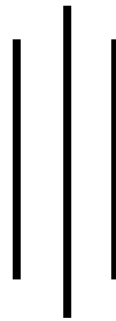


**COMPARATIVE CASH FLOW PERFORMANCE
ANALYSIS OF SELECTED COMMERCIAL
BANKS
(NABIL, EBL, NIBL AND BOK)**

Submitted By:

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POST GRADUATE CAMPUS
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**A thesis submitted to:
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*“in partial fulfillment of requirements for the degree of
Master of Business Studies”*

**BIRATNAGAR
MARCH, 2013**



TRIBHUWAN UNIVERSITY

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RECOMMENDATION

This is to certify that the thesis:

Submitted by:

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SELECTED COMMERCIAL BANKS
(NABIL, EBL, NIBL AND BOK)**

*has been prepared as approved by this campus in the prescribed format
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**COMPRATIVE CASH FLOW PERFORMANCE ANALYSIS
OF SELECTED COMMERCIAL BANKS
(NABIL, EBL, NIBL AND BOK)**

*and found the thesis to be the original work of the student
and written according to the prescribed format. We
recommend the thesis to be accepted as partial fulfillment of
the requirement for*

Master's Degree in Business Studies(MBS)

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Declaration

I hereby declare that the work reported in this thesis entitled " Cash flow Performance Analysis of Selected Commercial Bank (NABL, EBL, NIBL AND BOK) submitted to research department of post graduate campus, Biratnagar, Nepal, faculty of Management. Tribhuwan university is my original work done in the form of partial fulfillment of the requirement from the degree of Master of Business studies under the supervision of Mr. Ram Prakash Upadhyay Lecturer in management , post graduate campus, Biratnagar.

Date :

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Date :

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Researcher

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CHAPTER - ONE

INTRODUCTION

1.1 General Background of the Study

About 95% of world trade has been covered by the member countries of WTO. After the establishment of WTO in 1995 AD, the organization has played a very significant role for business enlargement and development. One country depends on another country on various aspect like technological transfer, labour transfer, airways, world trade etc. So, at present situation, all countries are enter dependent to each other for the fulfillment of their different demand.

Today, the world has become a global village. As the result, one country is affected by another country. The changes occurred in one country affects another country politically, economically, culturally, technologically and legally.

Service business has become at number one in world trade. But the situation is different in our country. However, the development of banking sector is really remarkable. In the history of organized banking sector, Nepal Bank Ltd. came into the existence in 1994 B.S. as a first commercial bank of Nepal even before the establishment of Nepal Rastra Bank. But as per the need of changing economic situation of Nepal, Nepal Rastra Bank established in 14th Baisakh 2013 BS as per Nepal Rastra Bank Act 2012 as a central bank of Nepal. The central bank of Nepal has played a very significant role in the banking sector.

After that Nepal Rastriya Banijya Bank has been established in 1966 AD with full ownership of Nepal Government. Nepal Bank Ltd. and Rastriya Banijya Bank have made remarkable contribution to the Nepalese people by providing reliable services as a commercial bank.

Since 1980 decade, the concept of liberalization has been emerged and Nepal also followed the concept of liberalization normally. Nepal has firstly introduced SAP in 1983 AD. As the result, private sector also enhanced the opportunity to open banks and financial institutions. In this way, Nepal Arab Bank Limited established in 1941

BS as a first commercial bank in the investment of private sector. After that a number of commercial banks has been established.

Now 32 commercial banks have been operating their transaction with international level new product like: ATMs, E-banking, M-banking, etc. During this period, a number of laws and policies has been introduced for smoothly operation of banks, finance companies co-operative etc. Among 32 commercial banks, Nabil Bank Limited and Nepal Investment Bank Limited are one of the most reputed commercial banks of Nepal.

1.2 Brief Profiles of the Banks under Study

A joint venture is forming of two forces between two or more enterprise for the purpose of carrying out a specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or trade to achieve mutual exchange of goods and services for sharing comparative advantages. Nepal opened its door to foreign commercial banks since more than two decades back. Since the government has taken initiative for the growth and development of the industrial sector, it has provided suitable environment to enable foreign investors to undertake joint-venture operation with Nepalese investors. The government is consuming its efforts to encourage private participation in several infrastructure activities such as private airlines, hydropower, computer software, textiles, readymade garments and carpets, telecommunication, radio services, pharmaceutical, medical companies, etc. So, to enable to meet the needs of capital and resources, role of the joint venture banks has been emerging day by day. Joint venture banks have great importance for the underdeveloped country like Nepal.

Joint venture banks have played very significant role in attracting foreign investment by familiarizing financial rules and regulations. The existence of foreign joint venture banks with their prompt and quality services have created a healthy environment of competition among the existing commercial banks. Till the date, there are several joint venture banks and private banks established and operated under the rules, regulations and guidance of central bank i.e. Nepal Rastra Bank. These banks are established under the Company Act 2063 and operated under the Banijya Bank Act 1974 AD.

All the commercial banks are established with a view to provide efficient banking services and facilities to customers for the growth of trade, industry, commerce and economy of the nation. The government's liberalization policy led 32 commercial banks activity playing in the financial market of the country with the help of their quality and prompt service, latest technology, competent human resource and professionalism. Joint venture banks in Nepal have achieved success in terms of market share and profitability. The banking sector has been facing cut-throat competition because of dynamic environment.

1.3 General Information about Selected Commercial Bank Nabil Bank Ltd.

Nabil Bank started operating in July 1984 AD. The main aim of Nabil Bank of Nepal was to extend the service of international standard of modern banking in every sector of the society. Nabil Bank is a commercial bank which has 49 branches in the country. The head office of the bank is located at Kamaladi of Kathmandu i.e. the capital city of Nepal. Most of its branches are at capital city. However, it also has branches in Biratnagar, Birgunj, Pokhara, Nepalgunj, etc. Nabil Bank Ltd. has a very competent Board of Director and the management team. Mr. Anil Jnyawali is the CEO of the bank. The day to day operations of the banks are taken care by well trained staffs. Nabil Bank Ltd. offers to the customers various services some of which are:

-) Credit card
-) Tele Banking
-) Internet Banking or E-Banking
-) Correspondent banking across 170 places in the globe

The Nabil Bank is also referred as the International Public Company - world famous software from Infosys is installed in the bank for operating smoothly. Nabil Bank Ltd. has Nabil prepaid or cool cash, which is unique and highly popular among people. Some of the features of Nabil prepaid care are:

-) Expenses tracking and monitoring
-) Status and image symbol
-) Cash carrying not required

) Can be used anywhere

) Issue is instant

Nepal Investment Bank Ltd.

Nepal Investment Bank one of the leading commercial bank of the country, was earlier known as the Nepal Indosuez Bank. Nepal Investment Bank was established in 1986 AD. Nepal Investment Bank was a joint commercial enterprise between the credit Agricola Indosuez (one of the largest banking group in the world) and the Nepalese. The head office of the bank is located at Durbar Marg, Kathmandu, which remains open all round the year. Now, this bank has 41 branches and one extension counter along with 67 ATM counters. The CEO of the NIBL is Mr. Prithivi Bahadur Pandey.

NIBL has been very aggressive in innovating and offering new products and services in the financial market. NIBL started Visa Electron Debit Card for the first time in Nepal after acquiring Principal Membership of Visa International in 2003. Since then, NIBL has been pioneering other existing banks and financial institutions in the card business. The bank have also enabled recharge card options for telecom and WiFi subscribers of Broad Link Ltd. to carryout top ups through ATM.

Everest Bank Limited

Everest Bank limited (EBL)stared its operation in 1994 with a view and objective of extending professionalized and efficient banking services to various segment of the society. It has established its six new branches in fiscal year 2068/2069.the bank is providing customer friendly service through its branch network and over 250 correspondent bank across the globe. All the branches of the bank are connected through anywhere branch banking system(ABBS),which enables customers to do all their transactions from any branches others than where they have account.

Panjab national bank (PNB), a joint venture(holding 20%equity in the bank) is the largest bank in India having more than 112 years banking history. With an aim to help Nepalese citizens working aboard,the bank has entered into arrangement with banks and finance companies in different countries which enable remittance of funds by the Nepalese citizens in countries like UAE, Kuwait,Baharain,Qatar, Saudi Arabia,

Malaysia, Singapore and UK. "same day remittance" facility started recently has made every Ebla customer to remit money from India to Nepal and vice versa, on the same date day, through more than 4000 Panjab national bank through out India.

The company has recently operated the sms and internet banking system service for providing convenient service to its customers. This makes customer to know their balance in their account from any place or their home through use of cell phones and internet. The company has been operating its 365 days services, through Newroad branch, pokhara, branch and many other branches in kathmandu valley too.

Bank of kathamdu

Bank of kathamdu limited has become a prominent name in the Nepalese banking sector. It is committed delivering quality service to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor.

It started its operation in march 1995 with the objective to stimulate the Nepalese economy and take it to newer height. BOK also aims to facilitate the nation's economy and become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from beginning. To highlight its few objectives.

To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.

To use the latest banking technology to provide better, reliable and efficient services at reasonable cost

To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies.

To contribute to the overall social development of Nepal.

1.4 Statement of the Problem

In present situation, banking sectors are facing various problems. National economy and global economy directly affect the banking institutions. Decreasing value of the dollar has been becoming a burning problem of the banking institutions. In lack of capable supervision of central bank, commercial banks are operating their activities uncontrollably. Unfair competition of commercial banks represent failure of the management team.

In this way, there are a lot of problems facing by the Nepalese commercial banks which can be solved by critical financial analysis and evaluation of these banks. The commercial banks, which have been undertaken for the study are found to be associated with some specific problems. They are:

- i. Inadequate position of cash
- ii. Inbalance between inflows and outflows of cash
- iii. Unrealistic measurement of organizational performance

The followings are the main issue of this study:

- i. What is the trend of cash flow of selected commercial banks?
- ii. What is the position of cash flow in comparative way between Nabil Bank Ltd. and Nepal Investment Bank Ltd.?
- iii. What is the strength and weakness in the aspect of financial performance in these two banks?

1.5 Objectives of the Study

The specific objective of the study is to compare and evaluate the cash flow statement of selective commercial banks. The suitable and relevant advice will be recommended on the basis of this study to concerned authorities for their further improvement. The following are the main goals of the study.

- i. to analyze difference cash management theories relevant for the present studies
- ii. To analyze the trend of cash flow of their activities of selected commercial banks.
- iii. To examine analyze and compare the cash flow statement of the banks.
- iv. To Compare the cash flow performance.
- v. To recommend the suitable and valuable suggestions to the concerned authorities.

1.6 Significance of the Study

Service sector has been winning the manufacturing sector in global context. But the service sector of Nepal has not been growing satisfactorily. Beside this, there are a number of reasons such as political instability, poor inflow of foreign investment, lack of infrastructure and unspecific government policy etc. These are only the major

reasons that Nepalese and foreigner investors are not interested to invest in the Nepalese banking sector.

On the other hand, profit of the commercial bank has been declining. The declining role of profit of the commercial bank is 23 percent. 22 commercial banks among 32 are facing this problem and sometimes these banks are trapped due to liquidity crisis. These problems raise due to improper mobilization of cash as well as internal resources of the organization.

This study properly focuses on the analysis of cash flow statement of selective commercial banks. Cash inflows and outflows of commercial banks leads the strength and weakness of the banks. So, after analyzing the cash flow statement of the banks, we can blindly support valuable suggestions to concerned authorities in order to balance the flow of cash and related activities.

In this study, various ratios and analytical tools have been applied to analyze the cash flow statement. So, significance of the study will be more valuable than previous study and easily meet the objectives of the study.

1.7 Organization of the Study

This study is divided into five chapters. They are:

Chapter - I: Introduction

Chapter - II: Review of Literature

Chapter - III: Research Methodology

Chapter - IV: Presentation and Analysis of Data

Chapter - V: Conclusion and Recommendation

The introduction chapter includes, the topic such as background, statement of the problem, objective of the study, significance of the study, organization of the study and limitation of the study. The second chapter includes review of literature. The third chapter includes research methodology which is related with the data collection. Fourth chapter includes the presentation and analysis of data. Lastly, summary and conclusion of the study are drawn and some valuable suggestions are offered to solve the problem which will be adjusted in fifth chapter.

1.8 Limitation of the Study

The study is fundamentally based on the idea of published financial statement.

However, it has some limitation which can be presented below:

-) The effect of inflation has not been taken into consideration in this study.
-) The latest five years data has been included for the purpose of study.
-) Only two commercial banks, i.e. Nabil Bank and Nepal Investment Bank have been taken for the study.
-) The study basically includes secondary data which has been taken from the annual report of related bank.
-) The time and economic resources are constraint.

CHAPTER - TWO

REVIEW OF LITERATURE

2.1 Conceptual Review

Scientific research must be based on past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. It is necessary to show how the research is related to previous one. It will give an idea about the variable related to past studies and what difficulties previous researcher faced, that we can take into consideration.

The primary purpose of literature reviews are:

-) What research has been done in the subject?
-) What other have written about the topic?
-) Whether there are gaps that you can fill through the proposed research?

The approach taken by other researchers:

-) Areas of agreement of disagreement.
-) In addition, the benefit of a good research which was pointed out by Serekam is given below:
 -) Important variables that are likely to influence the problem situation are not left out the study.
 -) A clean idea emerges as to what variables would be most important to consider, why they would be considered important and how they should be investigated to solve the problem.
 -) Testability and reliability of the finding of the current research are enhanced (increase the quality and make look better).

-) The problem investigated is perceived by the scientific community as relevant and of significance.

2.1.1 Financial Statement

Of the various reports that the companies issued to their shareholders, the annual report is most important. Two types of information are included in this report. First, there is a text that describes the firm's operating results during the past year and discuss the new development that will affect the future operation. Second, there are four basic financial statements - the income statement, the balance sheet, the statement of retained earning and cash flow statement.

