the commercial banks.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed. Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. SCBNL and NSBL. Some important financial ratios are only calculated in the point of view of financial performance analysis. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposit, withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A) Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of banks to meet the current liquidity.

Table 4.1

Current Ratio

(Rs. in Millions & Ratio in times)

FY	SCBNL			NSBL		
	CA	CL	Ratio	CA	CL	Ratio
2008/09	3613.99	2283.10	1.58	1817.00	1555.72	1.17
2009/10	1827.70	1880.02	0.97	2152.80	1878.99	1.15
2010/11	2219.85	1780.09	1.25	1886.81	1513.06	1.25
2011/12	3233.23	2261.48	1.43	2748.39	1921.31	1.43
2012/13	3402.39	2479.98	1.37	2615.68	1979.84	1.32
Mean	2859.43	2136.93	1.32	2244.13	1769.78	1.26
SD	786.99	294.91	0.23	421.54	218.37	0.12
CV	27.52	13.80	17.36	18.78	12.34	9.24

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The current ratio of SCBNL and NSBL are in fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short-term obligations. For FY 2008/09 SCBNL standard ratio is 1.58 and in FY 2011/12 NSBL standard ratio is 1.43. In an average, liquidity position of SCBNL is greater than NSBL i.e. 1.32>1.26 due to high mean ratio. So, SCBNL is sound in meeting short-term obligation than NSBL. Likewise, S.D. and C.V. of NSBL is less than SCBNL i.e. 0.12 < 0.23 and 17.36>9.24. It can be said that credit ratio of NSBL is more consistent than SCBNL. Lastly from the above analysis it is known that all these two banks have weak liquidity position because the standard ratio is 2:1.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits.

Table 4.2

Cash & Bank Balance to Total Deposit Ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	CBB	TD	Ratio	CBB	TD	Ratio
2008/09	3137.3	35871.8	8.75	1910.9	27957.2	6.84
2009/10	1929.3	35182.7	5.48	3549.5	37896.3	9.37
2010/11	2975.8	37999.2	7.83	4877.5	42415.4	11.5
2011/12	6366.1	35965.6	17.7	5508.4	53337.1	10.33
2012/13	6404.1	39466.45	16.23	7713.4	58290.46	13.23
Mean	4162.52	36897.15	11.20	4711.94	43979.29	10.25
SD	2081.29	1780.05	5.42	2171.84	12129.86	2.39
CV	50.00	4.82	48.42	46.09	27.58	23.32

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table no. 4.2 revels that the cash and bank balance to total deposit ratio of SCBNL and NSBL are in fluctuating trend. The highest ratio of SCBNL is 17.70 percent in FY 2011/12 and lowest is 5.48 percent in FY 2009/10. Similarly, the highest ratio of NSBL is 13.23 percent in FY 2012/13 and lower in 6.48 percent in FY 2008/09.

The mean ratio of SCBNL and NSBL are 11.20 percent and 10.25 percent respectively. NSBL has lower ratio than the SCBNL, which shows its lower ability to pay depositor's money as they want. Similarly, the coefficient of variation of SCBNL is 48.42 times and NSBL is 23.32 times. S.D. of SCBNL is higher than the NSBL. C.V. of NSBL is lower than C.V. of SCBNL, so NSBL is more consistent than SCBNL.

The above analysis has to conclude that the cash and bank balance position of SCBNL with respect to NSBL is better in order to serve its customer’s deposits. It implies the better liquidity position of SCBNL from the viewpoint of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank’s ability to invest its fund income generating areas. Thus SCBNL should invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

Cash and bank balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis. Following the states the cash and bank balance to current assets SCBNL and NSBL during the study period.

Table 4.3
Cash & Bank Balance to Current Asset Ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	CBB	CA	Ratio	CBB	CA	Ratio
2008/09	3137.3	3613.99	86.81	1910.9	1817.00	105.17
2009/10	1929.3	1827.70	105.56	3549.5	2152.80	164.88
2010/11	2975.8	2219.85	134.05	4877.5	1886.81	258.51
2011/12	6366.1	3233.23	196.90	5508.4	2748.39	200.42
2012/13	6404.1	3402.39	188.22	7713.4	2615.68	294.89
Mean	4162.52	2859.43	142.31	4711.94	2244.13	204.77
SD	1861.56	703.91	43.79	1942.56	377.04	67.14
CV	44.72	24.62	30.77	41.23	16.80	32.79

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table reveals that cash and bank balance to current assets ratio of SCBNL is fluctuating trend and NSBL is also in fluctuating trend. The higher ratio of SCBNL is 196.90 percent and lower is 86.81 percent likewise the higher ratio of NSBL is 294.89 percent and lower ratio is 105.17 percent. The mean ratio of SCBNL and NSBL is 142.31percent and 204.77 percent respectively. The lower mean ratio shows SCBNL'S liquidity position is poor than that of NSBL. Moreover the S.D. of SCBNL is lower than NSBL and CV is higher than SCBNL. The higher C.V. of NSBL indicates that it has more inconsistency in the ratios in comparison to SCBNL

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank’s current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table 4.4
Investment on Government Securities to Current Assets Ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	Inv. GS.	CA	Ratio	Inv. GS.	CA	Ratio
2008/09	9998.8	3613.99	276.67	3306.6	1817.00	181.98
2009/10	8531.5	1827.70	466.79	3720.6	2152.80	172.83
2010/11	9957.3	2219.85	448.56	5574.8	1886.81	295.46
2011/12	7862.7	3233.23	243.18	4560.7	2748.39	165.94
2012/13	4830.9	3402.39	141.99	3665.2	2615.68	140.12
Mean	8236.24	2859.43	315.44	4165.58	2244.13	191.27
SD	1891.65	703.91	124.45	815.87	377.04	53.93
CV	22.97	24.62	39.45	19.59	16.80	28.19

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The table 4.4 shows investment on government securities to current assets ratio of SCBNL and NSBL. Both Banks has fluctuating type ratios. The table shows the highest ratio of SCBNL is 466.79 percent in FY 2009/10 and lowest is 141.99 percent in FY 2012/13. In the same way, the highest ratio of NSBL is 295.46 percent in FY 2010/11 and lowest is 140.12 percent in FY 2012/13. The mean ratio of SCBNL is 315.44 percent, which is higher than the mean ratio of NSBL 191.27 percent. It means SCBNL has invested more money in risk free assets than that of NSBL.

