A COMPARATIVE STUDY OF WORKING CAPITAL MANAGEMENT OF HIMALAYAN BANK LTD. AND NEPAL BANGLADESH BANK LTD.

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

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

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DECLARATION

I Hereby declare that this thesis work entitled **"A COMPARATIVE STUDY OF WORKING CAPITAL MANAGEMENT OF HIMALAYAN BANK LTD. AND NEPAL BANGLADESH BANK LTD. "** submitted to Office of the Dean, Faculty Management, Tribhuvan University, is my original work done in the form if partial fulfillment of the requirement for the degree of Masters of Business Studies which is prepared under the supervision of respected supervisor **Asso. Prof. Shree Bhadra Neupane** and **Krishna Prasad Acharya** of Shanker Dev campus..

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ABBREVIATIONS

AD	:	Anno Domini
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
CA	:	Current Assets
CB	:	Commercial Banks
C.L	:	Current Liabilities
CRR	:	Compulsory Reserve Ratio
CVP	:	Cost Volume profit
EPS	:	Earning Per Share
e.g.	:	Example
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Products
HBL	:	Himalayan Bank Limited
I.I	:	Interest Income
IT	:	Information Technology
i.e.	:	That is
JVBs	:	Joint Venture Banks
L & A	:	Loan and Advance
Ltd.	:	Limited
NBBL.	:	Nepal Bangladesh Bank Limited
NRB	:	Nepal Rastra Bank
SD	:	Standard Deviation
T.A	:	Total Assets
TU	:	Tribhuvan University

CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern that is mainly confined to finance for the development of the trade, commerce and industry. The trade, commerce and industry are the main factors of the economic development. Bank is a financial institution, which primarily deals with borrowing and lending. Banking is an important part of national economy and a vehicle for the mobilization of economy's financial resources and extension of credit to the business and service enterprises.

"Commercial banks are the heart of the financial system. They hold the deposits of individuals, government institutions and business units. They make funds available through their lending and investing activities to borrowers: individuals, business firms and government institutions. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of a nation is very important to the functioning of its economy". *(Van Horne; 2000:74)*

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in Kartik 30, 1994 B.S. as a semi- government organization. In Baishak 14, 2013 B.S. the first central bank, Nepal Rastra Bank, was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by the government, Rastriya Banijya Bank, was established in 2022 B.S. under the Banijya Bank Act 2021 B.S. In the fiscal year 2039/40, new banking policy was introduced for the establishment of new banks

by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide better and smoother banking facilities to the people.

"Working capital is defined as all the short term assets used in day-to-day operation of firms. The management of such assets, described as working capital management or current assets management is one of the most important aspects of the overall financial management. Technically, working capital management is an integral part of the overall financial management". *(Khan M.Y & Jain P.K 1999:15)*

"Working capital plays a vital role in the success or failure of business. It is the lifeblood of any firm. It is also known as circulating capital (Kulkarni, 1990: 374). It represents that part of fund, which circulates from one form of current asset to another form on the ordinary course of business. For example cash is used to purchase the same material, merchandise goods, fuel, labor, staff etc. It creates inventories, then finished goods, inventories are sold in the market, it changes to cash. Therefore, working capital management is concerned with the problems that arise within attempting to manage the current assets, the current liabilities and the interrelationship that exists between them". *(Khan M.Y & Jain P.K, 1999: 15.3)*

The current asset is such type of asset, which can be converted into cash within a year, without distributing in the operation of firms. It helps to meet the current obligation of firm. The major current assets are cash, marketable-securities, account receivable, inventories. The current liabilities are those liabilities, which have to be paid in ordinary course of business within a year. These liabilities are account payable, bank overdraft, outstanding expenses and bills payable. The goal of working capital management is to manage the current assets and liabilities of the firm, to keep at satisfactory level. It helps the firm to operate day-to-day transaction and operation without any interruption. If the firm cannot maintain the satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy.

"Working capital involves deciding upon the account and composition of current assets and to finance these assets. The decision involves tradeoff between risk and profitability. Working capital management is very difficult task for financial manager because excess both working capital and less working capital are harmful to the business. Greater the relative proportion of liquid asset, lesser the risk of running out of cash, all other being equal. However profitability will also be less. If a company use excess working capital i.e. current asset, it creates high liquidity and reduces both risk and return of the company because idle investment working capital (WC) earns nothing. On the other hand inadequate amount of working capital can threaten the solvency of the organization if it fails to meet its current financial obligation. The higher return is due to the less money tied up in non-income earning assets and the higher risk is due to the possibility of shortage of cash in the event of urgency. Thus, a low liquidity is associated with high rate of return". *(Pradhan Radhe Shyam, 1986: 22)*

The financing decision on Working Capital Management (WCM) is planning; utilizing and controlling its current assets/short term assets in term of the requirements of the company, and is basically concerned with profitability and liquidity position of the company. The skills of WCM should be unique to make an efficient use of funds for minimizing the risk of loss to attain profit objectives.

The concept of financial institutions in Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in Kartik 30, 1994 B.S. as a semi- government organization. In Baishak 14, 2013 B.S. the first central bank, Nepal Rastra Bank, was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Consequently, another commercial bank fully owned by the government, Rastriya Banijya Bank, was established in 2022 B.S. under the Banijya Bank Act 2021 B.S. In the fiscal year 2039/40, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy

competitive banking system and to provide better and smoother banking facilities to the people.

1.2 Brief Profile of the organization under study

There are all together 31 commercial banks including 20 joint venture banks. However, this study is concerned with first two Joint Venture Banks of Nepal, namely Nepal Bangladesh Bank Limited (NBBL) and Himalayan Bank Limited (HBL).The selected Joint Venture Banks' introduction are as follows:

Nepal Bangladesh Bank Ltd

Nepal Bangladesh Bank Ltd was established in the year 1994 with IFIC Bank Ltd of Bangladesh with the goal to become "The Bank for Everyone". Over the years bank has been successful to increase the paid up capital to Rs 2.009 Billion. Its Head Office is situated at New Baneswor, Bijuli Bazar, Kathmandu.

The prime objective of this bank is to render hospitality to the valued customer. With a network of 19 branches and a corporate office, bank has been providing the extensive services to the valued customer. To facilitate the valued customer bank had successfully install 16 ATMs and holiday banking for their convenience. The bank has earned the glory of making available the services for almost all the top business houses. Top exporter and importers of the country have established banking relationship with the bank with a substantial volume of foreign business which has enhanced the bank's popularity in the international trade font. With the continuous support of our valued customers the bank has made all round progress in every sphere of its operation. This is the first bank to launch the special deposit product for women introducing "Grihini Bachat Khata". We ensure our valued customer to deliver the innovative products and services as per requirement which will be highly beneficial to create the value.

Himalayan Bank Limited (HBL)

The bank was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial Banks of Pakistan. Banking operation was commenced from January 1993. Himalayan Bank is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. The shareholding structure comprises of: A promoter shareholder holding 51% of the capital, Habib Bank Limited of Pakistan holding 20% of the capital, Employee Provident Fund holding 14% of the capital ,Remaining 15% being held by the General Public. Besides commercial banking services,the Bank also offers industrial and merchant banking services. Himalayan Bank is always committed to providing a quality service, with a personal touch, to its valued customer.All customers are regarded as valued clients and treated with utmost courtesy.The Bank ,wherever possible ,offers tailored facilities to its clients, to meet unique needs and requirements of different clients. To the further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology and runs the world class banking software Globus on IBM platform.

The Bank can now boast of its state-of-the art IT infrastructure with an identical Disaster Recovery System, offsite. This has not helped the Bank to constantly improve its service level but has prepared the Bank for future adaptation to new technology. The Bank already offers unique services such as Himal Remit , SMS Banking , Pre-paid Credit Cards and Internet Banking to customers and will be introducing more services like these in the near future.

1.3 Focus of the Study

Working capital is the life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management. It is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital

management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories. The firm will hold at any point of time. Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and, interrelationship between them. The basic total of working capital management is to manage the current assets and current liabilities of a firm in such a way that the satisfactory several of working capital is maintained i.e. these are neither inadequate nor excessive. Adequate of working capital may lead the firm to insolvency and excessive working capital implies idle fund, which earns no profit for the businesses.

That is why, taking into consideration the all above facts the researcher has taken this subject for detailed study. The study is directed toward the working capital management of selected different Nepalese commercial joint venture banks, to analysis the working capital, to find out major bleeps and suggestive recommendation to solve the working capital management that selected company's objective can be achieved. Thus it is an exploratory fact finding research study.

This study focuses on how the Nepalese commercial joint venture banks utilize the available working capital funds properly. Besides, this study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management. This study also only focuses the working capital management and its significance during past five years up to 2007 A.D.

1.4 Statement of the Problem

Commercial banks are monetary institutions that are playing important role to general welfare of the economy; the responsibility of commercial banks is more than other financial institutions. Commercial banks always face the problem of utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance of the bank, which requires paying its large amount of idle cash balance also decreases

profitability of banks. Two banks are taken as sample from joint venture banks i.e. Nepal Bangaladesh Bank Ltd (NBBL), Himalayan Bank Ltd. (HBL). Many problems may occur in working capital management of those banks.

The major problems that have been identified for the purpose of this study are as follows:

- What are the position of current assets and current liabilities of the NBBL and HBL, and their impact on liquidity?
- How do the banks liquidity.
- What are the major factors affecting the management of working capital of NBBL, and HBL?