Financial statements reflect a combination of recorded facts, accounting conventions and personal judgment and conventions applied effect them materially. Financial analysis involves the use of various financial statements. These statements attempt to do several things. First, they portray the assets and liabilities of a business firm at a moment in time usually at the end of a year or a quarter. This portrayal is known as the balance sheet. On the other hand, an income statement portrays the revenues, expenses, taxes and profit of the firm for a particular period of time, again usually a year or a quarter. While the balance sheet represents a snapshot of a firm financial position at a moment in time, the income statement depicts its profitability over time. From these statements, certain derivative information can be obtained, such as a statement of retained earnings and cash flow statement (James C. Van Home, 1984:99).

Financial statement is any formal and original statement which discloses the financial information relating to any business organization. Financial statements are prepared for the purpose of presenting periodical review or report on the progress by the management and deal with (i) the status of the investment in the business and (ii) the result achieved during the period under review. The statement which discloses the status of the investment is known as balance sheet and the statement which shows the result achieved during the period is known as profit and loss account. Thus, the financial statement represents four statements i.e. balance sheet, income statement,

statement of retained earning and cash flow statement (G. FAGO, D. Subedi & A. Gyawali, 2004:101).

2.1.2 Funds Flow Statement

Funds flow statement is a statement in summary form that indicates changes in items of financial position between two different balance sheet dates showing clearly the different sources and application of funds. The major purpose of funds flow statement is to provide detailed presentation of the results of financial management, as distinguished from operating management. It summarizes the financial and investing activities of the enterprises. The statement shows directly information that readers of financial report & could otherwise obtain only by making analysis and interpretation of published balance sheet and statement of income and retained earning.

Balance sheets are statements of financial position, whereas funds statements are obviously statements of changes in financial position. Balance sheet shows the status on a day, funds statement, income statement and statement of retained earnings cover period of time; they provide the explanation of why the balance items have changed (Srinivasan, 2009:37).

The flow of funds in a firm may be visualized as a continuous process. For every use of funds, there must be offsetting source. In a broad sense, the assets of firm represent the net use of funds; its liabilities and net worth represent net sources.

The funds statement is a method by which we study the net funds flow between two points in time. These points conform to beginning and ending financial statement dates for whatever period of examination is relevant - a quarter, a year or five years. We must emphasize that the funds statement portrays net rather than gross changes between two comparable financial statements at different dates. For example, gross changes might be thought to include all changes that occur between the two statement dates, rather than the sum of these changes - the net changes as defined. Although an analysis of the gross funds flow of a firm over time would be much more revealing than an analysis of net funds flow, we are usually constrained by the financial information available; namely balance sheets and income statements that span

particular of time. Funds may be defined in several different ways depending upon the purpose of the analysis. Although they are often defined as cash, many analysis treat funds as working capital (current assets less current liabilities), a somewhat broader definition other definitions are possible although the two described are the most common by far depending upon the analyst's objective the definition can be broadened or narrowed (James et al., 1984:137).

2.1.3 Cash Flow Statement

Cash flow statement provides relevant information about the cash receipts and cash payments of an enterprise during period. Information about enterprises cash flows is useful in assessing liquidity, financial flexibility, profitability and risk. Cash flow information is widely used by investors, analysts, creditors, managers and others. The balance sheet provides information about the assets of an enterprise and how those assets have been financed by owned and borrowed funds at certain time but it does not explain the changes during a period in assets, liabilities and owner's equity resulting from an enterprise's activities. The profit and loss statement provides information about an enterprise's financial performance during a specific period but earnings are measured by accrual accounting, it does not show cash generated through its operations.

The statement of cash flow is now a standard features of financial reporting in a number of countries and is required in addition to the balance sheet and profit and loss statement. From 1988, companies in United States have been required to present statement of cash flows. Beginning 1992, British companies are required to publish cash flow information. Cash flow statements are also required in other many countries including Australia, New Zealand and South Africa. In 1992, the International Accounting Standard Committee issued an accounting standard on cash flow statement. Nepal Company Act 2063 also made mandatory to present cash flows statement along with balance sheet and income statement. So, every enterprise should prepare it as an integral part of its financial statements for each period for which financial statements are presented (Gyawali, 2009:10.1).

2.1.4 Cash Flow and Profitability

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profit will not always result in higher stock prices. Profits of the firm depend on many factors such as method of depreciation, non operating gains, incomes, expenses and losses. People often mistakenly believe that a cash flow statement will show the profitability of a business. Although closely related cash flow and profitability are different. A cash flow statement lists cash inflows and cash outflows while the income statement lists income and expenses. A cash flow statement shows liquidity while an income statement shows profitability. Many income items are also cash inflows. The sales of crops and livestock are usually both income and cash inflows. The timing is also usually the same as long as a check is received and deposited into account at the time of the sale. Many expenses items are also cash outflow items. The purchase of livestock feed (cash method of accounting) is both an expenses and cash outflow item. The timing is also the same if a check is written at the time of purchase. All the available cash not the profit determiner the firms' future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions.

2.1.5 Importance of Cash Flow Statement

Cash flow statement is an important financial tool for the management. It is useful internally to management and externally to investors and creditors. It helps the management to assess the liquidity of business, to determine dividend policy, to evaluate the policies regarding investment and financing, etc. Similarly, this statement is useful for investors and creditors in assessing the company's ability to manage cash flows, to generate positive future cash flows, to pay dividend and interest etc. The major importance of cash flow statement are:

-) The cash flow statement is prepared on the basis of cash. Hence, cash position of a firm can be easily evaluated.

-) Cash flow statement is helpful to a firm for planning and coordinating financial operation properly.
-) The statement can provide the concerned organization the necessary assistance for the effective steps to strengthen the internal financial position.
-) It is also helpful in planning the repayment of loan, replacement of fixed assets and other long term cash planning.
-) It is useful for both internal and external users. The external users refer to the bank and other financial institutions. They provide the loan to the firm on the basis of cash flow statement. Similarly, it is also helpful for financial manager for making and evaluating different financial plans.

2.1.6 Objectives of Cash Flow Statement

The cash flow statement has the following objectives:

-) To shows the relationship of net income to change in cash balance. Cash balances can decline despite positive income and vice-versa.
-) To provide information about a cash receipt and cash payment of a company during an accounting period.
-) To provide information about a company's operating, investing and financing activities during the accounting period.
-) To provide information about the changes in the cash position of the company.
-) To evaluate the financial policies of the company.
-) To help in understanding liquidity position of the firm.
-) To locate the reasons for variations in cash position.
-) To assist the firm in short term cash planning.
-) It reports past cash flows as an aid to?

- Predicting future cash flows
- Evaluating management's generation and use of cash.
- Determining a company's ability to pay interest and dividends and to pay debts when they are due.

2.1.7 Differences between Funds Flow Statement and Cash Flow Statement

Concept: FFS is prepared on the basis of detailed description of working capital but CFS is prepared on the basis of cash.

Accounting: FFS is governed by the accrual basis of accounting but cash system of accounting is used for the preparation of CFS.

Schedule of: Schedule of changes in working capital c's changes in necessary to prepare in FFS but it is not working capital necessary to prepare in CFS.

Methods of preparation: FFS reveals the sources and application of funds and any difference represents net increase or decrease of working capital but CFS reveals the inflows and outflows of cash and difference represents the closing cash balance.

Usefulness: FFS is useful from the view point of long term financial planning but CFS is useful for short term planning and cash planning.

Purpose: The main purpose of FFS is to get the information about changes in working capital between two balance sheet date but the main purpose of CFS is to know the changes in cash position between two balance sheet dates.

2.1.8 Accrual Basis and Cash Basis

There are two approaches to accounting, the cash basis and accrual basis. You may not realize it, but you are probably already familiar with the cash basis. We keep our check books on the cash basis. We simply record the receipts and payments of cash.

In contrast, most corporations measure income and financial position using the accrual basis of accounting. The accrual basis recognizes the impact of transactions on the financial statements in the periods when revenues and expense occur instead of when the company receives or pay cash.

Accrual Basis: A process of accounting that recognizes the impact of transactions on the financial statements in the time periods when revenues and expenses occur instead of when the company pays or receives cash.

Cash Basis: A process of accounting where revenue and expense recognition would occur when the company receives and pays out cash (Horngern et al., 2009:687)

2.1.9 Preparation of Cash Flow Statement

The cash flow statement is prepared on the basis of cash basis accounting. While calculating operating profits for cash flow statement, adjustment for prepaid and outstanding expenses and incomes are made to convert the data from accrual basis to cash basis. The statement is prepared by taking the opening balance of cash, adding to all inflows of cash and deducting all the outflows of cash from the total. All business pursue their goal of making profit by engaging in major three activities; operating activities, financing activities and investing activities.

) Determination of Cash Flows under Operating Activities Using Direct Methods

The operating activities section shows the cash effect of revenue and expense transactions. Stated in another way, the operating activities section of the statement of cash flows includes the cash effects of these transaction, which are reported in the income statement. To illustrate this concept, consider the effects of credit sales. Credit sales are reported in the income statement in the period when the sales occur. But the cash effects occur later when the receivables are collected in cash. If these events occur in different accounting periods, the income statement and the operating

activities section of the statement of cash flows will differ. Similar, differences may exist between the recognition of an expense and the related cash payment.

Cash flows from operating activities include.

	Cash Receipts	Cash Payments
From income statement	Collection from customers for sales of goods and services	Payments to suppliers of merchandise and services, including payments to employees, other mfg. exp. and operating exp.
From income statement	Interest income, dividend income, commission income rent income, bad debt recovery, etc.	Payment of interest expenses and tax expenses.
From assets side of balance sheet	Decrease in all current assets except cash and cash equivalents.	Increase in all current assets except cash and cash equivalents.
From liability side of balance sheet	Increase in all current liabilities.	Decrease in all current liabilities.

Notice that receipts of interest and dividend are classified either as operating activities, or as investing activities. Similarly, interest payments are either classified as operating activities or financing activities. According to the clause 03 and section 6 of Nepal Accounting Standard (NAS - 03 Sec - 6), cash flows from operating activities are primarily derived from the principal revenue producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss. Examples of cash flows from operating activities are:

-) Cash receipts from the sale of goods and the rendering of services;
-) Cash receipts from royalties, fees, commissions and other revenue;
-) Cash payment to suppliers for goods services;

-) Cash payments to and on behalf of employees;
-) Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits;
-) Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
-) Cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant may give rise to a gain or loss, which is included in the determination of net profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

An enterprise may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue producing activity of that enterprise.

The cash flow from operating activities is ascertained as follows:

Particulars	Amount (Rs.)	Amount (Rs.)
1. Receipt from customers:		
Net sales (cash sales + credit sales - sales return)	xxx	
Increase in gross account receivables/Bills receivables/ Debtors	(xxx)	
Decrease in gross Account receivable/Bills receivables/Debtors	xxx	
Bad debt written off	(xxx)	
Bad debt recovered	xxx	xxx
2. Payment to suppliers and employees:		
Cost of goods sold	(xxx)	
Increase in inventories	(xxx)	
Decrease in inventories	xxx	

Increase in Account payables/Bills payables/creditors	xxx	
Decrease in Account payables/Bills payables/creditors	(xxx)	
Increase in wages outstanding	xxx	
Decrease in wages outstanding	(xxx)	(xxx)
3. Payment for operating expenses:		
Operating expenses for the year	(xxx)	
Decrease in prepaid expenses	xxx	
Increase in prepaid expenses	(xxx)	
Decrease in outstanding liabilities	(xxx)	
Increase in outstanding liabilities	xxx	(xxx)
4. Payment for interest:		
Interest expenses for the year	(xxx)	
Increase in outstanding interest	xxx	
Decrease in outstanding interest	(xxx)	(xxx)
5. Payment for tax:		
Provision for tax for the year	(xxx)	
Decrease in provision for tax	(xxx)	
Increase in provision for tax	xxx	(xxx)
6. Cash flow under other operating items:		
Receipt of dividend/interest on investment	xxx	
Receipt from sale of markatable securities	xxx	
Payment for purchase of markatable securities	(xxx)	
Increase in short term loan/debt	xxx	
Decrease in short term loan/debt	(xxx)	xxx
Cash flows under operating activities		xxx

J Determination of Cash Flow under Operating Activities using Indirect Method

Under indirect method, cash flow from operating activities is determined on the basis of the following information:

J Net income or loss

-) Non-cash expenses and losses, non-operating expenses, losses and amortizations
-) Non-operating income and gain
-) Changes in current assets (except cash & equivalents)
-) Changes in current liabilities.

Above items can be presented as follows:

Net income of the year	xxx
Add:	
) Expenses that do not require cash outlays in the period eg. - depreciation expenses	xxx
) A decrease in operating current assets, eg. - account receivable, prepaid, inventory etc., but not the notes receivables	xxx
) Increase in operating current liabilities, e.g. accounts payable, accrued expenses, interest payable, etc. but not the notes payable	xxx
) Operating cash inflows not recorded as revenue in the period, eg. advances from customers	xxx
) Non-operating losses deducted in the determination of net income	xxx
Less:	
) Revenues that do not result in cash inflows in the period	xxx
) Operating cash outflows not recorded as expense in the period	xxx
) Increase in operating current assets, eg. account receivable, prepaid, inventory, etc. but not notes receivable	xxx
) A decrease in the operating current liabilities eg. accounts payable, accrued expenses, interest payable, etc. but not the notes payable	xxx
) Non operating gains included in the determination of net income, eg. gain on sale of properties, long term investment, etc.	xxx
Net cash flows from operating activities	xxx

) **Determination of Cash Flows under Investing Activities**

The primary component of investment cash flows is the capital expenditure for long term assets such as plant and machinery. This amount may be calculated as net or gross of proceeds on the sales of these assets. The cash flows from such sales are considered investment cash flows regardless of whether they are netted in capital expenditure. However, trends in gross capital expenditures may contain useful insights into management plans. Segment discloser should be monitored for differential investment patterns.