In another words NSBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, NSBL should divert its investment in govt. securities. Similarly, S.D. is 124.45 and 53.93 and C.V is 39.45 and 28.19 of SCBNL and NSBL respectively. The higher C.V. of SCBNL shows the more inconsistency in the ratios with compare to NSBL.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy its customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

Table 4.5

Loan and Advance to Total Deposit Ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	L&A	TD	Ratio	L&A	TD	Ratio
2008/09	13118.6	35871.8	36.57	15465.2	27957.2	55.32
2009/10	15932.2	35182.7	45.28	17887.2	37896.3	47.20
2010/11	17698.2	37999.2	46.58	21657.1	42415.4	51.06
2011/12	18376	35965.6	51.09	26403.8	53337.1	49.50
2012/13	22828.84	39466.45	57.84	28788.15	58290.46	49.39
Mean	17590.77	36897.15	47.47	22040.29	43979.29	50.49
SD	3564.29	1780.05	7.83	5594.65	12129.86	3.03
CV	20.26	4.82	16.49	25.38	27.58	5.99

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table shows that the loan & advances to total deposit ratio of SCBNL is fluctuating trends but NSBL is fluctuating trend. The mean ratio of SCBNL and NSBL are 47.47 percent and 50.49 percent respectively. So, NSBL has higher ratio than that of SCBNL. It reveals that the deposit of NSBL is quickly converted in to loan and advances to earn income. The bank will be able to better mobilization of collected deposit if there is above 70 percent to 80 percent of loan and advances to total deposit according to NRB. Both banks have not met the NRB requirement or it has not utilized its deposit to provide loan properly.

The S.D. and C.V of SCBNL is 7.83, 16.49 similarly NSBL has 3.03 and 5.99 respectively.

B) Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of SCBNL and NSBL are calculated and presentation below.

Table 4.6

Investment to Total Deposit Ratio *(Rs. in Millions & Ratio in %)*

FY	SCBNL			NSBL		
	Investment	TD	Ratio	Investment	TD	Ratio
2008/09	10007.3	35871.8	27.90	3306.6	27957.2	11.83
2009/10	8540	35182.7	24.27	4313.3	37896.3	11.38
2010/11	9965.8	37999.2	26.23	5574.8	42415.4	13.14
2011/12	7871.2	35965.6	21.89	4560.7	53337.1	8.55
2012/13	12753.5	39466.45	32.31	25906.1	58290.46	44.44
Mean	9827.56	36897.15	26.52	8732.30	43979.29	17.87
SD	1877.34	1780.05	3.94	9634.28	12129.86	14.95
CV	19.10	4.82	14.86	110.33	27.58	83.66

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table shows that investment to total deposit ratio of SCBNL and NSBL. Both banks have fluctuating trend investment to total deposit ratio. Higher ratio of SCBNL is 32.31 percent in FY 2012/13 and lowest ratio is 21.89 percent in FY 2011/12 in the same way the highest ratio of NSBL 44.44 percent in FY 2012/13 and lowest ratio is 8.55 percent in FY 2011/12. Investment volume of NSBL is lower than that of SCBNL because more funds of SCBNL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean ratio of SCBNL and NSBL are 26.52 percent and 17.87 percent respectively. So, SCBNL has higher ratio. It signifies SCBNL has successfully allocated its deposit in investment portfolio to get higher investment return. It also implies that NSBL has lower investment opportunities. The S.D and C.V. of SCBNL is 3.94 and 14.86 and NSBL has 14.95 and 83.66 respectively.

C) Loan & Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of SCBNL and NSBL as follows.

Table 4.7

Loan & Advances to Total Assets Ratio *(Rs. in Millions & Ratio in %)*

FY	SCBNL			NSBL		
	L&A	TA	Ratio	L&A	TA	Ratio
2008/09	13118.6	41678.8	31.48	15465.2	31989.8	48.34
2009/10	15932.2	41525.2	38.37	27957.2	39381.3	70.99
2010/11	17698.2	45227.2	39.13	21657.1	47129.9	45.95
2011/12	37999.2	42970.8	88.43	26403.8	59196.8	44.60
2012/13	35965.6	45631.1	78.82	28788.2	64796.2	44.43
Mean	24142.76	43406.62	55.24	24054.29	48498.80	50.86
SD	11855.99	1935.06	26.30	5538.08	13579.42	11.36
CV	49.11	4.46	47.60	23.02	28.00	22.33

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above table shows the loan & advances to total assets ratio of SCBNL and NSBL are in fluctuating trend during the study period. While observing their ratios, NSBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year in comparison of SCBNL.

The highest ratio of SCBNL is 88.43 percent in FY 2011/12 and lowest ratio of SCBNL is 31.48 percent in FY 2008/09. Similarly, the highest ratio of NSBL is 70.99 percent in FY 2009/10 and lowest ratio of NSBL is 44.43 percent in FY 2012/13.