1.5 Objectives of the Study

In the context of above mentioned background, the main objective of the study is to analyze the management of working capital of NBBL and HBL. The specific objectives of the studies are pointed out as follows:

- To analyze the comparative study of working capital management among NBBL and HBL.
- To study the position of current assets and current liabilities of the NBBL and HBL, and their impact on liquidity.
- To analyze the composition of working capital and liquidity utilization of NBBL and HBL.
- To see the trend value of current assets, current liabilities and net working capital of HBL and NBBL.
- To see the relationship between current assets and net working capital, loan & advance and total deposit and bank balance and current liabilities of HBL and NBBL.

1.6 Significance of the Study

Any research study can have its own significance. This study is concerned with working capital management of the two joint venture banks, namely NBBL and

HBL. The findings of the study will help various concerned aspects. They are as follows:

- Its significance to the shareholders: The study might be helpful to make shareholders aware of working capital management, i.e. liquidity and profitability of their banks. The comparison will help them to identify the productivity of their funds in each of these three banks.
- Its significance to the management: The study might be helpful to go deep into the matters as to why the working capital management of their banks is better (or worse) than their competitors.
- Its significance to the policy makers: Policy makers here refer to the government and Nepal Rastra Bank. The study will be helpful to them while formulating the policy regarding commercial banks.
- Its significance to the students: The study will play the role of reference to the students making similar study in the future.

1.7 Limitation of the Study

The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The period covered by the study extends over 5 years from 2008/09 to 2009/10 B.S. The limitations of this study are as follows:

- The research covers only 5 years data for the study from year 2008/09 to 2012/13 A.D.
- The study is based mainly on secondary data. It is done mostly on the basis of published financial documents, like Balance Sheet, P/L account.
- Out of various joint venture banks, this study is concerned only with the two joint venture banks, i.e. NBBL and HBL.
- Although there are various aspects of financial management, this study is mainly concerned with the working capital management of the sample banks.
- The study follows with specific tools such as Ratio analysis, Mean, CV, Correlation and Hypothesis.

1.8 Organization of the study

The Research work has been divided into five chapters. They are as follows:

Chapter - I: Introduction

The first chapter includes various aspects of this study like background of the study, focus on the study, statement of problem, objective of study , significance of study and limitation of the study.

Chapter - II: Review of Literature

Chapter two includes a discussion on the conceptual frame work and review of the major empirical works. The conceptual consideration and review of related literature conducted in this chapter provide a framework, with the help of which the study has been accomplished.

Chapter - III: Research Methodology

The third chapter includes research methodology, which consists of research design, sources of data, population and sample along with different statistical and financial tools used in this study.

Chapter - IV: Data Presentation and Analysis

The fourth chapter includes data and its presentation. These data are analyzed using financial as well as statistical tools to find out some conclusions.

Chapter - V: Summary, Conclusions and Recommendations

The last chapter is Fifth chapter it includes summary, conclusions and recommendations regarding the subject matter.

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CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. In this chapter, focus has been made on the conceptual framework and the review of literature of relevant to the credit management of commercial Banks. It is based on available literature in the field of research. For this purpose, it needs to review relate literatures in this conerne aea which help me to gain clear ideas, opinions and concepts. ' what other has said? what other has done? and what other have written?' these all and other related questions are reviewed which has provided useful inputs in this research work. Every possible effort has been made to gras knowledge and information that is available from libraries, document collection center, other information managing bureus, published –unpublished journals and reports of concerned bank.

2.1 Conceptual Review

2.1.1 Concept of Working Capital

Working capital is a controlling nerve of business. It is an important and integral part of financial management as short term survival is a prerequisite to long term success. As pointed out by Ralph Kennedy and Steward MC Mullas, “the inadequacy or mismanagement of working capital is the leading cause of business failure. Unless the payment is made of the maturity of the particular debt, the firm is at worst and the creditors may force the firm to terminate its business”. *(Van Horne; 2000:112)*

Working Capital therefore is:

Working Capital = Current Assets - Current Liabilities

Where,

Current Assets = Stock + Debtors + Cash

Current liabilities = Creditors + Bills Payable + Bank Overdraft

“There are two concepts of working capital - gross concept and net concept. The gross working capital, simply called as working capital, refers to the firms’ investment in

current assets. Current assets are the assets which can be converted into cash within one accounting year (or operating cycle) and include cash, short term securities, debtors, bills receivable and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those of outsiders, which are expected to mature for payment within an accounting year include creditors, bills payable, bank overdraft and outstanding expenses or accrued income. Net working capital can be positive or negative. A positive net working capital can be a raised when current assets exceed current liabilities and negative net working capital occurs when current liabilities are in exceed of current assets. Net working capital concept also covers the question of judicious of long term and short term funds for financing current assets" *(Pandey; 2003:296-297).*

"In simple words working capital is the excess of current Assets over current liabilities. Working capital has ordinarily been defined as the excess of current assets over current liabilities. Working capital is the heart of the business. If it is weak, business cannot proper and survives. Cash is the lifeline of company. If this lifeline deteriorates so does the company's ability to fund operation, reinvest do meet capital requirements and payment. Understanding Company's cash flow health is essential to making investment decision. A good way to judge a company's cash flow prospects is to look at its working capital management. The company must have adequate working capital as much as needed by the company. It should neither be excessive or nor *(inadequate" Western and Brigham; 2003:405).*

Generally, the banks employ their funds in the following assets. They are given in the order of liquidity.

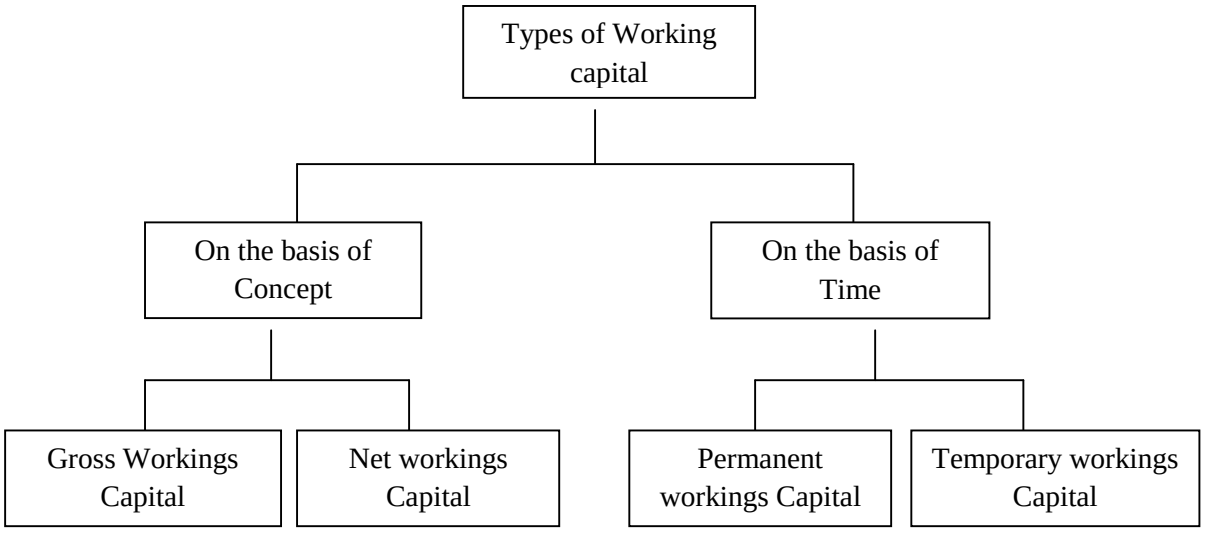
- Cash and bank balances
- Money at call and short notice
- Bills discounted and purchased
- Investment (Govt. securities, stock exchange securities, etc.)
- Loan and Advances to the customer.

2.1.2 Types of Working Capital

On the basis of the concept and the time, the working capital has been categorized in four main types;

Figure: 2.1

Types of Working Capital



(Source: Sharma; 2002:71)

I. Gross Working Capital

This thought says that total investment in current assets is the working capital of the company. This concept does not consider current liabilities at all. Reasons given for the concept are:

• When we consider fixed capital as the amount invested in fixed assets. Then the amount invested in current assets should be considered as working capital.

• Current asset whatever may be the sources of acquisition, are used in activities related to day to day operations and their forms keep on changing. Therefore they should be considered as working capital.

*Gross Working Capital = Total Current Assets

II. Net Working Capital

It is narrow concept of working capital and according to this, current assets minus current liabilities forms working capital. The excess of current assets

over current liabilities is called as working capital. This concept lays emphasis on qualitative aspect which indicates the liquidity position of the concern/enterprise.
*Net Working Capital = Current Assets – Current Liabilities

III. Fixed or Permanent Working Capital

The volume of investment in current assets changes over a period of time. But always there is minimum level of current assets that must be kept in order to carry on the business. This is the irreducible minimum amount needed for maintaining the operating cycle. It is the investment in current assets which is permanently locked up in the business, and therefore known as permanent working capital.

IV. Variable or Temporary Working Capital

It is the volume of working capital which is needed over and above the fixed working capital in order to meet the unforced market changes and contingencies. In other words any amount over and about the permanent level of working capital is variable or fluctuating working capital. This type of working capital is generally financed from short term sources of finance such as bank credit because this amount is not permanently required and is usually paid back during off season or after the contingency. *(Sharma; 2002:70-74)*

2.1.3 Determinants of Working Capital

Working capital requirements of a concern depends on a number of factors, each of which should be considered carefully for determining the proper amount of working capital. It may be however be added that these factors affect differently to the different units and these keeps varying from time to time. In general, the determinants of working capital which are as under:

I. Nature of Business

Need for working capital is highly depends on what type of business, the firm in there are trading firms, which needs to invest a lot in stocks, ills receivables, liquid cash etc. public utilities like railways, electricity, etc., need much less inventories and

cash. Manufacturing concerns stands in between these two extends. Working capital requirement for manufacturing concerns depends on various factors like the products, technologies, marketing policies.