Cash flows relating to investing activities present the cash effects of transactions involving plant assets, intangible assets and investments. They include

	Cash Receipts	Cash Payments
From assets side of balance sheet	Cash proceeds from selling investments and fixed assets	Payments to acquire investment, plant assess, land & building, etc.
	Cash received from principal amount of loan granted by others, interest income and dividend income	Amounts advanced to borrower

Note: Interest received and dividend received can be included either in operating activities or investing activities, however, bank and financial institutions always included interest and dividend received under operating activities. According to Nepal Accounting Standard (NAS - 03), the separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

-) Cash payments to acquire property, plant and equipment, intangibles and other long term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;
-) Cash receipts from sales of property, plant and equipment, intangibles and other long term assets;

-) Cash payments to acquire equity or debt instruments of other enterprises and interest in joint venture (other than payments for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
-) Cash receipts from sales of equity or debt instruments of other enterprises and interest in joint ventures (other than receipts from those instruments considered to be cash equivalents and those held for dealing or trading purpose);
-) Cash advances and loans made to other parties (other than advances and loans made a financial institution);
-) Cash receipts from the repayment of advances and loan made to other parties (other than advances and loans of a financial institutions);
-) Cash payments for future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
-) Cash receipts from future contracts, forward contracts, option contracts and swap contracts except where the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

The cash flow from investing activities is ascertained as follows:

Particulars	Amount (Rs.)
1. Receipt from sale of old equipment	xxx
2. Receipt from sale of other investments	xxx
3. Decrease in notes receivable (long term)	xxx
4. Dividend/interest received from investment (if not included in operating activity)	xxx

5. Payment for fixed assets purchased	(xxx)
6. Payment for purchase of other investment	(xxx)
7. Increase in notes receivables (long term)	(xxx)
Cash flows under investing activities	xxx

J **Determination of Cash Flows under Financing Activities**

Inflows from additional borrowing, repayment of debt, dividend payments, and equity financing are all components of financing cash flow. Equity financing is determined by analyzing the change in stockholders' equity breaking out the effects of

- J Net income
- J Dividends declared
- J Shares issued or repurchased
- J Changes in valuation accounts included in equity cash flows classified as financing activities include the following items that result from debt and equity financing transactions:

	Cash Receipts	Cash Payments
From liabilities and owners' equity section	Proceeds from both short term and long term borrowings (for example, issue of debentures increase in bank loan)	Repayment of amounts borrowed (excluding interest payments)
	Cash received from owners (for example, from issuing common stock and preferred stock)	Payments to owners, such as cash dividends and redemption of preferred stock.

Repayment of amounts borrowed refers to repayment of loans, not to the payments made on accounts payable or accrued liabilities. Payments of accounts payable and of accrued liabilities are considered as payments to suppliers of merchandise and services and are classified as cash outflows, from operating activities. Also, remember that all interest payments are classified as operating activities.

According to the Nepal Accounting Standards (NAS - 03), the separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows from financing activities are:

-) Cash proceeds from issuing shares or other equity instruments;
-) Cash payments to owners to acquire or redeem the enterprise's shares;
-) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long term borrowings;
-) Cash repayments of accounts borrowed; and
-) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Note that the borrowings, whether short or long term, should be classified as financing activities. Even short term liability can be classified as operating activity too.

The cash flow from financing activities is ascertained as follows:

Particulars	Amount (Rs.)
1. Issue of equity securities with premium/discount	xxx
2. Issue of debt securities with premium/discount	xxx
3. Increase in bank loan/overdraft	xxx
4. Increase in notes payable	xxx
5. Redemption of debenture with premium/discount	(xxx)
6. Decrease in bank loan/overdraft	(xxx)
7. Decrease in notes payable	(xxx)
8. Payment of dividend	(xxx)
Cash flows under financing activities	xxx

-) Treatment of Usually Confused Items

-) Interest receipts, dividend receipts, interest payments and dividend payments:-
One might argue that interest and dividend receipts are related to investing activities, and that interest payments are related to financing activities. The FASB considered this point of view but decided instead to classify interest and dividend receipts and interest payments as operating activities. The NAS wanted net cash flows from operating activities to reflect the cash effects of revenue and expense transactions entering into the determination of net income. Because dividend and interest revenue and interest expenses enter into the determination of net income, the NAS decided to classify the related cash flows as operating activities. Payments of dividend however, do not enter into the determination of net income. Therefore, dividend payments are classified as financing activities.
-) Investments: Cash includes both cash and cash equivalents including short-terms, highly liquid investment, such as money market funds, commercial paper and treasury bills. Transfers of money between a company's bank accounts and these cash equivalents are not viewed as cash receipts or cash payments. Money is considered to be cash regardless of whether it is held in currency, in a bank account, or in the form of cash equivalents. Interest received from owing cash equivalents is included in cash receipts from operating activities.
-) Cash and Cash Equivalents: Cash equivalents are short term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purpose. For an investment to qualify as a cash equivalent it must be readily convertible into a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for

example, in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

Marketable securities, such as investment in the stocks and bonds of other companies, do not qualify as cash equivalents. Therefore, purchase and sales of marketable securities do result in cash flows that are reported in the statement of cash flows as investing activities.

Regarding the investment in securities, transactions of trading securities should be regarded as operating activities and the transactions of available for sale securities should be regarded as investing activities. The classification of investment in securities as trading and available for sale mainly depends on the management's intent. If the management bought the securities for the principal purpose of selling it in the short term, the security would be a trading security. If the stock is held for a longer term, it is called an available for sale security. Trading securities are always current assets. Available for sale security may be either current assets or non-current assets, depending on how long management intends to hold them. Investment in held-to-maturity securities (bonds and debentures held up to the life of maturity) is always treated as investing activities.

-) Short-term notes payable: Liabilities arising due to the items in income statement such as; accounts payable, wages payable, operating expenses payable, interest payable, taxes payable, unearned income in advance, and so on are subject to treatment in the operating activities. But the borrowed loan, whether it is short term or long term one, should be treated in financing activities. Therefore, the change in notes payable, bank loans, bond payable, etc. are put under financing activities.
-) Non-cash transactions: Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Many investing and financing activities do not have direct impact on current cash flows although they do affect the capital and assets structure of an enterprise. The exclusion of non cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non cash transactions are:

- the acquisition of assets either by assuming directly related liabilities or by means of a finance leases
- the acquisition of an enterprise by means of an equity issue; and
- the conversion of debt to equity.

(Bajracharya et al., 2009:756-757)

2.2 A Brief of Previous Research Work

A deep study of previous research work is very necessary to conduct the research work of any topic. However, few of researchers have studied in the area of cash flow analysis of joint venture bank in Nepalese context but many of the researchers have made in the area of financial performance and profitability situation of a single bank as well as comparative study between joint venture commercial banks and non-joint venture commercial banks. Various studies related to cash flow analysis have been focused on the study non joint venture banks. Few of them have focused on comparative study between non-joint venture and joint venture bank. Similarly, no any have focused their study on the basis of related ratios of organizational performance. So, in this chapter an attempt is made here to review some of the researchers, which have been submitted in comparative cash flow analysis. Reviewing of previous study will definitely avoid from the present study and some newness can be created in the field of study.

2.2.1 Mr. Hari Prasad Neupane (2006), "A Study of Cash Flows Analysis of Commercial Banks in Nepal: A Comparative Study of Himalayan Bank and Nabil

bank Ltd.". The study covered the period of five years, i.e. fiscal year 2002 to 2006. The study is mostly based on secondary sources of data.

His main objectives:

-) To analyze the cash flow statement i.e. operating investing and financing activities of those two joint venture commercial bank.
-) To examine the liquidity position of HBL and NaBL.
-) To analyze the profitability results of those two commercial banks.
-) To find out the stage of lifecycle of HBL and NaBL with the help of cash flow statement.
-) To examine the cash flow statement of HBL and NaBL as per Nepal Accounting Standard (NAS).
-) To provide the package of constructive suggestion and recommendation for improvement.

His major findings:

-) The need for working capital to run day to day business activities cannot be overemphasized. Working capital requirements are basically influenced by the nature of business. Obviously, the requirements of working capital manufacturing sectors business. From the study of both, these banks had negative working capital figures. Working capital should be managed efficiently for safeguarding the banks against the danger of liquidity and insolvency. Therefore, promote and timely action should be taken by the management of HBL and NaBL to improve and correct the regarding amount of working capital.
-) Business organization is the product of their environment. To adopt in changing environmental forces these banks are recommended to study and predict the business environment continuously as well as should take SWOT analysis so that the activities can be adjusted according to the changing environment.

-) In order to increase the cash flows from operating activities for the future period NaBL should operate growth stage of its lifecycle.
-) These should accurately forecast the amount and timing of cash flows so that borrowings can be minimized and thus lessening interest expenses.
-) No any business can run without cash and making default on its obligations. Even being a few days late in meeting payrolls or paying suppliers or creditors should be cut business relationship. In addition to cash flow statement, cash budget should also be included in the directives issued by NRB for financial institutions. Cash flows reports the cash activities of the past period. In reflects the actual results of past cash transaction. To know the expected cash amount for future period, cash budget should be prepared.
-) Both these banks should follow the strict investment policy to avoid the non performing assets.
-) One of the management basic responsibilities is to ensure that the business has enough cash to meet its obligation as they became due. Therefore, in order to improve cash flows, both these banks are recommended to collect several strategies like deferring income tax, peak pricing and developing effective product mix in both the short and long term.

2.2.2 Mr. Nikesh Prasad Gautam (2010) had conducted a research in the topic, "A Study of Investment Policy of Commercial Banks in Nepal (with reference to NBBL & EBL). The time period coursed by this research was from fiscal year 2061/62 to 2065/66. The data and other information were collected from secondary sources.

-) Compare and evaluate the projection the profitability and risk position, liquidity assets management efficient of NABL and EBL.
-) To analyze deposit utilization and its projection for next five years of NABL and EBL.

His major findings:

-) Cash and bank balance to current assets ratio of both banks indicates the bank's ability to meet the daily cash requirement.
-) Comparison between cash and bank balance to total deposit ratio of EBL & NBBL, EBL is slightly better position than that of NBBL.
-) The data of loan and advance to total deposit ratio of EBL and NBBL indicates towards fact that in average of five years period EBL has mobilize its almost one third of its total deposit as loan and advance.
-) The total investment to total deposit ratio of NBBL and EBL show that both banks are not success to utilize its total deposit as investment. The investment policy of both banks is not satisfactory.
-) Credit risk ratio shows the risk percentage of both bank while lending loan and advance. And the data shows us that NBBL has slightly lower risk to lending loan than that of EBL.

2.2.3 Mr. Jay Dev Gautam (2010) had conducted a research in the topic, "A Study of Cash Flow Statement of Commercial Banks in Nepal" (with reference to Nabil bank and Standard Chartered Bank Nepal Ltd.). The time period coursed by this research was from fiscal year 2002/03 to 2006/07. The data and other information were collected from secondary sources.

His major objectives:

-) To assess the cash flow from operating activities, investing activities & financing activities of both banks.
-) To do a comparative study between NaBL and SCBNL.
-) to know whether the cash flow statement prepared by banks matter with prescribed format by Nepal Accounting Standard.

His major findings:

-) Cash payment to staffs of NaBL is more than SCBNL. So, this bank is creating more employment opportunity as its operation increases.
-) The average income tax paid to government by NaBL is less than SCBNL, this means NaBL earns less profit than SCBNL.
-) The average cash flow from investing activities of SCBNL is far higher than NaBL.
-) The CV for cash payment of NaBL is higher than SCBNL, which reveals that the SCBNL is more consistent.
-) The average cash flow from financing activities of NaBL is negative and positive of SCBNL.

2.2.4 Mr/Miss Muna Sapkota (2010) had conducted a research in the topic, "A Comparative Study of Cash Flow" (with reference to Bank of Kathmandu and Everest Bank Limited). The time period covered by this research was from fiscal year 2004/05 to 2008/09. The data and other information were collected from secondary sources.

His major objectives:

-) To examine, analyze and compare the cash flow statement of these banks.
-) To analyze trend of cash flow.
-) To evaluate cash from different activities of banks.
-) To compare the cash flow performance.
-) To recommend the appropriate suggestions to the concerned authorities for further improvements.

His major findings:

-) Total operating cash flow of EBL is in progressive trend and BOK is in volatile in nature.
-) EBL has excess positive cash flow from operating activities than BOK due to highest interest income and commission & discount income.
-) Cash flow from investing activities is not in increasing or decreasing trend. They are volatile in nature.
-) EBL has highest amount of investment of fixed assets than BOK.
-) Total cash flow from financing activities is in increase/decrease trend.
-) EBL has issued huge amount of share in year 2006/07 than BOK.

2.3 Research Gap

There is gap between the present research and the previous research in term of some objectives, tools or analysis, period of data and the organization. The main issue of this study is to analyze the comparative cash flow between NaBL and NIBL. This study has used financial and statistical tool for cash flow analysis. The data is taken in between fiscal year 2006/07 to 2010/11. Most of the researchers conducted previously were in financial performance and profitability position mainly based on secondary data.

This study has been done to analyze the trend of cash flow of selected Nepalese commercial banks to examine, analyze and compare the cash flow, to identify the strength and weaknesses of cash management of NABL and NIBL and to provide valuable suggestions to concerned organization for future improvement on the basis of this study.

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology deals with the nature of data used for study, sources of data, collection procedure of the required data, analytical tools that are used for the study. Research methodology also defines the population of the study, samples taken for the study, the method used to select the samples. It also defines the variables of the study. It frames the theoretical framework. Research design is also a major component of this topic. Thus, research methodology is the key to proceed further in the study.

3.2 Research Design

Research design is the plan, structure and strategies of investigation conceived so as to obtain answer to research questions and to control variation. Research design helps the investigator for obtaining answers to questions of research and also help to control the experimental, extraneous and error variance of the particular research problem under study.

"A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure" - Kothari, 1992

Thus, a research design is research plan or structure which is path for conducting research work. Without research design, it is not possible to conduct a research. The analysis of this study is based on certain research design keeping in mind on the objective of the study. From concerned bank different information and necessary data are collected such as annual reports and financial statements published by related bank. The data are collected from year 2006/07 to 2010/11.

