

**Working Capital and Liquidity Management of Bank
of Kahtmandu Ltd. (BOKL)**

**A Thesis Submitted to
Office of the Dean
Faculty of Management
Tribhuvan University**

**In Partial Fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S.)**

By:

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VIVA-VOCE SHEET

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"Working Capital and Liquidity Management of Bank of Kahtmandu Ltd. (BOKL)" is found to be the original work of the student and written according to the prescribed format. We recommend this thesis to be accepted as partial fulfillment of the requirement for Master Degree of Business Studies (M.B.S.)

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I here by declare that the work reported in this thesis entitled "Working Capital and Liquidity Management of Bank of Kahtmandu Ltd. (BOKL)" submitted to Tribhuwan Multiple Campus Tansen, Faculty of Management, Tribhuwan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree of Business Studies (M.B.S.) under the supervision of Mr. **Ganesh Khanal** reader, Tribhuwan Multiple Campus, Tansen Palpa.

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ABBREVIATIONS

A/C	:	Account
BOKL	:	Bank of Kathmandu Limited
B.S.	:	Bikram Sambat
B/S	:	Balance Sheet
C&B	:	Cash and Bank
C.A.	:	Current Assets
C/D Ratio	:	Credit to Deposit Ratio
C.L	:	Current Liabilities
C.R.	:	Current Ratio
C.R.R.	:	Cash Reserve Ratio
C.V.	:	Coefficient of Variation
e.g.	:	Example
F/Y	:	Fiscal Year
GS	:	Government Securities
i.e.	:	That is
LA	:	Loan and Advance
MBS	:	Master of Business Studies
MCA	:	Misc. Current Assets
NRB	:	Nepal Rastra Bank
NSE	:	Nepal Stock Exchange
P.E.	:	Probable Error
P/L	:	Profit and Loss
QA	:	Quick Assets
Rs.	:	Rupees
SLR	:	Statutory Liquidity Ratio
SMS	:	Short Message Service
S.N.	:	Serial Number
T.A.	:	Total Assets
T.U.	:	Tribhuvan University
W/C	:	Working Capital

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is an ancient country. In the past, the barter system was prevailing everywhere in the country, even now in the remote areas the system is still in practice. Nepal does not have its own long history of development of financial institution. In a century of Rana regime, some ideas of economic development have generated but very few of them have implemented because of their autocratic nature any way some offices like, Tejarath Adda and Mulukhi Khana was established to improve economic activities as well as attract deposits and grand loans. However, it was not sufficient for the economic development due to lacking of experienced work force and new technology. As the time passed by their some increasing economic activities was seemed in the country which led to the establishment of first commercial bank in Nepal i.e., Nepal Bank Limited.

Nepal Bank Limited was established in kartik 30, 1994 B.S as a semi government organization. In Baisakh 14, 2013 B.S the first central bank, named as the Nepal Rastra Bank was established with an objective of supervising, protecting and directing the function of commercial banking activities. Consequently, another commercial bank fully owned by the government, named as Rastriya Banijya Bank was established in 2022 B.S under the Banijya Bank Act.2021 B.S

Financial institutions, financial markets and other financial intermediaries are the vital elements of financial system of an economy. Among them, financial institution e.g. bank highly activate the pace of economic growth of any country as stimuli through saving mobilization and resource allocation. In general, a bank in as institution, which deals with the transaction of money? They perform several financial, monetary and economic activities that are essential to accelerate the ratio of economic growth of the country. They bridge between depositors or surplus spending units. Those, who have deficiency of money and are willing to use it in productive sectors,

Commercial banks are the heart of the financial system. They hold the deposits of individuals, government institutions and business entities. They make funds available through their lending and investing activities. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. Financial institution in the economy plays a crucial role in the process of economic growth of the country, which primarily deals in borrowing and lending. Bank is a vital part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

1.2 Working capital management

Working capital management involves the relationship between a firm's Short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt upcoming operational expenses. The management of working capital involves managing inventories, account receivable, account payable, cash etc.

Working capital management is a process of short-term decision making regarding the current assets and liabilities affecting the long-term operation of an organization. It is a process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. It includes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall in due of the firm.

1.3 Liquidity Management

Liquidity is the ability of an institution to transform its assets into cash or its equivalent in a timely manner at a reasonable price to meet its commitments as they fall due. Liquidity risk has considered a major risk for banks. It arises when the cushion provided by the liquid assets are not sufficient to meet its obligation. In such a situation banks often meet their liquidity requirements from market. Funding through market depends upon liquidity in the market and borrowing bank's liquidity.

Liquidity risk has been describing as the risk of a funding crisis. Plan for growth and unexpected expansion of credit can be the main sources of such funding crisis. Banks with large off-balance sheet exposures or the banks, which rely heavily on large corporate deposit, have relatively high level of liquidity risk. Further, the banks experiencing a rapid growth in assets should have major concern for liquidity. An effective liquidity management includes systems to identify measure, monitor and control its liquidity exposures. Management should be able to accurately identify and quantify the primary sources of a bank's liquidity risk in a timely manner. To properly identifying the sources, management should understand both existing as well as future risk that the bank has exposed. Management should always be alert for new sources of liquidity risk at both the transaction and portfolio levels. Key elements of an effective risk management process include an efficient MIS, systems to measure, monitor and control existing as well as future liquidity risks and reporting them to senior management.

1.3.1 Meaning of Banks

“A Commercial bank is one which, exchange money, deposits money, accepts deposits, grants loan etc.” (*Nepal commercial Bank Act 2031 B.S.*)

Banking system: The establishment of a group of a financial institution, which foster a flow of credit, and money that will facilitate orderly economic growth. Early banking systems served mainly as depository for funds. While the more modern systems have considered the supplying of credit their main purpose. A system of banks now serves three main functions:

1. It lends money
2. It accepts money on deposits and
3. It creates and lends it own credit.

(*The Mac Grew Hill Book Dictionary of Modern Economic*” (1985)

Bank deal with money by accepting various type of deposits disbursing loans and investing in productive sectors and rendering other financial services as the primary function. Banks are channels between saving surplus and saving deficit, thus they are the bridge to utilize scatter fund to productive sectors. Hence, they represent

a vital role in the transmission of government economic policies (especially monetary policies) to the economy.

1.3.2 Bank of Kathmandu Ltd

Bank of Kathmandu Ltd. (BOKL) is a culmination of a comprehensive vision of the promoters to take the Nepalese economy to a newer realign in the global market. Each promoters of Bank of Kathmandu has successfully demonstrated leadership skill, business acumen and entrepreneurial wants his/her respective field. Bank of Kathmandu came into operation in March 1995, under the commercial bank act 2031 with the following predominant objectives.

- a. Identify business prospects not at catered by then existing commercial banks and offer new banking products and services.
- b. Introduce modern banking technology facilitating bank and business operations and transactions.

Bank of Kathmandu has been providing anywhere banking facilities, from which customer can deposit and withdraw from any of nineteen branches including head office. Bank has lunched customer-oriented service such as hire purchase, educational loan, housing loan, vehicle loan, festivity loan, foreign employment loan scheme etc. bank of Kathmandu. It has launched the mobile banking service through SMS. With the aim of providing, banking services at the customer fingertips. Bok is starting internet Banking and alert service. BOK is starting internal banking and alert service very soon.

Table No. 1.1
Capital Structure of Bank of Kathmandu

Authorized Capital	Rs.2,00,00,00,000.00
Paid Up Capital	Rs.1359480700.00
Issued Capital	Rs.1359480700.00
Shareholding Pattern	
Other Institutions	7.57%
General Public	92.43%

Source: Annual Report of BOKL

Independent and Self-Governing board, involving a pool of endowed and farsighted directors, each directors of the board has been recognized and well acclaimed for his/her contribution in the development and growth of Bank of Kathmandu. In the present economic scenario, the bank has to complete with other existing and new commercial bank of Nepal. It is already established itself as an innovative bank that introduces new modern technology in the banking industry. In short, BOKL has made significant contribution to support the country's economic system and development effort.

Statement of the Problem

Bank of Kathmandu (BOKL) is a financial institution. This bank is playing very important role in the economic development of the country. Wrong decision of working capital management of this bank not only affect the liquidity and profitability of the bank but also economic condition of the country.

The management of working capital is synonymous to the management of short-term liquidity. It has been regarded as one of the conditioning factor in the decision making issues. It is no doubt. Very difficult to point out as to how much working capital needed by a particular business organization. An organization, which is not willing take more financial risks can go for more short-term liquidity. The more of short-term liquidity means more of current assets and lee of current liabilities. The less current liabilities implies less short-term financing heading to the lower returns. So it is very essential analyze and find out problems and its solution to make efficient use of funds for minimizing the risk to attain profit objective.

Working capital management has been regarded as one of the conditioning factor in the decision making issue. The management of working capital is synonymous to the management of short- term liquidity. Working capital has regarded as the lifeblood and nerve of a business concern and it is essential to accommodate the smooth operations of working capital. otherwise no one entities can achieve its primary objectives, therefore maintaining optimal level of working capital is the curse of the problem as it is strongly related to the tradeoff between risk and return. However, it is difficult to point out as to how much working capital needed by a particular business organization.

Working capital management of banks is more difficult than that of manufacturing and non-manufacturing business organization. Commercial banks are great monetary institutions, which are playing important role to general welfare of the economy. The responsibility of commercial banks is more than any other financial institutions. They must be ready to pay on demand without warning or notice, a good share of their liabilities. Banks collect funds from different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face the problem for utilizing more deposit as investment fully and productively. The gap between collection of deposits and disbursement of loan increase the cash balance on bank, which require paying its large amount of liability of banks. Some specific problems felt in this study are as follows:-

1. What are the major factors effecting the management of WC in BOK?
2. How have the firms been raising the required funds? Is the funds properly and productively utilized or not?
3. What are the components of WC, which affect the operating income of BOK?
4. How have the bank been utilizing their debt capital?
5. What is the management attitude towards risk?
6. What is the lending pattern of loan and advances and other investment?

1.4 Objectives of the Study

Research objectives are the guidelines to conducting the research at a right way. The major objective of the study is to evaluate the working capital position of bank of Kathmandu limited. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of bank of Kathmandu limited from the long range viewpoint. The specific objectives of the study are as follows:-

1. To find out, liquidity position in current assets of Bank of Kathmandu.
2. To analyze the condition of current liabilities and current assets of the bank.
3. To make suggestion about removing any obstacle in making decision regarding management of working capital and to point out alternating solution for maximizing the profit .

1.5 Needs and Significance of the Study

The need for working capital to run day-to-day business activities operation has not be overemphasized. It will be hard to find business firms, which do not require any amount of working capital. The firms aim at maximizing the shareholders. In its endeavor to maximize the shareholders wealth, the firm should earn efficient return form it operations. Earning a steady amount of profit requires successful activities.

The study has multidimensional significance, which has divided into four broader headings.

1. It is significance to the shareholders

The study will helpful to aware the shareholders regarding the working capital management i.e. liquidity and profitability of their banks.

2. It is significance to the management

The study will helpful to go deep into the maters as to why the working capital management of their bank is better or worse than of their competitor.

3. It is significance to the outsiders

Among outsiders, mainly the customers, financing agencies, stock exchanges and stock traders are interested in the performance of banks and the customers both [depositors and debtors] can identify to which bank they should go. The financial agencies can understand where their fund is more secured and stock exchange, stock brokers and stock traders can find out the relative worth of the each bank.

4. It is significance to the policy makers

Policy makers' hare refer to the government and Nepal Rasta Bank. The study will helpful to them while formulating the policy regarding banks.

The shareholders are the real owner of the joint venture banks. They are interested in the fair return on their investment through proper utilization of the fund. The need of the study like this arises from the real nature of the banking business. It also forms the impact that it has economy of the country.

It provides the literature to the researcher who wants to carry on further research in this field. Therefore, it has felt very necessary to evaluate the position of working capital management and to focus on the importance of the capital management in bank of Kathmandu limited.

1.6 Focus of the Study

Bank is a business organization where monetary transaction occurs. It creates funds from its client, saving and lends the same to needy person or business companies' in term of loans, advances and investment. Therefore, proper financial decision-making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. Analysts look at these items for sing of bank's efficiency and financial strength.

Working capital is the Life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management. It is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories.

The working capital management of a bank is different from that of other business enterprises. A bank plays a significant role to fulfill the requirement of working capital of any other type of business enterprises. It also needs efficient management. Investment in working capital of other business enterprises is a part of current assets of banks working capital and we can consider deposits and short-term borrowing as a part of current liabilities. Therefore, this study is a reference regarding the working capital management.

1.7 Limitations of the Study

None of the study can go beyond the boundary of some limitations and this study is not an exception. The scope of the present study has been limited in terms of

period of study as well as sources and nature of data. A research is a vast perceived investigating subject matter for solving perceived research problems. Each study has its own limitations. No can be free from constraints such as economic resources, time etc. The following are the major limitations of the study.

- a. This study has considered only bank of Kathmandu limited and has based on secondary data.
- b. The study has done mostly based on the published financial documents like Balance Sheet, profit and loss account.
- c. This study has focused on working capital management of bank of Kathmandu limited only. Thus, the findings of the study may not be applicable for other banks.
- d. Only main financial tools and statistical tools have employed for analyzing the working capital management.
- e. This study is basically done as the requirement for the partial fulfillment of master's of Business studies (MBS) of Tribhuvan University (T.U.)
- f. The period covered by the study over six fiscal years i.e. 2005/06 to 2010/11.

1.8 Organization of the Study

The study has been divided into five chapters. They are as follows:-

Chapter – I Introduction

The First Chapter deals with introduction, background of the study, Focus of the study, statement of the problems, objectives of the study, significance of the study, limitations of the study and the chapter scheme. Therefore, this chapter is for brief introduction of the topic and it highlights the fundamental objectives.

Chapter -II Review of literature

Second Chapter “Literature review” deals with the conceptual frame work of Bank, concept of working capital management, types of working capital objective of working capital, need for working capital and review of related literatures and available studies written and prepared by different experts and researchers in the field of working capital management.

Chapter – III Research Methodology

The Third Chapter Research methodology, presents the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing procedure and method of analysis.

Chapter- IV Presentation and Analysis of Data

The Fourth Chapter is the main part of this research that deals with the presentation analysis and interpretation of data. Different types of tools and technique have used to analyze the available data in order to achieve the set objectives.

Chapter- V Summery, Conclusion and Recommendations

The Fifth Chapter summarizes the whole study; moreover, it draws the conclusions and forwards the recommendations & suggestions for the improvement of working management of the bank of Kathmandu.

After all, the bibliography and appendices are included in the last part of the study.

CHAPTER- II

REVIEW OF LITERATURE

This chapter is concerned with the review of relevant literatures available in the books, journals articles research reports, newspapers, magazines, policy documents that are published or unpublished. Every study is very much based in past knowledge study and experiences. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study various thesis works have done indifferent aspects of working capital of different organization are also review for the purpose of justifying the study .

2.1 Conceptual Framework

A bank undertakes many transactions daily. Sometimes customers deposit large quantity and sometimes customers withdrew from their deposits in high quantity. Investment fund of bank has covered by deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw, for daily operation of office and to meet the administrative expenses, a bank should have liquidity. The liquidity or working capital is very necessary:

1. To pay to depositors
2. To satisfy the customers by granting loans promptly
3. To meet the administrative expenses.
4. To get ready for risk and economic fluctuation in future.
5. To maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

A commercial bank must keep at least 4% of deposit money of last four weeks perfectly liquid cash in vault compulsorily, 8% of deposit money in current account & saving account and 6% of fix deposit should be kept by commercial banks as cash reserve ratio (CRR) at Nepal Rastra Bank as fully liquid assets. It should meet the deposit of last four weeks.

The management of the funds of business can be describing as financial management. Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, which are concerned with current uses and sources of funds. Both of these types of funds play a vital role in business finance. Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some other are required specially to meet day to day expenses and short term obligations. The assets such as cash, marketable, securities, account receivables and inventories which are known as current assets. Which are required to maintain at a certain level depending upon the volume of production and sales?

2.2 Working Capital Management

The management of the funds of financial institution can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, in other words, long term investment and sources of funds. Secondly, current uses and sources of funds. Both of these types of funds play a vital role in business finance.

In the words of K.V. smith, “The term working capital management is closely related with short-term financing and it is concerned with collection and allocations of resources. Working capital management is related to the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationships that exist between them.”

Working capital management entitles short-term decisions. Generally, relating to the next one-year period, which is “reversible”. Working capital and short-term financing referred to as working capital management. These involve managing the relationship between a firm’s short-term assets and short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operation and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. Guided by the above criteria, management will use a combination of policies and techniques for the management of working capital. These policies aim at managing the current assets and the short term financing, such as cash flows and returns are acceptable.

2.3 Concept of Working Capital

According to I.M. Pandey, there are two concepts of working capital:

- a) Gross concept and
- b) Net concept

The gross working capital, simply called as working capital, it refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, short-term securities, and debtors, bills receivable and stock. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year. Which has included creditors, bills payable and outstanding expenses. Net working capital will arise when current assets exceed over current liabilities and a negative net working capital occurs when current liabilities are in excess of current assets. He also added that net working capital concept also covers the question of judicious mix of long-term and short-term funds for financing current assets. Net working capital has calculated as current assets minus current liabilities.

Working Capital (WC) = Current Assets (CA) - Current Liabilities (CL)

Working capital is the excess of current assets over current liabilities. The former concept, which can be termed as gross concept, is important to newly established companies where liabilities have not been acquiring immediately. But the latter one which can be term as net concept is important for both newly established and operating concerns where some amount of current liabilities has been maintained for payment of different creditors, income taxes, bill payable, secured and unsecured loan etc.

The term current assets refer to those assets, which in the ordinary course of business can be or will be turn into cash within one year without undergoing or diminishing in value. Which are cash, Marketable securities, accounts receivables and inventory etc. current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business such as accounts payable, bank overdraft and outstanding expenses etc .

One of the main advantages of looking at the working capital position is being able to foresee any financial difficulties that may arise. Under the best circumstances, poor working leads to financial pressure on a company, increased borrowing and late payments to creditors all of which in a lower credit rating. A lower credit rating means banks charge a higher interest rate, which can cost a corporation a lot of money over time.

2.3.1 Gross Concept of working Capital

In a simple term gross concept of W/C means investment in current assets in other words, gross working capital is the total amount of available for financing of current assets .However it does not show the real financial position of a business firm.