II. Production Policies

Production policies of the organizations effects working capital requirements very highly. Seasonal industries, which produces only in specific season requires more working capital. Some industries which produces round the year but sale mainly done in some special seasons are also need to keep more working capital.

III. Size of Business

Size of business is another factor to determines the need for working capital.

IV. Length of Operating Cycle

Operating cycle of the firm also influence the working capital. Longer the orating cycle, the higher will be the working capital requirement of the organization.

V. Credit Policy

Companies follow liberal credit policy needs to keep more working capital with them. Efficiency of debt collecting machinery is also relevant in this matter. Credit availability form suppliers also effects the company's working capital requirements. A company doesn't enjoy a liberal credit from its suppliers will have to keep more working capital.

VI. Business Fluctuation

Cyclical changes in the economy also influence the level of working capital. During boom period, the tendency of management is to pile up inventories of raw materials and finished goods to avail the advantage of rising prove. This creates demand for more capital. Similarly during depression when the prices and demand for manufactured goods. Constantly reduce the industrial and trading activities show a downward termed. Hence the demand for working capital is low.

VIII. Current Asset Policies

The quantum of working capital of a company is significantly determined by its current assets policies. A company with conservative assets policy may operate with relatively high level of working capital than its sales volume. A company pursuing an aggressive amount assets policy operates with a relatively lower level of working capital.

IX. Fluctuations of Supply and Seasonal Variations

Some companies need to keep large amount of working capital due to their irregular sales and intermittent supply. Similarly companies using bulky materials also maintain large reserves' of raw material inventories. This increases the need of working capital. Some companies manufacture and sell goods only during certain seasons. Working capital requirements of such industries will be higher during certain season of such industries period.

X. Other Factors

Effective co-ordination between production and distribution can reduce the need for working capital. Transportation and communication means. If developed helps to reduce the working capital requirement. *(Khan and Jain; 2002:125)*

2.1.4 Sources of Working Capital

The company should meet its working capital needs through both long term and short term funds. It will be appropriate to meet at least 2/3 of the permanent working capital equipments form long term sources, whereas the variables working capital should be financed from short term sources. The working capital financing mix should be designed in such a way that the overall cost of working capital is the lowest, and the funds are available on time and for the period they are really required. The company can choose to finance its current assets by:

I. Long Term Sources of Permanent Working Capital

It includes equity and preference shares, retained earning, debentures and other long term debts from public deposits and financial institution. The long term

working capital needs should meet through long term means of financing. Financing through long term means provides stability, reduces risk or payment and increases liquidity of the business concern. Various types of long term sources of working capital are summarized as follow:

i. Issue of Shares

It is the primary and most important sources of regular or permanent working capital. Issuing equity shares as it does not create and burden on the income of the concern. Nor the concern is obliged to refund capital should preferably raise permanent working capital. Issue of preference shares is also a source of creating working capital.

ii. Retained Earnings

Retain earning accumulated profits are a permanent sources of regular working capital. It is regular and cheapest. It creates not charge on future profits of the enterprises.

iii. Issue of Debentures

It creates a fixed charge on future earnings of the company. Company is obliged to pay interest. Management should make wise choice in procuring funds by issue of debentures.

iv. Long Term Debt

Company can raise fund from accepting public deposits, debts from Financial Institution like banks, corporations etc. the cost is higher than the other financial tools.

II. Short Term Sources of Temporary Working Capital

Temporary working capital is required to meet the day to day business expenditures. The variable working capital would finance from short term sources of funds. And only the period needed. It has the benefits of, low cost and establishes closer relationships with banker. Some sources of temporary working capital are given be:

i. Commercial Bank

A commercial bank constitutes a significant source for short term or temporary working capital. This will be in the form of short term loans, cash credit, and overdraft and though discounting the bills of exchanges.

ii. Public Deposits

Most of the companies in recent years depend on these sources to meet their short term working capital requirements ranging for six month to three years.

iii. Various Credits

Trade credit, business credit papers and customer credit are other sources of short term working capital. Credit from suppliers, advances from customers, bills of exchanges, promissory notes, etc. helps to raise temporary working capital.

iv. Reserves and Other Funds

Various funds of the company like depreciation fund. Provision for tax and other provisions kept with the company can be used as temporary working capital.

III. Sources of Additional Working Capital

Sources of additional working capital include the following

- Existing cash reserves
- Profits (when you secure it as cash)
- Payables (credit from suppliers)
- New equity or loans from shareholder
- Bank overdrafts line of credit

If you have insufficient working capital and try to increase sales, you can easily over stretch the financial resources of the business, this is called overtrading. *(Western and Brigham; 2003:375)*

2.1.5 Objective of Working Capital in Banks

For daily operation of offices and to meet the administrative expenses, a bank should have a certain level of working capital. Working capital is required to run the business smoothly and efficiency in the context of the set objectives. It is no doubt that no company can achieve its goal without proper use of working capital. Therefore, it can be defined as lifeblood to the organization. The main objectives of working capital management are:

- To see the trend value of current assets, current liabilities and net working capital of HBL and NBBL.
- To see the relationship between current assets and net working capital, loan & advance and total deposit and bank balance and current liabilities of HBL and NBBL.
- To see the performance of HBL and NBBL.

2.1.6 Need of Working Capital

The need of working capital to run the day to day business activities cannot be underestimated. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. We know that firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among the other things. For constant operation of business, every firm needs to hold the working capital components, cash, receivable, inventory etc. Therefore, every firm needs working capital to meet the following motivates:

I. Transaction Motive

Transaction motive requires a firm to hold cash and inventories to facilitate smooth production and sales operations in regular. Thus, the firm need working capital to meet the transaction motive.

II Precautionary Motive

Precautionary motive is the need to hold cash and inventories to guard against the risk of the unpredictable change in demand and supply forces and other factors such as strike, failure of important customers, unexpected slow down in collection of account receivable, cancellation of some other order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet contingencies in future.

III Speculative Motive

It refers to the desire of a firm to take advantage of the opportunities like opportunities of profit making investment, an opportunity of purchasing raw material at a reduced price on payment of immediate cash, to speculate on interest rate, and to make purchases at favorable price etc. Thus the firm needs the working capital to meet the speculative motive. *(Bhattacharya; 2006: 135)*

2.1.7 Significance of Working Capital Management

The management of working capital is important for several reasons. For small companies, current liabilities are the principal source of external financing. These firms do not have access to the longer term capital markets, other than to acquire a mortgage on a building. The fast growing but larger company also market use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to working capital matters. The management of cash, marketable securities, account receivable, account payable, accruals, and other means of short term financing is the direct responsibility of the financial manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day to day supervision. Unlike dividend and capital structure decisions, we cannot study the issue, reach a decision, and set the matter aside for many months to come, thus working capital management is important, if for no other reason than the proportion of the financial manager's time that must be devoted to it. More fundamental, however, is the

effect that working capital decisions have on the company's risk, return, and share price. *(Van Horne and Wachowicz; 1999:204).*

2.2 Review of Related Study

2.2.1 Review of Guidelines of NRB

Nepal Rastriya Bank has to keep a strict watch over the banks in order to protect the interest of the public. For the same NRB has framed certain legislative provisions. These provisions directly or indirectly affect the working capital management of the institutions which are briefly summarized below.

1. NRB Capital Adequacy norms for commercial Banks

NRB have set the standard capital to be maintained by the commercial banks on the basis of total risks weighted assets. This has since been increased to 11% which was to be 12% from this financial year but revised to 11% till the Base I-II standard comes into effect (2007). So to have the sound capital adequacy ratio intact, Proper capital back up is required. If the bank fails to maintain the required adequacy ratio, further growth in banks business is adversely affected which ultimately affects the working capital.

2. Cash Reserve Requirements

It's a must to the commercial banks to maintain the cash reserves in such a proportion of the domestic deposits liabilities as NRB may prescribe. After the amendment of NRB Policy, the cash reserve requirement is fixed at 4.5% of their fixed deposits and 7% of the rest deposits, which later should be balanced with NRB along 20% of local currency deposits as the vault cash requirement. The primary objective of working capital management is to maintain cash reserves to meet the daily cash flow needs, pay wages and salaries to the employees, pay taxes, dividends and ensure the long term survival of the firm.

3. Definition of Capital

Qualifying capital consists of Tier 1 (core) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Thus, for the purpose of calculation of regulatory capital, banks are required to classify their capital into two parts as follows;

a Core Capital (Tier 1)

The key element of capital on which the main emphasis should be placed is the Tier 1 (core) capital, which comprises of equity capital and disclosed reserves. This key element of capital is the basis on which most market judgments of capital adequacy are made; and it has a crucial bearing on profit margins and a bank's ability to compete. The BCBS has therefore concluded that capital, for supervisory purposes, should be defined in two tiers in a way, which will have the effect of requiring at least 50% of a bank's capital base to consist of a core element comprised of equity capital and published reserves from post-tax retained earnings.

In order to rank as Tier 1, capital must be fully paid up, have no fixed servicing or dividend costs attached to it and be freely available to absorb losses ahead of general creditors. Capital also needs to have a very high degree of permanence if it is to be treated as Tier 1.

b. Supplementary Capital (Tier 2)

The Supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in 2.4. In case, where the Tier 1 capital of a bank is negative, the Tier 2 capital for regulatory purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.