3.3 Sample and Population

Thirty two commercial banks are operating in Nepal. Nepal Rastra bank being guardian of all bank and financial institutions recommends, directs and controls the establishment, operations and dissolution. The population for this study are all joint venture and non-joint venture commercial banks. All the commercial banks are performing their functions under the rules, regulations and directives of NRB. As it is impossible to analyze the performance of all the banks in limited time, only Nabil Bank Limited and Nepal Investment Bank Limited are taken for sample in this study. Population of this is as follows:

Population

List of Commercial Banks

1. Nepal Bank Ltd.
2. Rastriya Banijya Bank Ltd.
3. Nabil Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commerce Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.

17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global IME Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Grand Bank Nepal Ltd.
25. NMB Bank Ltd.
26. Kist Bank Ltd.
27. Janata Bank Nepal Ltd.
28. Mega Bank Nepal Ltd.
29. Commerz & Trust Bank Nepal Ltd.
30. Civil Bank Ltd.
31. Century Commercial Bank Ltd.
32. Sanima Bank Ltd.

3.4 Sources of Data

This study is mostly based on secondary data. However, required and necessary information have been obtained through informal discussion and telephone calls with the staffs of the banks. The sources of data collection are:-

-) Financial statements, annual reports provided by banks.
-) Telephone inquiries.
-) Articles and other related materials published in newspaper.
-) Newsletter of the bank.
-) Related website.
-) Textbooks, handbooks, magazines and other related books.
-) Library findings

3.5 Data Collection Technique

This study has been conducted to examine and evaluate the cash flow performance Nabil Bank Limited and Nepal Investment Bank Ltd. for this purpose various data are required. The researcher made visit to NaBL, NIBL, EBL and BOK head office for the collection of data. The annual report of the last five years was provided by the banks. Confusion regarding the financial information are solved by the staffs of both banks.

Various websites were surfed to gather relevant information. Reference material was collected from Library of post Graduate Campus Biratnagar, Tribhuvan University that helped a lot in conduction of this study. Besides, the above stated source of data detailed reviews of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from libraries of post Graduate Campus Biratnagar. The data information, facts and figures have been edited, tabulated and calculated before analysis.

Annual reports, financial statements, and introduction are collected from concerned banks as raw data for the study. The required data for the study are presented in tables and charts. Then, the data are interpreted and explained on the basis of the study. Financial, mathematical and statistical tools are used to analyze the presented data.

) Cash Flow Analysis

Cash inflows and outflows represent the most fundamental and prevalent economic events engaged by companies. In fact, frequent surveys of business show a single problem occupying increasingly greater portion of most managers' time: cash flow management. Managers realize that the "bottom line" has little to do with staying solvent. Cash planning specially, understanding the sources and uses of current and future cash flow needs often makes the difference between success and failure.

In order to analyze the cash flow statement, various ratios are calculated such as:

Cash Flow from operation to interest payment/Cash interest Coverage

$$\text{ratio} = \frac{\text{Cash from Operations} + \text{Interest Paid} + \text{Tax Paid}}{\text{Interest Paid}}$$

= times

Cash from operation to Current Liability ratio = $\frac{\text{Cash from Operation}}{\text{Average Current Liabilities}}$

= %

Cash from operation to Total Liability ratio = $\frac{\text{Cash from Operation}}{\text{Average Total liabilities}}$ =

..... %

Cash Flow from operating activity to Cash Flow from Investing Activity =

$$\frac{\text{Cash Flow from Operating Activity}}{\text{Cash Flow from Investing Activity}} = \text{..... times}$$

Cash Flow from Investing activity to Cash Flow from Financing Activity

$$= \frac{\text{Cash Flow from Investing Activity}}{\text{Cash Flow from Financing Activity}}$$

= times

Cash in Current Assets/Efficient Use of Cash Ratio =

$$\frac{\text{Cash \& Cashequivalents (balance)}}{\text{Current Assets}} = \text{..... %}$$

Cash ratio/cash holding ratio

$$= \frac{\text{Cash holding}}{\text{Current liabilities}} = \text{..... %}$$

Operating Cash Flow to Shares = $\frac{\text{Operating Cash Flow}}{\text{Number of Shares}}$ = Rs.

$$\text{Operating Cash Flow to Employees} = \frac{\text{Operating Cash Flow}}{\text{Number of Employees}} = \dots \text{Rs.}$$

$$\text{Cash Realization Ratio} = \frac{\text{Cash generated by operation}}{\text{Net Income}} = \dots \text{times}$$

) **Trend Analysis**

The trend analysis is performed to check whether the cash position of the concerned organization are improving or deteriorating over the study period. In this study, an attempt has been made to observe the financial trend maintained by selected banks on the basis of computed data derived from the annual report.

) **Statistical Tool**

Percentage is very useful tool for comparative analysis of two or more variables. So, percentage is used to analyze the cash flow statement of both commercial bank to compare each other. Similarly, simple bar diagram & multiple bar diagram has been used for cash flow analysis.

CHAPTER FOUR

Analysis and presentation of data

4.1 Analysis and presentation of data

In this chapter, the researcher analyzed five year's selected commercial bank and non commercial bank according to research methodology as mentioned in chapter three.

Just the balanced sheet, income statement are not sufficient enough to answer the question raised by users of financial statement. Cash flow statement answer those question raised by users of financial statement. Cash flow statement answer those questions through informative accounting. For these purpose four commercial banks, before starting the presentation and analysis of data let's have short look at the main items included in the cash flow statement.

4.1.1 Cash From Operating Activities

Those transactions which are considered in the determination of net income are known as operating activities. According to NAS-03(sec-6)"operating activities are the principal revenue-producing activities of the enterprises and other activities that are not investing or financing activities." Thus it can be stated that the cash flows other than those related with financing and investing are classified as operating activities.

According to NAS-03(sec.14), examples of cash flow from operating activities are :-

-) Cash receipts from sale of goods and rendering of services.
-) Cash receipts from royalties, fees ,commission and other revenues.
-) Cash payment to supplier for goods and services.
-) Cash payment to and on behalf of employees .
-) Cash receipt and cash payments of insurance enterprises for premiums and claims,annuities and other policy benefits.
-) Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities, and
-) Cash receipts and payments from contract held for dealing trading purpose.

This chapter deals with cash flow analyze with reference to selected commercial bank,so under the NRB directive flowing are the items.

- Interest income
- Commission and discount income
- Exchange gain
- Non operating income
- Other income related with main business
- Interest expenses

- Exchange loss
- Non/operating expenses
- Other expenses

According to NAS/03(sec.14) cash flow from operating activities items identified same as international according standard.

4.1.2 Cash From Investing Activities

-) Investing activities are related with long term assets with are shown in the balance sheet. "investing activities are acquisition and disposal of long term assets and other investment not included in cash flow equivalents." The cash flow from investing activities can be determined by considering the changes in related assets account during the year. Examples of cash flows from investing activities is
 -) Cash payment to acquire property, plant and equipment, intangible and other long term assets.
 -) Cash payment acquired equity or debt instrument other enterprises.
 -) Cash advances and loans made to other parties.
 -) Cash payment to future contracts, forward contract, option contract and swap contract.
 -) Cash receipt for sale of property
 -) Cash receipt from sale of equity or debt instrument of other enterprises.

-) Cash receipt from payment of advances and loan made other parties.
-) Cash receipts from future contract.
-) As far as commercial bank investing activities include
-) Change in balance with bank
-) Change in money at call and short notice.
-) Change in investment
-) Change in loans, advances and bills purchase
 - Change in fixed assets
 - Change in other assets

4.1.3 Cash From Financing Activities

Financing activities are related to the long term liability and share holder's equity .NAS/03define financing activities are activities that result in changes in size and composition of the equity, capital and borrowing the enterprises.

To get the claim of investor in the future, it is compulsory to determined cash flows from financing activities. It is determined by analyzing the debit and credit changes recorded during the period in the related liability and share holder equity.

Example of cash flow arising from financing activities are,,

) Cash proceeds from issuing shares, debenture, loan, notes, bonds, mortgage and other short or long term borrowing

) Cash payment to owners to redeem and shares, repayment of borrowed and the reducing of outstanding liabilities related to finance lease

) Cash payment for dividend

Similarly under the directive NRB these are financing activities for commercial bank

- Change in borrowing
- Change in deposit
- Change in bills payable
- Change in other liabilities

4.1.4 Cash Equivalent

It is the main part of cash flow statement, which describes cash position of the organization from different activities. Cash equivalent defines as short term, highly liquid investment that are readily convertible to amount of cash and must be sufficiently close to its maturity. Treasury bill and commercial paper are examples of equivalent

Now it is necessary to paste cash flow statement of selected commercial bank and their analyses. Analyzing of data is done on the flowing way.

4.1.5 Ratio analysis

Ratio analysis is the expression of the relationship between the mutually independent figure. It shows the quantitative relation between two variables. Simply it is calculated as dividing or variable by another variable.

There are various types of financial ratio which are used by different field for different purpose such as, creditors, investors. Financial institutions and management of the firm. In this analysis following ratio are analyze and interpret for the past five year for the sample banks.

4.2.1 Liquidity analysis

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting cash reserve ratio requirement prescribed by NRB. The commercial bank should ensure that they do not also that it is not too much highly liquid. The failure of the bank meet its cash obligation due to lack of sufficient liquidity will result bad credit image and loss of creditors confidence.

A very high degree of liquidity is also bad idle or non performing assets earn nothing. Therefore it is necessary to strike a proper balance between liquidity and lack of liquidity. So, on attempt has been made to analysis and interpret financial data of the subject matter in sequential order.

Cash reserve ratio

Adequate liquidity is also must in the banking sector in order to protect its solvency and to honor its short term obligation and liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditor's interest. Central bank has directed all the banks to maintain the adequate CRR by the provisioning of five percent of total deposit. A bank must ensure that it has a sound liquidity position to face the instant claims by its creditors so, CRR measures the ability to meet short term obligation and reselect the short term financial strength and solvency of the bank.

Table n. 4.1

Banks	%	Fiscal year					Mean	Std.devi	Cv
		06/07	07/08	08/09	09/10	10/11	X		
NABIL	%	3.83	3.26	6.00	8.37	9.03	6.098	2.32	38.08
EBL	%	1.90	1.90	2.90	3.40	2.83	2.59	0.59	22.96
NIBL	%	9.78	13.61	10.47	10.91	10.32	11.02	1.35	12.21
BOK	%	7.86	5.92	5.92	5.13	6.76	6.32	0.92	14.68
Mean		5.84	6.17	6.32	6.95	7.23			

Source: Annual,2006/07to 2010/11

Form the computation, the average CRR of NABIL, EBL, NIBL and BOK is 6.098, 2.59, 11.02 and 6.32 respectively. Similarly the standard deviation of NABIL, EBL, NIBL and BOK are 2.32, 0.59, 1.35 and 0.92 respectively and Cv of NABIL, EBL, NIBL, and BOK are 38.08, 22.96, 12.21 and 14.68. Respectively this shows that the average CRR of NIBL has highest CRR among all. On the other hand, the average CRR of EBL is 2.59 which is less than 5% it means EBL was unable to maintain the CRR as per then directives. On the basis of Cv it indicates that the value of NIBL more consistent due to lower Cv then others such as, from the computation of combined.

Mean of different banks, the average CRR

In all five different fiscal years are greater than 5% this shows that all banks were maintained as per directives of NRB

Test of hypothesis

Null hypothesis; $H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$ i.e.

There is no significant difference in CRR among four banks.

Alternative Hypothesis: $-H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$ i.e there is significant difference in CRR among four difference banks.

Level of significance = 5%

Test statistic: the test is based on significance of CRR among four different banks in different years. Therefore we use one way ANOVA.

Table 4.2 Anova table

Source of venation	Sum of squares	D.F	Mean sum of squares	F-ratio
Between sample	1141.11	4-1=3	1141.11/4=285.5	F=285.5/9.32
Within Sample	180.70	20	180.7/20=9.3	30.70
Total	1321.81	25-1=24		

Critical value: the tabulated value of f at

5% level of significance for 3 and 20 degree of freedom(df) is 2.87

Decision: since calculated f 30.70 is greater than the tabulated F(2.87)

The null hypothesis H_0 is redetected and hence the alternative hypothesis H_1 is accepted. Therefore we concluded that there is no significant difference in the CRR among four different banks in different years.

4.2.2 Profitability analysis:

Profitability measures the success of the banks in terms of profit margin, return on assets, return on loan and advances and reflects the

overall efficiency and effectiveness of management. The operating efficiency of the bank and its ability to ensure adequate return to its shareholder depends ultimately on the profit earned by the bank.

a. Net profit margin

Net profit margin indicates margin of compensation left to the owner for providing their capital, after all expenses have been met. It help in determining the efficiency with which the affairs of the business are being managed a net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

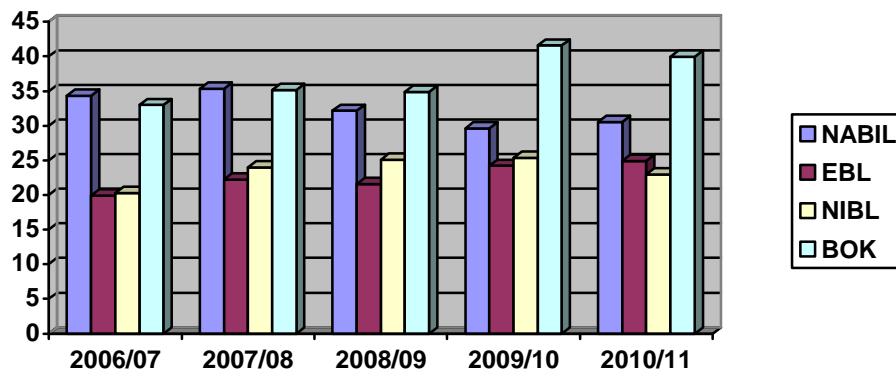
Table 4.3 Comparative review of NPM

Banks	%	Fiscal years					Mean	Std deviation	Cv
		06/07	07/08	08/09	09/10	10/11			
NABIL	%	34.33	35.16	32.16	29.63	30.56	32.41	2.15	6.64
EBL	%	19.9	22.2	21.6	24.2	24.92	22.56	1.81	8.02
NIBL	%	20.26	23.99	25.07	25.33	22.97	23.52	1.83	7.80
BOK	%	32.98	35.16	34.9	41.58	39.96	36.92	3.28	8.87
Mean		26.87	29.17	28.43	30.20	29.60			

Source: Annual report, 2006/07 to 2010/11

Form the computation using scientific calculator the average net profit margin of BOK shows higher value than other banks i.e. 36.92, The average NPM of NBIL,EBL and NIBL is respectively 32.41, 22.56 and 22.97. In the case combines mean of different banks the average net profit margins are 26.87, 29.17,28.43,30.20 and 29.60 respectively. It shows that the banks had earned greater net profit in the year of 2007/2010/11.At the same period such ratio is seemed more consistence than other period too. So the considering the above table, it is concluded that such ratio has increasing nature from 26.87to 30.20 this is good sing for profitability part of view.