The mean of SCBNL and NSBL are 55.24 percent and 50.86 percent respectively. So, NSBL has lower ratio than that of SCBNL. It reveals that in total assets, SCBNL has high proportion of loan and advances. SCBNL has utilized its total assets more efficiently in the form of loan & advances. The lower C.V. of NSBL states that it has uniformity in these ratios throughout the study period than that of SCBNL. S.D. of SCBNL and NSBL have 26.30 and 11.36 respectively.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table 4.8

Investment on Government Securities to Total Assets ratio

(Rs. in Millions & Ratio in %)

FY	SCBNL			NSBL		
	Inv. GS	**TA**	**Ratio**	**Inv. GS**	**TA**	**Ratio**
2008/09	9998.8	41678.8	23.99	3306.6	31989.8	10.34
2009/10	8531.5	41525.2	20.55	3720.6	39381.3	9.45
2010/11	9957.3	45227.2	22.02	5574.8	47129.9	11.83
2011/12	7862.7	42970.8	18.30	4560.7	59196.8	7.70
2012/13	4830.9	45631.1	10.59	3665.2	64796.2	5.66
Mean	**8236.24**	**43406.62**	**19.09**	**4165.58**	**48498.80**	**8.99**
SD	**2114.93**	**1935.06**	**5.19**	**912.18**	**13579.42**	**2.39**
CV	**25.68**	**4.46**	**27.18**	**21.90**	**28.00**	**26.57**

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

Above table shows that the investment on government security to total assets of SCBNL and NSBL are in fluctuating trend. The highest ratio of SCBNL is 23.99 percent in 2008/09 and NSBL is 11.83 percent in 2010/11 and the lowest ratio of SCBNL and NSBL are 10.59 percent in 2012/13 and 5.66 percent in 2012/13 respectively. From the table we notice that mean ratio of SCBNL and NSBL are 19.09 percent and 8.99 percent respectively. SCBNL has higher ratio in every year and mean too. It means SCBNL has invested more money in risk free assets than that of NSBL.

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

A) Return on Loan & advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

Table 4.9

Return on Loan and Advance *(Rs. in Millions & Ratio in %)*

FY	SCBNL			NSBL		
	NP	**L&A**	**Ratio**	**NP**	**L&A**	**Ratio**
2008/09	1025.11	13118.6	7.81	316.37	15465.2	2.05
2009/10	1085.87	15932.2	6.82	391.74	17887.2	2.19
2010/11	1119.17	17698.2	6.32	464.56	21657.1	2.15
2011/12	1168.97	18376	6.36	480.1	26403.8	1.82
2012/13	1217.94	22828.84	5.34	771.47	28788.15	2.68
Mean	**1123.41**	**17590.77**	**6.53**	**484.85**	**22040.29**	**2.18**
SD	**74.33**	**3564.29**	**0.90**	**172.95**	**5594.65**	**0.32**
CV	**6.62**	**20.26**	**13.76**	**35.67**	**25.38**	**14.53**

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

Above table shows that return on loan and advances ratio of SCBNL is in fluctuating trend and NSBL is also fluctuating trend. The highest ratio of SCBNL is 7.81 percent in the year 2008/09 and lowest ratio 5.34 percent in year 2012/13. The mean ratio is 6.53 percent. Whereas highest ratio of NSBL is 2.68 percent in year 2012/13 and lowest ratio is 1.82 percent in 2011/12. The mean ratio is 2.18 percent. SCBNL bank shows the good earning capacity in loan and advances whereas NSBL show poor earning capacity in form of loan and advances. The C.V. of SCBNL is lower than NSBL.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table 4.10

Return on Total Assets Ratio *(Rs. in Millions & Ratio in %)*

FY	SCBNL			NSBL		
	NP	**TA**	**Ratio**	**NP**	**TA**	**Ratio**
2008/09	1025.11	41678.8	2.46	316.37	31989.8	0.99
2009/10	1085.87	41525.2	2.61	391.74	39381.3	0.99
2010/11	1119.17	45227.2	2.47	464.56	47129.9	0.99
2011/12	1168.97	42970.8	2.72	480.1	59196.8	0.81
2012/13	1217.94	45631.1	2.67	771.47	64796.2	1.19
Mean	**1123.41**	**43406.62**	**2.59**	**484.85**	**48498.80**	**0.99**
SD	**74.33**	**1935.06**	**0.12**	**172.95**	**13579.42**	**0.13**
CV	**6.62**	**4.46**	**4.50**	**35.67**	**28.00**	**13.52**

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

Above table shows the return on total assets of SCBNL and NSBL. However, SCBNL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.59 percent of total assets in an average which is higher than that of NSBL (i.e. 2.59>0.99). SCBNL has also higher ratio in each year. Where as, S.D. and C.V. of SCBNL and NSBL are 0.12, 4.50 and 0.13 and 13.52 respectively. Higher, C.V of NSBL shows that it has relatively low inconsistencies in the ratios.

C) Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of SCBNL and NSBL during the study period.

Table 4.11
Return on Equity Ratio *(Rs. in Millions & Ratio in %)*

FY	SCBNL			NSBL		
	NP	**SHE**	**Ratio**	**NP**	**SHE**	**Ratio**
2008/09	1025.11	2305.6	44.46	316.37	1404.3	22.53
2009/10	1085.87	2833.3	38.33	391.74	2131.6	18.38
2010/11	1119.17	3130.6	35.75	464.56	2448.3	18.97
2011/12	1168.97	3418.6	34.19	480.1	2811.8	17.07
2012/13	1217.94	4617.58	26.38	771.47	3798.75	20.31
Mean	**1123.41**	**3261.14**	**35.82**	**484.85**	**2518.95**	**19.45**
SD	**74.33**	**862.82**	**6.57**	**172.95**	**883.34**	**2.08**
CV	**6.62**	**26.46**	**18.35**	**35.67**	**35.07**	**10.67**

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

The above listed table shows return on equity ratio of SCBNL and NSBL. Above calculated statistic indicate that SCBNL have decreasing trend and NSBL have fluctuating trend. SCBNL has higher ratios in each year and it has also higher mean ratio (i.e. 35.82>19.45). Despite stiff competition and an adverse macroeconomic environment, SCBNL is currently generating higher ROE in comparison with NSBL. In brief, it signifies that the shareholders of SCBNL are getting higher return but in case of NSBL, they are getting lesser. It can be concluded that SCBNL has better utilized the equity for the profit generation. It proves to be a good strength of SCBNL in attracting future investment also while NSBL shows its weakness regarding efficient utilization of its owner's equity in comparison with SCBNL. NSBL has homogeneous return in each year. It is the strength point of NSBL. SCBNL has relatively less inconsistency throughout the study period due to it'shigher C.V.

D) Interest Earned to Total Assets Ratio

Interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of SCBNL and NSBL.