4. Elements of Tier 1 Capital

a. Paid up Equity Capital.
b. Irredeemable non-cumulative preference shares which are fully paid-up and with the capacity to absorb unexpected losses. These instruments should not contain any clauses whatsoever, which permit redemption by the holder or issuer upon fulfillment of certain condition. Banks should obtain prior approval of NRB for this kind of instruments to qualify as a component of core capital.
c. Share Premium
d. Proposed Bonus Equity Share
e. Statutory General Reserve.
f. Retained Earnings available for distribution to shareholders.
g. Un-audited current year cumulative profit, after all provisions including staff bonus and taxes. Where such provisions are not made, this amount shall not qualify as Tier 1 capital.
h. Capital Redemption Reserves created in lieu of redeemable instruments.
i. Capital Adjustment reserves created in respect of increasing the capital base of the bank.
j. Dividend Equalization Reserves.
k. Any other type of reserves notified by NRB from time to time for inclusion in Tier 1 capital

5. Elements of Tier 2 Capital

Cumulative and/or redeemable preference shares with maturity of five years and above.

a. Subordinated term debt fully paid up with a maturity of more than 5 years; unsecured and subordinated to the claim of other creditors, free of restrictive clauses and not redeemable before maturity. Since, subordinated term debt is not normally available to participate in the losses; the amount eligible for inclusion in the capital adequacy calculations is limited to 50% of core capital. Moreover, to reflect the diminishing value of these instruments as a continuing

source of strength, a cumulative discount (amortization) factor of 20% per annum shall be applied for capital adequacy computations, during the last 5 years to maturity.

b. Hybrid capital instruments. Those instruments which combine certain characteristics of debt and certain characteristics of equity. Each such instrument has a particular feature, which can be considered to affect its quality as capital. Where these instruments have close similarities to equity, in particular when they are able to support losses on an ongoing basis without triggering liquidation, they may be included in Tier 2 capital with approval from Nepal Rastra Bank.

c. General loan loss provision limited to a maximum of 1.25% of total Risk Weighted Exposures. General loan loss provision refers to the provisions created in respect of Pass Loans only and it does not include provisions of rescheduled/restructured and classified loans. The additional loan loss provisions created in respect of Personal Guarantee loans and loans in excess of Single Obligor Limits are specific provisions and hence cannot be included under this category. Such provisions however can be deducted from the gross exposures while calculating risk weighted exposures for credit risk.However, provisions created in excess of the regulatory requirements or provisions which is not attributable to identifiable losses in any specific loans shall be allowed to be included in the General Loan Loss Provision and shall be eligible for Tier II capital subject to a maximum of 1.25% of total risk weighted exposures.

d. Exchange equalization reserves created by banks as a cushion for unexpected losses arising out of adverse movements in foreign currencies.

e. Investment adjustment reserves created as a cushion for adverse price movements in bank's investments falling under "Available for Sale" category.

f. Revaluation reserves often serve as a cushion against unexpected losses but may not be fully available to absorb unexpected losses due to the subsequent deterioration in market values and tax consequences of revaluation. Therefore, revaluation reserves will be eligible up to 50% for treatment as Tier 2 capital and limited to a maximum of 2% of total Tier 2 capital subject to the condition

that the reasonableness of the revalued amount is duly certified by the internal auditor of the bank.

g. Any other type of reserves notified by NRB from time to time for inclusion in Tier 2 capital

6. Deductions From Core (Tier 1) Capital

Banks shall be required to deduct the following from the Tier 1 capital for capital adequacy purposes. The claims that have been deducted from core capital shall be exempt from risk weights for the measurement of credit risk.

a. Book value of goodwill.
b. Miscellaneous expenditure to the extent not written off. e.g. VRS expense, preliminary expense, share issue expense, deferred revenue expenditure, etc. However, software expenditure or software development expenditure, research and development expenditure, patents, copyrights, trademarks and lease hold developments booked as deferred revenue expenditure are subject to 100% risk weight and may not be deducted from Tier 1 capital.
c. Investment in equity of financial institutions licensed by Nepal Rastra Bank.
d. All Investments in equity of institutions with financial interest.
e. Investments in equity of institutions in excess of the prescribed limits.
f. Investments arising out of underwriting commitments that have not been disposed within a year from the date of commitment.
g. Reciprocal crossholdings of bank capital artificially designed to inflate the capital position of the bank.
h. Any other items as stipulated by Nepal Rastra Bank, from time to time.

7. Capital Funds

The capital fund is the summation of Tier 1 and Tier 2 capital. The sum total of the different components of the tier 2 capitals will be limited to the sum total of the various components of the Tier 1 capital net of deductions as specified in 2.4. In case the Tier 1 capital is negative, Tier 2 capital shall be considered to be "Nil" for

regulatory capital adequacy purposes and hence, in such a situation, the capital fund shall be equal to the Tier 1 capital.

8. Minimum Capital Requirements

Unless a higher minimum ratio has been set by Nepal Rastra Bank for an individual bank through a review process, every bank shall maintain at all times, the capital requirement set out below:

a. A Tier 1 (core) capital of not less than 6 per cent of total risk weighted exposure;
b. A total capital fund of not less than 10 per cent of its total risk weighted exposure.

The Capital Adequacy Ratio (CAR) is calculated by dividing eligible regulatory capital by total risk weighted exposure. The total risk weighted exposure shall comprise of risk weights calculated in respect of bank's credit, operational and market risks. The methodologies to calculate RWE for each of these risk categories are described in detail in subsequent chapters.

9. Sound Capital Assessment

Sound Capital Assessment requires ICAAP design to be comprehensive and provide for identification, quantification and reporting of all the material risks faced by the bank. The bank should establish internal capital adequacy goals and have a process for internal control, review and audits. Another crucial component of an effective ICAAP is the assessment of capital. In order to be able to make a sound capital assessment the bank should, at minimum, have the following:

- Policies and procedures designed to ensure that the bank identifies, measures and reports all material risks;
- A process that relates capital to the level of risk;
- A process that states capital adequacy goals with respect to risk, taking account of the bank’s strategic focus and business plan; and
- Processes of internal control reviews and audit to ensure the integrity of the overall management process.

10. Stress Testing

The assessment of the effect that rare but extreme will have on the financial position, the profitability, liquidity and bank's available capital should be systematically assessed. Bank should be able to draw conclusions with respect to the adequacy of capital that it maintains and the coverage of not easily predictable risks and the effect of these risks on its risk structure. The detail of the assessment carried out depends on the complexity of the operations of bank. Scenario assessment such as the fall in the financial markets, a falling trend in the property prices, volatile liquidity condition, negative changes in macroeconomic factors etc., are of vital importance. This assessments forms a particularly important tool for the maintenance of satisfactory level of capital, so that all risks faced by each bank are sufficiently covered. Basically following elements need to be considered.

- Stress testing, sensitivity analysis and scenario analysis are proactive methods can be used within the ICAAP for evaluating the impact of various factors on them capital need of the bank.
- Bank must implement stress-testing procedures within the ICAAP, in order to evaluate in a predictable way the impact of negative changes in environmental factors on their risk profile and capital need.
- Stress testing aims at evaluating the impact of other factors besides normal or expected environmental risks, which may lead to serious under valuation of risks and capital need and also perform stress testing as regards material risks at least once every year.
- Stress testing should cover all material risks at least credit, liquidity, market, operation, interest rate risk of banking book and other bank specific risks as realized by the board and senior management of the bank. The Methods and outcome of stress testing must be fully documented. Management and board of bank must be informed about the outcome of stress testing.
- Stress testing scenarios must cover all risks identified by bank as material risks, and their potential synergy.

- It also must reflect exceptional but possible events and scenarios may be based on historical scenarios, though they must cover also hypothetical scenarios. The scenarios must take into account the impact of macroeconomic environment including the change of economic cycle stage. The stress testing scenarios must cover the probability and various levels of severity of changes in environmental factors and must evaluate the impact of strategic decisions.
- Bank must be able to explain to the NRB their reasons for the choice of stress testing scenarios. The management of bank should duly assess the results, always taking into account the determined risk appetite of the bank and taking the necessary measures for encountering weaknesses that are identified the risk capacity limits, the development of Disaster Recovery Plans etc. For the effective stress-tests it is expected that the bank should adopt the relevant provisions of the NRB directives issued in connection with stress testing guidelines.

11. Monitoring and Reporting

This involves establishing a formal monitoring and reporting mechanism which provides the senior management with the necessary information on the risk profile, trends and the capital requirements. The bank should establish an adequate system for monitoring and reporting risk exposures and assessing how the bank's changing risk profile affects the need for capital. The bank's senior management or board of directors should, on a regular basis, receive reports on the bank's risk profile and capital needs. These reports should allow senior management to:

- Evaluate the level and trend of material risks and their effect on capital levels;
- Evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system;
- Determine that the bank holds sufficient capital against the various risks and is in compliance with established capital adequacy goals; and
- Assess its future capital requirements based on the bank's reported risk profile and make necessary adjustments to the bank's strategic plan accordingly. Banks should ensure that reports on material risks are frequently submitted to

Board and senior management. The periodicity of risk reporting may vary according to the severity and type of risks. However, banks should generate such reports at least on quarterly basis for all material risks for review of the senior management.

12. Internal Control and Review

This involves putting in place an appropriate mechanism of internal and external audits for ensuring the reasonableness of ICAAP and the accuracy of the data and stress scenarios used. The bank's internal control structure is essential to a sound capital assessment process. Effective control of the capital assessment process includes an independent review and, where appropriate, the involvement of internal or external audits. The bank's board of directors has a responsibility to ensure that management establishes a system for assessing the various risks, develops a system to relate risk to the bank's capital level, and establishes a method for monitoring compliance with internal policies. The board should regularly verify whether its system of internal controls is adequate to ensure well ordered and prudent conduct of business. The bank should conduct periodic reviews of its risk management process to ensure its integrity, accuracy and reasonableness. Key areas that should be reviewed include:

- Appropriateness of the bank's capital assessment process given the nature, scope and Complexity of its activities;
- Identification of large exposures and risk concentrations;
- Accuracy and completeness of data inputs into the bank's assessment process;
- Reasonableness and validity of scenarios used in the assessment process; and
- Stress testing and analysis of assumptions and inputs.