Figure 4.1 Net profit margin



Fiscal year /Banks

The above chart show that the net profit margin if BOK is found increasing consistently than others. Similarly EBL is also showed

increasing trend after the year of 2006/07. But the remaining bank shows fluctuation in NPM

b. Interest income on loan and advance

Table 4.4 comparative review of interest income and loan and advance.

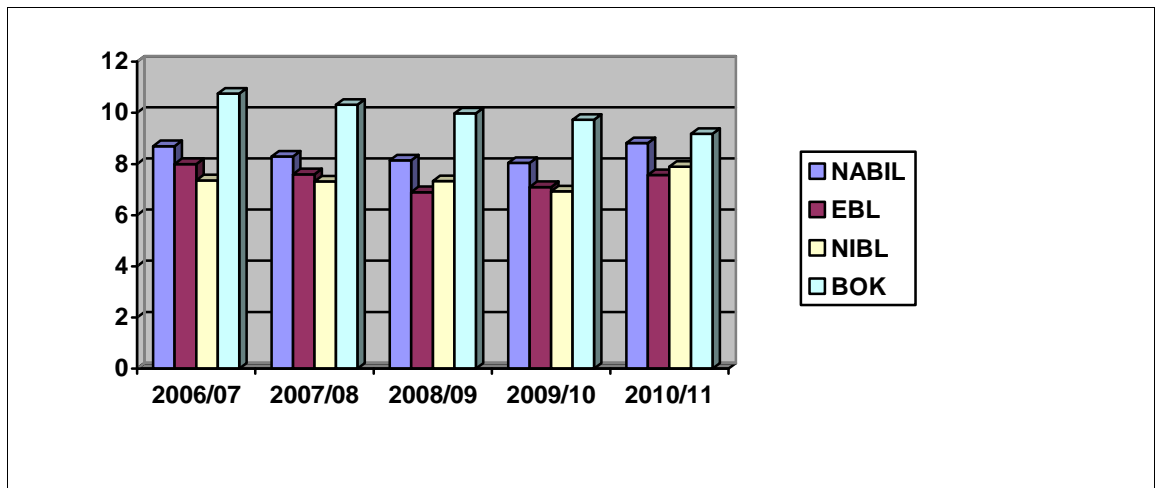
Banks	Fiscal year						Mean	SD	Cv
	%	2006/07	2007/08	2008/09	2009/10	2010/11			
NABL	%	8.70	8.29	8.14	8.04	8.82	8.40	0.31	3.67
EBL	%	8	7.60	6.90	7.10	7.57	7.43	0.39	5.26
NIBL	%	7.36	7.32	7.33	6.93	7.89	7.37	0.31	4.15
BOK	%	10.75	10.32	9.98	9.73	9.18	9.99	0.53	5.3

									2
Mean	8.70	8.38	8.09	7.95	8.36				

Source: Annual report 2006/07 to 2010/2011

Interest income is the major source from the loan and advance that earned high rate of interest income. It high utilization of loan and advance.

Figure 4.2



Fiscal year/banks

The above table shows that the average interest income on loan and advance of Bok shows high value than other banks i.e.9.99.the average interest on loan and advance of NABIL,EBL,AND NIBL is 8.40,7.43and 7.37 respectively. It indicates that BOk table to high rate of interest income on loan and advance than others on the basis of Cv,NABIL shows more consistent than other bank.

Such as from the computation of combined mean of different banks in different years the average interest income of loan and advance is 8.70,8.38,8.09,7.95and 8.36 respectively. It shows that the bank had earned goiter interest income on loan and advanced in year 2006/07and lowest in year 2009/10. considering the above tale,it is concluded that such ratio has increasing nature from 5.70to7.95 based on Cv in the year.

c. Return on assets

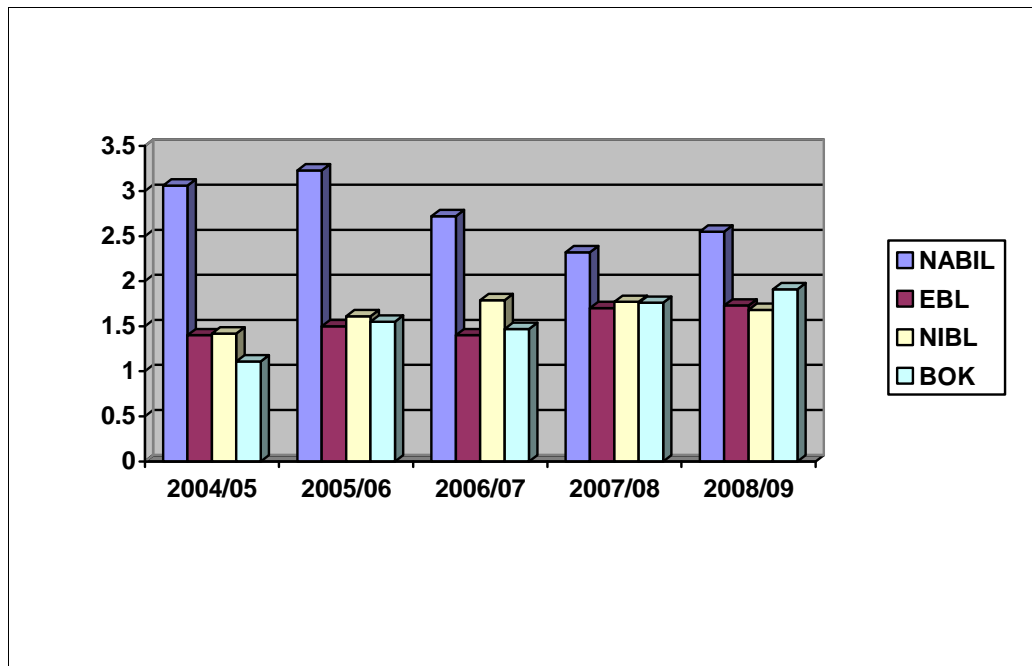
This ratio assists effectiveness in using the total find supplied the owners and creditor.Higher ratio shows the higher return on the assets used in business there by indicating effective use of the resource and vice-versa.

Table 4.5 comparative review of ROA

Banks	Fiscal year						Mean	Sd Deviation	C
	%	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	3.06	3.23	2.72	2.32	2.55	2.78	0.33	1
EBL	%	1.40	1.50	1.40	1.70	1.73	1.55	0.14	9
NIBL	%	1.42	1.61	1.79	1.77	1.68	1.65	0.13	8
BOK	%	1.11	1.55	1.47	1.76	1.91	1.56	0.27	1
Mean		1.75	1.97	1.84	1.88	1.96			

Source : annual report 2006/07to2010/11

Figure 4.3



From the using scientific calculator and spread sheet the average ROA of NABIL shows higher value and other banks i.e.2.78.

The average ROA of EBL,NIBL and BOK seems 1.55,1.65 and 1.56

respective it indicates that NABIL was able to get effective use of resource available. Similarly from the computation of combined mean of different bank the average ROA is 1.75,1.97,1.84,1.88 and 1.96 respectively. The table shows the banks had earned greater ROA in the year of 2005/06

d. Operating ratio

operating ratio indicates on operating efficiency incurred on total assets. It determine the operational efficiency.

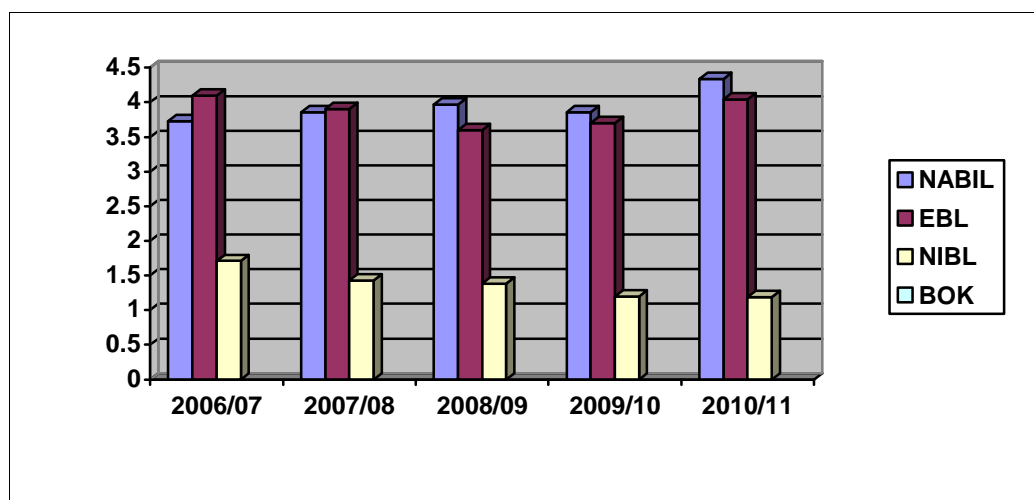
Banks	%	Fiscal year					Mean	Sd deviation	Cv
		2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	3.73	3.86	3.97	3.86	4.34	3.95	0.21	5.3
EBL	%	4.1	3.9	3.6	3.7	4.04	3.27	0.19	4.9
NIBL	%	1.71	1.43	1.38	1.27	1.19	1.4	0.18	12
BOK	%	-	-	-	-	-	-	-	-
Mean		3.18	3.06	2.98	2.94	3.19			

Sourece: annual report 2006/07 to 2010/11

-not available

Form the computation, the average operating ratio of NABIL and NIBL is 3.95,3.87 and 1.4 respectively. It indicates that NIBL is satisfactory level in expense operating ratio with comparison to them. EBL holds second position on the basis of Cv, EBL seems more

consistent than other banks. Similarly from the computation of combined mean of different banks in different years the average operating ratio of 2006/07, 07/08, 08/09, 09/10, 10/11 is 3.18,3.06,2.98,2.94,and 3.19 respectively. It shows that the banks had lower average of operation in the year 2007/08.it means the banks could able to expense lower operating expense on total assets.



Fiscal year /bank

The above chart shows that the operating ratio of NABIL has an increasing and the NIBL has decreasing trend during all those fiscal periods rest of other banks showed fluctuated operating ratio.

4.2.3 Activity ratio analysis:

The activity ratios measure the effectiveness of assets utilization, reflecting the management's efficiency to use available resources. The bank uses the funds of creditors and owners in various profits.

Generating assets like loans and advances, investment est.'s, the activity ratios are employed to evaluate the efficiency of the bank in

terms utilizing its assets so an attempt has been made to analysis and interpret financial data of the subject matter in sequential order.

a. credit deposit ratio

Bank make profit by lending or utilizing the deposits by charging a higher rate of interest to the borrowers than they pay the depositors. It measures the extent to which the banks are successful to mobilize the outsider fund i.e. total deposit in loan and advances for the purpose or profit generation comparative credit deposit ratio or selected four commercial banks has been valuated as follows.

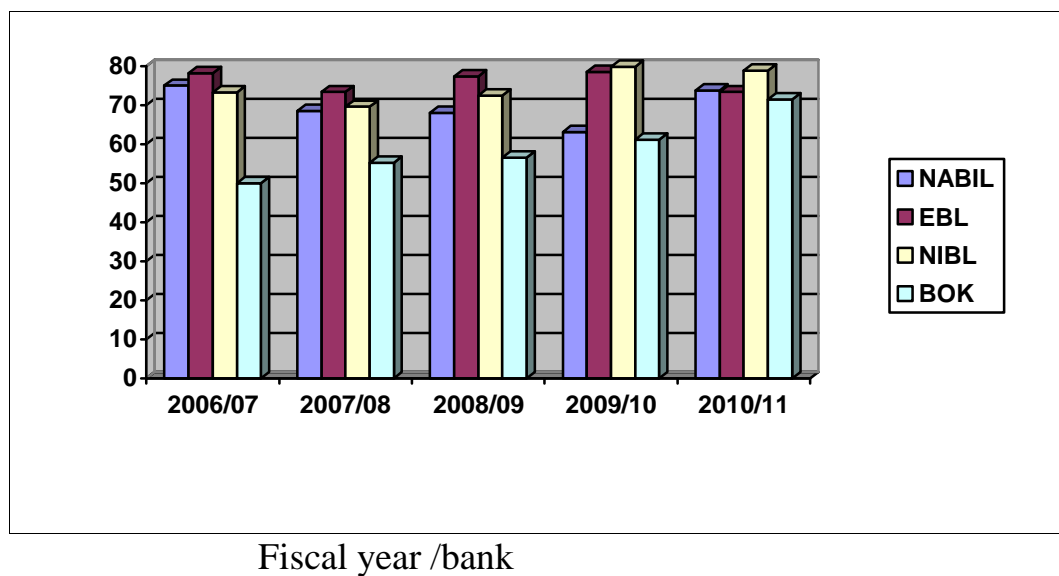
4.7 Comparative Review of credit deposit ratio

Banks	%	Fiscal year					Mean	Sd deviation	CV
		2006/07	2007/08	2008/09	2009/10	2010/11			
NIBAL	%	75.05	68.63	68.13	63.18	73.87	69.77	4.29	6.25
EBL	%	78.2	73.40	77.4	78.6	73.43	76.21	2.31	3.03
NIBL	%	73.33	69.63	72.56	79.91	78.86	74.86	3.91	5.22
BOK	%	50.07	55.27	56.57	61.23	71.49	58.93	7.22	12.25
Mean		69.16	66.73	68.67	70.73	74.40			

Source annual report 2006/07 to 2010/11

From the computation, the average credit deposit ratio of EBL shows higher value than other banks i.e.76.21. the average credit deposit ratio of NABIL,NIBL,and BOK is69.77, 74.86 and 58.93 respectively. Similarly from the computation of combined mean of different banks indifferent year the average credit deposit ratio is 69.16, 66.73,68.67,70.73 and 74.40 respectively . it has that the average credit deposit ratio in the year fo 2008/09 74.40 had greater value than other financial year.