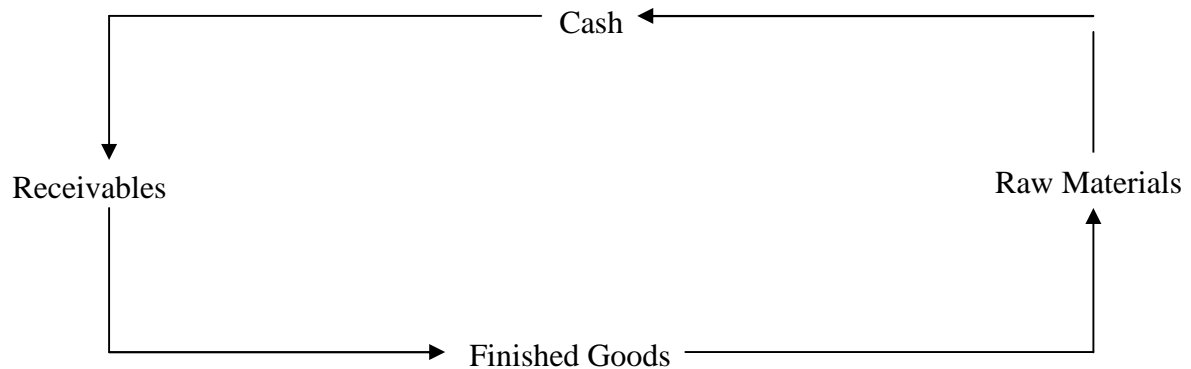
According to this concept, the working capital may be classifying as capital invested in the various types of current assets such as cash, inventories, receivables etc. This classification important from financial manager's point of view as it lays emphasis on the various areas of functional responsibility but it totally ignores the time, which is very important in the formulation of procurement policies. From the view of me, gross working capital refers to the firm's investment in current assets. C/A are the assets which can be converted into cash within an accounting year and include cash short-term securities debtors bills receivables and stock.

According to Adam smith, “The goods of the merchant yield his to no reuener profit till the money yields him a little. It is again exchange going from him in once shape and returning him, in other shape and returning him in another and it’s only by means of such circulations or successive exchange that can yield vary profit, such capital. Therefore, may properly be called circulating capital.”

Current liabilities are obligation to outsiders repayable in a short period, usually within the accounting period or the operation cycle of the firm. It can be said that counterpart of the current assets. Conventionally they are paid out of the current assets, in some cases however, existing current liabilities can be liquidated through the creation of additional current liabilities.

In the words of C.W. Gestenberg: - “Circulating capital means current assets of the company that are changed in the ordinary course of business firm one from to another, as for example, cash to inventory to receivable, receivable to cash.

Working capital cycle



From the above definition it is clear that working capital management is concerned with the problems that arise in attempting to manage the current asset and interrelationship that exists between them.

2.3.2 Net Concept of working Capital

Gross concept of W/C is the narrow concept, which is, only concerned with the study about total investment of current assets .In the other hands, net concept of W/C is a broad concept, which focuses to long-term view of working capital. Under the concept of net W/C, it studies current assets and current liabilities as differently. Today's market is heterogeneous every changed in environment and other factor's bring changes of demand needs and wants of customers at the same time so every business firms have to be made their W/C policies to fit the new environment thus, Net W/C concept should be studied to know the portion of current liabilities. How much current liabilities should be managed how much current assets? Net W/C is an accounting concept, which represents the excess of current assets over its current liabilities. current assets consists of cash, bank balance, stock, debtors, bills receivables etc and current liabilities consists bills payable, creditors, outstanding expenses etc. Excess of current assets over current liabilities, thus, it indicates the liquidity position of an enterprises.

From the viewpoint of I .M Pandey, the term net working capital refers to “the difference between current assets and current liabilities. Current liabilities are those claims outsiders, which are expected to nature for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working

capital can be negative or positive. A positive Net W/C will be arise when capital occurs when current liabilities are in excess of current assets (Pandey,1995: P730).

Working capital sometimes called net working capital is represented by the excess of current assets over current liabilities and identifies the relatively liquidity position of total enterprises capital, which constitutes the margin of buffer for maturing obligation within the ordinary operating cycle of the Business.

2.4 Classification of Working Capital

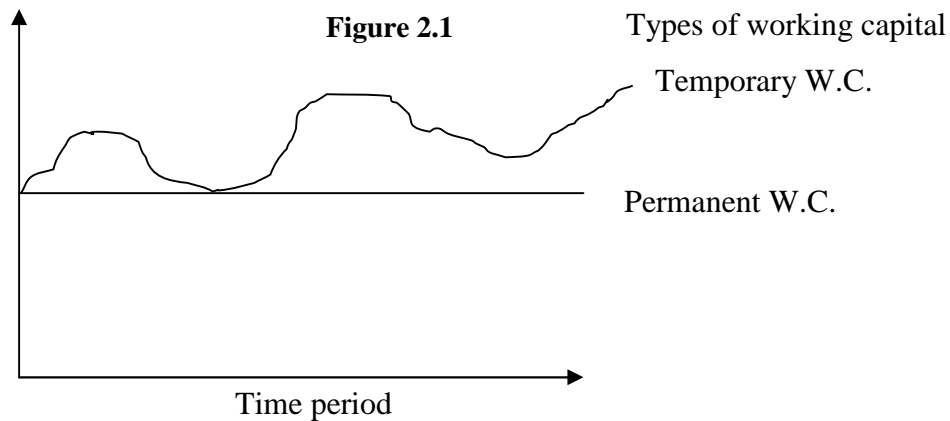
Working capital can be classified into two groups on its nature i.e. permanent working capital and temporary working capital. These two types of working capital are needed for smooth running of any productive or non-productive organization.

1. Permanent (fixed) working capital:

The permanent W/C refers to that level of current assets which is required on a continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds certain minimum amount of working capital to ensure uninterrupted production and sales functions. This portion of working capital has directly related to the business expansion of operation capacity.

2. Temporary (Variable) working capital

The temporary W/C represents that portion of working capital which is required over permanent working capital. Its volume is dependent upon the nature of organization. If production and sales of product of any organization is reasoned variation then it should stock more raw materials, work-in-progress and inventory of finished goods. Therefore, the relation between labour and management directly affects the portion of temporary working capital. If firm has sound management of this portion of working capital that means that firm is stronger I its competition and con easily obtain its goals.



Source: I.M. Pandey, "Financial Management, (New Delhi, Vikash Publishing House, 1998) P.808

Like permanent working capital, temporary working capital also consists of current assets in a constantly changing form. However since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature (Van Horn, 1996: 205).

Thus the permanent working capital refers to that level of current assets which is required on a continuous basis over the entire year and the temporary working capital represents that portion of working capital which is required over permanent working capital.

2.5 Objectives of Working Capital

A bank undertakes many transactions daily. Sometimes, customers deposits large quantity and sometimes withdraw from their deposits in high quantity. Investment fund of banks is covered by deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw. For daily operation of office and to meet the administrative expenses, a bank should have certain level of working capital. Working capital is required to run the business smoothly and efficiently in the context of the set objective. It is no doubt that no company can achieve its goal without proper use of working capital. Therefore it can compare as lifeblood to the organization. The main objectives of arranging capital are as follows:-

- a. To pay to depositors
- b. To maintain cash reserve ratio (CRR) & statutory liquidity Ratio (SLR)
- c. To satisfy the customers by granting loans promptly and increase the attraction of business etc.
- d. To meet the administrative expenses, perform the task as per objectives of business and run the business smoothly.
- e. To fulfill the present need of business as well as get ready for risk and economic fluctuation in future.

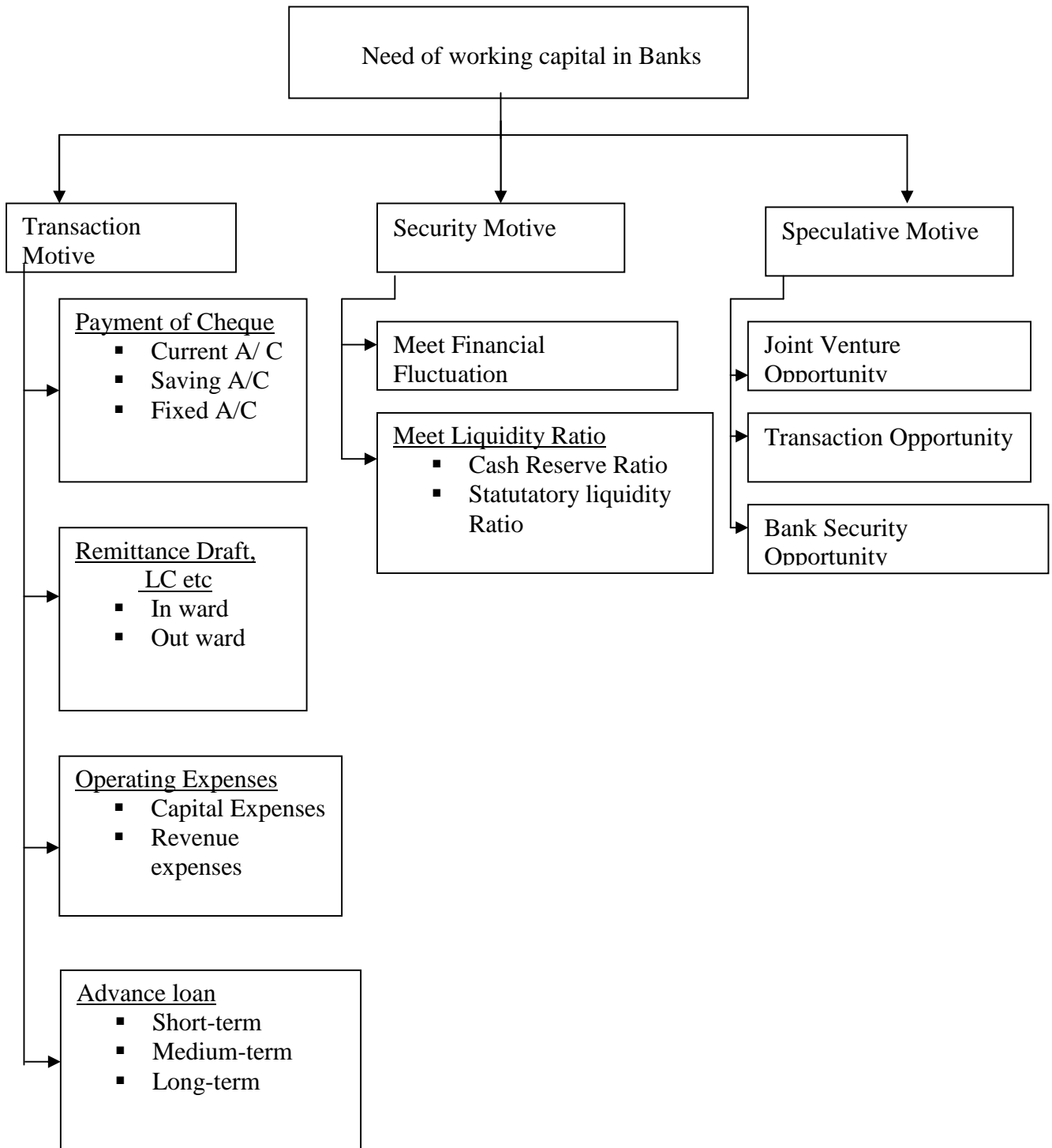
2.6 Need of Working Capital

Working capital has maintained at bank by current saving & fixed deposit collection. Specially to grant loan and to pay cheque, creditor's and account holders demand the liquidity. Generally, banks need liquidity for maintaining following goals. Most of the firms aim at maximizing the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit has earned naturally depends upon the magnitude of demand among the other things. For constant operation of business, every firm needs to hold the working capital components like cash, receivable, inventories etc. therefore, every firm needs working capital to meet the following motives;

- i. The transactional motive: According to transactional motive, a firm in regular. Thus, the needs the working capital to meet the transaction motive.
- ii. The precautionary Motive: precautionary motive is the need hold can & inventories to guard agent the risk of unpredictable strike, failure of important customer, unexpected such as collection of account receivable, cancellation f some order for demand and some other for demand and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.
- iii. The speculative motive: speculative motives refers to the desire of a firm or bank to take advantage of following opportunities
 - a) Opportunities of profit making investment.
 - b) To speculate of purchasing saves at a reduced price on payment of immediate cash.

- c) An opportunity of purchasing saves at a reduced price on payment of immediate cash.
- d) To make purchase of raw materials at favorable price etc.

Figure 2.2
Need of working capital



2.7 Determinants of Working Capital

The total requirement of working capital is determined by a wide variety of factors. The influence of these factors is different in different business organizations. Perhaps none of them can neglect the management of adequate W/C. Therefore, an analysis of the relevant factors should be made in order to determine the total investment in w/c. The description of the factors which generally influence the w/c requirement of the firm is given below

1. Nature and Size of Business

The working capital requirement of a firm is basically related to Nature and size of the business organization. If the size of the business is small, then it requires less working capital but if the business organization is bigger, it requires more working capital. Financial and training institution have needed very high amount of w/c. Public utilities have a very limited need of w/c and have to invest abundantly in fixed assets. Their working capital requirements are nominal.

2. Production Policy

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due to seasonal changes in the demand for the firm's product. A steady production policy will cause inventories to accumulate during the off season periods and the firm will be exposed to greater inventory costs and risks. Thus, if cost and risks of maintaining a constant production schedules in accordance with changing demand. Those firms, whose productive capacities can be utilized for manufacturing varied products can have the advantaged of diversified activities and solve their working capital problems (Pandey, 1995 : 675).

3. Operating Efficiency

Operating efficiency of the firm means the optimums utilization of resources at minimum cost .The firm cannot effectively contribute to its working capital when

the operating efficiency is low. Working capital turnover is improved with a better operation and financial efficiency of a firm, efficiency of operation accelerates the face of cash cycle and improves the working capital turnover . It releases the pressure on working capital by improving profitability and improving the internal generation of fund.

4. Manufacturing Cycle

Manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle larger will be the firm's working capital requirements. An extended manufacturing time span means large tie-up funds in stocks. Thus if there are alternative way of manufacturing cycle should be chosen, once a manufacturing process has been selected , it should be ensured that manufacturing cycle is completed within the specified period . This need proper planning and coordination at all levels of activity non manufacturing firm financial and service oriented enterprises do not have manufacturing cycle. (*I.M. Pandey, 1995: 674*).

5. Profit Margin

The net profit is source of working capital to the extent that has earned in cash. The earning capacity of the different firm cannot be equal.” some firms enjoy a dominant position due to quality product or good marketing management or monopoly power in the market and earn a high profit margin." (*I.M. Pandey, 1995: 674*).

Higher profit margin contributes to more working capital. The level of working capital is determined not only by the profit margin , but also by the way of appropriation for taxations, dividends, reserves and depreciation only after providing for these items internal funds can be set aside for working capital . As the provisions' for these items are higher, the amount of working capital will be lesser.

6. Level of Taxes

The level of taxes is one of the important elements, which is also influences working capital requirement of a firm. The amount of taxes to be paid in advances is determined by the prevailing tax regulations. But the firms profit is not constant or can't be predetermined. Tax liability in a sense of short- term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspects of working capital planning. If tax liability decrease, it needs to decrease the working capital and vice -versa.

Besides the above factors there are many other factors also which may have a greater role in determining the size and composition of working capital for example firms attitude to take risk, credit policy, firms policies toward the financial management in the inflationary period, co-ordination among production, distribution, developed transport and communication system etc could also play an important role in determinants effects both temporary and permanent working capital.

2.8 Working Capital Policy

Working capital policy refers to the banks basic polices regarding target level of each category of current assets and how current assets with be financed. Every bank has to find out the different sources of funds for working capital. So first of all, the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. Working capital policy is categories in two parts, these are:

- i. Working capital investment policies
- ii. Working capital financing policies

2.8.1 Working Capital investment policies

Working capital investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. How much a firm will invest in CA will depend on its operating cycle. There are three alternative working capital investment policies. These are: fat cat, lean and mean, and moderate.

(a) Fat Cat Policy

This policy is also known as relaxed working capital investment policy. In this policy, the firm holds relating large amount of amount of cash, marketable securities, inventories, receivables and other types of current assets. This policy creates larger inventory and cash conversion cycles. It also creates the larger receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

(b) Lean and mean policy

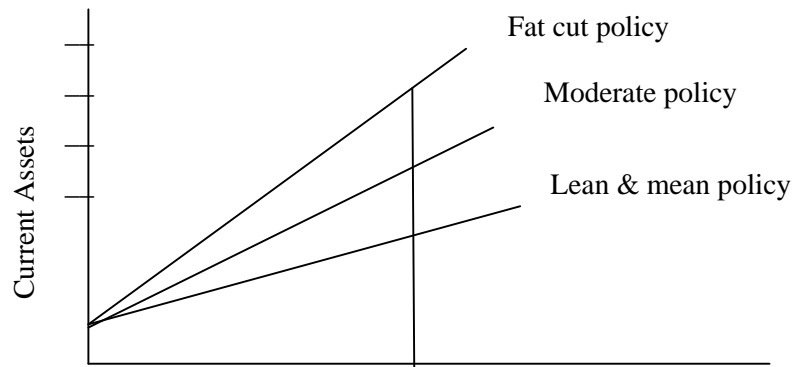
This policy is also called as restricted working capital investment policy. Under this policy, the firm holds the minimum amount of cash, marketable securities, inventories, receivable and other current assets are reduced. Under this policy firm follows a light credit policy and bears the risk of losing sales.

(c) Moderate Policy

In this policy investment in current assets should not be as maximum as in relaxed policy and it should not be as minimize as in restricted policy. Both, excess investment in current assets and inadequate investment in current assets are not good. Therefore, there should be optimum investment in current assets. Both risk and return are moderate in this policy. These three alternatives policies regarding the level of current assets that a firm might carry can be shown in the following figure.

Figure 2.3

Alternative Working Capital Investment Policies



Source: Weston, Besley & Brigham, Essentials of Management finance P.345

The relationship between current assets and output level for these alternatives is illustrated in above figure. We see from the figure that the greater the output, the greater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a great proportional investment in current assets when only a few units of output are produces then it does later on, when the firm can use its current assets more efficiently.

2.8.2 Working Capital Financing Policies

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, working capital financing policy should clearly outline the sources of financing. There are three policies. These are – aggressive, conservative and matching or hedging policies of current assets financing.