Working Capital is the life blood of the business. Each regulations framed by the government helps in structuring the working capital needs of an organization. Such thing helps the firm to tie up its solvency position, maintain goodwill, facilities in getting loans and provides confidence on the part of investors.

2.2.2 Review of Journals and Articles

Sharma, (2000), in his article, *"Banking the Future of Completion"* has explained that due to the bank of the investment revenues bank are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after 4 or 5 years. Again he said that private commercial banks have mushroomed only in urban areas where banking transactions in large volume is possible the rural and sub urban areas mostly remain unattended too. This is likely to prevail till competition takes its fall rain in the urban area."

Sharma and Bhatt, (2002), in their article *"Priority Sector"* has presented the commercial bank should take care of board national interest and they showed not confine their lending activities only to commercial area providing quick interest if some proportion could be directed to the area conclusive to build economic infrastructures of the country it would create atmosphere conductive to their investment in future. In our society where ignorance and literacy is in wide scale, it is necessary that the bank search entrepreneurs instead of entrepreneurs searching banks. so they have opined that the priority sector program is a timely and appropriate will designed to create additions productive employment opportunities there by increasing production and the general living standard of rural poor. But the success of the program large depends upon the integrated operation with other programs designs for rural development.

Pradhan and Koirala, (2003), have studied on the topic *"Aspects of Working Capital Management in Nepalese Corporations"*. Among the eleven public corporations, five manufacturing and six non-manufacturing corporations. The problem dealt in this study were size of investment in current assets management and it also dealt with the motive for holding cash and inventory and major factors affecting the size of investment. In this study report, they concluded that investment of current assets had declined over the period of time in both types of corporations. However, the Nepalese PEs had consistently more investment in cash and receivable as compared to

non- manufacturing corporations due to more liberal and less consistent policies. Inventory management is of great significance to manufacturing corporations and management of cash and receivables is of great significance to non manufacturing corporation. The major motive of holding cash in Nepalese corporation was to provide a reserve for routine net out flows of cash and for holding inventory was to facilitate smooth operation of production and sales. They have found that working capital was more difficult to manage than fixed capital. Furthermore, the inventory in Manufacturing Corporation and cash and receivable in non-manufacturing ones were more problematic to manage.

With reference to the above problems and findings they recommended that need to control investment in Working capital as a whole manufacturing corporation as the average proportion of working capital to sales increased over time. Since manufacturing and non Manufacturing Corporation had been trying to control investment in receivables. The focus of the attention should be derived to control of investment in cash and inventory. But Manufacturing Corporation should pay attention to control the investment in inventory during (031/32 to 035/36).

Mahat, (2004), has published article relating to *"spontaneous working capital management"*. He has defined the three major sources of working capital management i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short- term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provisions and accrued expenses. Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst corporate finance such an environment should be efficient enough to cope with the possible worst happenings in future for working capital management. He had said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In

contrast, the company in debt trouble, it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may cause to increase in percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital in order to improve its performance.

Acharaya, (2005), in his study on *"Problem and Implementation of Management of Working Capital in Nepalese Enterprises"* has defined the two major problem i.e. operational problems and organizational problems, regarding the working capital management in Nepalese public enterprises. The operational problems, he found were increase of current liabilities than current assets, not allowing the current ratio 2:1 and slow turnover of inventories. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, then transmutation of working capital employed to sales, absence of apathetic management information system. Break- even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered as managerial job. In the second part, he has listed the organizational problems in the public enterprises. There is lack of regular and internal external audit system as well as evaluation of financial results. Similarly, very few public enterprises have been able to present their capital requirement functioning of finance department is not satisfactory and some public enterprises are even facing the under utilization of capacity.

Shrestha, (2005*), "Portfolio Behaviour of Commercial Banks in Nepal"*, study of two local commercial banks, three joint venture banks and one development bank concluded the following findings:

- Total deposits have been the major sources of fund for all banks.
- Capital and reserve funds do not seem to have changed much over the year.
- The used fund analysis shows that the resources of commercial banks are allocated in the liquid funds, investment on securities, loans and advances, bills purchases and discount.

- Among the portfolio, for Nepalese banks' loan and advances share highest volume of the resources and the bills purchased and discount over the year.
- The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

Gautam, (2008), writes in an article, *"WTO and challenges of Financial Services Liberalization in Nepal"* published in capital structure has put his opinion in the context of financial service liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization was started with the financial sector reform in mid eighties. It was surged up after the initiation of Structural Adjustment Program and Enhanced structural Adjustment Program with respective loan and assistance of the World Bank and International Monetary Fund. Financial sector reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomic policies were modified and adjusted during the liberalization process. The procedural relaxation on the entry of joint venture banks, determination of interest rate (first, in 1986 with certain limit and then in 1989 without any limit) and operation of various financial transactions are mainly attributable for the reform (NRB, 2008: 62).

Thapa, (2011), in the article *"Monetary Policy and Questions of Financial Stability''* has stated that safeguarding financial stability has become an increasingly dominant objective in economic policy. Hence, it is argued that monetary policy should also take care of it. In light of this, besides maintaining price stability and supporting economic growth, Monetary Policy often has the task credit; liquidity and the level of interest rates are used to attain monetary policy objectives. The NRB Act 2002 curtails the unlimited lender of last resort (LOLR) facility for both the government of Nepal and the banking sector as the facility has a danger of creating a perpetual financial instability. Monetary policy in measured in terms of interest rate spread. There will be growing demand for the excessive us of Monetary Policy for securing financial stability. Those financial institutions which

cannot survive on their own under the liberal framework of financial architecture should be allowed to disappear.

2.2.3 Review of Previous Thesis

Devkota, (2009), in his thesis, *"Working Capital Management of Manufacturing Companies Listed in NEPSE"*, has the main objective to find out the working capital financing policy adopted by listed Nepalese manufacturing companies. The specific objectives of the study are;

- To analyze the current assets and current liabilities policies.
- To examine the effects of working capital on profitability.
- To trace out the problems faced by the companies in having sound working capital management.

The major findings of the study are

- The listed manufacturing companies have not truly considered the working capital management pragmatically in their operations.
- There is procrastinating in cash conversion cycle. Further, the companies have extensively used long term debt to meet the cash requirement, which indicates the adoption of conservative policy.
- The relationship between working capital and net profit is not statistically significant. The gross working capital of the companies is highly dominated by the inventory.
- The return on equity is in irregular trend. It indicates that the companies are not efficient to increase the profit in same proportion in the increment in shareholders' equity.
- The companies are accompanied with various hindrances like lower turnover, lower return, lower net working capital or poor liquidity position, lack of proper working capital policy, deteriorating financing situation, lack of appropriate credit and collection policy, improper inventory management, high operating cost of production etc.

Upreti, (2010), in his thesis, *"Working Capital Management in Joint Venture Banks"*, has the main objective to examine the management of working capital of NABIL, HBL, SBI and EBL. The specific objectives of the study are;

- To study the current assets and current liabilities and their impact on liquidity and profitability
- To analyze the liquidity, assets utilization, long term solvency and profitability position of NABIL, HBL, SBI and EBL.
- To predict the working capital ratios of NABIL, HBL, SBI and EBL in future.

The major findings of the study are

- The current asset covers 98.38%, 98.68%, 98.90% and 99.30% of the total assets of NABIL, HBL, EBL and SBI bank respectively in average. SBI bank has the highest ratio (99.30%) and NABIL bank has the lowest ratio (98.38%) compared with other banks.
- Current assets of NABIL, HBL, EBL and SBI are 64.56 times, 80.01 times, 93.62 times and 151.55 times greater than the corresponding fixed assets respectively. SBI has the highest current assets to fixed assets ratio (151.55 times) and NABIL has the lowest ratio (64.56 times) in average.
- In average, NABIL, HBL, EBL and SBI mobilized 64.33%, 52.75%, 73.58% and 73.01% of the total deposit in disbursing loan and advances respectively. Similarly, loan and advances is 3.74 times, 2.41 times, 2.15 times and 1.52 times greater than the fixed deposit collection of NABIL, HBL, EBL and SBI respectively. Likewise, loan and advances is 1.47 times, 1.00 times, 1.57 times and 2.62 times greater than the savings deposit of NABIL, HBL, EBL and SBI respectively.
- The prediction of current assets total assets ratio of NABIL, EBL and SBI indicated that the ratio continues to increase in the future years. Whereas, the prediction shows that ratio in HBL decreases in each forthcoming year. Similarly, the current assets to total assets of NABIL, EBL and SBI

increases and that of HBL decreases in the coming years. However, the cash and bank balance to currents assets decreases in all the banks in each coming year. In contrast, the ROE of each bank will increase in the forthcoming years.

- There exists highly positive relationship between loan and advances and total deposit, between loan and advances and net profit of each bank. However, the relationship between cash and bank balance and current liabilities of NABIL and MHBL is negative and that of EBL and SBI is positive.

Shrestha, (2010), had undertaken a study entitled *"A Study on Working Capital Management of NABIL."* The main objective of her study was as follows:-

- To analyzed the liquidity, composition of working capital, assets utilization and profitability utilization of Nabil.
- To know whether the Nabil banks has maintain optimum or working capital or not.
- To analyzed the current assets policy of Nabil bank.
- To analyzed the current liabilities policy of Nabil bank.
- To analyzed the financing pattern of working capital of Nabil bank.
- To identify the liquidity position of Nabil bank.
- To examine the relationship between liquidity and profitability of Nabil bank.
- To profit out the valuable recommendations and suggestions based on analysis.
- To suggest the appropriate management system of working capital of the Nabil.