Table 4.12
Total Interest Earned to Total Assets Ratio

(Rs. in Millions & Ratio %)

FY	SCBNL			NSBL		
	Interest Earned	TA	Ratio	Interest Earned	TA	Ratio
2008/09	1887.22	41678.8	4.53	1460.45	31989.8	4.57
2009/10	2042.11	41525.2	4.92	2269.7	39381.3	5.76
2010/11	2718.7	45227.2	6.01	3104.23	47129.9	6.59
2011/12	2870.97	42970.8	6.68	3769.48	59196.8	6.37
2012/13	2535.36	45631.1	5.56	4110.51	64796.15	6.34
Mean	**2410.87**	**43406.62**	**5.54**	**2942.87**	**48498.79**	**5.93**
SD	**427.83**	**1935.06**	**0.86**	**1086.67**	**13579.40**	**0.82**
CV	**17.75**	**4.46**	**15.47**	**36.93**	**28.00**	**13.82**

Source: Annual Report of Concerned Bank FY 2008/09 to 2012/13

This table shows that the total interest earned to total assets ratio of both banks are fluctuating trend. The mean ratio of SCBNL is 5.54 percent, and NSBL is 5.93 percent. The C.V. of SCBNL is higher than the C.V. of NSBL which shows that SCBNL is more inconsistence than that of NSBL.

4.2 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, co-relation analysis, trend analysis etc. There is used following convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan & advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan & advances and net profit SCBNL and NSBL using Karl Persons coefficient of correlation, value of coefficient of determination (r^2), probable error (P.E.) and (6 P.E.) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit & Loan & Advances

Deposit have played very important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables.

In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objectives of computing "r" between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

Table 4.13

Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criterions			
	r	**r^2**	**PE**	**6 PE**
SCBNL	0.625	0.3900	0.1840	1.1040
NSBL	0.968	0.9363	0.0192	0.1153

From the above table, it is found that coefficient of correlation between deposits and loan & advances of SCBNL and NSBL is 0.625 and 0.968. It show that NSBL have the highly positive relationship between these two variables and SCBNL have moderate positive relationship between these two variables. Moreover, the coefficient of determination of SCBNL is 0.39. Similarly, value of coefficient of determination of NSBL is 0.936. It refers that 93.6 percent variance in loan & advances are affected by total deposit. The correlation coefficient of NSBL is significant because the correlation coefficient is greater than the relative value of 6PE and SCBNL is insignificant because the correlation coefficient is lower than the relative value of 6PE.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y). The following Table No. 4.30 shows the coefficient correlation between deposits and total investments i.e. r, P.E., 6 P.E. and coefficient of determination (r^2) of SCBNL and NSBL during the study period.

Table 4.14

Correlation between Deposit and Total Investment

Name of Banks	**Evaluation Criterions**			
	r	**r^2**	**P.E.**	**6 P.E.**
SCBNL	0.562	0.3163	0.2062	1.2374
NSBL	0.777	0.6041	0.1194	0.7165

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of SCBNL is 0.562. It shows the moderate degree positive correlation. In addition, coefficient of determination of SCBNL is 0.3163. It means only 31.63 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than value of 6PE. It refers that there is insignificant relationship between total deposit and total investment of SCBNL. Similarly, there is positive coefficient between total deposit and total investment of NSBL, which is indicator by correlation coefficient of 0.777. The value of coefficient of determination is found 0.6041, this refers that 60.4 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6PE. It refers that there is significant relationship between total deposit and total investment of NSBL.

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of SCBNL and NSBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the r, r^2, P.E. and 6 P. E. between those variables of SCBNL and NSBL for the study period.

Table 4.15

Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criterions			
	r	**r^2**	**P.E.**	**6 P.E.**
SCBNL	0.814	0.6628	0.1245	0.6874
NSBL	0.952	0.9069	0.0281	0.1686

Above table shows correlation coefficient between, Loan and advance and net profit is 0.814 of SCBNL. It refers that there is highly positive correlation between these two variables. Here, 66.28 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.6628 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6PE. Likewise NSBL also high degree positive correlation i.e. 0.952 between Loan and advance and net profit. The coefficient of determination r^2 is 0.9069, which indicates that 90.69 percent variability in net profit is explained by Loan and advance. Moreover, high correlation coefficient than 6PE. Show that the relationship between Loan and advance and net profit is significant for NSBL. In conclusion, SCBNL has more significant relationship between Loan and advance and net profit than that of NSBL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following table shows the coefficient of correlation coefficient of determination, probable error and six times of P.E. during the fiscal year 2008/09 to 2012/13.

Table 4.16

Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criterions			
	r	r^2	P.E.	6 P.E.
SCBNL	0.154	0.687	0.2457	1.4742
NSBL	0.900	0.8094	0.0575	0.3450

Above table shows correlation coefficient between total investment and net profit of SCBNL is 0.154 which implies there is low degree correlation between total investment and net profit. In addition, coefficient of determination of SCBNL is 0.687. This correlation is insignificant at all due to coefficient of correlation is lower than 6PE on the other hand NSBL has positive correlation between total investment and net profit i.e. 0.90. The coefficient of determination of NSBL is 0.8094. It means 80.94 percent of profit is contributed by total investment but this relationship is significant as its correlation coefficient is higher than 6PE. i.e. 0.3450.

Thus it can be concluded that the degree of relationship between total investment and net profit of SCBNL is poor than the NSBL. This correlation coefficient indicates that the NSBL has higher performed in order to generate net profit through investment.

4.2.2 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

A) Trend Analysis of Total Deposit

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of SCBNL and NSBL for further five year.