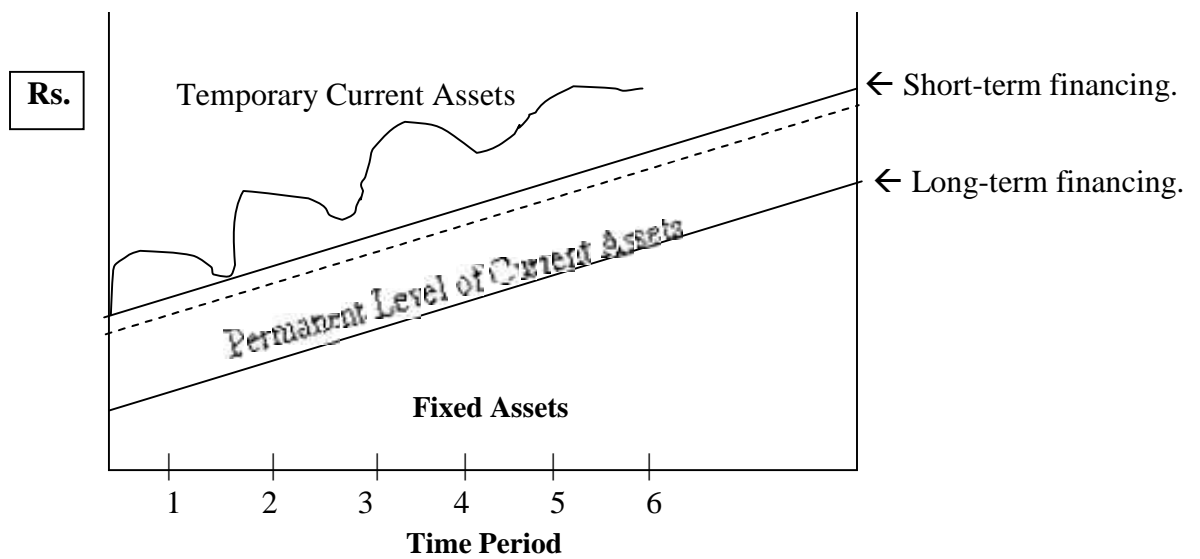
(a) Aggressive or non conservative policy

Under this approach, temporary current assets and some parts of permanent current assets are financing with short term debt. In other words, the firm finances a part of its permanent current assets with short term financing and rest with long term financing. In this policy, the liquidity position will be low and the risk will be high. A

business firm uses relatively large amount of short term debt. Short term debt is more risky because the firm should be able to repay the short term debt with in short time period. If it could not pay its debt with in short time period, there will be high probability of bankruptcy of that firm. It can be shown in the following figure:

Figure 2.4

Aggressive Financing



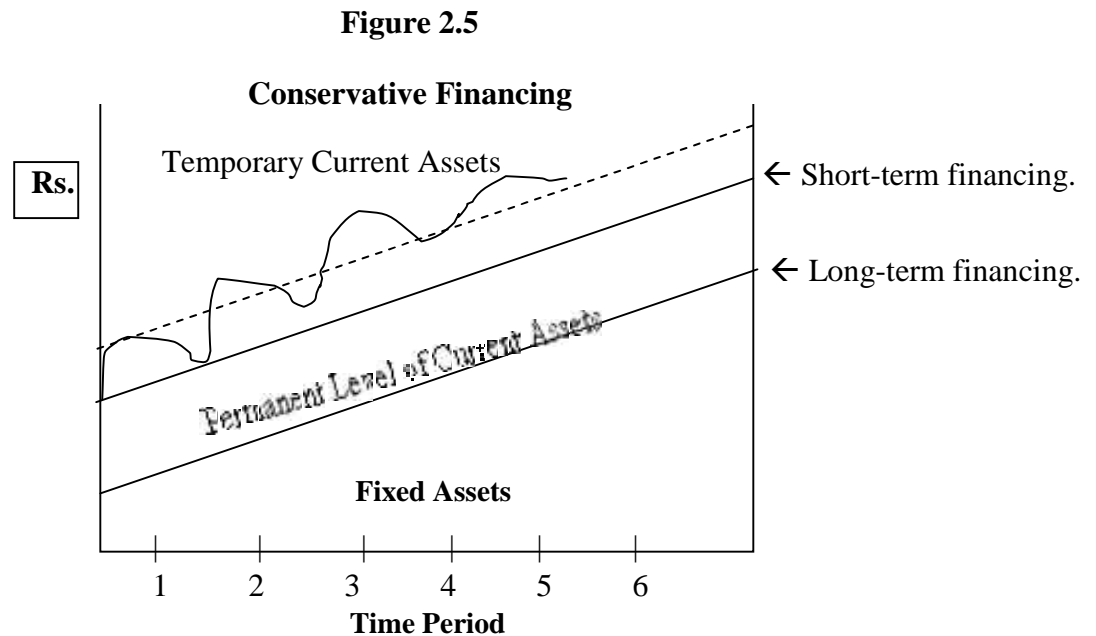
Source: Weston, Besley and Brigham, *Essentials of Management (Finance, p 347)*

Above figure shows that short term financing finances 50% of the permanent current assets. In the short period the interest rate is low. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal condition the firm borrows on a short term financing rather than long term financing. On the other side, if the firm finances its permanent current assets by short term financing, Then it runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. Thus, this policy provides the higher risk, higher return and low liquidity position.

(b) Conservative Policy

In this policy, permanent current asses and a larger portion of temporary current assets are financed with long term debt and equity and only a small portion of

temporary current assets is financed with short term debt. The cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized. It can be shown from the following figure.



Source: Weston, Besley and Brigham, Essentials of Management (Finance, p347)

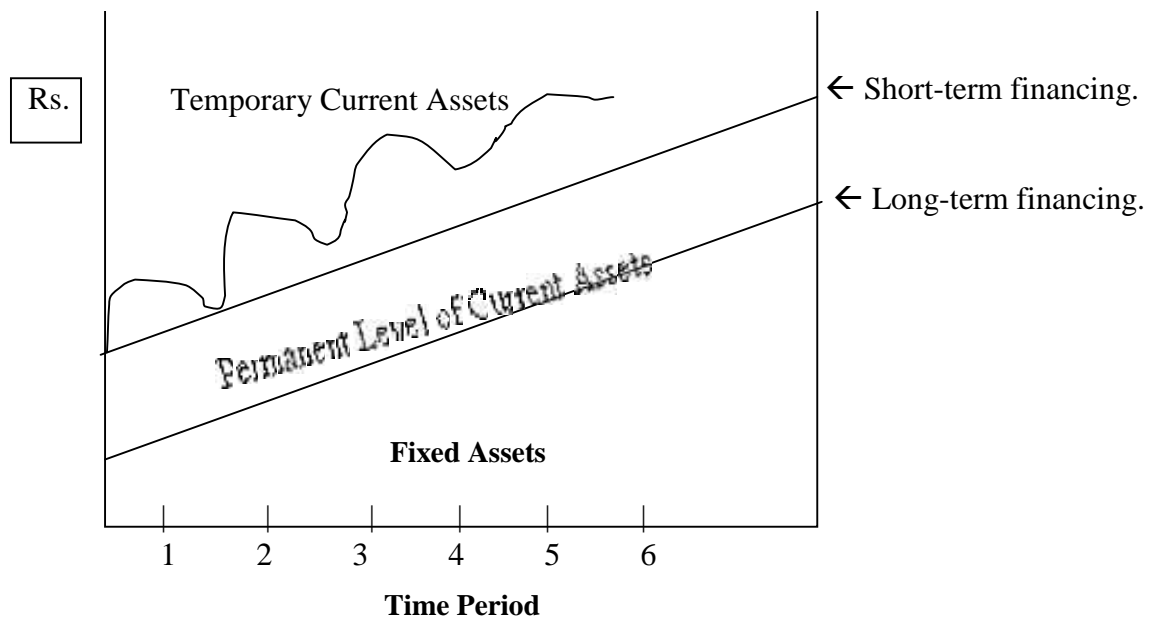
In the above figure, the conservative financing policy is shown. Note that when the firm has no temporary current assets (at the level of slope), the long term funds released can be invested in marketable securities to build up the liquidity position of the firm.

(c) Matching Policy

In this policy, permanent current assets are financed with long term debt and equity and temporary current assets are financed with short term debt. According to this policy, source of short term financing should be determined according the maturity of current assets. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current assets and current liabilities. Figure in below shows

The temporary working capital financed by short term financing and long term financing. Thus, no working capital is zero under this policy.

Figure 2.6
Matching Policy



Source: Weston, Besley and Brigham, Essentials of Management (Finance, 347)

The above figure is used to illustrate the matching policy over time. The firm's fixed assets and permanent current assets are financed with long term funds and as the level of these assets increases, the long term financing level will also increase. The temporary of variable current assets are financed with short term funds and as their level increases the level of short term financing also increases.

2.9 Review of Related Articles/ Journals

This part has mainly focused on the review of journals / articles published by different management who are experts on working capital management.

Professor Dr. Khagendra Acharya,(1985) Wrote an article on “Problems & Implements in management of working capital in Nepalese Public Enterprises” He has described two major problems in his article. Operational problems and organizational Problems regarding the, Nepalese public enterprises. The operational problems that he has found were listed which are as follows:

- a. Increase of current liabilities than current assets, not allowing the current ratio 2: 1 and Slows turnover of inventory.

- b. Similarly, Change in working capital in relation to fixed Assets
- c. Thin transpiration of capital employed to sales absent of apathetic management information system, Break-even analysis, funds flow analysis and ratio analyses are either undone or ineffective for performance evaluation.
- d. Monitoring of the proper functioning of working capital management has never been considering a managerial job.

He states that most of the enterprise's management has been misunderstanding as the managed the money rather than its efficient utilization. Thus, existing problems in the finance are mostly directing toward the management of working capital rather than in any area. Finally, monitoring of the proper functioning of working capital management has never been considering a management job.

In the second part, he has listed the organization problems, in the public enterprises. In most of the public enterprises, there is lack of regular internal and external audit system as well as evaluation of financial result. Similarly very few public enterprises have been able to present their capital requirement, functioning of finance development is not satisfactory level and some public enterprises has been facing the under utilization of capacity. To make an efficient use of funds for minimizing the risk of loss attains profit objective.

He has suggested that manufacturing concern finance staff must be acquainted with the modern scientific tools for the presentation and analysis of the data. Public enterprises should avoid the system of crises decision, which has prevailed frequently in their operation. Avoid finite hedge of the assets and lastly the has suggested optimizing its level of investment at a point time neither over or under investment in working capital is desired by the management of an enterprises because both of these situation will erode the efficiency of the concern.

Dr. Manohor K. Shrestha (1992) wrote an article on "Working Capital Management in public enterprises: A study on financial results and constraints". He has considered ten selected PEs and studied working capital management in that PEs in his article. He has focused on the liquidity, turnover and profitability position of those enterprises. He found that four PEs had maintained adequate liquidity position, two had excessive and remaining four had failed to maintain describable liquidity position. On the turnover, four had a adequate turnover, one had high turnover and

remaining five had not satisfactory turnover on net working capital. He had also found that out of 10PEs, 6PEs were operating at losses while only four were getting some percentage of profits. With reference to those findings, he had brought certain policy issues such as lack of suitable financial management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital.

L.D Mahat (2004) Published his article on “Spontaneous sources of working capital management”. He has defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short term banking financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. Whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses.

He has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of rescission, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to be interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will be better sources for working capital in order to improve its performance. Consequently, in a changed economic scenario, every company should realize that inability to manage working capital might lend them various circles that can be hard to get out. It is indeed essential for industries to tighten their belts and check their financial stability to face and stand in forth coming complete day.

2.10 Review of Previous Thesis

Shrestha Rojina (2006) has carried out her research on "*A study on Working*

Capital Management with respect to National Trading Limited and Salt Trading Limited". Her main objectives of the study are to present overall picture of working capital of National Trading Limited and Salt Trading Limited, to examine the relationship between liquidity and profitability and to know whether the companies have maintained optimum level of working capital or not. She has analyzed 11 years data from the fiscal year 1996 to 2006 and used financial tools and statistical tools to achieve these objectives.

Her analysis shows that the various profitability ratios, it can be conclude that there is operating inefficiency in both sample companies and overall return position of the company is not in favorable condition because of inefficient utilization of current assets, total assets and shareholders wealth. The outcome of cash conversion cycle of these companies are not in satisfied condition for long run because analysis shows that there is long payable deferral period, short inventory collection period and short receivable conversion period in both companies which is favorable only for short run and it will cause negative impact from its trade creditors in upcoming days of the companies. This study shows that the receivable portion of National Trading Limited are found in decreasing trend except the fiscal year 1999 and the receivable portion of Salt Trading Corporation Limited is fluctuating year after year. These both trading companies follow aggressive financing policy which comprises higher risk and higher return and low liquidity position are not in condition of following the policy (Shrestha, 2006).

Acharya (2006) has carried out research "*Working Capital Management of Manufacturing Companies Listed in NEPSE*" with the objectives of finding out the working capital financing policy adopted by listed Nepalese manufacturing companies; analyzing the current assets and current liabilities policies; examining the effects of working capital on profitability and pointing out valuable recommendations and suggestions based on the research. He examined five year data from 2001 to 2005. He has used ratio analysis, correlation coefficient, regression, probable error etc. as the tools of analysis.

From the research, what he found out that the companies are accompanied with various hindrances like lower turnover, lower return, lower net working capital or poor liquidity position, lack of proper working capital policy, deteriorating

financing situation, lack of appropriate credit and collection policy, improper inventory management, high operating cost of production etc.

As per the recommendations forwarded by the researcher, the companies should formulate appropriate working capital policies as per their need, invest idle fund in marketable securities, adopt definite credit and collection policies, and adopt good store keeping, material handling and timely inspection system

Shrestha (2007) had conducted a research on “*A working capital management of Dairy Development Corporation*”. The objectives of his study were to present overall picture of Dairy Development Corporation, to analyze the current assets and current liabilities of corporation and their impact and relationship to each other. In his study, he had used the secondary data. He had derived following Major findings from his study.

- a. The DDC followed the conservative working capital policy and its investment in working capital has been increasing trend.
- b. The investment in current assets is lower with respect to net fixed assets during the study period the DDC has no clear vision about the investment in current assets.
- c. The major components of current assets i.e. cash, inventories and receivables are in fluctuating Trend. The Company does not follow credit sales policy.
- d. The company has been able to maintain its current ratio in an average 1.78:1 during the study period, which is also a satisfactory level.
- e. The company bears the heavy loss during the study period.
- f. The overall return position of DDC is negative, not in favorable condition; it is because of inefficient utilization of current assets, total assets and shareholders wealth.

Gupta, K. (2009) had conducted a research on a topic “*Financial performance Analysis of Everest Bank Ltd*”. He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity. Profitability ratios of EBL the period covered by the research were five years and Necessary data and other information had been collecting from the primary and secondary sources of data. In this research, Mr. Gupta pointed out some remarkable findings these are.

- a. The banks liquidity position is below the normal standard and inconsistency in liquidity policy.
- b. EBL should be encouraging the small depositors for promoting small investors.
- c. The EBL should utilize its risky assets and shareholder fund to gain profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable.
- d. Return on equity is not satisfactory, as it has not efficiently utilized its equity capital.

Tuladhar, Asmita (2010) had undertaken a study entitled “*A comparative study of working capital management of NABIL and standard chartered Bank Nepal Limited*”. The main objective of her study was to study the current assets, current liabilities and their impact on liquidity and profitability as well as to analyze the liquidity, assets utilization, long -term solvency and profitability position of those two banks. She had analyzed five years published data of selected banks and mostly used statistical and financial tools to analyze them in order to achieve the set objectives. In her study, she has mentioned the following findings.

- a. NABIL and SCBNL had maintained current Ratio of 1.55 and 1.31 respectively.
- b. The average quick ratio of NABIL and SCBNL were 0.64 and 0.75 respectively. Liquidity of SCBNL was always better than NABIL during the study period.
- c. SCBNL had more short term and less costly resources of fund than NABIL.
- d. NABIL had better investment efficiency on loans and Advances.
- e. Both banks follow conservative working capital policy.
- f. Profitability position of SCBNL is better than NABIL.

2.11 Review of Books

In this section an attempt has been made to various some books on financial management, which deals with the management of working capital. We receive some theoretical concepts on working capital from Van Horne. He has categorized the various component of working capital. Liquidity, receivables, inventory and current liabilities grouping, then according to the way that affected valuation. He has also described the different methods for efficient management of cash and marketable

securities and various models for balancing cash and marketable securities. For the management of receivable different credit and collection policies have been describing and various principles of inventory have been examining for inventory management and control.

The well-known professors Weston, J. Fred and Brigham have given some theoretical insights into working capital management after their various research studies on it. The broad conceptual a finding of their studies provides sound knowledge and guidance for the further study on the field of management of working capital in any enterprises and naturally to this study as well.

For the working capital management, a well-know Indian professor I.M. Pandey has described some conceptual ingredients, which are based on his various research studies. He has divided working capital management into five chapters. The first chapter deals with the concepts working capital dimensions of working capital management, optimum level of current assets, and working capital trends India. In the second chapter, he has described the management of cash and marketable securities, where he has dealt with facts of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance investment in marketable securities. In the third chapter, he has described the management of receivable, in which he has dealt with goals of credit management, optimum credit policy, aspects of credit policy. Credit producers for individual accounts. In fourth chapter on investment management, he has described the need to hold inventories objectives of inventory control technique and financial manager's role in inventory management. For financing of working capital has described the Tondon Committee recommendation on the fifth chapter. (*I.M.Pandey "Financial Management" New Delhi.*)

2.12 Research Gap

As the above research works are concerned with working capital & liquidity Management of Bank of Kathmandu Limited. They are mostly done by taking single firms as a sample. In most of the studies, the samples are taken from same sector which may not represent different sectors. The studies also observed some defects in Working Capital & Liquidity Management of BOKL. The tools used for analysis have

been limited to working capital & liquidity management policy with NRB directives. So this study tries to explore the determinants of capital structure and capital structure pattern in three different sectors of Nepalese organization with current year's data. Furthermore this study will be helpful to the Working capital & liquidity management groups. At last this study will be different from the above in terms of sample companies, data presentation as well as statistical tools used for interpretation and analysis of data.

Hence in this study BOKL is taken in a defensible way which makes sense. The selection of the banks here in made on the basis of BOKL. Beside this study on the working capital & liquidity management of BOKL has covered the latest data which cover the information from 2005/06 to 2010/11 which makes it the latest visions on the study with the banks.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection analysis and interpretation of the facts and figures, “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view.”(Kothari c.p.; 1994; p19)

Therefore we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem. According to Clifford woody "Research compromise defining redefining problems, formulating, hypothesis or suggested solutions, collecting, organizing and evaluating data, making deduction and reaching conclusion and at last carefully testing the conclusions to determined whether they fit the formulating hypothesis.