The major findings of her study are summarizing below:-

- The major components of current assets in Nabil bank are cash and bank balance, loan and advances, and government securities. Other current assets are also the component of current assets. The average percentages covered by these components during the study are cash and bank balance is 20.18%, loan and advances is 54.40%, loan and advances 19.52% , and other current assets are 5.85%. It shows that the average percentage of loan and advances is higher and then in the second place comes cash and bank balance after that

comes government securities. Other current assets hold very little percentage of total current assets. The trend value of loan and advance are government securities proportion are positive and trend value of cash and bank balance is negative, which implies that Nabil bank is investing its current assets in income generating sectors. The trend value shows that the management of loan and advances is more problematic in the bank's current assets management.

- Among the major three current assets components, government securities holds the smallest portion and it is fluctuating every year with in the study period. The ratio range from 30.97% to 8.34%. The total average percentage of loan & advances and government securities are 54.4% and 19.52% respectively. It show that interest income is satisfactory.
- The liquidation position of bank is analyzed with the current ratio, quick ratio, cash and bank balance to current, margin and other deposit ratio. The current ratio is ranging from 1.7 to 1.34. Nabil has maintained its current ratio of 1.49 in average over the study period. The current assets ratio trend is negative. The average quick ratio is 0.6, so it is found that the current ratio and quick ratio of the bank can be considered good but still it is not meeting the standard ratio i.e. 2:1 and 1:1 respectively. The trend of quick ratio and current ratio are decreasing which shows that the bank is trying to reduce its idle cash & bank balance. Although higher liquidity consider as low risk, lower profit but in commercial bank higher liquidity is not always the cause of lower profitability.
- Correlation between investment on government securities and total deposit are not significant. It shows that there is no closely relationship between investment on government securities and total deposit. The significant correlation of between government securities and total deposit shows that only idle cash balance are invested on government securities if there is no more opportunities to invest on loan and advances. Loan and advances are total deposit are significantly correlated with coefficient value=0.91. It shows that the bank utilizes its total deposit on loan and advances effectively.

- Coefficient of correlation between cash and bank balance and current liabilities is 0.58. It shows that the holding of cash and bank balance is not related with current liabilities.
- Coefficient of correlation between loan and advances and net profit is 0.38, which is less t hat 6 per. It shows that the net profit is significantly related with loan & advances. It shows that the change on loan & advances do not change the amount of profit significantly.

Thapa, (2011), has done his research on, *"A study on Working Capital Management of Salt Trading Corporation Limited"* and the main objectives of his thesis are follows:

- To examine the liquidity, profitability, & turnover ratio of the company.
- To examine level of working capital and networking capital.
- To examine the working capital cycle.
- To explore the need to control investment in each type of current assets over the study period.
- To analyze the effect of working capital on liquidity and profitability.
- To suggest and recommend for the improvement in working capital management of trading company.

The major findings from his research are mentioned below:

- Investment pattern of the company is the current assets and their fluctuation is years. Investment is industrial and loan and deposit have been found as major I comparison to other current assets.
- The proportion of current assets of total assets is fluctuating. The relation between C/A & T/A are not uniform higher level of CA indicate good liquidity position but it adversely affect the profitability of the company because idle money earn nothing.
- The proportion of cash & bank to current assets is high in 2064. The cash & bank balance of STCL is fluctuating trend.

- The correlation coefficient ‘r’ between assets and current liabilities is 0.896. This rivals that have so positive and high degree of relationship between CA and CL this increase/decrease in CL NWC and sales is positive relationship.
- Current assets of STC are less than normal ratio. The current ratio of STCL firm or there is higher risk of short term solvency. Quick ratio also not satisfactory condition.

Basnet, (2011), in his thesis, *“Management of Working Capital in Commercial Banks”*, has the main objective to analyze the working capital policy followed by BOK, EBL, KBL and LBL. The specific objectives of the study are;

- To measure the working capital to total assets of BOK, MBL, KBL and LBL.
- To evaluate the liquidity position of the banks by analyzing the current ratio.
- To examine the mobilization of working capital in banks.

The major findings of the study are:

- All the banks have followed aggressive working capital policy. The usage of debt capital, more specifically the short term debt, is higher than the equity capital.
- The working capital represents 88.23%, 78.61%, 90.01% and 89.23% of the total assets of BOK, MBL, KBL and LBL. Thus, the total assets of KBL is most risky than that of others.
- The current ratios of BOK, MBL, KBL and LBL are 1.10:1, 1.11:1, 1.07:1 and 1.11:1 respectively. There is no difference between current ratio and liquid ratio of respective bank, which clearly indicates that the there exist significantly less amount of inventory and prepaid expenses in each bank.
- Cash and bank balance occupies 4.86%, 6.82%, 10.23% and 8.85% of the current assets of BOK, MBL, KBL and LBL bank respectively. Likewise, cash and bank balance holds 4.78%, 6.73%, 10.11% and 8.79% of the total assets of BOK, MBL, KBL and LBL bank respectively. Thus, KBL has the practice of

keeping higher portion of cash and bank balance and BOK keeps less cash and bank balance.

- In average, BOK, MBL, KBL and LBL mobilized 6.94%, 10.00%, 18.48% and 20.22% of the total deposit excluding fixed deposit in keeping cash and balance reserve respectively. LBI bank has the practice of keeping highest percentage (20.22%) and BOK keeps lowest percentage (6.94%) of total deposit as cash and bank balance.

Gyanwali, (2012), done thesis on, *"Working Capital Management of Commercial Bank, A Case Study of Siddhartha Bank Limited"*. The objectives of her thesis are as follows:

- To analyze the working capital management of the Siddhartha Bank
- To examine the financing current assets of the Siddhartha Bank
- To analyze the relationship between investment on government securities and Total Deposit, Loan & Advances and Total Deposit, Cash & Bank Balance and Current Liabilities, Loan & Advance and Net Profit.
- To examine the trend analysis of total deposit, loan and advances and net working capital.

The major findings of her research are explained below:

- The net working capital of SBL has been increasing trend over the study period. The working capital depicts the liquidity of the organization. It means higher the working capital higher the liquidity of the firm and vice versa.
- The current ratio of the bank was decreasing trend. As depicted by the study, SBL has satisfactory liquidity.
- Cash and bank balance to current assets ratio of the bank is fluctuating.
- The saving deposit to total deposits ratio of the bank was decreasing trend. As stated by the study, SBL' position seems satisfactory level over the study period. As stated by the study, mobilization of deposit of the bank is not satisfactory level over the study period.
- Finding from the trend analysis of total deposits, Loan & Advances and Net Working Capital is increasing both actual and forecast trend values.

Dhungana, (2013) In her thesis *"A Study on Working Capital Management of Selected Joint Venture Banks in Nepal"* The main objective of her thesis are as follows;

- To analyze the management of working capital of NABIL, NIBL and SCBNL. The specific objectives of the studies are pointed out as follows:
- To study the position of current assets and current liabilities of the NABIL, NIBL and SCBNL, and their impact on liquidity.
- To analyze the composition of working capital and liquidity utilization of NABIL, NIBL and SCBNL.
- To analyze the comparative study of working capital management among NABIL, NIBL and SCBNL.
- On the basis of the analysis, to provide recommendations and suggestions for the improvement of working capital management of NABIL, NIBL and SCBNL in the future.

The major findings of the study are

- The average major components of the current assets i.e. cash and bank balance, money at call or short notice, loan and advance, government securities and miscellaneous assets are 6.20%,4.12%,68.45%,19.15% and 2.08% on NABIL; 12.91%,0.36%, 74.60%, 11.36% and 0.76% on NIBL and 7.00%,6.99%, 42.73%, 35.34% and 2.53% on SCBNL respectively. It shows that the average cash and bank balance and loan and advance percentages are higher in NIBL. Money at call or short notice, government securities and miscellaneous assets are higher in SCBNL.
- The liquidity positions of the sample banks are analyzed with the current ratio and quick ratio. The average current ratio of NABIL, NIBL and SCBNL are 1.00, 1.02 and 0.92 respectively. Similarly, average quick ratio of NABIL, NIBL and SCBNL are 0.26, 0.22 and 0.41 respectively. NIBL has highest current ratio and SCBNL has highest quick ratio.

- Trend value of NIBL is always higher than NABIL and SCBNL of the study period due to high cash and bank balance percentage. Therefore, trend value of cash and bank balance of NIBL shows that the bank has maintained constant balance.
- Trend value of SCBNL is always higher than NABIL and NIBL of the study period due to high money at call or short-notice. Therefore, trend value of money at call or short-notice of SCBNL shows that the bank has maintained constant balance.

Research Gap

Many Research Studies have been conducted by the different students, experts and researchers about working capital management. There have been found numerous research studies on financial companies and public enterprises regarding working. Some studies are related to a case study of a single company and some others are comparative in nature. But the comparative study of working capital management between two financial companies can be hardly found. From the review of related studies no studies have been found (working capital management as a comparative study in the context of Himalayan Bank Ltd (HBL) and Nepal Bangladesh Bank Ltd (NBBL). The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools.

This research study made on "A Comparative study of working capital management of Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd." will be an effort to analyze on detail about working capital management of the two banks as a comparative study in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

Research is the common parlance refers to a search for knowledge. The web star international dictionary gives a very inclusive definition of research as "a careful critical inquiry or examination in seeking facts and principles; diligent information in order to ascertain something" *(Saravanavel, 1990: 1).*

A systematic methodology is required to pick an actual result of any study Research methodology refers to the various sequential step to adopted by a researcher in studying a problem with certain objective in views. 'Research methodology is a way to systematically solve the research problem" (Kothari, 1990: 10). It may be understood as a science of studying how research is done scientifically.