Y= a + bx

Where as

Yc = 34952.64 + 1457.08 X of SCBNL

Yc = 35064.28 + 9370.16 X of NSBL

Table 4.17

Trend Line of Total Deposit *(Rs. in Millions)*

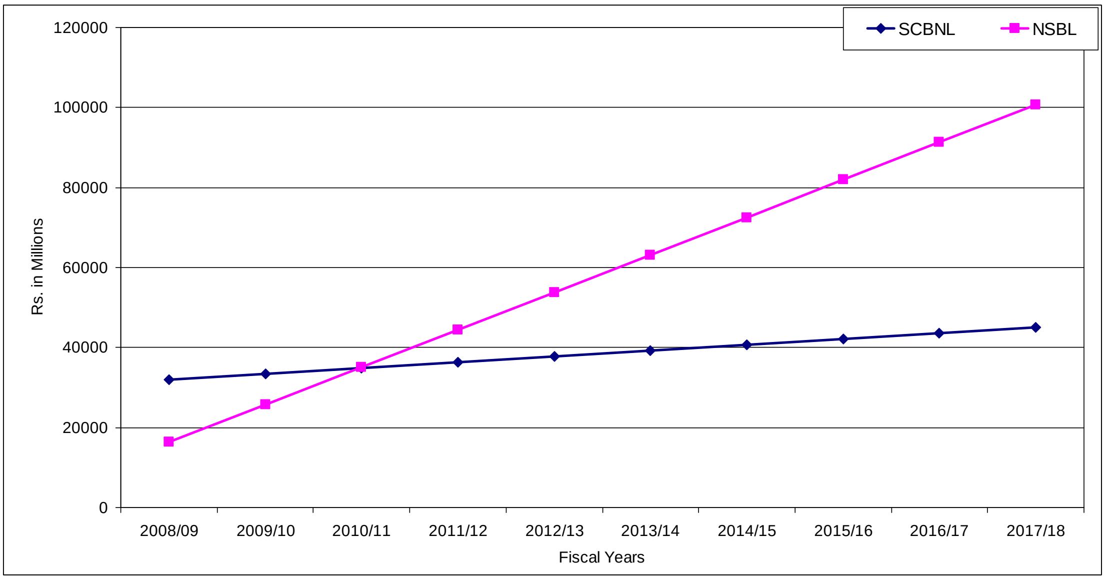
Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	35871.8	32038.48	27957.2	16323.96
2009/10	35182.7	33495.56	37896.3	25694.12
2010/11	37999.2	34952.64	42415.4	35064.28
2011/12	35965.6	36409.72	53337.1	44434.44
2012/13	39466.5	37866.80	58290.5	53804.60
2013/14		39323.88		63174.76
2014/15		40780.96		72544.92
2015/16		42238.04		81915.08
2016/17		43695.12		91285.24
2017/18		45152.20		100655.40

Source: Appendix I

Above table and below figure shows that total deposit of SCBNL and NSBL. Both banks is in increasing trend. The rate of increment of total deposit for NSBL seems to be higher than that of SCBNL. The increasing trend of total deposit of NSBL is more aggressive and high rather than SCBNL. It indicates NSBL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year FY 2013/14 to FY 2017/18. From the above trend analysis it is clear that NSBL has higher position in collecting deposit than SCBNL.

Figure 4.1

Trend Line of Total Deposit between SCBNL and NSBL



Source: Table No. 4.17

B) Trend Analysis of Loan & advances

Here, the trend values of loan & advances Between SCBNL and NSBL have been calculated for further five year. The following table shows the actual and trend values of SCBNL and NSBL.

Y= a + bx

Where as

Yc = 15696.0 + 1462.16 X of SCBNL

Yc= 18797.64 + 3384.97 X of NSBL

Table 4.18

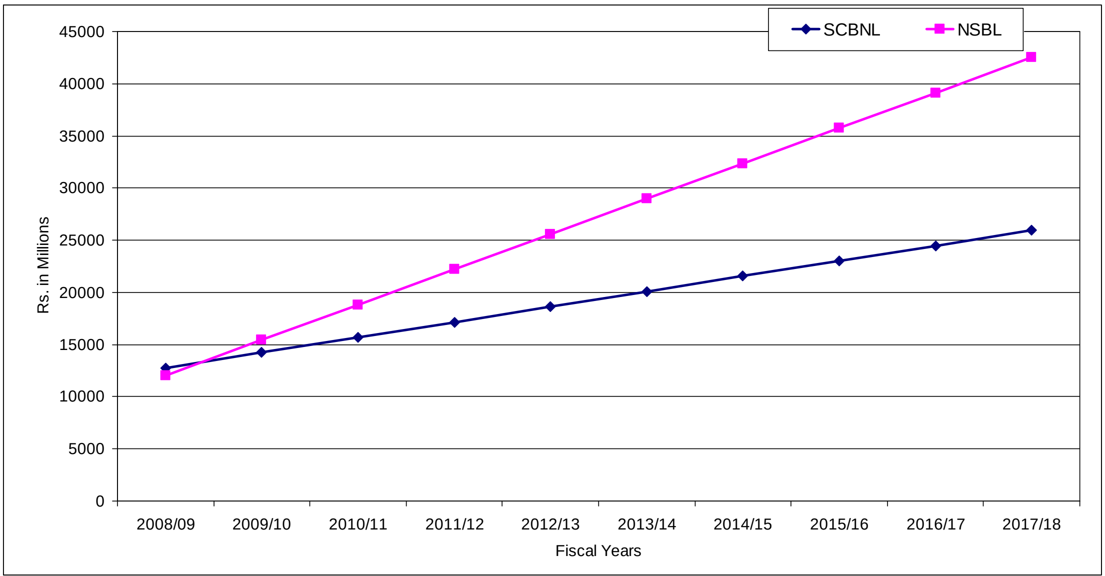
Trend Line of Total Loan and Advance *(Rs. in Millions)*

Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	13118.6	12771.68	15465.2	12027.70
2009/10	15932.2	14233.84	17887.2	15412.67
2010/11	17698.2	15696.00	21657.1	18797.64
2011/12	18376.0	17158.16	26403.8	22182.61
2012/13	22828.84	18620.32	28788.15	25567.58
2013/14		20082.48		28952.55
2014/15		21544.64		32337.52
2015/16		23006.80		35722.49
2016/17		24468.96		39107.46
2017/18		25931.12		42492.43

Source: Appendix II

Figure 4.2

Trend Line of Total Loan and Advance of SCBNL and NSBL



Source: Table No. 4.18

Above table depicts that loan & advances of SCBNL and NSBL. Both Banks has in increasing trend. The increasing trend of SCBNL is lower than NSBL. The actual value of loan & advances for SCBNL is quite fluctuating in relation to NSBL. The trend projected for further five year FY 2013/14 to FY 2017/18. From the above analysis, it is clear that both SCBNL and NSBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the NSBL has highly mobilizing loan & advances than the SCBNL.