In this chapter efforts have been made to present and explain specific research design for the sake of attaining the research objective. It describes the methods and process applied in the entire subject of the study. It is the plan, structure and strategy of investigation conceived to answer the research questions. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of BOKL, diffident circular regarding rules and regulations of BOKL, NRB'S directives to the commercial banks, other published and unpublished material different official websites etc. It consists of research design, sources of data, population and sample data processing procedure and tools and technique of analysis of data.

3.2 Research Design

The study also required the appropriate research design to achieve desired objectives of the investigation. Research design is a systematic plan and conceptual structure within which the study is to be conducted. Research design is a clear map of the all types of investigation. It is a plan of researches, which includes what, why, when how aspect of research like research methodology, various writers and authors have also defined research design. Selection of appropriate research design is necessary to meet the study objectives of any research “Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variances. The plan is the overall scheme or program of the research. (Kerling,1986:275).

According to **C.R. Kothari**, “Research design stands for advance planning of the methods to be adopted for collecting the relevant data and techniques to be used in their analysis keeping in views of objectives of the research and the availability of staff, time and money.

Research design means a definite procedure and technique which guides the study and propounds ways for doing research. For the study of working capital management in BOKL, research design followed is an exploratory research approach. In this study descriptive and analytical survey is done. The justifications for the choice of these methods are many & various. The descriptive method is preferred because it includes reliable data and information covering a long time and avoids numerous complex variables operating into formulation and adoption of credit and investment policies.

3.3 Population and Sample

This study is directly concerned in the population and treated in the population and sampling data. Population data which are not originally corrected but rather obtained from the NSE website, we address being www.nepalstock.com. In Nepal up to this data, 115 companies are listed in Nepal stock exchange limited whose shares are traded in stock market. Out of 115 listed companies the selected 4 samples have been taken for the study for Nepalese non. -Manufacturing companies or joint venture

banks. The financial statement of the total no. of commercial banks in Nepal from the date of their establishment till today constitutes the population for the present study.

Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore sampling will be done selecting from population. Bank of Kathmandu limited is select as a sample for the study and analysis.

The main reason for the selection of bank of Kathmandu ltd is that the BOK is operated by the Nepalese investors and the BOK has continuously increased the net profit and also gives the regular dividend to its shareholder.

3.4 Nature and Sources of Data

The study is mainly based on the secondary data. The required data have been extracted from the annual reports of BOKL, different circular regarding rules and regulations of the bank, reports of the pertains coordination council, other published and unpublished materials, newspapers, magazines, related documents and journals available in different libraries, other organization like Nepal Stock Exchange and Nepal Rastras Bank as well as from official websites of corresponding organizations.

3.5 Data Processing Procedure

Data collected from various sources were in raw form. Method of analysis is applied as simple as possible. The obtained data are presented in various tables, diagrams and graphs with supporting interpretation. The data gathered are assembled in an organized way and are entered into the database program of computer software. Finally, spreadsheet analysis was carried over the database records. Care had been taken during the formulation of the database program such that any single change in the input data could reflect an effect to each table presented through out this study report, which was linked with that data.

Microsoft Excel, spreadsheet program, i.e. application software on computer has used for the organization of database, the analysis of the data and presentation of tables, graphs and charts.

3.6 Tools and Techniques of Analysis

Under this study, financial as well as statistical tools have been used to Analyse the gathered data and information

3.6.1 Financial Tools

In this research study various financial tools are employed for the Analysis. There are various ratios but in the study some important ratios among them are used. Ratio Analysis is the most important tools of the financial Analysis, which help to ascertain the financial conditions of the organizations. “Ratio analysis is such a powerful tool of financial analysis that through the help of it economic and financial position of business unit can be fully x-rayed” (Kothari C.P.; 1994; p187).

Ratios are calculated to obtain the better insight into real situation of working capital management of BOKL. Various ratios are employed and grouped for the Analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

(a) Liquidity Position

Liquidity position of a company is identified with the help of liquidity Ratio, which measures the company’s ability to pay its current obligations. It is employed to determine the short-term solvency position of the company. In other words, this ratio provides insight into the present cash solvency in the event of adverse financial condition. Generally ratio of one or more than one is acceptable but it depends on the nature of the company.

i. Current Ratio

This ratio measures the short-term solvency i.e. its ability to measure short term obligation. In other words, current ratio measures the ability to pay debts. Current ratio is calculated by dividing the current assets by current liabilities.

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

Current assets include cash and these assets which can be converted into cash within year, such as debtor, receivable, prepaid expenses, inventory etc. Current liabilities mean all obligations maturing within a year under the current liabilities

include creditor provision for taxation, bank loan, miscellaneous current liabilities and provision.

ii. Cash and Bank Balance to Current Assets Ratio

The cash and bank balance is almost liquid form of the current assets. This ratio shows the percentage of readily available fund within the banks. It can be calculated by dividing cash and bank balance by current assets.

$$\text{Cash and Bank balance to current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} \times 100\%$$

What percent of current Assets cover cash and bank balance is shown by this ratio. Lower the ratio means higher will be risk and profitability and vice-versa.

iii. Cash And Bank Balance to Total Deposit Ratio (Excluding Fixed Deposit)

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposit).

$$\text{Cash \& bank balance to total deposit Ratio} = \frac{\text{Cash \& Bank balance}}{\text{Total Deposit (Excluding Fixed Deposit)}} \times 100\%$$

iv. Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit which is interest bearing and short term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit which is given as follows.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}} \times 100\%$$

Quick / Acid Test Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it has converted into cash immediately or

reasonably soon without a loss of original value. This quick ratio has calculated by dividing the quick assets by current liabilities.

(b) Activity or Turnover Position

Activity Turnover position shows the efficiency on assets management as well as effectiveness of the investment of resources in the company. These ratios are intended to measure the effectiveness of the employment of the resource in a business concern. Through these ratios it is known whether the funds employment have been used effectively in the business activity or not. The following are the ratios employed to analyze the activeness of the concerned bank.

i. Loan and Advance to Total Deposit Ratio

This ratio assesses to what extent, the bank are able to utilize the depositors fund to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited funds.

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Total Deposit}} \times 100\%$$

High ratio is the symptom of higher or proper utilization of funds and low ratio is a signal of balance remained unutilized or idle.

ii. Loan and Advance to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loan and advances against fixed deposits. For commercial banks, fixed deposits are long term interest bearing obligations, where as investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under.

$$\text{Loan and Advance to fixed Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Fixed Deposit}} \times 100\%$$

A low Ratio indicates idle cash balance. It means total funds not properly utilized. This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

iii. Loan and Advance to Saving Deposit Ratio

This ratio assesses how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short term obligation and the major sources of investment. This ratio indicates how many times the short term interest bearing deposits are utilized for generating the income. It is calculated by dividing the amount of loan and advances by total deposit in saving Account.

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Total Saving Deposit}} \times 100\%$$

(c) Profitability Position

Profitability position indicates the degrees of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Though profitability ratios, the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used as follows.

iv. Interest Earned to Total Asset Ratio

It is the ratio which is formed to find out the percentage of the interest earned to total assets. This is calculated by dividing the amount of interest earned by the total assets of the firms.

$$\text{Interest Earned To Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100\%$$

v. Net Profit to Total Assets Ratio

This ratio is commonly known as return on assets (ROA). This ratio is very much crucial for measuring the profitability of fund invested in the bank's assets. It measures the return on assets. It is computed dividing the Net Profit after tax by total assets.

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$$

vi. Net Profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return from deposits. It is computed dividing the net profit by total deposits.

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

Higher ratio indicates the return from investment on loan and Advances are desirable and lower ratio indicates the funds are not properly mobilizing.

3.6.2 Statistical Tools

Besides the financial tools various statistical tools are also used for analysis to support the objective of the research work. The tools are as follows.

(a) Trend Analysis

Trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratios lies in the fact that the analyst can know the direction of movement. Thus, the tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis with the help of trend analysis the tendency of variables over the period can be seen clearly. The movement of data over a long period of time is called the trend i.e. the general tendency of the values to increase or decrease during the long period of time is termed as secular trend. In general, the trend does not show the variations in short period. Trend analysis has been used here to see the fluctuation in different components of current assets and current liabilities during the study period.

(b) Correlation Analysis

“Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another”. (Levin & Rubin; 1991, p505) The correlation analysis is the technique used to measure the classiness of the relationship between the variables. It helps to determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction.

The value of coefficient of correlation always lies between ± 1 . A value of + 1 indicates a perfect positive relationship between the variables and a value of -1 indicates a perfect negative relationship. A value of Zero indicates that there is no relationship between the variables. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the strength, or classiness of the relationship between two variables. The correlation coefficient can be calculated as

$$r(xy) = \frac{\Sigma xy}{\sqrt{\Sigma x^2 \cdot \Sigma y^2}} \quad \text{Where } r(xy) = \text{correlation coefficient between } x \text{ \& } y$$

$x = (x-x)$ defined variables

$y = (y-y)$ defined variables

(c) Average (mean)

An average is a single value that represents a group of values. Such a value is of great significance because it depicts the characteristic of the whole group. The main objectives of averages are to get one single value that describes the characteristics of the entire group and to facilitate comparison.

The mostly used average is arithmetic mean which is obtained by adding together all the items and by dividing this total by the number of items. Formulaically,

$$\text{Arithmetic Mean} = \frac{\text{Sum of all items or variables}}{\text{Number of items or variables}}$$

$$\text{Or, } \bar{X} = \frac{\sum X}{N}$$

Where,

$$\bar{X} = \text{Arithmetic mean (Average)}$$

N = Number of Items

$X_1, X_2, \dots, X_n = \text{Variables}$

$$\sum X = \text{Sum of all items or variables}$$

(d) Test of Significance / Hypothesis

"The procedure to assess the significance of a statistics or difference between two independent statistics is known as test of hypothesis or test of significance or statistical hypothesis. It is an assumption that is made about the population parameter and than its validity is tested which may or may not be found valid on verification. The act of verification involves testing the validity of such assumption is called testing of significance or testing of hypothesis" (*Sharma, P.K. and Chaudhary A.K. (2058). Statistical Methods (1st Ed.). Kathmandu: Khanal Books Prakashan, p. 229.*)

i. T-test for testing significance of an observed correlation coefficient:

When the size of sample is small, less than 30, we have to use t-test for testing the significance of the given statistics. If we have to test the hypothesis that the correlation coefficient of the population is significant or the variable in the statistics (population) are correlated, we have to apply the following test:

Suppose a random sample of size n has been drawn from a bivariate normal population and let r the observed sample correlation coefficient. The problem is to find if this sample correlation coefficient r is significant of any correlation between the variables in the population or it is just due to fluctuations of sampling.

Null Hypothesis: $H_0: \rho = 0$ i.e. the variables are uncorrelated in the population

Test statistic,
$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \sim t_{n-2}$$

Where,

r = correlation coefficient

n = no. of observation

Here t is based on $(n-2)$ degree of freedom (df) i.e. $\hat{\nu} = n-2$

If the calculated value of t exceeds $t_{0.05}$ for $\hat{\nu}$ degree of freedom. We say that there is a relationship at 5 % level of significance. If $t < t_{0.05}$ the data are consistent with the hypothesis of an uncorrelated population.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The purpose of analysis the data is to change it from an unprocessed form to an understandable presentation. The collected data need to be aggregate into a form that represents the summary of answers from respondents. The general purpose of this chapter is to examine the processes by which the meaning and implications of research data has be extracted.

This chapter entitled presentation, analysis and interpretation of data. In this chapter it utilizes the processed data tools and techniques of working capital analysis, as described in research methodology to achieve the objectives of the study. Objectives of this study are to find out the solutions of the problems identified. In the course of analysis, data gathered from the various sources has inserted in the tabular form according to their homogenous nature.

The collected and organized data should be analyzed through different tools and techniques and interpreted. These data has presented in the tabular form, diagram or the graphical form for the analysis through different statistical and financial tools. The data have been analyzing by using financial and statistical tools.

The services provided by BOKL are similar to those provided by other commercial banks. Banks of Kathmandu ltd have been passing through a very tough phase. Data of the fiscal year 2005/06 to 2010/11 have been presenting and analyzing. It covers to analyze the ratio as well as trend and composition of working capital, which means current assets, current liabilities, liquidity, turnover, leverage and profitability of BOKL. It also uses correlation analysis, with the help of these analysis we can know the working capital as well as financial position of BOKL.

Companies with negative working capital may lack the fund necessary for growth and further activities. Working capital is defining as the difference between current assets and current liabilities. Working capital refers to the resources of the firm. Which has used to conduct day-to-day operation that makes business successful? In general,

companies that have a lot of working capital will be more successful since they can expand and improve their operations.

Working Capital = Current Assets – Current Liabilities

4.1.1 Components of Current Assets

We require different types of current assets for our day to day operation current assets refers to those assets that are cash or can be converted into cash within a year. The composition of current assets or the main components of current assets at BOKL are cash and bank balance, loan and advances and government securities. Miscellaneous current assets are also a component of current assets. Prepaid expenses, outstanding income like interest receivable money at call or short notice and other currents assets are included in miscellaneous current assets. The following table shows the amount of cash and bank balance, loan and advance, government securities and miscellaneous assets of Bank of Kathmandu Limited.

Table 4.1
Component of Current Assets of BOKL

Rs. in Million

fiscal year	cash and bank	loan and advance	government securities	misc. current assets	total current assets
2005/06	728.70	7259.08	2658.37	787.28	11433.43
2006/07	1315.90	9399.33	2332.04	540.34	13587.61
2007/08	1440.47	12462.63	2113.22	202.60	16218.92
2008/09	2182.11	14647.30	1744.97	424.91	18999.29
2009/10	1798.38	16664.93	2954.93	1136.29	22554.53
2010/11	1678.93	17468.19	4002.14	797.04	23946.30

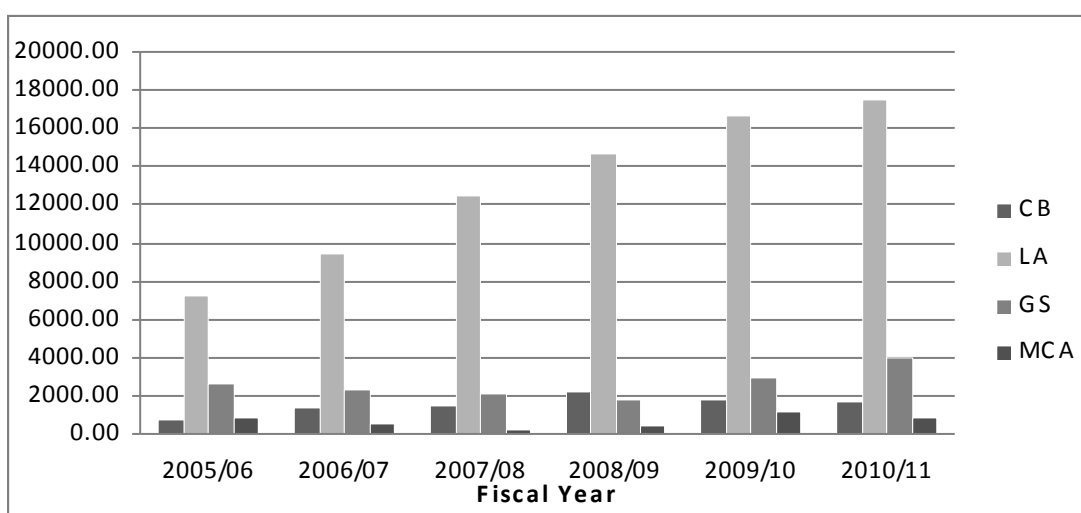
Sources Annual report of BOKL from 2005/06 to 2010/11

Above table 4.1 shows that the component of current assets of BOKL consist cash and bank balance, loan and advances, government securities and miscellaneous current assets. In fiscal year 2005/06, total current assets of the bank was amounted to Rs. 11433.43 million which included Rs. 728.70 million of cash and bank balance, Rs.

7259.08 million of loan and advances, Rs. 2658.37 million of government securities and 787.28 million of miscellaneous current assets. CA of the bank increases all the five year continuously. In the end of the FY 2010/11, it has reached to Rs. 23946.30 million, which included Rs. 1678.93 million of cash and bank balance Rs. 17468.19 million of loans and advance Rs. 4002.14 million of government securities and Rs. 797.04 million of miscellaneous current assets respectively.

Figure 4.1

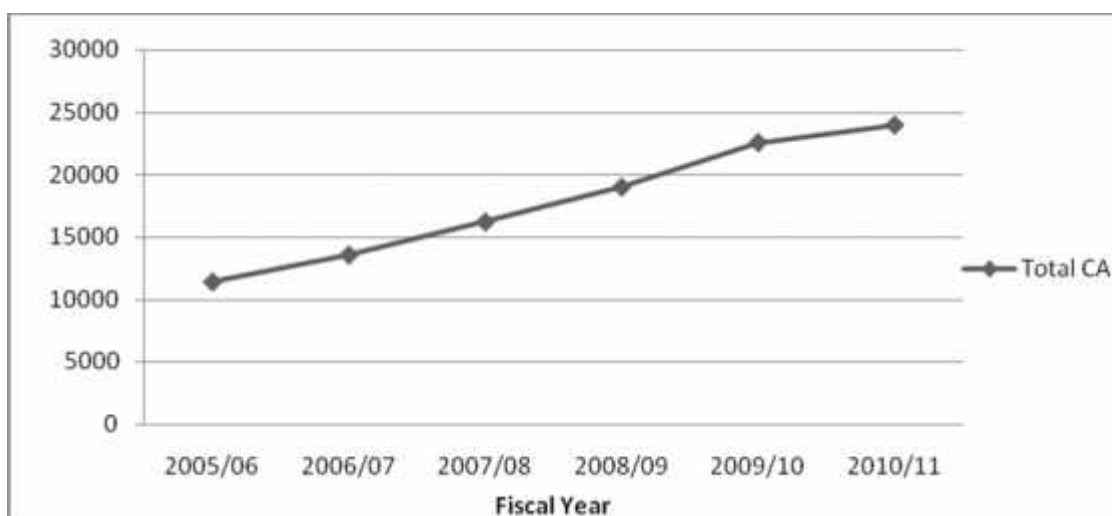
Components of Cash & Bank, Loan & Advance, Government securities and Miscellaneous Current Assets.



Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above figure 4.1 shows that the component of cash and bank increase up to FY 2008/09 and then decreased. Loan and Advance increases all Six years from FY 2005/06 to 2010/11. Government Securities smoothly decreases down ward up to FY 2008/09 and started to increase highly. The trend of miscellaneous current assets is fluctuating over the study period.

Figure 4.2



Sources: Annual Report of BOKL from 2005/06 to 2009/10

As stated in above figure 4.2, Total Current Assets of the BOKL increases all the five year from FY 2005/06 to 2010/11. In the case of FY 2010/11, increasing trend is lower over the fiscal period. In addition, it seems continuously increasing up to study period.