This chapter deals with the methodology that adopted in analysis of the data for the study. The population and sample, sources and data collection technique, data analysis tool, the hypothesis to be tested and various limitations which are associated with the study have been discussed in this chapter. IT helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology used in present study cannot be obtained without help of proper research methodology. The research methodology used in present study is briefly mentioned below.

3.2 Research Design

The study aims at portraying accurately on the working capital (or current assets and current liabilities) and its impact on overall financial position of these three banks. It is based on recent 5 years data from fiscal year 2008/09 to 2012/13. The study has been conducted to assess the existing situation of working capital management of selected Joint Venture Banks of Nepal and describe the situation and events

occurring at present. The research design followed for this study is basically a historical, empirical and descriptive cum analytical.

3.3 Population and Sample

At present out of 31 commercial banks there are 20 Joint Venture Banks in Nepal. Among them Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd. Financial statements of last five fiscal years from FY 2008/09 to 2012/13 have been taken as sample data for comparative study of working capital management. These Joint Venture Banks are chosen as they account for considerable market share of the banking sectors.

3.4 Sources of data

Data is very reliable and effective source for research. The study uses the secondary data to fulfill its objectives. This study is mainly depends on the use of secondary data that consists of annual reports of the concerned bank, Nepal Rastra Bank Directives, Economic Survey (Published by Ministry of Finance) and Banking and financial Statistics.

3.5 Tools and Techniques of Analysis

Different tools and techniques are used to analyze the numerical data. Under this study, financial as well as statistical tools have been used to analyze the gathered data and information.

3.5.1 Financial Tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the prescribe knowledge of business which in turn are fruitful in exploring the strength and weakness of the financial policies and strategies. In order to meet the purpose of study, following financial tools have been used.

Ratio Analysis

The main focus will be on ratio analysis. Ratio analysis is the most important tools of the financial analysis, which helps to ascertain the financial conditions of the organizations. “Ratio analysis is such a powerful tool of financial analysis that through the help of it economic and financial position of business unit can be fully x-rayed” (Kothari; 1994:187). Ratios are calculated to obtain the better insight into real situation of working capital management of sample banks. Various ratios are employed for the analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

A. Composition of Working Capital

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Simply, working capital refers to the current assets of the firms that can be converted into cash within one year. The main composition of working capital is as follows:-

- Cash and Bank Balance
- Loan and Advance
- Government Securities Money at Call or Short notice

Composition of working capital is analyzed by calculating the following ratio:-

I. Cash and balance to Total Current Assets Ratio $= \frac{\text{Cash and balance}}{\text{Total Current Assets}} \times 100$

II. Money at call to Total Current Ratio $= \frac{\text{Money at call}}{\text{Total Current Assets}} \times 100$

III. Loan and Advance to Total Current Assets Ratio $= \frac{\text{Loan and advance}}{\text{Total Current Assets}} \times 100$

IV. Government Securities to C.A Ratio $= \frac{\text{Government Securities}}{\text{Total Current Assets}} \times 100$

B**. Liquidity Ratio**

Liquidity Ratio measures the firm’s ability to meet current obligation. It reflects the short-term financial strength of business. One of the main objectives of

working capital management is keeping sound liquidity position. Cash is the main liquid assets and other assets which can be easily converted into cash are also called near cash or liquid assets. So managing or maintaining liquid assets is termed as liquidity. In banking sector liquidity is very essential for smooth operation of daily banking business. There are two ratios under liquidity ratio which are as follows:

i. Current Ratio

A ratio between current assets and current liabilities is known as current ratio. Current assets are those assets which can be converted into cash within short period of time, normally not exceeding one year. Cash in hand, cash at bank, bills receivable, marketable securities, short-term investment, inventory, debtors, prepaid or paid in advance, accrued or outstanding income, loan and advances, account receivable, government securities, etc are current assets.

Current liabilities are those obligation which are payable within short period, normally not exceeding one year. Creditors, bank overdraft, short term loan, bills payable, provision for tax, provision for dividend received in advance, outstanding expenses, accounts payable, etc are current liabilities.

The calculation is made by dividing total of current assets by total of current liabilities.

Thus,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \mid 100$$

Higher the current ratio better is the liquidity position. In banking sector business 2:1 is considered to be an adequate ratio. If the current ratio of a bank is less than 2:1 the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the current ratio is more than 2:1, the bank may have an excessive investment in current assets that do not produce adequate return.

ii. Quick Ratio

A ratio between quick assets and current liabilities is known as quick ratio. The calculation is made by dividing total quick assets by total current liabilities.

Thus,

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} \mid 100$$

Quick Assets = Current Assets-inventory-prepaid expenses

Higher the quick ratio better is the liquidity position. For banking types of business 1:1 is considered to be an adequate ratio. If the quick ratio of the bank is less than 1:1 the solvency position of the bank is not good. The cash may not be available to pay current liabilities. If the quick ratio is more than 1:1 then the company may have an excessive investment in quick assets that do not produce adequate return.

iii. Cash and Bank Balance to Total Deposit Ratio

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

Thus,

$$\text{Cash and Bank balance to Total Deposit Ratio} = \frac{\text{Cash and Bank balance}}{\text{Total Deposit}} \mid 100$$

iv. Savings Deposit to Total Deposit Ratio

Savings deposit is interest bearing short-term deposit. The rate of interest in this deposit is less than fixed deposit. In this deposit only limited amount of money can be withdrawn each day. The limit of withdrawing from this account differs according to banks' rules and regulation. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short –term in nature. It is found out by dividing the total amount of saving deposits by the total amount of deposit. The ratio is calculated as follows:

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Savings Deposit}}{\text{Total Deposit}} \mid 100$$

C. Activity or Turnover Ratio

Activity ratios are employed to evaluate the efficiency with which the bank manages and utilizes its assets. This ratio indicates how quickly certain assets are converted into cash. These ratios are intended to measure the effectiveness of employment of the resources in a business concern. Through these ratios, it is known whether the funds employed have been used effectively in the business activities or not.

I Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent the bank is able to utilize the depositors' funds to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited funds. The ratio is calculated as follows:

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}} \mid 100$$

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

ii. Loan and Advances to Savings Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against saving deposits. For commercial banks, saving deposits are short-term interest bearing obligation, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by saving deposits as under. A low ratio indicates idle cash balance. It means total funds are not properly utilized. The ratio is calculated as follows:-

$$\text{Loan and Advances to Savings Deposit Ratio} = \frac{\text{Loan and Advnce}}{\text{Savings Deposit}} \mid 100$$

This ratio examines to what extent the savings deposits are utilized for income earning purpose.

iii. Loan and Advances to Fixed Deposit Ratio

This ratio assesses, how many times the fund is used to loans and advances against fixed deposits. Fixed deposits are interests bearing long term obligation and major sources of investment in loan and advances for income generating purpose by commercial banks. This ratio indicates how many times the long term interest bearing deposits are utilized for generating income. It is calculated by dividing the amount of loan and advances by total deposit in fixed account. The ratio is calculated as follows:

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Fixed Deposit}} \mid 100$$

3.5.2 Statistical Tools

In this research study some statistical tools are used for the analysis of the data more accurately, which are given below.

Mean ($\bar{X}$)

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure of central tendency. In this study it is used in data related to dividend of sample banks over five years. It is calculated as:

Arithmetic Mean: Arithmetic mean is the average return over periods.. It is calculated by,

$$\text{Mean } (\bar{X}) = \frac{x_1 + x_2 + x_3 + x_4 \ldots\ldots\ldots\ldots + x_n}{n}$$

$$\text{Or, } \bar{X} = \frac{\phi x}{n}$$

Where,

$\bar{X}$ = Arithmetic Mean return

$x_1, x_2, x_3, x_4 \ldots\ldots\ldots\ldots x_n$ = Set of Observation

ϕx = Sum of given Observation

n= Total number of Observations

Standard Deviation (S.D.)

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. S.D. is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. In simple term high SD means very less similarity in the values and low SD means high similarity among the values. SD gives the accurate result between

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\phi(X - \bar{X})^2}{n}}$$

Where,

X = number of observations in the sample

$\bar{X}$ = mean of number of observations in the sample

n = number of years

$\phi(X - \bar{X})^2$ = Sum of Total number of observations deviation from mean in the sample.

Coefficient of Variation (C.V.)

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

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S. D.}}{\bar{X}} \mid 100$$

Where,

$\bar{X}$ = Mean

S. D. = Standard Deviation

C.V. = Coefficient of Variation

Karl Pearson's Coefficient Correlation Analysis

Out of several mathematical method of measuring correlation the Karl Pearson popularity known as Pearson's coefficient of correlation widely used in practice to measure the degree of relationship between two variables. Two variables are said to have correlation when the value of one variable is accompanied by the change in the value of the other. Therefore, it is measured by following formula using two variables. It is denoted by small 'r'.

$$\text{Correlation Coefficient (r)} = \frac{n\phi xy - \phi x \phi y}{\sqrt{n\phi x^2 - (\phi x)^2}\sqrt{n\phi y^2 - (\phi y)^2}}$$

Where,

r = coefficient of correlation

ΣXY = Sum of product of two series.

ΣX^2 = Sum of squared in X series

ΣY^2 = Sum of squared in Y series

n = number of years

The value of this coefficient can never be more than + 1 or less than -1. Thus, + 1 and -1 are the limit of this coefficient. The r = + 1 implies that correlation between variables is positive and vice- versa. And zero denoted no correlation.

Trend Analysis

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratio of different items for various periods is calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally a period of five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statements item bears same to the same items in the base of year.