C) Trend Analysis of Investment

Under this topic, an attempt has been made to analyze trend analysis investment of SCBNL and NSBL for further five years.

Y= a + bx

Where as

Yc = 8906.08 + (59.13) X of SCBNL

Yc = 4169.80 + 520.24 X of NSBL

Table 4.19

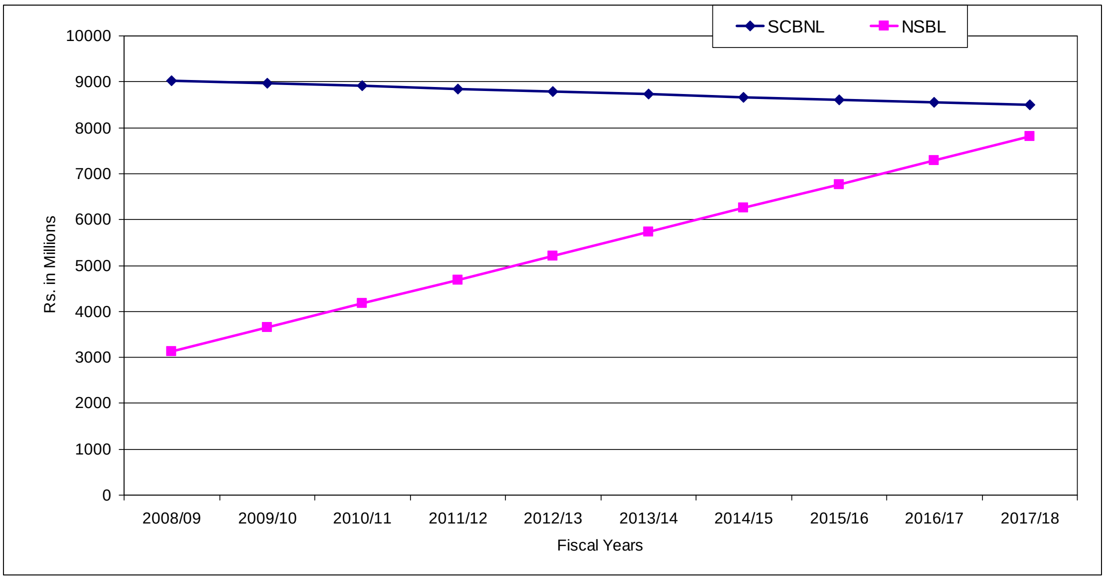
Trend Line of Investment *(Rs. in Millions)*

Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	10007.3	9024.34	3306.6	3129.32
2009/10	8540.0	8965.21	4313.3	3649.56
2010/11	9965.8	8906.08	5574.8	4169.80
2011/12	7871.2	8846.95	4560.7	4690.04
2012/13	12753.5	8787.82	25906.1	5210.28
2013/14		8728.69		5730.52
2014/15		8669.56		6250.76
2015/16		8610.43		6771.00
2016/17		8551.30		7291.24
2017/18		8492.17		7811.48

Source: Appendix III

Figure 4.3

Trend Line of Total Investment between SCBNL and NSBL



Source: Table No. 4.19

Above table shows the trend of investment between SCBNL and NSBL. NSBL have increasing trend in making investment and SCBNL have decreasing trend. NSBL has high and upward trend of increasing, but SCBNL has decreasing trend of investment. The trend of investment projected to FY 2017/18. The forecasted trend projected that the NSBL has greater increment rate in investment than the increment rate of SCBNL. The figure indicates NSBL has highly mobilized the total investment rather than SCBNL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of SCBNL and NSBL have been calculated for five years FY 2008/09 to FY 2012/13 and forecasting for the next five year till FY 2017/18.

Y= a + bx

Where as

Yc = 1143.61 + 179.42 X SCBNL

Yc= 380.11 + 61.29 X NSBL

Table 4.20

Trend Analysis of Net Profit *(Rs. in Millions)*

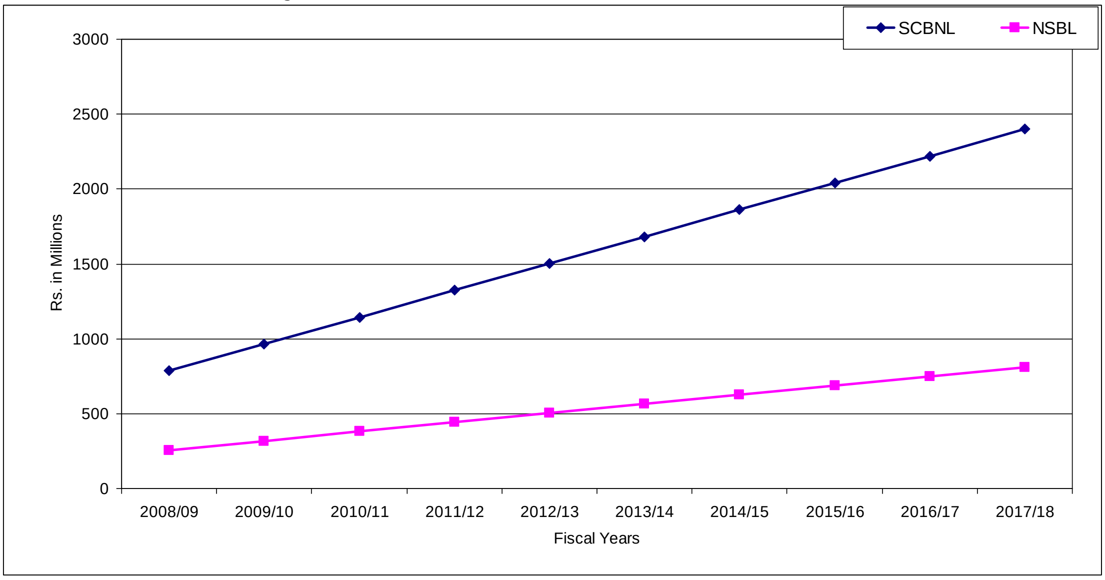
Year(x)	SCBNL		NSBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2008/09	1025.11	784.78	316.37	257.54
2009/10	1085.87	964.19	391.74	318.82
2010/11	1119.17	1143.61	464.56	380.11
2011/12	1168.97	1323.02	480.1	441.39
2012/13	1217.94	1502.44	771.47	502.68
2013/14		1681.86		563.96
2014/15		1861.27		625.25
2015/16		2040.69		686.53
2016/17		2220.10		747.82
2017/18		2399.52		809.10