4.1.2 Component of Current Liabilities

Current liabilities is a short-term obligation which is payable within a year. The composition of current liabilities of the main components of current liabilities at BOKL is deposits, short-term loan, bills payables and miscellaneous current liabilities. Tax provision, staff bonus, proposed dividend payable and other current liabilities are included in miscellaneous current liabilities. The following table shows the Current Liabilities of BOKL.

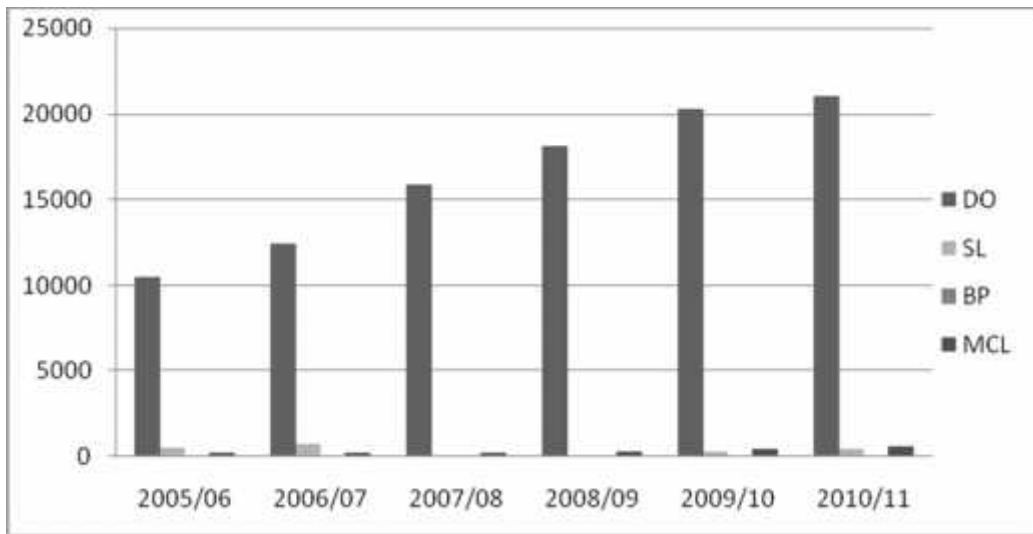
Table 4.2**Components of Current Liabilities of BOKL****Rs. in Million**

Fiscal Year	Deposits & other a/c	Short term loan	Bills Payable	Mis. Current Liabilities	Total CL
2005/06	10485.36	553.18	11.62	188.43	11238.59
2006/07	12388.93	730.00	25.78	243.42	13388.13
2007/08	15833.74	100.00	51.58	194.54	16179.86
2008/09	18083.98	100.00	51.12	319.31	18554.41
2009/10	20315.83	300.00	35.70	417.12	21068.65
2010/11	21018.41	464.90	19.05	620.19	22122.55

Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above table, it has found that, the component of current liabilities, which consists Deposit and Other accounts, Shorts term Loan, Bills Payable and Miscellaneous CL. Total Current Liabilities, is gradually increasing up to FY 2010/11. In the FY 2005/06, the total amount of current liabilities is Rs. 11238.59 million. For the increasing impact of deposit and other a/c the total amount of current liabilities also be increased in all five fiscal year. At the end of FY 2010/11, the current liabilities of BOKL reached to Rs. 22122.55 million, which included Rs. 21018.41 million of deposit and other accounts Rs. 464.90 million of short term loans, Rs. 19.05 million of bills payable and Rs. 620.19 million of miscellaneous current liabilities respectively.

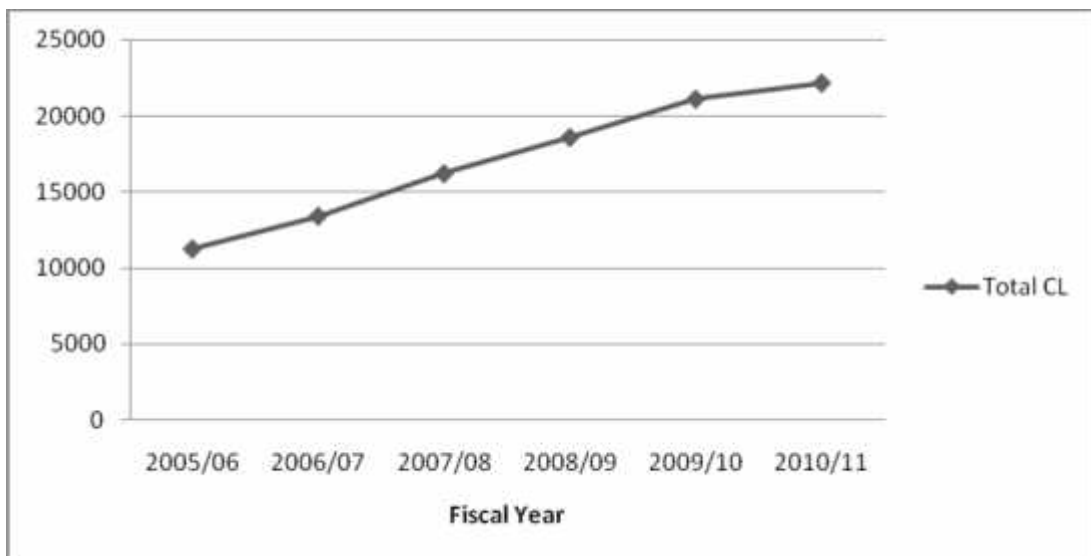
Figure 4.3



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above 4.3, it has found that the component of deposit and other a/c is gradually increasing up to fiscal year 2010/11. Other component of current liabilities short term loan is increased up to FY 2006/07 and then decreased, In FY 2007/08 and 2008/09 it's remain constant after that it has increased. The increasing trend of bills payable is increasing up to FY 2007/08, slightly decreases in FY 2008/9, and then decreased up to the study period. Next component miscellaneous current liability increased from FY 2008/09 to 2010/11. First three years its trend is fluctuating.

Figure 4.4



Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above figure 4.4 shows that the current liabilities of BOKL are in increasing in the same trend or continuously. In other words, it seems that its increasing trend ratio is same up to FY 2009/10 and its increasing ratio is lower in FY 2010/11.

4.1.3 Working capital of BOKL

It is no doubt that no organization can achieve its goal without proper use of working capital. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank and determining which one is more beneficial to the bank and which is not. The following table shows the amount of working capital of BOKL of the study period. Working capital is required to run the business smoothly and efficiently in the context of set objectives.

Table 4.3

Net Working Capital of BOKL

Rs. in million

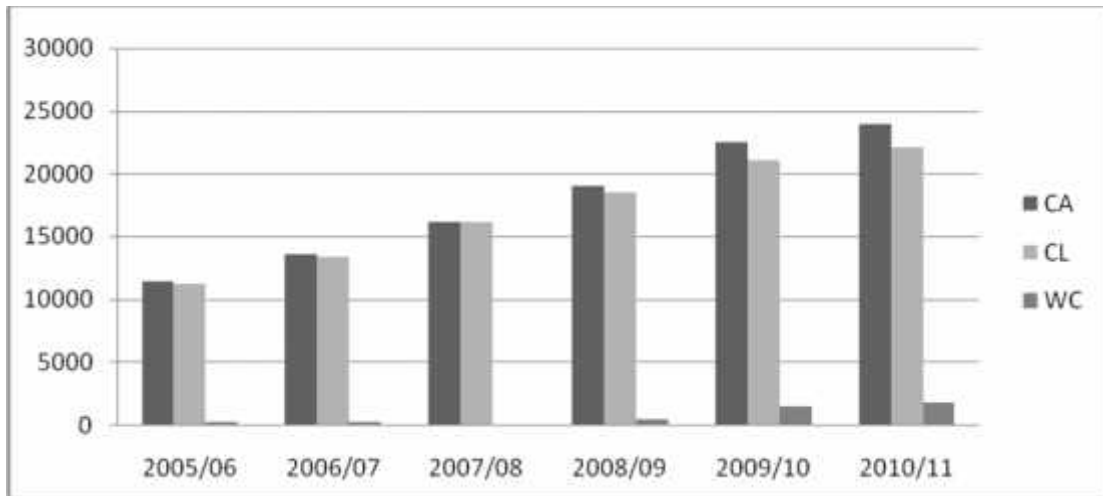
Fiscal Year	Total Current Assets	Total Current Liabilities	WC = CA -CL
2005/06	11433.43	11238.59	194.84
2006/07	13587.61	13388.13	199.48
2007/08	16218.92	16179.86	39.06
2008/09	18999.29	18554.41	444.88
2009/10	22554.53	21068.65	1485.88
2010/11	23946.30	22122.55	1823.75

Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above table, we clearly show that the working capital condition of the bank from FY 2005/06 to 2010/11. The BOKL has increased working capital from Rs 194.84 million to Rs 1823.75 million from the FY2005/06 to 2010/11. In FY 2006/78, the bank slightly increased its working capital up to 199.48. Similarly, in FY 2007/08 the working capital decreased by 160.42 million but in FY 2008/09 the working capital of the bank was increased and reached to Rs. 444.88 million. At the end of

study period, working capital of the bank was increased and amounted to Rs. 1823.75 million.

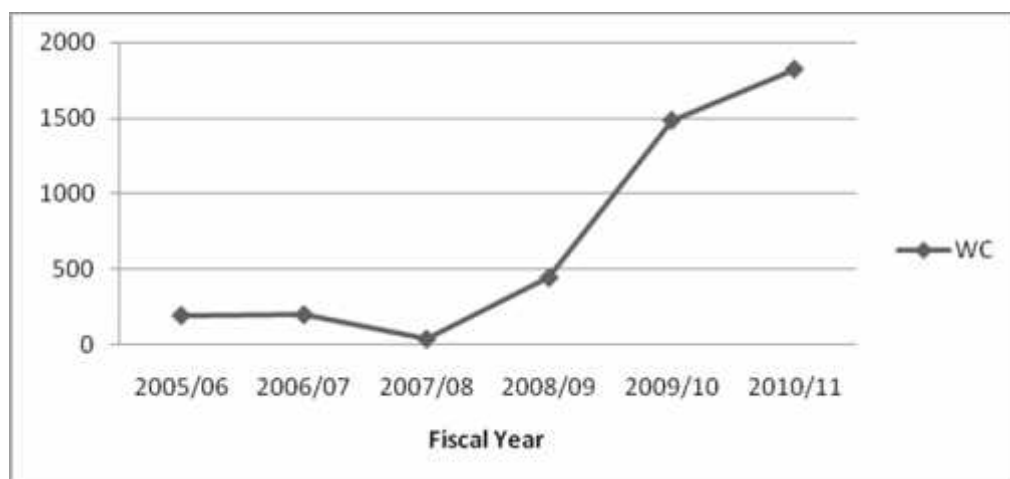
Figure 4.5



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above figure, we clearly see the current assets, current liabilities and working capital condition of BOKL from fiscal year 2005/06 to 2010/11. First three years the condition of working capital was not satisfactory level. From FY 2008/09 to 2010/11 its increasing trend is good. All the study period the working capital of the bank is positive. The working capital shows the liquidity position of any organization i.e. higher the working capital higher the liquidity position and vice versa.

Figure 4.6



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In stated above figure shows the net working capital of the BOKL slightly increased in FY 2006/07 and decreased in FY 2007/08. From the FY 2007/08 it is continually increasing up to FY 2010/11.

The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa. Therefore, above figure status that the liquidity of the BOKL was not so good in first three year and after that, its position is seems too good. However, it has positive working capital all of the study period.

4.2 Liquidity Ratio

This ratio measures the liquidity position and short-term solvency of the form, which measures ability of the firm to meet its short-term obligations. These ratios have calculated to judge the long term as well as short term financial position of concerned firm. Liquidity of any business organization has directly related with working capital of current assets and current liabilities of that organization. Commercial banks need liquidity to meet loan demand and deposit withdrawals. Here major liquidity ratios have been considering.

4.2.1 Current Ratio

Current ratio reflects the strength of current assets available with the company over its current liabilities in to cash in one accounting year. This ratio indicates the current short-term solvency position of the bank. In other words, current ratio represents a margin of safety.

As theoretical norm a current ratio of 2:1 is, consider the higher current ratio indicates the better liquidity position. It has calculated as follows:

Table 4.4
Current Ratio of BOKL

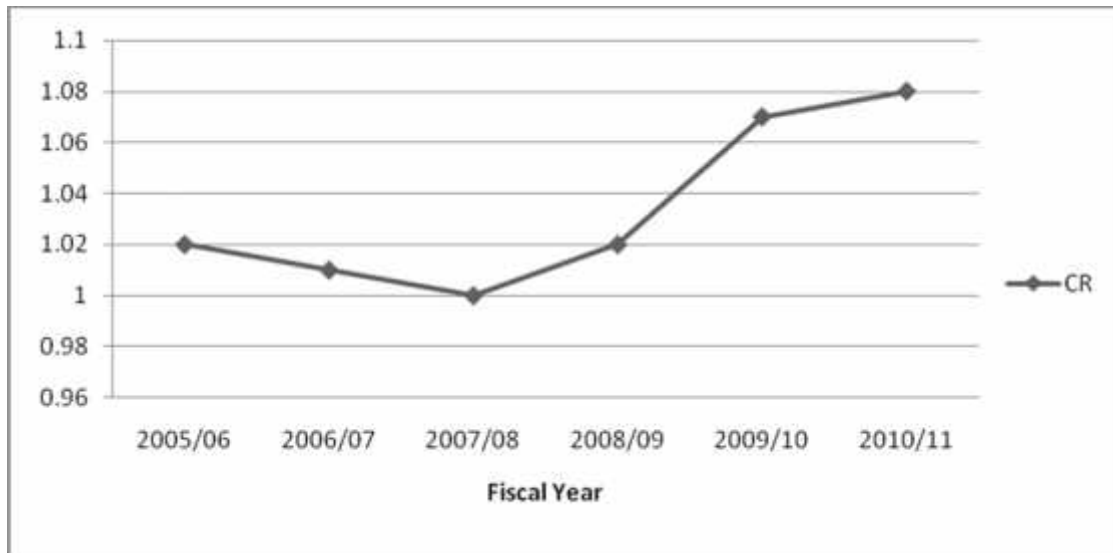
Rs. in million

Fiscal Year	Total CA	Total CL	Current Ratio
2005/06	11433.43	11238.59	1.02
2006/07	13587.61	13388.13	1.01
2007/08	16218.92	16179.86	1.00
2008/09	18999.29	18554.41	1.02
2009/10	22554.53	21068.65	1.07
2010/11	23946.30	22122.55	1.08

Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above table shows the CA, CL and CR of BOKL. The highest current ratio is 1.08 in the FY 2010/11. The lowest current ratio is 1.00 in FY 2007/08. In FY 2005/06 and 2008/09 has the same ratio is 1.02.

Figure 4.7



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above figure shows the condition of current ratio of BOKL. The Current Ratio of the bank has decreased first three year up to FY 2007/08. Then, it has been increasing over the study period. At the end of the study period it reached highest ratio is 1.08.

The above analysis helps to find out the liquidity position of the bank. In current ratio, for many types of business 2:1 has considered an adequate ratio. It indicates that the bank has sufficient liquidity to remain solvent even at the ratio of 1.08:1 in FY 2010/11. It is true that the higher the ratio supposedly the greater the ability of a firm to pay its bills.

4.2.2 Quick / Acid Test Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it has converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid. Other assets, which has considered relatively liquid and included in quick assets, are book debts or money at call or short notice and marketable securities. Under this study cash and bank balance, money at call and government securities have considered in quick assets. This quick ratio has calculated by dividing the quick assets by current liabilities.

Table 4.5

Quick Ratio of BOKL

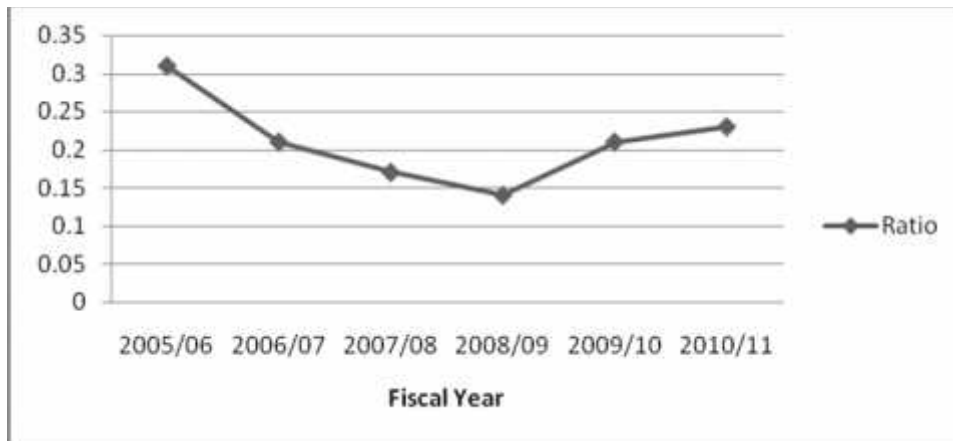
Rs. in million

Fiscal Year	Total QA	Total CL	Quick Ratio
2005/06	3436.44	11238.59	0.31
2006/07	2810.36	13388.13	0.21
2007/08	2722.65	16179.86	0.17
2008/09	2553.40	18554.41	0.14
2009/10	4342.10	21068.65	0.21
2010/11	5024.43	22122.55	0.23

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above table shows that quick ratio of BOKL has 0.31 in FY 2005/06 and it decreased up to 2008/09. The smallest figure of ratio has 0.14 in FY 2008/09. Then after it has started to increase and stands at 0.23 in FY 2010/11.

Figure 4.8



Sources: Annual Report of BOKL from 2005/06 to 2010/11

Above figure shows that, the trend of quick ratio. First four year it has been continually decreasing. After that, it has increased last two years. The high ratio shows that the bank has enough liquidity position, which can convert quickly with in a particular time. From the analysis, the bank has normal condition of quick ratio. From the above analysis has shows that the liquidity position or strength of liquidity of the bank. It is not so quiet position of liquidity.