Figure 4.5



The above figure shows that the credit deposit ratio of BOK is increasing but remaining bank shows randomly fluctuating nature in credit deposit ratio.

4.4.4 Capital structure analysis

A bank should have strong as well as long term financial position. The long term financial position of the bank is judged by the

leverage ratio Analysis. It measures the extent of the bank's total debt burden it reflects the bank ability to meet its short –term as well as long term obligations. To measure bank capacity of borrowing as means of capital accumulation i.e. over extension of credit and borrowing power which determine the long term solvency of the banks .for this several capitals structure and maintained.

a. capital adequacy ratio

Capital adequacy ratio shows whether the commercial bank are maintaining sufficient amount of shareholders fund in comparison to total amount of their deposits. Extremely high or low ratio is inappropriate in terms of lowered return of lowered solvency respectively. For this several capital adequacy ratio are calculated.

1. core capital

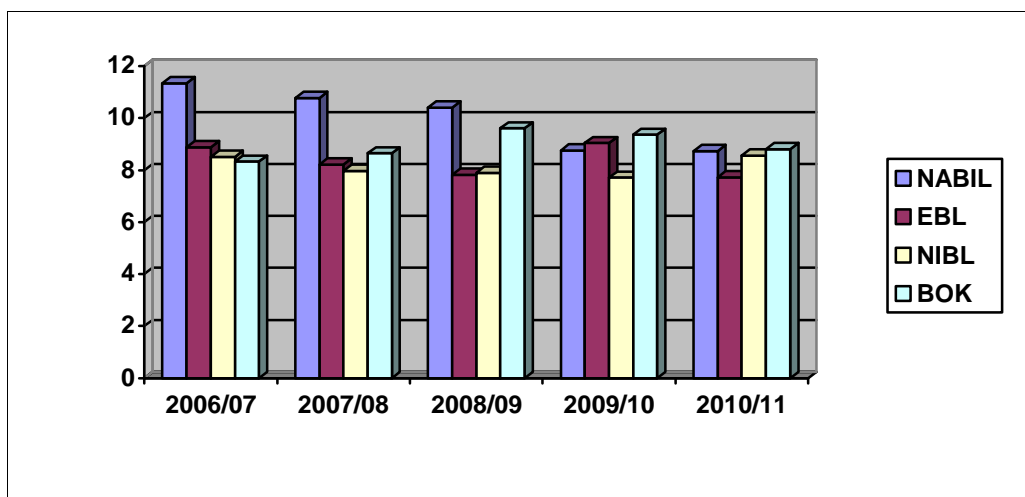
Table 4.8 comparative review of core capital

Bank	%	Fiscal year					Mean	Sd Deviation
		2006/07	2007/08	2008/09	2009/10	2010/11		
NABIL	%	11.35	10.78	10.4	8.75	8.74		
EBL	%	8.88	8.21	7.82	9.04	7.73	10	0.07
NIBL	%	8.52	7.97	7.90	7.71	8.56	8.34	0.54
BOK	%	8.33	8.65	9.61	9.36	8.81	8.13	0.34
Mean	%	9.27	8.90	8.93	8.71	8.46	8.95	0.47

Source: annual report 2006/07 to 2010/11

From the computation the average of core capital ratio to NABIL Shows higher value then other banks. It means NABIL has been giving contribution to maintain core capital . the average core capital of reaming banks is 8.34,8.13,and 8.95 respectively. On the basis of CV,it can be say that core capital ratio of NIBL is more consistent than other ratio.similarly form the computation of combined mean of different bank in different year, the average of core capital ratio is 9.27,8.90,8.13,8.71 and 8.46 respectively.

Figure no . 4.6



Fiscal year/ banks

11. Supplementary capital

4.9 comparative review of supplementary capital

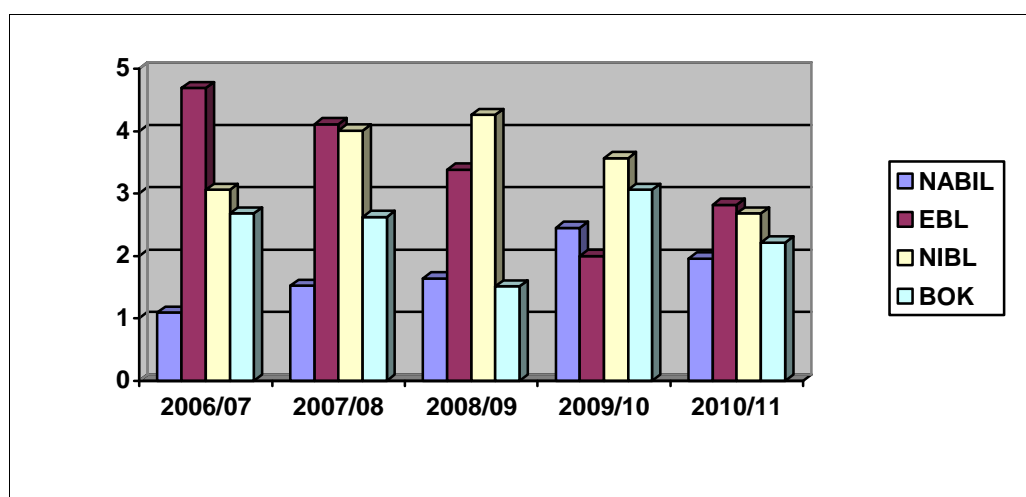
Banks	%						Mean	Sd deviation	CV
		2006/0	2007/08	2008/09	2009/10	2010/11			
NABIL	%	1.09	1.52	1.64	2.45	1.96	1.73	0.45	26.24
EBL	%	4.69	4.11	3.38	2.4	2.82	3.48	0.85	23.94
NIBL	%	3.06	4.01	4.26	3.57	2.68	3.52	0.58	16.62
BOK	%	2.68	2.62	1.51	3.06	2.21	2.42	0.53	21.82
Mean		2.88	3.06	2.70	2.87	2.41			

Source :annual report 2006/07to 2010/11

From the computation the average supplementary capital is 1.73,3.48,and 2.42respectively and Cv is 26.24, 23.94, 16.62 and 21.82 respectively. EBL shows highest average than other bank. On the basis of

CV of NIBL is more consistent than other. Similarly from the computation of combined mean of different bank in different year the average supplementary capital is 2.88, 3.06,2.70,2.87 and 2.41 respectively

. Figure 4.7



Fiscal year /banks

111. Total capital fund

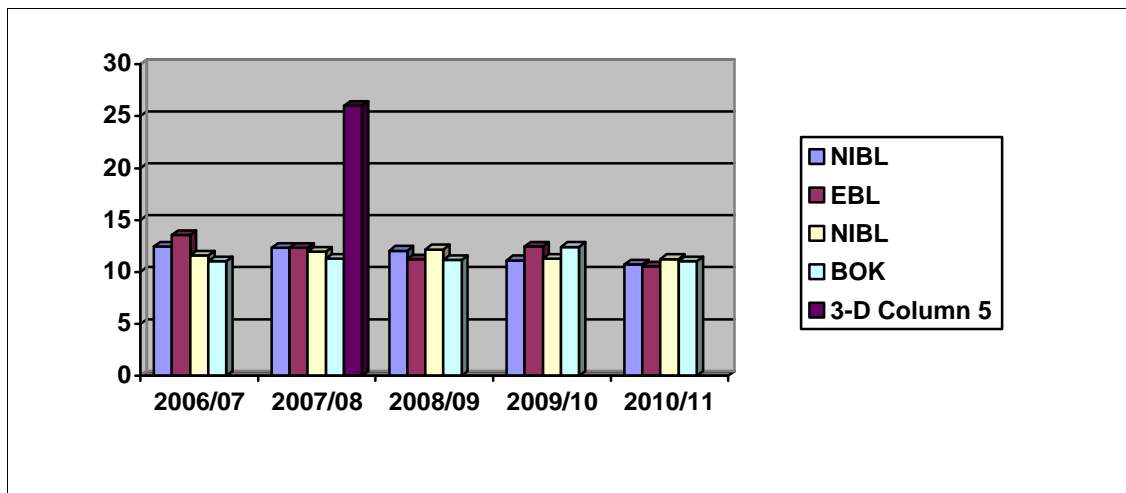
Table 4.10 Comparative review of total capital fund

Banks	%	Fiscal year					Mean	Sd Deviation	C
		2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	12.44	12.31	12.04	11.11	10.7	11.72	0.69	5.
EBL	%	13.57	12.32	11.20	12.44	10.55	11.82	1.04	8.
NIBL	%	11.58	11.97	12.17	11.28	11.24	11.65	0.37	3.
BOK	%	11.01	11.26	11.13	12.42	11.02	11.37	0.53	4.
Mean		12.15	11.96	11.63	11.81	10.87			

Source : annual report 2006/07to 2010/11

According from the tabulated data, the average mean of total capital fund of NABIL,NIBL and BOK is the highest average. Such as the cv is 5.90, 8.84, 3.27 and4.69 respectively. EBL had strong total capital fund. Also considering the combined mean of different bank in different year. The average of total capital fund is 12.15, 11.96, 11.63, 11.81, and 10.87 respectively.

Figure4.8



Fiscal year /bank

4.2.5 Interest Expenses to total deposit ratio:

This ratio is analysed to find out how the banks were successful to generate cheaper fund.

Table 4.11 Comparative review of interest expenses to total deposit ratio

Banks	%	Fiscal year	Meam	Sd

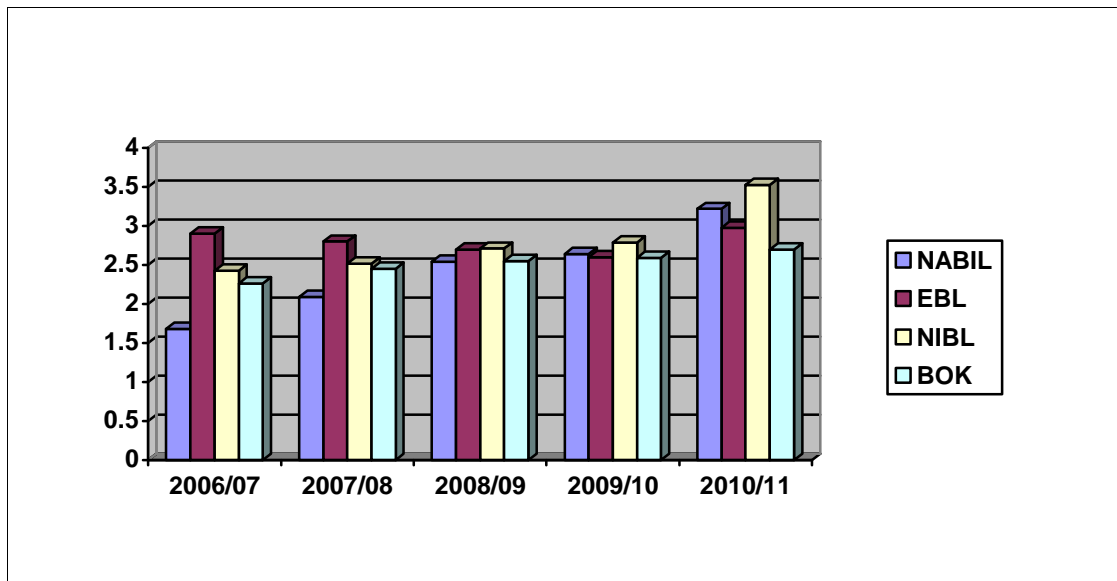
		2006/07	2007/08	2008/09	2009/10	2010/11		deviation
NABIL	%	1.68	2.09	2.54	2.64	3.22	2.43	0.52
EBL	%	2.90	2.80	2.70	2.60	2.98	2.80	0.14
NIBL	%	2.43	2.52	2.71	2.79	3.53	2.80	0.39
BOK	%	2.26	2.45	2.55	2.59	2.70	2.51	0.15
Mean		2.32	2.46	2.62	2.65	3.10		

Source: annual report of 2006/07 to 2010/11

From the computation the average of such ratio of bank are 2.43, 2.80, and 2.51 respectively EBL and NIBL has higher average ratio that means these two banks fails to quote their fund. on the basis of CV,It seemed that EBL ratio is more consistent than other banks due to lower CV, similarly from the computation of combined mean of different banks in different year , the average interest expenses to total deposit ratio is 2.32, 2.46, 2.62, 2.65, and 3.10 respectively. it shows that the banks had succeeded to generate cheaper find in the year of 2004

Figure 4.9 Interest expenses to total deposit ratio

Figure 4.9



Fiscal year/ bank

The above chart shows that most of the bank had increasing trend in nature. However, in case of EBL the trend was decreasing except in year of 2008/09 it is good sign for generating cheaper fund.

4.2.6 market value analysis

Market value analysis indicates the market value of the bank as compared to the bank value and measured the stock price relative to earning. In this analysis part, the researcher analysis and compares the various market related ratio analysis such as EPS, P-E Ratio and cash dividend on share capital. Dividend on share capital for better presentation.

a. Earning per share.