Source: Appendix IV

The above table reveals the trend of net profit of SCBNL and NSBL. Net profit both banks forecasted in increasing trend. The trend of increasing value of net profit of SCBNL is higher and aggressive than NSBL. The net profit of SCBNL and NSBL has been increasing every year by Rs.179.42 million and Rs. 61.29 million respectively. The trend of Net profit projected to FY 2017/18 i.e. further five year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, SCBNL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of SCBNL is high than the NSBL.

Figure 4.4

Trend Analysis of Net Profit between SCBNL and NSBL



Source: Table No. 4.20

4.3 Major Findings

From the above research study, following findings are drawn on the financial performance of the selected commercial banks. Generally banks have to maintain more deposits but the current ratios of all banks are below the standard of 2:1.

i. The mean current ratio of SCBNL is 1.32 and NSBL is 1.26, the current ratio of SCBNL is little higher than NSBL. It is indicate better liquidity position of SCBNL.

ii. Cash and bank balance to total deposit ratio of SCBNL has higher than NSBL i.e. 11.20 percent > 10.25 percent which indicates that the bank has higher liquidity of SCBNL as compare to NSBL. A high ratio of cash and bank balance may be undesirable which indicates to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.

iii. Cash and bank balance to current assets ratio of SCBNL is lower than NSBL i.e. 204.77>142.31 Regarding the analysis, it can be said that NSBL has a better ability to meet daily cash requirements of their customers but it should be noted that NSBL has excess cash due to the low investment opportunities.

iv. Investment on government securities to current assets of SCBNL has higher than NSBL. It shows SCBNL has invested more fund in government securities. NSBL has invested little portion in government securities. Its suggest NSBL to increase investment in purchasing of government securities.

v. The loan & advances to total deposit ratio of SCBNL is lower than NSBL. It indicates the better mobilization of deposit by NSBL. So, NSBL has more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.

vi. The total investment to total deposit of SCBNL is higher than NSBL. It shows the SCBNL is mobilizing its funds on investment in various securities efficiently. It can be said that SCBNL is more successful in utilizing its total deposit by investing in marketable securities.

vii. The loan & advances to total assets ratio of SCBNL is greater than NSBL i.e. 55.24%>50.86%. It refers SCBNL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.

viii. Investment on government securities to total assets ratio of SCBNL is higher than NSBL i.e. 19.09%>8.99%. This indicates that SCBNL has invested more portions of total assets on government securities. It means SCBNL has invested more money in risk free assets than that of NSBL.

ix. Return on loan & advances ratio of SCBNL is higher than that of NSBL i.e. 6.53%>2.18%. It can be concluded that SCBNL bank has utilized the loan and advance for the profit generation purpose in proper way.

x. Return on total assets ratio of SCBNL is higher than NSBL. However, SCBNL seems successful in managing and utilizing the available assets in order to generate revenue.

xi. Return on equity of SCBNL is higher than NSBL i.e. 35.82%>19.45% which shows that SCBNL is more successful to earn high profit through the efficient utilization of its equity capital.

xii. Total interest earned to total assets ratio of NSBL is relatively little higher than that of SCBNL i.e. 5.93 percent > 5.54 percent and also has higher variability in the ratio. It indicates that NSBL has efficiently used its total assets to earn higher interest income in comparison to SCBNL. SCBNL seems less conscious about managing its assets in order to earn more interest ratio.

xiii. Both SCBNL and NSBL have positive co-relation between total deposit and loan & advances because SCBNL and NSBL have 0.625 and 0.968 of co-relation coefficient between deposit and loan & advances. These relationship SCBNL has insignificant and NSBL has significant.

xiv. Both SCBNL and NSBL have positive co-relation between total deposit and Total Investment because SCBNL and NSBL have 0.562 and 0.777 of co-relation coefficient between deposit and loan & advances. These relationship SCBNL has insignificant and NSBL has significant.

xv. There is positive correlation between Loan and advance and net profit. Correlation between Loan and advance and net profit of

SCBNL is 0.814 and NSBL is 0.952. SCBNL has little low degree of positive correlation. The relationship between Loan and advance and net profit of SCBNL & NSBL has significant due to more than 6 P.E.

xvi. The degree of relationship between total investment and net profit of SCBNL is poor than NSBL i.e. correlation coefficient between total investment and net profit of SCBNL and NSBL is 0.154 and 0.90 respectively. It refers that NSBL is comparatively successful to generate net profit due to positive correlation.

xvii. SCBNL and NSBL have increasing trend in collecting deposit the rate of increment of total deposit for SCBNL seems to be lower than that of NSBL. Here NSBL has better position in collecting deposit than SCBNL.

xviii. The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for NSBL seems high growing than SCBNL. It refers that NSBL is more aggressive in mobilizing its loan and advance.

xix. The total investment trend line of NSBL is upward slopping and SCBNL is downward slopping. Whereas NSBL has aggressive upward slopping of total investment trend line. It refers that NSBL has better increasing trend of total investment.

xx. The trend line of Net profit for SCBNL and NSBL is upward slopping But SCBNL has aggressively and NSBL has smoothly. The position of SCBNL is better in order to generate profit than NSBL.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about financial management of Standard Chartered Bank Nepal Limited and Nepal SBI Bank Limited. The main objective of the study is to analyze the financial management of SCBNL and NSBL. The specific objectives of the study are: To examine the liquidity, profitability position of the banks. To analyze the relationship between total deposit, loan & advance and net profit of sample commercial banks. To examine the trend of total deposit, loan & advance and net profit of sample commercial banks. The significance of the study proper management of deposit for the growth and development of this sector, by considering the return is required. In today's competitive scenario, several macro economic factors such as political, economical, social and technological factors have increased the challenges to the banking sector.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concerned bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists various ratio likes current ratio, liquidity ratio, assets management ratio, profitability ratio and risk ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation and trend analysis have been applied to fulfill the objective of this study.