4.2.3 Cash & Bank balance to Current Assets Ratio

This ratio has shows that the percentage of current assets covers cash & bank balance. The cash & bank balance is almost liquid form of the current assets. This ratio shows the percentage of readily available fund with the banks. It has calculated as follows:

Table 4.6

Cash & Bank balance to Current Assets Ratio

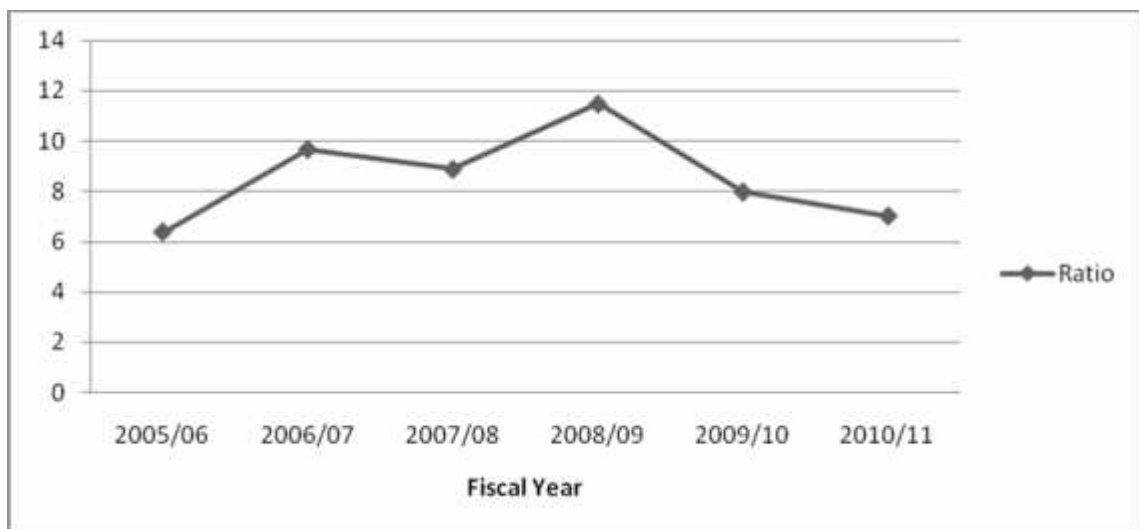
Rs. in million

Fiscal Year	Cash & Bank	Current Assets	Ratio(%)
2005/06	728.70	11433.43	6.37
2006/07	1315.90	13587.61	9.68
2007/08	1440.47	16218.92	8.88
2008/09	2182.11	18999.29	11.49
2009/10	1798.38	22554.53	7.97
2010/11	1678.93	23946.30	7.01

Sources: Annual Report of BOKL from 2005/06 to 2010/11

Above table shows that, the condition of cash & bank balance to current assets ratio. Current assets are continually increasing. The condition of cash & bank is fluctuating, its impact shows in ratio. Thus, the ratio has increased in FY2006/07 and decreased in next year also increased following year then decreasing up to 2010/11 fiscal year over the study period. The lowest ratio is in FY 2005/06 and the highest ratio is in FY 2008/09.

Figure 4.9



Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above figure shows that, the fluctuating trend of cash and bank balance to current assets ratio. From the 2008/09, it started continually decrease.

Above analysis, contribute to conclude that cash and bank balance position with respect to current assets of BOKL is in moderate condition. The high amount of cash and bank balance is also not so good because it cannot gives the any earning. It is an idle amount for banks.

4.2.4 Cash & Bank balance to Deposit Ratio (Excluding Fixed Deposit)

The ratio shows the ability of banks immediate funds to cover their deposits. It has calculated by dividing cash and balance by deposits (excluding fixed deposit). The ratio has expressed as follows:

Table 4.7

Cash and Bank to Total Deposit Ratio (Excluding Fixed Deposit)

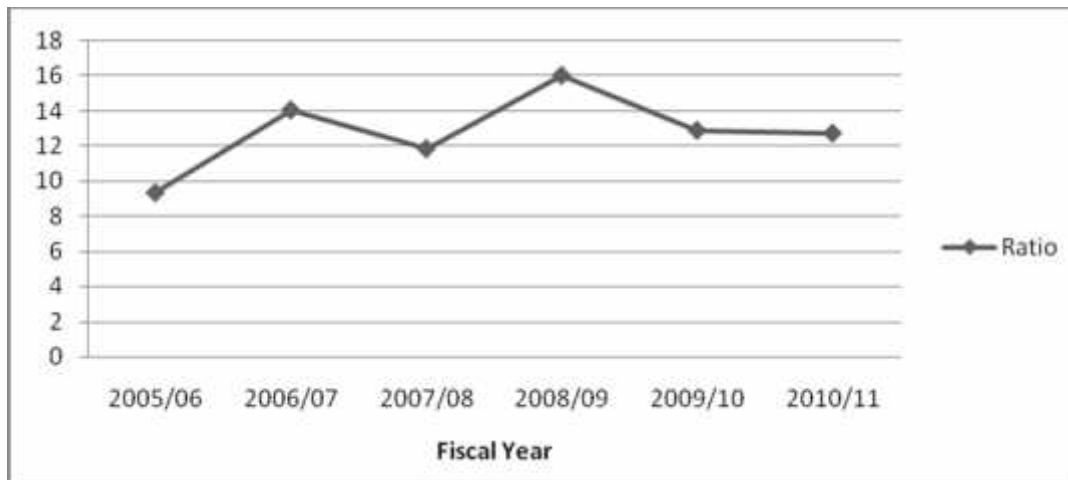
Rs. in million

Fiscal Year	Cash & Bank	Total Deposit	Ratio
2005/06	728.7	7775.61	9.37
2006/07	1315.9	9351.76	14.07
2007/08	1440.47	12130.56	11.87
2008/09	2182.11	13609.36	16.03
2009/10	1798.38	13932.25	12.91
2010/11	1678.93	13168.16	12.75

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above table shows the position and ratio of cash and bank to total deposit of BOKL from FY 2005/06 to 2010/11. Cash and bank is continually increasing up to FY 2008/09 then it started to decrease. Same way total deposit has slightly decreased in FY 2010/11. Likewise, beginning of the study period it has lowest ratio, which is 9.37. The highest ratio is 16.03 in FY 2008/09

Figure 4.10



Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above figure shows that the cash & bank balance to total deposit ratio (except fixed deposit) of BOKL was fluctuating over the study period. In other words, the fluctuating trend of cash and bank balance to total deposit ratio has shown in figure. Where, the ratio has been continually fluctuating up to study period.

The above analysis helps to find out the ability of banks immediate funds to cover its current margin, call and saving deposits of the bank. On the other hand, the liquidity position of the bank. However, the large amount of idle cash and bank balance directly affect the profitability of the bank. The position of BOKL is not so satisfactory level over the study period.

4.2.5 Saving Deposits to Total Deposits Ratio

Saving deposits is interest bearing short-term deposit. The ratio has developed in order to find out the proportion of saving deposit, which is interest bearing and short in natures. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which has given as bellow.

Table 4.8
Saving Deposit to Total Deposit Ratio

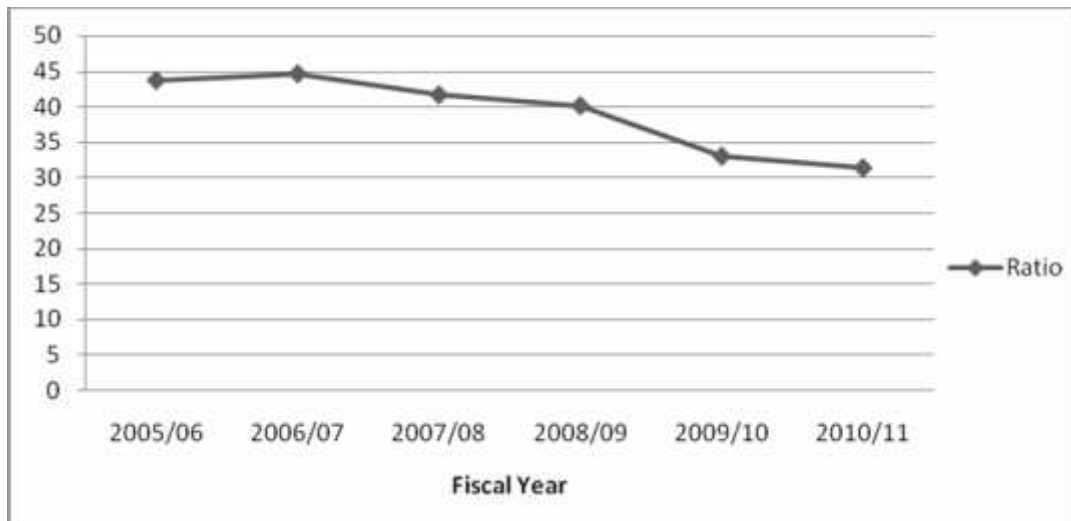
Rs. in million

Fiscal Year	Saving Deposit	Total Deposit	Ratio (%)
2005/06	4581.96	10485.36	43.70
2006/07	5527.29	12388.93	44.61
2007/08	6596.11	15833.74	41.66
2008/09	7260.31	18083.98	40.15
2009/10	6723.17	20315.83	33.09
2010/11	6607.56	21018.41	31.44

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above table shows that the amount of saving deposits is gradually increasing up to FY 2008/09. Then after, it has decreased. The amount of total deposits is continually increasing during the study period. The ratio in initial year has 43.70 percent and the 31.44 percent in final year during the study period.

Figure 4.11



Sources: Annual Report of BOKL from 2005/06 to 2010/11

As stated in above figure, the saving deposit to total deposit has increased in FY 2006/07. Then after it has smoothly decreasing trend up to FY 2010/11.

The large portion of saving deposit in total deposit shows the liquidity of the bank. It means higher the ratio higher the liquidity position of the bank and vice versa. Bank also pays interest on saving deposit. In other hand higher saving deposit increased interest obligation to the bank. The higher ratio decreased the profitability. From the viewpoint of profitability, the lower ratio is preferable.

From the above analysis, the ratio of BOKL seems satisfactory level over the study period.

4.3 Activity or Turnover Ratio

The fund of creditors and owners has invested in various assets to generate sales and profit. Activity ratios have used to evaluate the efficiency with which the firm manage and utilizes its assets. This ratio indicates how quickly certain assets have converted into cash. These ratios have also employed to evaluate the speed with which assets have being converted and turnover. These ratios moreover help in measuring the bank's ability to utilize their available resources. Following ratios have used under the activity ratio.

4.3.1 Loan and Advances to Total Deposit Ratio

This ratio assess to what extent the banks are able to utilize the depositor's funds to earn profit by providing loan and advances. It is has computed dividing the total amount of loan and advance by total deposited funds. The ratio has computed as follows:

The following table and figure shows the effectiveness in utilization of total deposits of BOKL.

Table 4.9

Loan and Advance to Total Deposit Ratio

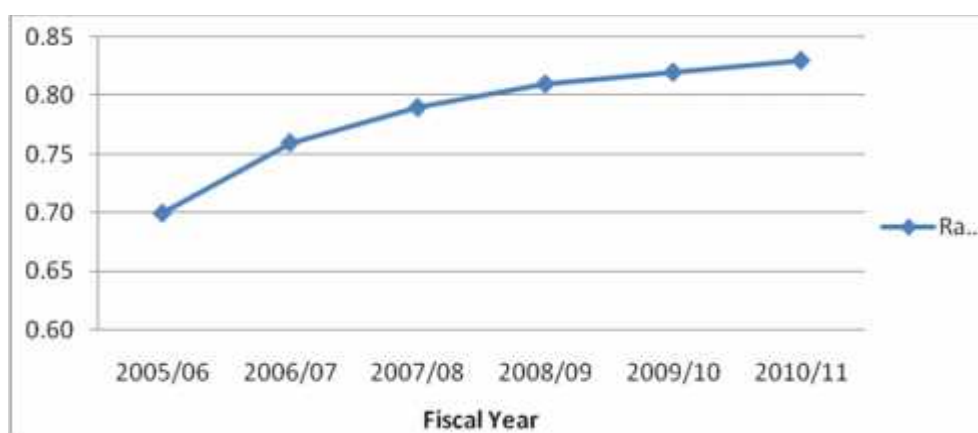
Rs. in million

Fiscal Year	Loan & Advance	Total Deposit	Ratio (times)
2005/06	7259.08	10435.36	0.70
2006/07	9399.33	12388.36	0.76
2007/08	12462.63	15833.93	0.79
2008/09	14647.30	18083.98	0.81
2009/10	16664.93	20315.83	0.82
2010/11	17468.19	21018.41	0.83

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above table shows the position and ratio of loan and advances and total deposit of BOKL from fiscal year 2005/06 to 2010/11. The loan and advance of the bank has been gradually increasing all the six fiscal years. Similarly, total deposit of the bank also was increasing in whole fiscal year. Likewise, the loan and advance to total deposit ratio also has increasing gradually over the whole study period.

Figure 4.12



Sources:

Annual Report of BOKL from 2005/06 to 2010/11

Above figure states that the loan and advance to total deposit ratio was increasing trend all of the study period. The ratio has increased highly first two years then its increasing trend is diminishing although it is increased. It also shows that the ability of bank to grand loan to earn profit.

From the above analysis, loan and advances to total deposit ratio clearly shows the capacity of the bank to mobilize its deposits. In initial, the bank has low

capacity to grand loan and advances. The bank has able to increase its deposit utilize and satisfactory level.

4.3.2 Loan and Advances to Fixed Deposit Ratio

This ratio examines that how many times the funds is used a loan and advances against fixed deposits. Fixed deposits are interest bearing long-term obligation where loans and advances are the major sources of investment to generate income for the commercial banks. A low ratio indicates the idle cash balance. It means total funds not properly utilized. This ratio computed as follows:

Table 4.10

Loan and Advance to Fixed Deposit

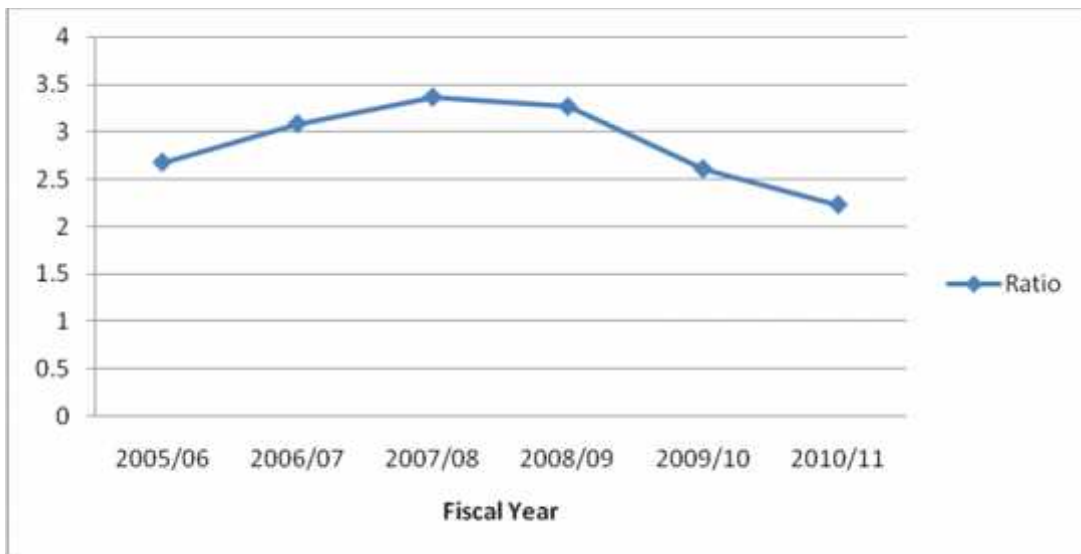
Rs. in million

Fiscal Year	Loan & Advance	Fixed Deposit	Ratio (Times)
2005/06	7259.08	2709.75	2.68
2006/07	9399.33	3037.17	3.09
2007/08	12462.63	3703.18	3.37
2008/09	14647.30	4474.62	3.27
2009/10	16664.93	6383.58	2.61
2010/11	17468.19	7850.25	2.23

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above table shows that the loan and advances to fixed deposit ratio of BOKL has increased up to 2007/08. Then after, it gradually decreased up to FY 2010/11. Although both component loan & advance and fixed deposits have continually increased, the trend of ratio has increased and decreased. The higher ratio is 3.37 and lower ratio is 2.23.

Figure 4.13



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above figure clearly shows that the trend of ratio has been increasing first three years up to FY 2007/08 and then decreased up to FY 2010/11. The decreasing trend is higher than increasing trend.

The above analysis shows that, the utilization of fixed deposit in loan and advances efficiently or not. The highest ratio implies the efficient mobilization of fixed deposit and vice versa. From the above trend analysis, we can conclude that the BOKL has been mobilizing its fixed deposit not satisfactory.

4.3.3 Loan and Advance to Saving Deposit Ratio

This ratio has also employed for measuring the utilization of saving deposits in generating revenue by giving loan and advances to their client. Saving deposits are interest bearing short-term obligation where loan and advances are the major sources of investment to generate income revenue for the commercial banks. Thus, ratio indicates how many times the short term interest-bearing deposit has utilized for income generating purpose. The following formula has used to determine this ratio.

Table 4.11
Loan and Advance to Saving Deposit Ratio

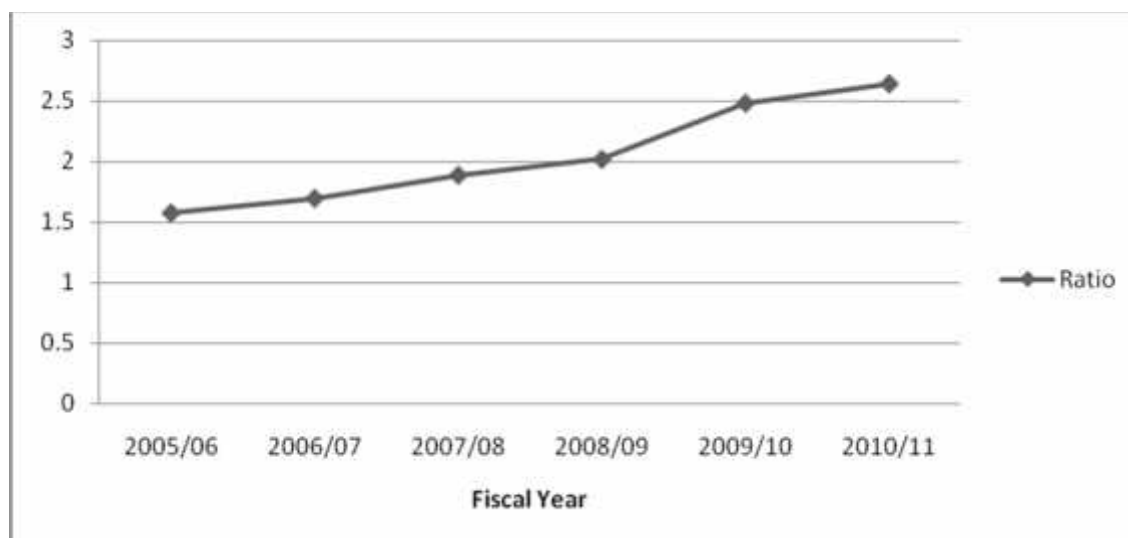
Rs. in million

Fiscal Year	Loan & Advance	Saving Deposit	Ratio (Times)
2005/06	7259.08	4581.96	1.58
2006/07	9399.33	5527.29	1.70
2007/08	12462.63	6596.11	1.89
2008/09	14647.30	7260.31	2.02
2009/10	16664.93	6723.17	2.48
2010/11	17468.19	6607.56	2.64

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above table shows that the loan and advance to saving deposit ratio of BOKL. In FY 2005/06, it has 1.58 and gradually increasing up to FY 2010/11. Final year of the study period it has reached to 2.64, which is the highest ratio over the period.