The earning per share shows the profitability of the bank on per share basis. It shows the earning available to each shareholder out of the

total earning. The calculation of EPS made over the year indicate whether the bank earning power on per share basis and changed or not

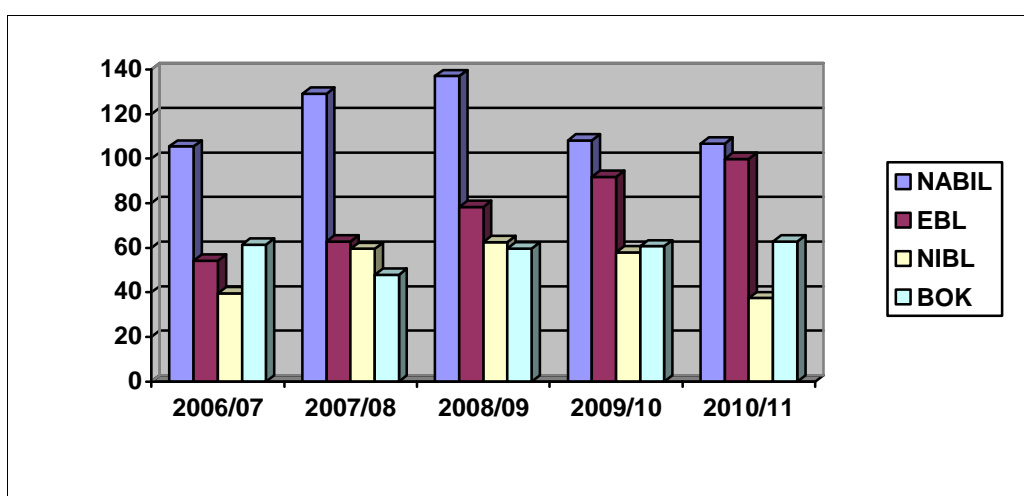
Table 4.12 Comparative Review of EPS

Banks	Fiscal year						Mean	Sd Deviation
	%	2006/07	2007/08	2008/09	2009/10	2010/11		
NABIL	%	105.49	129.21	137.08	108.31	106.76	117.37	13.15
EBL	%	54.22	62.78	78.42	91.82	99.99	77.45	17.15
NIBL	%	39.5	59.35	62.57	57.87	37.42	51.34	10.65
BOK	%	47.91	59.64	60.66	62.74	61.9	58.49	5.42
Mean		61.68	77.64	84.68	80.18	7.51		

Source: annual report,2006/07 to 2010/11

The above table shows that the EPS of NABIL shows higher value than other banks i.e. 11.37 it means NABIL earned more profit on per share basis. It also indicates that the greater profitability available to each shareholders out of total earning than average sample banks. On the basis of CV, it seemed the BOK ratio is more consistent than other banks due to the lower CV from the computation of combined mean of different banks on different years, the average EPS of in the year of 2006/07,2007/08,2008/09,2010/11, and 2010/11 is 61.78,77.64,84.68,80.18 and 76.51 respectively.

Figure 4.10 Earning per share



Fiscal year/ bank

b. Price-Earning ratio

Price earning ratio is use to asses the bank performance as expected by the investors. Higher the ratio better it is for the owner.

Table 4.13 Comparative Review of P-E Ratio

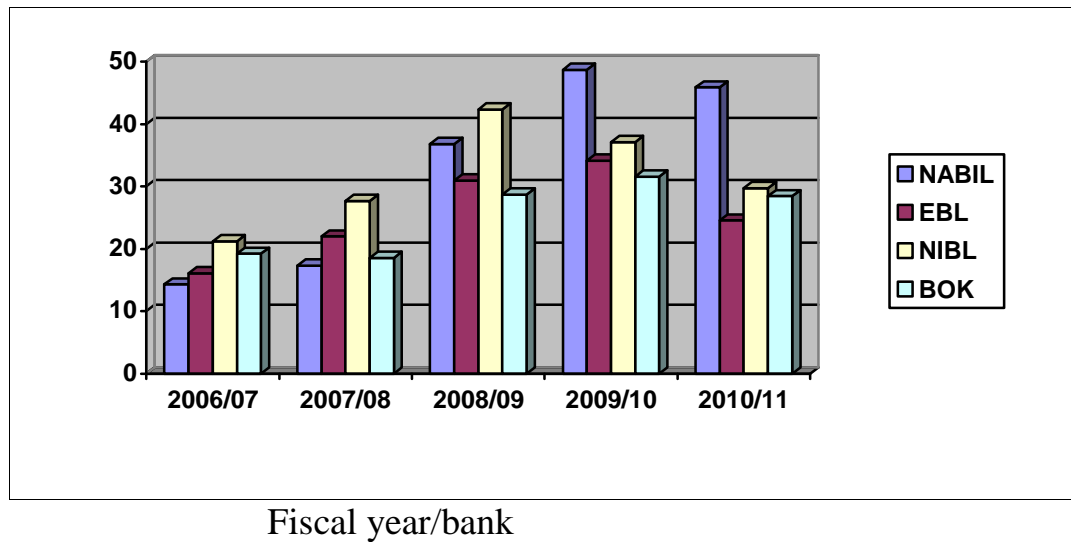
Banks	%	Fiscal year					Mean	Sd deviation
		2006/07	2007/08	2008/09	2009/10	2010/11		
NABIL	%	14.27	17.34	36.84	48.70	45.89	32.61	14.31
EBL	%	16.04	21.97	30.99	34.11	24.55	25.53	6.44
NIBL	%	20.25	21.23	27.63	42.33	37.10	29.71	8.71
BOK	%	19.20	18.57	28.68	31.56	28.43	25.71	5.35
Mean		17.44	19.77	31.03	39.17	33.99		

Source: annual report, 2006/07 to 2010/11

Form the computation, the average P-E Ratio of NABIL shows higher value than other banks. On the basis of CV it can be say

that BOK P-E Ratio was more computation of different banks in different year. The average P-E ratio is 17.44,19.77,31.03,39.17 and 33.99 respectively.

Figure 4.11 P-E Ratio



C. Cash Dividend on share capital

The ratio measures the market or profitability of the bank on dividend per equity share. In general, higher the ratio, better it is and vice-versa generally two components affect this ratio; a) Amount of earning distributed as dividend and b) number of equity/common share outstanding.

Table 4.14 comparative review of cash dividend on share capital

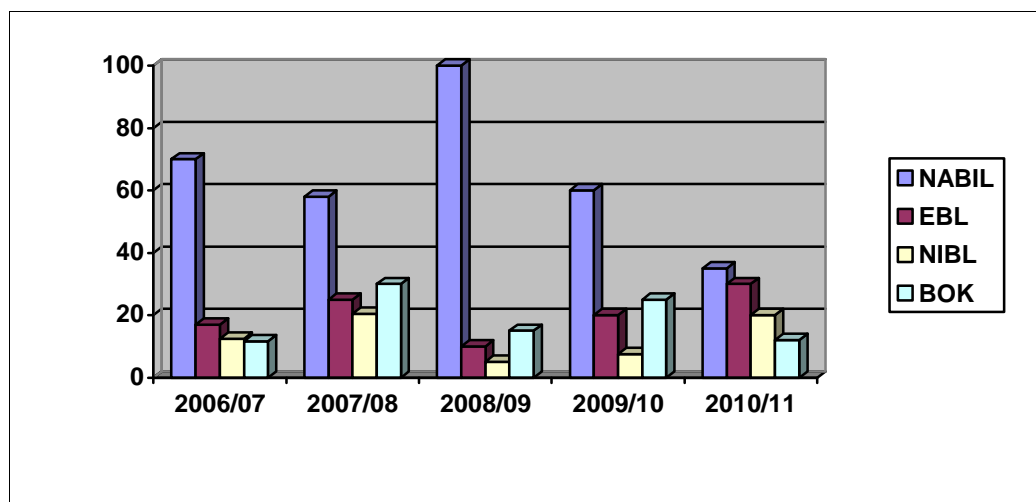
Banks	%	Fiscal year					Mean	Sd deviation	CV
		2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	70	85	100	60	35	70	22.14	31.6

EBL	%		25	10	20	30	17	10.77	63.3
NIBL	%	12.5	20.5	5	7.5	20	13.1	6.32	48.2
BOK	%	11.58	30	15	25	12	18.72	7.44	39.7
Mean		31.36	40.12	32.5	28.12	24.25			

Source annual report,2006/07 to 2010/11

Considering the above table, it seems that the average cash dividend ratio of NABIL is higher than other banks. The average of other banks is 18.72,17,13.1 respectively. On the basis of CV, it seemed that NABIL cash dividend ratio is more consist . similarly from the computation of different bank in different years, the average cash dividend in the year 2006/07,2007/08, 2008/09, 2009/10, 2010/11 is 32.36,40.12,32.5,28.12,and 24.25 respectively .it shows that the banks had contributed more cash dividend in the year2005/06.

Figure4.12



Fiscal year /bank

The above chart shows that cash dividend on cash dividend ratio of bank is random/fluctuating in general.

D. Dividend (including bonus) on share capital

Table 4.15 Dividend including bonus on share capital

s	%	Fiscal year					Mean	Sd deviation	CV
		2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	70	85	140	100	85	96	23.96	24.
EBL	%	20	0	30	30	30	22	11.66	53
NIBL	%	12.5	55.46	30	40.83	20	31.76	15.21	47.
BOK	%	31.58	35	40	45	43.56	39.03	5.08	13.
Mean		33.52	43.86	60	53.95	44.64			

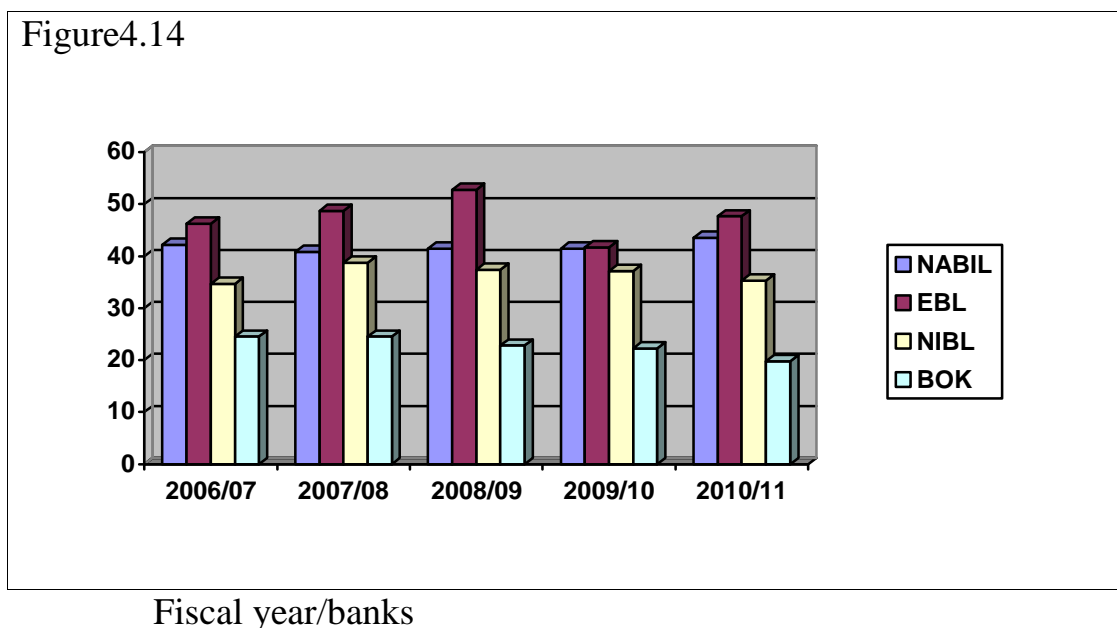
Source annual report ,2006/07 to 2010/11

The above calculated table, the mean dividend of NABIL is the highest of 96 followed by BOK. The average dividend on capital share is 22,31.76,39.03 in EBL, NIBL and BOK ,EBL with 53 and

NABIL	%	42.2	40.86	41.43.	41.42	43.5	41.88	0.91	2.
EBL	%	46.3	48.7	52.8	41.7	47.68	47.44	3.59	7.
NIBL	%	34.65	38.77	37.39	37.41	35.29	36.70	1.51	4.
BOK	%	24.53	24.51	22.81	22.28	19.78	22.78	1.75	7.
Mean		36.92	38.21	38.60	35.70	36.56			

Source: annual report .2006/07 to 2010/11

Form the computation, the average staff bonus to total staff expenses ratio of BOK shows higher value on the last five year than other banks. i.e. 47.44 the staff bonus of BOK receive less bonus than the other banks .similarly form the computation of combined mean of different banks in different years, the average staff bonus of total staff expenses in the year 2006/07,7/8,8/9,9/10,and 2010/11 is 36.92, 38.21, 38.60, 35.70 and 36.36 respectively.