In the context of current competitive scenario, banks need to face challenges from all around. For this purpose, descriptive cum analytical research design was adopted. Out of total population of 30 commercial banks (till April, 2014), 2 banks were taken as sample using judgmental sampling method. SCBNL and NSBL have been taken for comparative study because of their similarities in terms of business size, date of establishment, capital size etc.

5.2 Conclusions

The mean current ratio of SCBNL is better liquidity position of NSBL and cash and bank balance to total deposit ratio of NSBL has higher than SCBNL. A high ratio of cash and bank balance may be undesirable which indicates to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. NSBL has invested little portion in government securities. Its suggest NSBL to increase investment in purchasing of government securities.

The loan & advances to total deposit ratio of SCBNL is lower than NSBL. It indicates the better mobilization of deposit by NSBL. So, NSBL has more efficiently utilizing the outsiders’ funds in extending credit for profit generating sectors. Both SCBNL and NSBL have positive co-relation between total deposit and loan & advances. These relationships are insignificant of SCBNL and significant of NSBL. There is positive correlation between total deposit and investment of SCBNL and NSBL. Where as SCBNL has low degree of positive co-relation than NSBL. The trend line of deposit for both banks is upward slopping. It refers that both the banks are increasing in deposit collection but NSBL have aggressive increasing trend than that SCBNL. The trend line of net profit for SCBNL and NSBL is upward slopping but SCBNL has aggressively and NSBL has smoothly. The position of SCBNL is better in order to generate profit than NSBL.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the financial management of SCBNL and NSBL effective and efficient. This would help to draw some outline and make reforms in the respective banks.

1. Generally, banks have to maintained liquid assets. The current ratio of the two banks, SCBNL and NSBL is considerable. This can be regarded as good liquidity position. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to SCBNL and NSBL.

2. Government securities such as treasury bills, development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that

both banks, SCBNL and NSBL have made some amount of fund in Government securities. But SCBNL and NSBL are recommended to invest more funds in government securities instead of keeping them idle.

3. To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. Both banks have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.
4. Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
5. Keeping all these in consideration, the SCBNL has less performance than that of NSBL. SCBNL seems lower creditworthiness than NSBL. Therefore, in the future ahead, the SCBNL should improve its weaknesses by adopting the innovative approach to recover their bad loans. In the light of growing competition in the banking sector both bank should be customer oriented. It should strengthen and activate its lending and recovery function as it is an effective tool to attract and retain the customers.
6. For this purpose, it is recommended to form a strong credit recovery department in its central level, which deals with the default credit customers and take necessary action to recover their non performing loan.

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Appendix I

Trend analysis of Total Deposit of SCBNL and NSBL

(Rs. in Millions)

Year(x)	SCBNL	NSBL
2008/09	35871.8	27957.2
2009/10	35182.7	37896.3
2010/11	37999.2	42415.4
2011/12	35965.6	53337.1
2012/13	39466.5	58290.5

Let trend line be

Y = a + b x……………………. (I)

Where x = X - 2010/11

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL	**NSBL**
a =34952.64	a = 35064.28
b = 1457.08	b = 9370.16

Where as

Yc = 34952.64 + 1457.08 X of SCBNL

Yc = 35064.28 + 9370.16 X of NSBL

Appendix II

Trend line of Total Loan and Advance of SCBNL and NSBL

(Rs. in Millions)

Year(x)	SCBNL	NSBL
2008/09	13118.6	15465.2
2009/10	15932.2	17887.2
2010/11	17698.2	21657.1
2011/12	18376.0	26403.8
2012/13	22828.84	28788.15

Let trend line be

Y = a + bx……………………. (I)

Where x = X - 2010/11

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL	**NSBL**
a = 15696.0	a = 18797.64
b = 1462.16	b = 3384.97

Where as

Yc = 15696.0 + 1462.16 X of SCBNL

Yc= 18797.64 + 3384.97 X of NSBL

Appendix III
Trend Line of Total Investment between SCBNL and NSBL

(Rs. in Millions)

Year(x)	**SCBNL**	**NSBL**
2008/09	10007.3	3306.6
2009/10	8540.0	4313.3
2010/11	9965.8	5574.8
2011/12	7871.2	4560.7
2012/13	12753.5	25906.1

Let trend line be

Y = a + bx ……………………. (I)

Where x = X - 2010/11

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL	**NSBL**
a = 8906.08 b = -59.13	a = 4169.80 b = 520.24

Where as

Yc = 8906.08 + (59.13) X of SCBNL

Yc = 4169.80 + 520.24 X of NSBL

Appendix IV

Trend Analysis of Net Profit between SCBNL and NSBL

(Rs. in Millions)

Year(x)	SCBNL	NSBL
2008/09	1025.11	316.37
2009/10	1085.87	391.74
2010/11	1119.17	464.56
2011/12	1168.97	480.1
2012/13	1217.94	771.47

Let trend line be

Y = a + bx ……………………. (I)

Where x = X - 2010/11

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

SCBNL	**NSBL**
a = 1143.61	a = 380.11
b = 179.42	b = 61.29

Where as

Yc = 1143.61 + 179.42 X SCBNL

Yc= 380.11 + 61.29 X NSBL