Figure 4.14



Sources: Annual Report of BOKL from 2005/06 to 2010/11

Above figure states that the loan and advance to saving deposit ratio of BOKL has been increasing up to FY 2010/11. It shows that utilization capacity of the bank for grinding loan and advances.

It means the higher ratio is preferable than lower. From the above analysis, it can be concluded that the saving deposits of the bank has been effectively utilized in loan and advances.

4.4 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desire profit. Various profitability ratios have calculated to measure the operating efficiency of business enterprises. These ratios have mostly used to compare the performance of the bank in different years. Through profitability, ratio the lender and investors decide whether invest in a particular business or not. To find out the operating efficiency of the BOKL the following profitability ratios are calculated.

4.4.1 Interest Earned to Total Assets Ratio

It is the ratio, which formed to find out the percentage of the interest earned to total assets. This has derived by dividing the amount of interest earned by the total assets of the firm.

Table 4.12

Interest Earned and Total Assets Ratio

Rs. in million

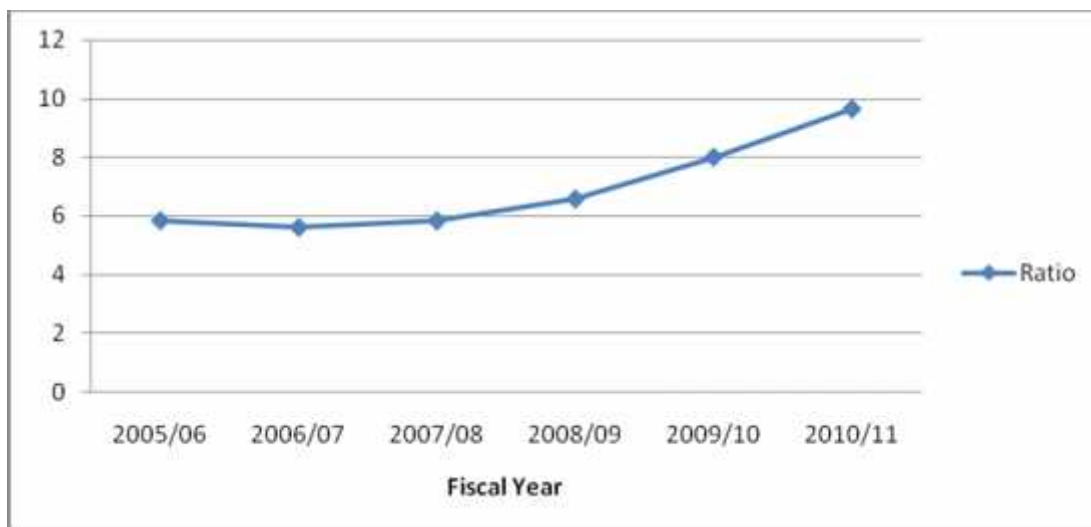
Fiscal Year	Interest Earned	Total Assets	Ratio (%)
2005/06	718.12	12278.33	5.85
2006/07	819.00	14570.10	5.62
2007/08	1034.16	17721.93	5.84
2008/09	1347.76	20496.01	6.58
2009/10	1870.85	23396.20	8.00
2010/11	2386.78	24757.75	9.64

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above shows that the amount of interest has been increasing trend of BOKL over the study period. The amount of total assets also has been increasing all years. The interest earned to total assets ratio of the bank has slightly decreased in FY 2006/07

then after it has been continually increasing up to the final year. The highest ratio is 9.64 in FY 2010/11 and the lowest ratio is 5.62 in FY 2006/07.

Figure 4.15



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above figure shows, that the interest earned to total assets ratio of BOKL has slightly decreased in FY 2006/07. After that its increasing trend is seems too good. In other words, its increasing trend is higher than higher in the following years.

Form the above analysis we can conclude that, the capacity of the bank to earn interest is improving level. It shows the bank is able to utilize its assets. We also analyze that interest earning of BOKL is satisfactory and increasing trend so it is quite ok.

4.4.2 Net profit to Total Assets Ratio.

This ratio is very much crucial for measuring the profitability of the funds invested in the bank's assets. It measures the return of assets. This has computed by using following formula.

Table 4.13

Net Profit and Total Assets Ratio

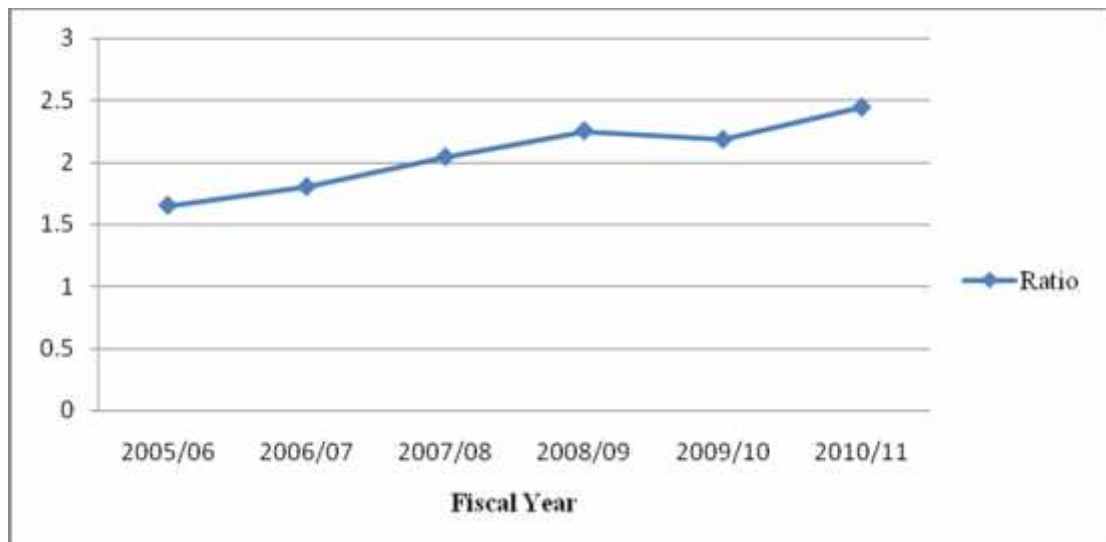
Rs. in million

Fiscal Year	Net Profit	Total Assets	Ratio (%)
2005/06	202.44	12278.33	1.65
2006/07	262.39	14570.10	1.80
2007/08	361.5	17721.93	2.04
2008/09	461.73	20496.01	2.25
2009/10	509.26	23396.20	2.18
2010/11	605.15	24757.75	2.44

Sources: Annual Report of BOKL from 2005/06 to 2010/11

As shown in the above table the net profit and total assets have been continually increasing. However, the ratio has slightly decreased in FY 2009/10. The lowest ratio obtains 1.65 in FY 2005/06 and the highest ratio has 2.44 in FY 2010/11. Although the increment of both variables the ratio has decreased in one fiscal year all the study period.

Figure 4.16



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above figure shows that the increasing trend of the net profit to total assets ratio is in increasing trend although it has slightly decreased in FY 2008/09. The bank has progressive trend to earn profit.

Above analysis helps to find out whether the bank efficiently used its working funds. Alternatively, total assets to earn higher rate of profit or not. The increment trend of this ratio of net profit to total assets of BOKL implies that the bank has not success to use its available working funds effectively over the study period. Higher ratio indicates the higher profit margin, which signifies towards the smooth growth rate of the bank.

4.4.3 Net profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return from the deposits. It has computed dividing the net profit by total deposits. Higher ratio indicates the returns from investment on advances are desirable and lower ratio indicates the funds are not properly mobilizing. The following formula has used to calculate this ratio.

Table 4.14
Net Profit to Total Deposit Ratio

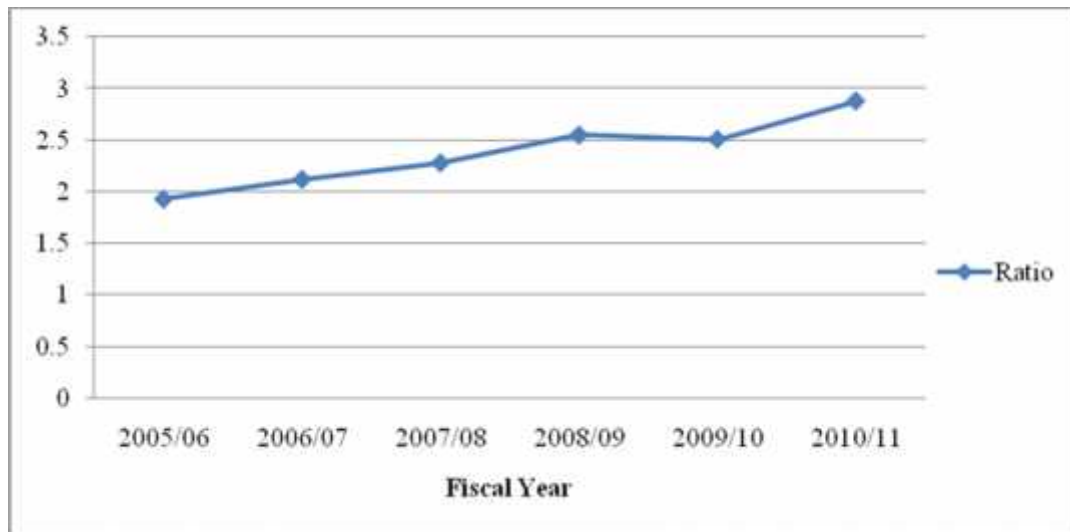
Rs. in million

Fiscal Year	Net Profit	Total Deposits	Ratio (%)
2005/06	202.44	10485.36	1.93
2006/07	262.39	12388.93	2.12
2007/08	361.50	15833.74	2.28
2008/09	461.73	18083.98	2.55
2009/10	509.26	20315.83	2.51
2010/11	605.15	21018.41	2.88

Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above table shows that the components, net profit and total deposits have been gradually increasing. In the case of net profit to total deposit ratio has continually increasing up to FY 2008/09 and it has slightly decreased in FY 2009/10 and also increased and stands at 2.88 percent which has the highest ratio all over the study period. The lower ratio is 1.93 percent in the first study period.

Figure 4.17



Sources: Annual Report of BOKL from 2005/06 to 2010/11

In the above figure, it clearly shows that the net profit to total deposit ratio is increasing trend, it has unknowingly decreased in FY 2009/10. In addition, it has increased. It also shows that the profit earning has progressive trend of the bank.

Above analysis, helps to find out whether the bank could able to mobilize of outsiders fund properly or not. The mobilization of outsiders fund is very important to earn profit for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank mobilized its deposit as efficiently as possible. As shown in figure we can easily conclude that the bank progressive level to mobilize its deposit or outsiders fund.

4.4.4 Net profit to Shareholders Equity Ratio

This ratio has calculated to evaluate the profitability of owner's investment. In other words, it tells us the earning power on shareholders' investment and frequently used in comparing two or more firms in an industry. This ratio has commonly known as return on equity. It has calculated by dividing the net profit by net worth. This has calculated as follows:

Table 4.15

Net profit to Shareholders Equity Ratio

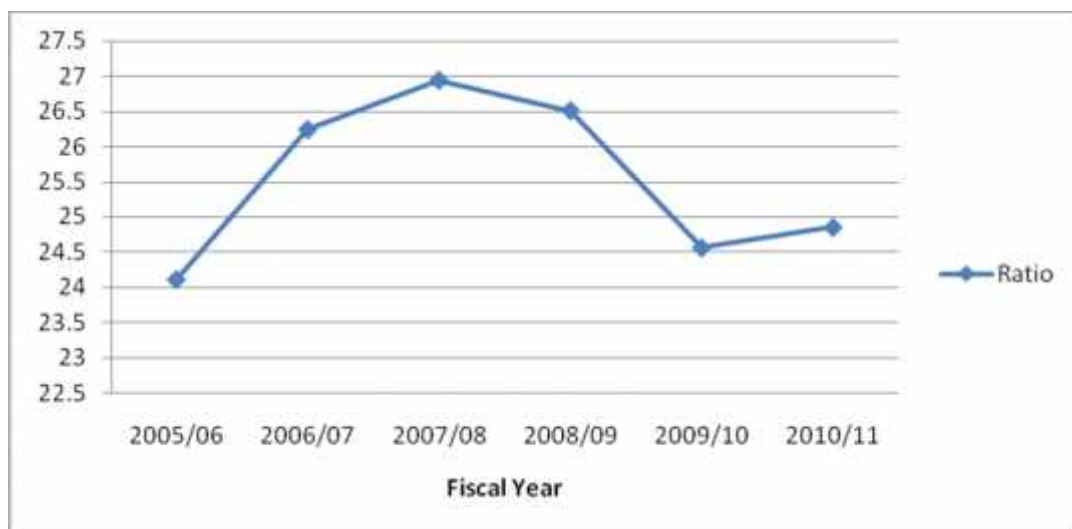
Rs. in million

Fiscal Year	Net Profit	Net Worth	Ratio (%)
2005/06	202.44	839.73	24.11
2006/07	262.39	993.27	26.42
2007/08	361.50	1342.07	26.94
2008/09	461.73	1741.59	26.51
2009/10	509.26	2073.53	24.56
2010/11	605.15	2435.19	24.85

Sources: Annual Report of BOKL from 2005/06 to 2010/11

As shown in the above table the net worth of the bank has gradually increasing up to FY 2010/11. The first FY it has 839.73 million and final FY it amounted to 2435.19 million. In the same way, the net profit also continually increases up to the whole study period. However, the ratio has fluctuating trend. The lowest ratio has 24.11 percent in FY 2005/06 and highest ratio has 26.94 percent in FY 2007/08.

Figure 4.18



Sources: Annual Report of BOKL from 2005/06 to 2010/11

The above figure we can clearly show that the ratio has been increasing first three fiscal years up to 2007/08. It has decreased up to FY 2009/10. At the end of the study period, the ratio has increased.

From the above analysis, we can conclude that the net profit to shareholders equity of the BOKL has not so good level. This ratio has calculated to evaluate the effectiveness of the owner's investment, which indicated how well the firm has used the resources of the owners. It is important ratio, which helps to maximize the shareholders welfare and is an important indicator of financial performance.

4.5 Correlation Analysis

Correlation analysis is statistical relation between two or more variables such that systematic changes in the value of one variable it accompanied by systematic changes in the other. In other words, correlation is the statistical tool that we can use to describe the degree to which one variable has linearly related to another.

Under this analysis, Karl Pearson's method of coefficient of correlation is applied. The coefficient of correlation measures the degree of relation of correlation is always between +1 and -1, when r is +1 it means there is perfect relationship between two variables and vice – versa. When r is 0, it means there is no relationship between two variables.

4.5.1 Coefficient of Correlation between Investment on Government Securities and Total Deposits

The coefficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan and advances but some part of idle deposits have invested on government securities. The purpose of computing correlation coefficient is to justify whether the excess deposits have significantly used in government securities or not, or whether there is any relationship between these two variables. In this analysis, government securities is dependent variable (X) and total deposit is independent variable (Y)

The following table shows the coefficient of correlation between government securities and total deposit of the Bank of Kathmandu Ltd.

Correlation Coefficient (r)	Coefficient of Determination (r ²)
0.442	0.195

Source : Appendix I

The table shows the correlation coefficient and coefficient of determination between investment on government securities and total deposits as calculation shown in annex 1. The value of correlation coefficient r is 0.442, which means that there is positive relationship i.e. 44.2% the coefficient of determination r² is 0.195, which means that 19.5% of the total variation in government securities (dependent variable) has explained by total deposit collection (independent variable).

Significance test or test of hypothesis

Null hypothesis, H₀: = 0 i.e. there is no relationship between government securities and total deposits.

Alternative hypothesis, H₁: ≠ 0 i.e. there is a relationship between government securities and total deposits.

Test statistic: under H₀ the test statistic is,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \sim t_{n-2}$$

Where,

r = correlation coefficient

n = no. of observation

Here t is based on (n-2) degree of freedom (df) i.e. $\hat{df} = n-2$

$$= \frac{0.442}{\sqrt{1-0.195}} \times \sqrt{6-2}$$

$$\therefore t = 0.986$$

Degree of freedom, = n-2 = 6-2 = 4

Level of significance = 5 %

The tabulated value of t for 4 degree of freedom at 5% level of significance for two-tailed test is 2.776 but the calculated value of t is 0.986 Since the calculated value of /t/ is lower than the tabulated value, so null hypothesis is accepted i.e. it is significant and alternative hypothesis H_1 is rejected. That has there is no relationship between deposit collection and investment on government securities.

4.5.2 Coefficient of correlation between Loan & Advance and Total Deposit

The coefficient of correlation between loan & advance and total deposits are to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on bank i.e. total deposit. In correlation analysis, deposit is independent variable (X) and loan & advances is dependent variable (Y). The purpose of computing coefficient of correlation is to justify whether the deposits are significantly used in loan and advances or not and whether there are any relationship between these two variables.

The following table shows the coefficient of correlation between loan & advances and total deposits of Bank of Kathmandu Limited.

Correlation Coefficient (r)	Coefficient of Determination (r^2)
0.9995	0.9991

Source : Appendix II

The table shows the correlation coefficient and coefficient of determination between loan & advance and total deposits as calculation shown in annex 2. The value of correlation coefficient r is 0.9995, which means that there is high degree of positive relationship i.e. 99.95% the coefficient of determination r^2 is 0.9991, which means that 99.91% of the total variation in loan and advance (dependent variable) has explained by total deposit collection (independent variable).

Significance test or test of hypothesis

Null hypothesis, H₀: = 0 i.e. there is no relationship between
Loan & advance with total deposits.

Alternative hypothesis, H₁: 0 i.e. there is a relationship between
Loan & advance with total deposits.