In the above chart shows that the staff bonus of total staff expenses ratio of all the banks seem full fluctuate in nature.

b. weighted average interest rate spread

Table 4.17 comparative review of weighted average interest rate spread

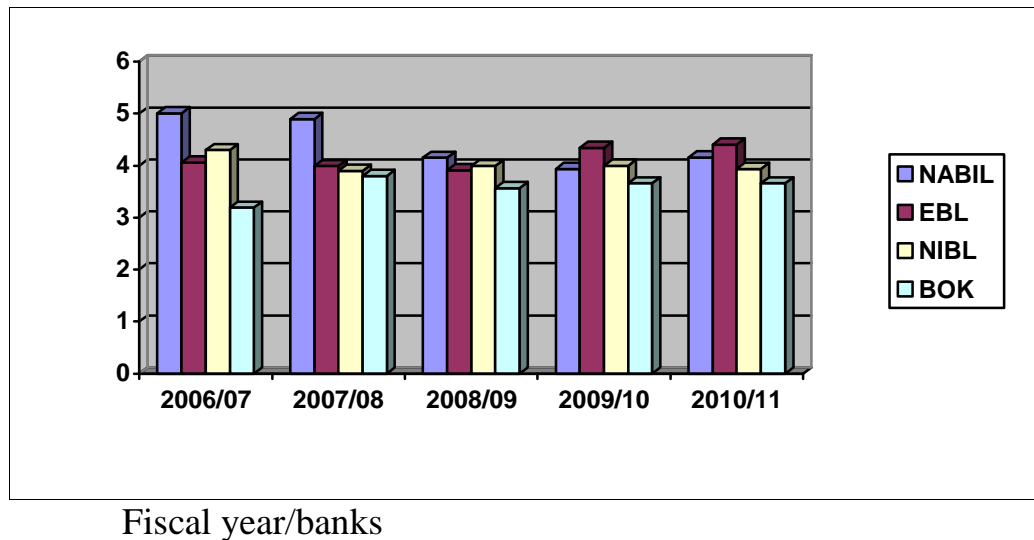
Banks	%	Fiscal year							
		2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	5.01	4.9	4.15	3.94	4.16	4.43	0.430	9.83
EBL	%	4.06	3.99	3.91	4.34	4.4	4.14	0.19	4.70
NABIL	%	4.3	3.9	3.99	4.0	3.94	4.03	0.14	3.52
BOK	%	3.19	3.8	3.57	3.66	3.66	3.58	.021	5.78
Mean		4.14	4.15	3.90	3.98	4.01			

Source: annual report,2006/07 to 2010/11

Form the computation the average of such ratio of BOK seems lower value than other banks i.e. 3.58. the average of such ratio NABIL, EBL and NIBL are 4.43, 4.14, and 4.03 respectively. The mean of all banks for weighted average interest rate indicates that theory all are performing more competitive to each other. The CV of NABIL, EBL, and BOK are 9.83,4.70, 3.52 and 5.78 respectively. On the basis of CV the NIBL ratio is more consistent than other banks due to lower CV i.e. 3.52 similarly form the computation combined mean of different banks on

different year, the average of weighted average interest rate spread in the 2006/07, 2007/08,2008/09,2009/10 is 4.14, 4.15, 3.90, 3.98 and 4.04 respectively

Figure 4.15



The above chart shows that the weighted average interest spread to NABIL, BOK, is decreasing in nature . it means the bank has been maintaining lower interest rate spread on interest rate charged by the bank. It is really a good trend in the view point of customer satisfaction and liberalized environment.

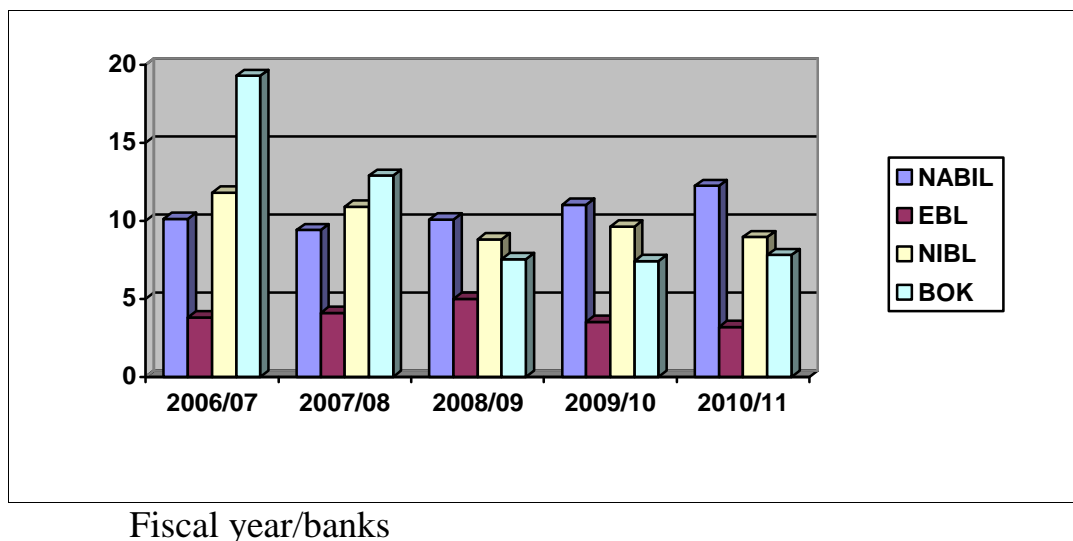
c. Exchange gain to total income:

Table 4.18 comparative review of exchange gain to total income.

Banks	%	FISCAL YEAR					Mean	Sd deviation	CV
		2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	10.13	9.41	10.09	11.03	12.24	10.58	0.98	9.23
EBL	%	3.80	4.10	5	3.50	3.20	3.92	0.62	15.76
NIBL	%	11.82	10.91	8.80	9.63	8.95	10.02	1.17	11.65
BOK	%	1.30	12.89	7.54	7.40	7.80	10.99	4.64	42.23
Mean		11.26	9.32	7.85	7.89	8.04			

Form the above calculation, the average exchange of gain is 10.58,3.92, 10.02and 10.99 respectively. It indicates that BOK is in satisfactory level in foreign exchange gain where as EBL is unsatisfactory level due to it do far lower average in computation with other banks the CVof banks are9.23, 15.76., 11.65, and 42.23 respectively .so on the basis of CV it seems that NABIL ratio is more constant , form the computation of combined mean of different bank in the different year the exchange gain to total income is 11.20,9.32,7.85,7.89,and 8.04 respectively. It shows that the average exchange gain to total income in the year 04/05 was higher than other financial year. It means at that period the banks were succeeded to gain from foreign exchange.

Figure4.16



The above chart shows that all the banks seem fluctuating in nature. The table shows that the exchange gain ratio EBL seems lower value than other.

4.2.8 Non –Performing assets (NPA)

Table 4.19 comparative review of NPA

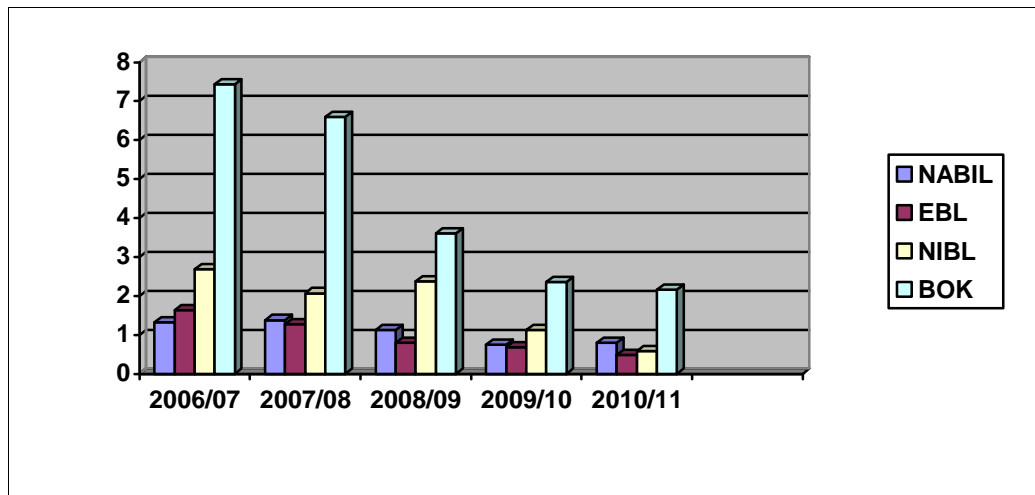
Banks	%	Fiscal year					Mean	Sd Deviation	CV
		2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	%	1.32	1.38	1.12	0.74	0.80	1.07	0.26	24.
EBL	%	1.63	1.27	0.80	0.68	0.48	0.97	0.42	43.
NIBL	%	2.69	2.07	2.37	1.12	0.58	1.77	0.79	44.
BOK	%	7.44	6.60	3.61	2.36	2.16	4.43	2.18	49.

Mean		3.27	2.83	1.97	1.22	1.00			
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Source: annual report 2006/07 to 2010/11

From the computation the average of NPA of EBL seems comparatively lower than other banks i.e. 0.97. the average NPA of other remaining banks (NABIL,NIBL and BOK) is 1.07,1.77 and 4.43 respectively . the value of NPA seems quite high in the case of BOK which is not good .the CV of NABIL, EBL,NIBL and BOK is 24.43,43.13,44.84 and49.29 respectively. On the basis of CV, it can be say that the variable NABIL is more consistent in maintaining and NPA than other banks . similarly from the computation of different bank in different year the average NPA in the year of 2004/05 2005/06 2006/07 ,2007/08, 2008/09 is 3.27,2.83,1.97,1.22 and 1.00 respectively . it shows that the average NPA of bank in the year or 2008/09 is lower.it means the bank are more success to control the NPA in comparison to other financial year. Considering the above table . it is concluded that the NPA has decreasing nature. Of course it is good sing to the banks the point of view of non banking assets.

Figure4.17



Fiscal year/ bank

The non performing assets of BOK seem to be very high in fiscal year 2006/07 where as it is decreasing in succeeding fiscal year but still higher than others in 2008/09. the non performing assets of other banks are also in decreasing order.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

Capital formation is based upon the saving of the country. Banks promote saving, mainly, by commercial- banks. Like this, there is great contribution to commercial banks to from the capital as well as its mobilization. By collecting saving from the different people and organization, it creates funds, which is re-invested to various productive projects, providing capital to invest. After the restoration of democracy in Nepal, government took liberalization economic policy. As a result various joint venture banks are also established. At present all they are performing competitively. This study, relating commercial banks is done on topic financial performance analysis to commercial banks in Nepal (A comparative study of NABIL, EBL, NIBL and BOK).

The research work is conducted to reach the dustily where we satisfy with the queries of research problem which was specified in the statement of the problem in the introductory chapter. To conduct the research work, the researcher consulted mainly the secondary source such as documents published by concerned banks and also consulted the personalities of the related banks as primary sources where as necessary. Before presenting and analyzing the data, according to objective set fourth previously. Then the research work was analyzed and interpret by financial tools such as cash reserve ratio, net profit margin ratio, return on assets . earning per share , P-E ratio , and non performing assets (NPA) as well as statistical tools such as mean, std. deviation CV ratio.

In this way , the researcher analyzed and presented the fourth chapter which was the main body of research work. On the basis of data analysis and presentation , the researcher extracted some major findings.

It has been explain along with the data analysis and presentation ultimately. The researcher will recommend on the research problem to stake holders.

To know the real performance of banks, the researcher observed the analyzed the comparative performance analysis of four commercial banks for five years period. It is hoped that the comparative performance analysis of four commercial banks will give a rational resulted and present the overall banking scenario in terms of performance analysis

To analyze the liquidity position, only cash serve ratio has calculated . considering the overall data presented for five years period. It seems that the banks have been maintaining the CRR as per the directives of central bank except Everest bank ltd. in profitability NPM,ROA. Operating ratio has been calculated. All ratios shows at satisfactory level. In view point of assets utilization ratio, credit deposit ratio is calculated . it shows increasing trend. In market value analysis , EPS, P-E ratio cash dividend on share capital has calculated. This shows also in increasing trend except first years. The NPA analysis is also decreasing.

5.2 Conclusions

After the analysis of relevant data of four commercial banks, following conclusion are extracted based on the finding.

- a. EBL and NIBL have been getting lower net profit not capital income with comparison to all the banks.
- b. EBL fails to maintain cash reserve as per the directives of NRB, obviously EBL has facing the problem to meet short term obligation.
- c. All commercial banks have been earning sufficient interest income on loan and advance. It means they have been high utilizing the loan advance.
- d. NIBL comparatively fails to maintain operating ratio on total assets where as NIBL is best.
- e. NABIL is successful utilizing the deposit by charging higher rate of interest to borrower than pay to the depositors. While remaining banks are satisfactory level.

- f. NABIL has better P-E ratio but it shows inconsistency to some extent however others have soon consistency in nature in spite of moderate P-E ratio. Investors of NABIL have more expectation to the view point of market appraisal of the performance of the bank.
- g. To the point of earning per share, NABIL and EBL have getting comparatively more EPS than other banks.
- h. NABIL has been providing comparatively greater cash dividend on the share capital in a consistency manner too. EBL, NIBL and BOK have been providing lower cash dividend in consistency manner.
- i. NABIL has been providing dividend (including bonus) on share capital comparatively greater than other bank in a consistency manner. NABIL provides over the 100% over the study period. In this view point, NABIL has also providing better dividend in a consistency manner to some extent too. EBL provides the list dividend with bonus share to its share holders.
- j. EBL has not been comparatively focusing to provide staff bonus rather it bears sound salary and allowances benefits than other banks.
- k. Having strong EPS than others, NABIL has not been bearing sound salary and other allowances expenses in total operating expenses. NABIL also shows list ratio.
- l. There is no need to pay more attention towards exchange gain to NABIL. But an EBL effort towards exchange gain is less satisfactory than other while remaining banks are comparatively satisfactory level.
- m. Performance of all banks in maintaining NPA is satisfactory; whereas EBL's performance is comparatively not sound.

5.2 Recommendations

On the basis of analysis and finding of the study, following recommendations have been forwarded.

- a. The ratio non interest bearing deposit to total deposit BOK is the lowest and as results of this it has highest ratio in interest expense to total deposits. There is high propensity to grow in loan and advances. Therefore, this bank is suggested to reduce the interest rate consequently the volume of interest bearing deposit in its deposits mix expenses will increase which will provide new lending opportunities.
- b. There has been communication gap between the banks and this more surmising because they are on the same business. Banks needs to develop a mechanism for inter bank transparency, a committee which will help the better

understanding the various types of risk, disseminates information regarding bad debts and fraud cash, minimize customer misled and practice fair competition.

- c. It is recommend to NIBL to pay more attention about profitability (EPS). It will be still sound effort while giving continuity to maintain a previous by NABIL and EBL.
- d. It is recommended to NIBL to give consistency in P_E ratio.
- e. Except NABIL, it is strongly recommended to all banks to maintain capital adequacy ratio as per the directive of central bank.
- f. It is recommended to EBL to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.
- g. It is recommended to EBL to conscious about the NPA in recent years
- h. It is recommended to BOK to more attention toward staff bonus to be competitive among banks
- i. It will be better to EBL to bear comparatively sound contribution towards staff expenses out of total operating expenses at view point of employee satisfaction and their effective utilization.
- j. It is recommended to NABIL and EBL to give contribution and on cash dividend in consistency manner than dividend on share capital.

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