Test statistic: under H₀ the test statistic is,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \sim t_{n-2}$$

Where,

r = correlation coefficient

n = no. of observation

Here t is based on (n-2) degree of freedom (*df*) i.e. $\hat{\nu} = n-2$

$$= \frac{0.9995}{\sqrt{1-0.9991}} \times \sqrt{6-2}$$

$$\therefore t = 66.633$$

Degree of freedom, = n-2 = 6-2 = 4

Level of significance = 5 %

The tabulated value of t for 4 degree of freedom at 5% level of significance for two-tailed test is 2.776 but the calculated value of t is 66.633 Since the calculated value of t is higher than the tabulated value, null hypothesis is rejected i.e. it is not significant and alternative hypothesis H₁ is accepted. That has there is very high relationship between deposit collection and to grand loan and advance.

4.5.3 Coefficient of Correlation between Cash & Bank and Current Liabilities

Cash & bank balance is most liquid component of current assets. Bank require cash and bank balance to meet its short term obligation i.e. current liabilities. The coefficient of correlation between cash & bank balance and current liabilities are calculated to measure the degree of relationship between these two variables. In

correlation analysis, cash and bank is dependent variable (X) and current liabilities are independent variable (Y).

The following table shows the coefficient of correlation between cash & bank balance and current liabilities of Bank of Kathmandu Limited.

Correlation Coefficient (r)	Coefficient of Determination (r ²)
0.7880	0.6209

Source : Appendix III

The table shows the correlation coefficient and coefficient of determination between cash & bank and current liabilities as calculation shown in annex 3. The value of correlation coefficient r is 0.788, which means that there is high degree of positive relationship i.e. 78.80% the coefficient of determination r² is 0.6209, which means that 62.09% of the total variation in cash and bank (dependent variable) has explained by current liabilities (independent variable).

Significance test or test of hypothesis

Null hypothesis, H₀: = 0 i.e. there is no relationship between cash & bank with total deposits.

Alternative hypothesis, H₁: ≠ 0 i.e. there is a relationship between cash & bank with total deposits.

Test statistic: under H₀ the test statistic is,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \sim t_{n-2}$$

Where,

r = correlation coefficient

n = no. of observation

Here t is based on (n-2) degree of freedom (df) i.e. $\hat{df} = n-2$

$$= \frac{0.788}{\sqrt{1-0.6209}} \times \sqrt{6-2}$$

$$\therefore t = 2.559$$

Degree of freedom, $= n-2 = 6-2 = 4$

Level of significance = 5 %

The tabulated value of t for 4 degree of freedom at 5% level of significance for two-tailed test is 2.776 but the calculated value of t is 2.559 Since the calculated value of t is lower than the tabulated value, null hypothesis is accepted i.e. it is significant and alternative hypothesis H_1 is rejected. That has there is no relationship between cash & bank and current liabilities.

4.5.4 Coefficient of Correlation between Loan & Advances and Net Profit

The basic function of commercial bank is to collect deposit and invest these funds on loan and advances to generate higher profit. The coefficient of correlation between loan & advances and net profit has calculated to measure the degree of relationship between two variables. In correlation analysis, loan and advances is independent variable (Y) and net profit is dependent variable (X).

The purpose of computing the coefficient of correlation is to justify whether the loan and advances are significantly generate profit or not and whether there is any relationship between these two variables.

The following table shows the coefficient of correlation between loan & advance and net profit of Bank of Kathmandu Limited.

Correlation Coefficient (r)	Coefficient of Determination (r^2)
0.9883	0.9768

Source : Appendix IV

The table shows the correlation coefficient and coefficient of determination loan & advance to net profit as calculation shown in annex 4. The value of correlation coefficient r is 0.9883, which means that there is high degree of positive relationship i.e. 98.83% the coefficient of determination r^2 is 0.9768, which means that 97.68% of the total variation in net profit (dependent variable) has explained by loan and advance (independent variable).

Significance test or test of hypothesis

Null hypothesis, H₀: = 0 i.e. there is no relationship between
Net profit with loan and advance.

Alternative hypothesis, H₁: 0 i.e. there is a relationship between
Net profit with loan and advance.

Test statistic: under H₀ the test statistic is,

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2} \sim t_{n-2}$$

Where,

r = correlation coefficient

n = no. of observation

Here t is based on (n-2) degree of freedom (*df*) i.e. $\hat{\nu} = n-2$

$$= \frac{0.9883}{\sqrt{1-0.9768}} \times \sqrt{6-2}$$

$$\therefore t = 12.977$$

Degree of freedom, $\nu = n-2 = 6-2 = 4$

Level of significance = 5 %

The tabulated value of t for 4 degree of freedom at 5% level of significance for two-tailed test is 2.776 but the calculated value of t is 12.97 Since the calculated value of t/t is higher than the tabulated value, so null hypothesis is rejected i.e. it is significant and alternative hypothesis H₁ is accepted. That has there is relationship between net profit to loan and advance.

4.6 Major findings of the study

The major findings of this study report during the entire study period on Bank of Kathmandu Limited from analyses has summarized below.

- In the study of working capital management of Bank of Kathmandu Limited, The current assets have been continually increasing from the beginning period of the study.
- The current liabilities also have been continually increasing all over the study period.
- The working capital has fluctuation. The lowest working capital has seen 39.06 million in FY 2007/08. However, the working capital has positive level all of the study period.
- The trend of cash and bank balance to current assets ratio has fluctuating in the study period. The highest ratio obtained in FY 2008/09, which has 11.49 percent. In the final year, it has decreased and reached up to 7.01 percent in the FY 2010/11.
- Liquidity position of BOKL is not satisfactory i.e. CR is 1:1 to 1.08:1 over the study period, which is not able to meet the standard level 2:1 and QR 0.14:1 to 0.31:1 over the study period, which is also not able to meet the standard level 1:1.
- In the case of cash and bank balance to total deposit ratio (excluding fixed deposit) also seem in fluctuating trend
- Saving deposit to total deposit ratio seems that the decreasing trend from the FY 2006/07 to end of the period.
- Loan and advance to total deposit ratio has shown the increasing trend. It has continually increased up to end of the study period.
- Loan and advance to fixed deposit ratio has also increased up to the FY 2007/08 after that it has been decreasing at the end of the period.
- Loan and advance to saving deposit has been gradually increasing whole study period.
- Interest earned to total assets ratio slightly decreased in FY 2006/07 then after it has been increasing trend.
- Net profit to total deposit ratio has increased up to FY 2008/09 in 2009/10 it has slightly decreased & increase in FY 2010/011.
- Net profit to total assets ratio shows its fluctuation condition. It has increased up to FY 2008/09. In FY 2009/10, it has slightly decreased and increased in FY 2010/11.

- Net profit to shareholder's equity ratio has also fluctuating. The highest ratio has 26.94 percent in FY 2007/08 and the stands at 24.85 percent in FY 2010/11.
- There is positive co-relation between investment on govt. securities & total deposit i.e. $r=44.2\%$.
- There is high degree of positive relation between loan & advanced & total deposit i.e. $r=99.95\%$.
- There is high degree & positive relation between cash & bank balance to CL. i.e. $r=78.80$.
- There is high degree of the relation between loan & advance to net profit i.e. $r=98.83$.

CHAPTRE – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important chapter for the research. This chapter consists of mainly three parts summary conclusion and recommendation. In summary part, revision or summary of all four chapters has made. In conclusion, part the result from the research has summit up and in recommendation part suggestion and recommend has made based on the research result. It has made for improving the present situation to the concerned parties as well as for further research. Without recommendation the research is not fulfill.

5.1 Summary

Banking institutions are profit-oriented organization. They invest funds, create profit through investment and satisfy the shareholders and stockholders of the company. They operate in a dynamic challenging and opportunist environment. They are public limited company established under company act and always responsible to its stockholders. Hence, a sound banking system is important because the key roles it plays in the economic activities in different sectors of the country. Today's most important problem knocking the all commercial bank is the recovery of loan that it invests. Due to which, it is difficult to collect the debts in time. Impact of this condition the crisis has made in liquidity. This is major effect in financial management and performance as well as over all activities of the financial institutions.

Most of the financial decisions of the banks are concerned with current asset and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between above two components. Thus working capital management has been regarded as one of the conditioning factor in the decision making issue of commercial banks. The term

working capital management closely relates with short-term financing it is concerned with collection and allocation of resources.

In this regard, our study is concentrated with Bank of Kathmandu Limited, which is the commercial bank. Considering the present situation, an attempt has made to analyze the performance of commercial banks regarding working capital and liquidity condition of the Bank of Kathmandu Limited has studied as a sample among commercial banks within the country. This study entitled “*working capital and liquidity management of Bank of Kathmandu Limited.*”

The specific objective of the study as: first, to analyze the condition of current assets and current liabilities of the bank. Second, find out the liquidity position in current assets. Third, give suggestions for improvement. To fulfill the objectives an appropriate research methodology has developed, which includes ratio analysis as financial tool and trend analysis correlation coefficient and hypothetical test used as statistical tools. The major ratio analysis consists of the composition of working capital liquidity position, turnover position and profitability position.

Under this study, different qualitative and quantitative analyses have made gathering more secondary information from related institutions. The major necessary data has derived from the balance sheet and profit & loss account of Bank of Kathmandu Limited for the period of six years from FY 2005/06 to 2010/11.

5.2 Conclusion

Working capital management is concerned with determining the firm’s level of investment in current assets and financing pattern of the current assets. It has currently become an important and challenging job of the financial managers these days. The financial manager in the bank should spend a significant amount of his time in the day-to-day operation of the bank relating to the management of working capital because it affects both profitability and risk of the bank.

Working capital refers to the total amount invested in current assets. It has been represented by the banks total investment in current assets after analyzing the 6 years data of the Bank of Kathmandu Limited. I found that overall working capital management status seems satisfactory level. The current assets have been continually

increasing from the beginning period of the study. It shows working capital management policy is utilizing in progressive way. In the same way the current liabilities also gradually increasing all over the study period, the increasing trend of deposit collection affects the current liabilities. It shows the deposit collection ability of the bank, which indicates business growth of Bank of Kathmandu, is good. In the liquidity position, the average current ratio of the bank is around 1.03 times. The overall standard rate of current ratio is 2:1. It shows that the current ratio position of Bank of Kathmandu is lower than the standard level. Same as average cash and bank balance to current assets ratio, 7.09% and the trend of ratio is fluctuating. It shows that there is weak cash handling and utilizing policies as part from cash and bank balance to current assets ratio.

Cash and bank balance to deposit ratio (excluding fixed deposit) of the bank shows the ability of bank immediate funds to cover their deposits after analyzing this ratio under this study period the ratio was fluctuating. Saving deposit is interest bearing short-term liabilities to the bank. The ratio, saving deposit to total deposit has developed in order to find out the proportion of saving deposit over the total deposit. This ratio is in decreasing trend it seems interest bearing short-term liabilities also in decreasing.

Activity ratio has used to evaluate the efficiency with, which the bank manage & utilizes their assets, fund of creditors and owners. This ratio indicates how quickly certain assets have converted in to cash. The overall studying the data regarding activity turnover ratio, loan and advance to total deposit ratio is in average 80% and increasing trend. It seems that credit management policy of the bank has moderate.

Profitability ratio shows the degree of achieving desire profit from utilizing total assets of the bank various profitability ratios were calculated from this interest earned to total assets ratio of the bank in fiscal year 10/11 is highest and is in increasing trend comparing to other fiscal year. There for I can say that profitability position (interest earning) is in good way. As per availed financial report from the bank net profit of bank of Kathmandu ltd. Under this study period is in growing trend (i.e. continually increasing). I conclude that the most strength part of bank of Kathmandu ltd is this

5.3 Recommendations

Based on this working capital and liquidity related thesis work following recommendations' are made for helpful ling the adequate working capital management in the banking lectors of Nepal like Bank of Kathmandu ltd.

- 1) Bank of Kathmandu Ltd. (BOKL) should increase their current ratio for obtaining current ratio standards.
- 2) BOKL should increase C/D ratio, which is currently 80%.
- 3) Working capital is essential to meet short-term obligations so the bank should maintain sound working capital (sound means neither more nor less).
- 4) Interest earned to total assets ratio is average below 10% it is satisfactory so far. Therefore, bank should utilize its available assets at properly as possible to earned interest.
- 5) Net profit to total deposit ratio of BOKL is below 3%, which is not satisfactory level therefore bank should utilize their deposit properly.
- 6) Saving deposits to total deposit ratio seems that the decreasing trend so, that BOKL should make new strategy to increase the saving deposit.
- 7) Employee training at advance level should give in order to keep the work force updated with the changing practices & technologies.

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Tuladhar, Asmita (2010) had undertaken a study entitled “*A comparative study of working capital management of NABIL and standard chartered Bank Nepal Limited*”.

Websites

www.bok.com.np

www.nrb.org.np

www.mof.gov.np

Appendix I

Calculation of Correlation Coefficient between Investment on Government Securities (GS) and Total Deposits (TD) of BOKL

GS (X)	TD (Y)	x= (X- \bar{X})	y= (Y- \bar{Y})	x ²	y ²	xy
2658.37	10485.36	24.09	-5869.02	580.41	34445337.07	-141394.35
2332.04	12388.93	-302.24	-3965.45	91348.01	15724754.05	1198509.49
2113.22	15833.74	-521.06	-520.64	271501.79	271060.80	271281.21
1744.97	18083.98	-889.31	1729.61	790869.31	2991533.46	-1538152.14
2954.93	20315.83	320.65	3961.46	102817.49	15693125.72	1270247.15
4002.14	21018.41	1367.86	4664.04	1871045.54	21753222.48	6379754.69
$\Sigma X=$ 15805.67	$\Sigma Y=$ 98126.25			$\Sigma x^2=$ 3128162.55	$\Sigma y^2=$ 90879033.58	$\Sigma xy=$ 7440246.05

$$\bar{x} = \frac{\sum x}{N}$$

$$= \frac{15805.67}{6}$$

$$\bar{x} = 2634.28$$

$$\bar{y} = \frac{\sum y}{N}$$

$$= \frac{98126.25}{6}$$

$$\bar{y} = 16354.38$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \cdot \sum y^2}}$$

$$= \frac{7440246.05}{\sqrt{(3128162.55) \times (90879033.58)}}$$

$$= 0.4420$$

$$r^2 = 0.1950$$

Appendix II

Calculation of Correlation Coefficient between Loan & Advance (LA) and Total Deposits (TD) of Bank of Kathmandu Limited

LA (X)	TD (Y)	x= (X- \bar{X})	y= (Y- \bar{Y})	x ²	y ²	xy
7259.08	10485.36	-5724.50	-5869.02	32769862.09	34445395.76	33597185.43
9399.33	12388.96	-3584.25	-3965.42	12846824.17	15724555.78	14213043.42
12462.63	15833.74	-520.95	-520.64	271385.4295	271066.01	271225.67
14647.3	18083.98	1663.72	1729.60	2767975.33	2991516.16	2877575.88
16664.93	20315.83	3681.35	3961.45	13552362.36	15693086.10	14583497.16
17468.19	21018.41	4484.61	4664.03	20111756.75	21753175.84	20916371.13
$\Sigma X=$ 77901.46	$\Sigma Y=$ 98126.28			$\Sigma x^2=$ 82320166.13	$\Sigma y^2=$ 90878795.65	$\Sigma xy=$ 86458898.68

$$\bar{x} = \frac{\sum x}{N}$$

$$= \frac{77901.46}{6}$$

$$\bar{x} = 12983.58$$

$$\bar{y} = \frac{\sum y}{N}$$

$$= \frac{98126.28}{6}$$

$$\bar{y} = 16354.38$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \cdot \sum y^2}}$$

$$= \frac{86458898.68}{\sqrt{(82320166.13) \times (90878795.65)}}$$

$$= 0.9995$$

$$r^2 = 0.9991$$

Appendix III

Calculation of Correlation Coefficient between Cash & Bank and Current Liabilities of Bank of Kathmandu Limited

CB (X)	CL (Y)	x= (X- \bar{X})	y= (Y- \bar{Y})	x ²	y ²	xy
728.70	11238.59	-795.38	-5853.4417	632632.00	34262779.35	4655720.19
1315.90	13388.13	-208.18	-3703.9017	43339.61	13718887.56	771084.42
1440.47	16179.86	-83.61	-912.17167	6990.91	832057.15	76268.19
2182.11	18554.41	658.03	1462.38	433001.29	2138550.39	962286.38
1798.38	21068.65	274.30	3976.6183	75239.58	15813493.37	1090779.78
1678.93	22122.55	154.85	5030.5183	23978.01	25306114.70	778967.38
$\Sigma X=$	$\Sigma Y=$			$\Sigma x^2=$	$\Sigma y^2=$	$\Sigma xy=$
9144.49	102552.19			1215181.38	92071882.51	8335106.34

$$\bar{x} = \frac{\sum x}{N}$$

$$= \frac{9144.49}{6}$$

$$\bar{x} = 1524.08$$

$$\bar{y} = \frac{\sum y}{N}$$

$$= \frac{102552.19}{6}$$

$$\bar{y} = 17092.03$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \cdot \sum y^2}}$$

$$= \frac{8335106.34}{\sqrt{(1215181.38) \times (92071882.51)}}$$

$$= 0.7880$$

$$r^2 = 0.6209$$

Appendix IV

Calculation of Correlation Coefficient between Net Profit and Loan & Advance of Bank of Kathmandu Limited

NP(X)	LA(Y)	x= (X- \bar{X})	y= (Y- \bar{Y})	x ²	y ²	xy
202.44	7259.08	-197.97	-5707.83	39192.78	32579323.31	1129988.62
262.39	9399.33	-138.02	-3567.58	19049.98	12727627.06	492403.34
361.50	12362.63	-38.91	-604.28	1514.12	365154.32	23513.54
461.73	14647.30	61.32	1680.39	3759.94	2823710.55	103038.71
509.26	16664.93	108.85	3698.02	11847.96	13675351.92	402523.31
605.15	17468.19	204.74	4501.28	41917.79	20261521.64	921584.57
$\Sigma X=$	$\Sigma Y=$			$\Sigma x^2=$	$\Sigma y^2=$	$\Sigma xy=$
2402.47	77801.46			117282.56	82432688.79	3073052.09

$$\bar{x} = \frac{\sum x}{N}$$

$$= \frac{2402.47}{6}$$

$$\bar{x} = 400.41$$

$$\bar{y} = \frac{\sum y}{N}$$

$$= \frac{77801.46}{6}$$

$$\bar{y} = 12966.91$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \cdot \sum y^2}}$$

$$= \frac{3073052.09}{\sqrt{(117282.56) \times (82432688.79)}}$$

$$= 0.9883$$

$$r^2 = 0.9768$$