Trend analysis shows the direction progress upward or downward. It is an important from of horizontal analysis of financial statements often called as Pyramid Method of ratio analysis. More over in this method a statement used to analyzed with the base of another reference statement. Other method of analysis is the calculation of trend analysis and showing trend value in graph paper. On the other hand trend analysis is not out of limitation, it may effect by price level changes and the select ion of bases year may an obstacle. It can show only the trend in the operating result financial position of a concern cannot be discussed. Besides there, it is great important for financial performance because of their utilities in business as well as in the banks. They are:

- It is a simple technique. It doesn't involve tedious calculation and requires trained expert.
- It is a brief method to indicate the future trends.
- It reduces the changes of errors as it provides the opportunity to compare the percentage with absolute figure.
- A financial analyst is able to judge the present position of the company and to compare with the overall trend in industry.

Trend analysis measures the scenario of the variables for the different period. This tool is used to find out the trend of different financial indicators. To find out the actual situation of the different factors for various years, trend analysis is most useful. It does not provide the analytical figures as cause and effects but it shows the actual figures. It may be down ward sloping, upward sloping of constant over the period. One of the most popular and mathematical method of determining the trend of time series is the least square method. By using this method, we can estimate the future trend values of different variables. Hence, for the estimation of linear trend line following formula isused.

$Y=a + bx$

Where,

Y = Trend value

a = Y Intercept

b = slope of trendline of the amount of change in Y Variable that is an associate with change in 1 unit in X variable

X = Time variable.

t- Statistics-

It was developed by W.S. Grosset (Pen name Student) in 1908. Then this distribution is explained by R.A. Fisher. To test the validity of assumption of the study for small samples, t- test is used. For applying t distribution, the t- values are calculated first and compared with the critical values at a certain level of significance for given degree of freedom. If the computed value of "t" exceeds the table value (say t 0.05), it is known that the difference is significant at 5 percent level of significance but if t- values are less than the corresponding critical of the 't' distribution, the difference is not termed as significant. Under H0, the t statistic is:

$$t = \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2}$$

Where,

t=calculated value of t

r= correlation of coefficient between the variables.

n= number of sample.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The main purpose of this study is to know thoroughly about the working capital management of sample banks i.e. HBL and NBBL. The major variables of this study are cash and bank balance, money at call or short notice, loan and advance, government securities. The relevant data and information of working capital as well as financial performance of sample banks are presented, tabulated and analyzed accordingly. To reach toward accurate interpretation, this study analyzes composition of Current assets and Current liabilities, Turnover position and Liquidity position. It analyzes the ratio as well as the trend with the use of Least Square Method. It also uses Correlation Analysis and Hypothesis Test.

4.2 Analysis of Working Capital

4.2.1 Composition of Current Assets of NBBL and HBL

Working capital refers to the current assets of the firms that can be converted into cash within one year. The composition of current assets of HBL and NBBL are cash and bank balance, money at call or short notice, loan and advance and government securities. Miscellaneous current assets are also a component of current assets. Prepaid expense, outstanding income, interest receivable and other current assets are included in miscellaneous current assets.

The following table shows the amount of cash and bank balance, money at call or short notice, loan and advances, government securities and miscellaneous current assets of the sample banks i.e. HBL and NBBL.

Table: 4.1

Current Assets Component of NBBL and HBL

(Rs. In millions)

Name of Bank	Fiscal Year	Cash & Bank Balance	Money at call or short notice	Loan & advance	Government Securities	Misc Current Assets	Total
HBL	2008/09	3048	1171	24793	4212	632	32765
	2009/10	3866	309	27981	4465	1054	37675
	2010/11	2965	734	31567	6407	1513	43186
	2011/12	6362	265	34965	9162	1435	52189
	2012/13	3648	2062	41,057	11431	1379	59577
NBBL	2008/09	3571	1	6705	1924	326	12527
	2009/10	2058	-	7809	1879	395	12141
	2010/11	2467	-	8453	2114	401	13435
	2011/12	5010	-	10330	3725	733	19798
	2012/13	5127	-	13138	4273	619	23157

(Source: Annual report of HBL and NBBL)

From the above table 4.1 shows that the amount of current assets are shown. The current assets of HBL are 32765, 37675,43186, 52,189 and 59577 million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Likewise; current assets of NBBL are 12527, 12141, 13435, 19798 and 23157 million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. It shows that HBL has highest all over the selected sample years and NBBL has lowest current assets all over the sample years. The lowest current asset is Rs. 12141 million of NBBL in FY 2009/10 and the highest is Rs. 59577 of HBL in FY 2012/13.

According to the above table, we came to know that each item of current assets contain different amount of rupees. To be clear the proportion of each item i.e. cash and bank balance, money at call or short notice, loan and advance, investment in government securities and miscellaneous current assets, the percentage of each item of

current assets to total current assets has been taken and shown in the following tables:

Table: 4.2

Current Assets Component (%)

Name of Bank	**Fiscal Year**	**Cash & Bank Balance**	**Money at call or short notice**	**Loan & advance**	**Government Securities**	**Misc Current Assets**	**Total**
HBL	2008/09	9.00	3.46	73.23	12.44	1.87	100
	2009/10	10.26	0.82	74.27	11.85	2.80	100
	2010/11	6.87	1.70	73.09	14.84	3.50	100
	2011/12	12.19	0.51	67.00	17.55	2.75	100
	2012/13	6.12	3.46	68.92	19.19	2.31	100
NBBL	2008/09	28.51	0.008	53.52	15.36	2.60	100
	2009/10	16.95	-	64.32	15.48	3.25	100
	2010/11	18.36	-	62.92	15.81	2.98	100
	2011/12	25.31	-	52.17	18.82	3.70	100
	2012/13	22.14	-	56.74	18.45	2.67	100

(Source: Table-1)

The above table 2.1 shows the major components of the current assets like; cash and bank balance, money at call or short notice, loan and advance, government securities and miscellaneous assets are represent in percentage in different sample years. The highest percentage of HBL of loan and advance at 74% in year 2009/10 and lowest percentage of money at call short notice 0.51% in year 2011/12.

Similarly; in case of NBBL the highest percentage of NBBL of loan and advance at 64.32% in year 2009/10 and lowest percentage of money at call short notice (i.e nil). On the other hand it shows that loan and advance, money at call or short notice and are higher in HBL. the cash and bank balance, government securities and

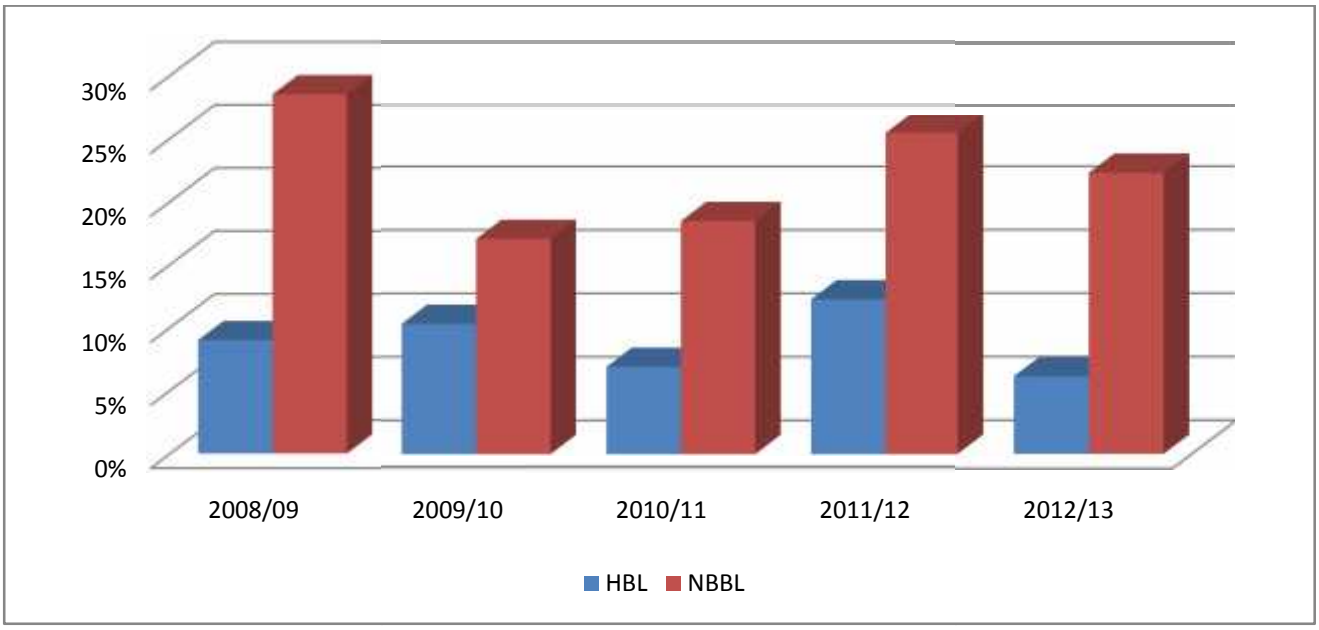
miscellaneous current assets percentages are higher in NBBL.

4.2.1.1 Cash and Bank Balance

According to the above table 4.2, sample banks' cash and bank balance percentage are fluctuating over the study period. Following figure shows this clearly.

Figure: 4.1

Cash and Bank Balance (%)



According to above figure the sample banks allocate their cash and bank balance as their needs.

HBL

In the first year, the bank has invested 9% of its current assets in cash and bank balance. In the second year, the cash and bank balance is increased to 10.26% and it is decreased to 6.87% in third year then fourth it is highly increased to 12.19% and final year; it is again decreased to 6.12% respectively.

NBBL

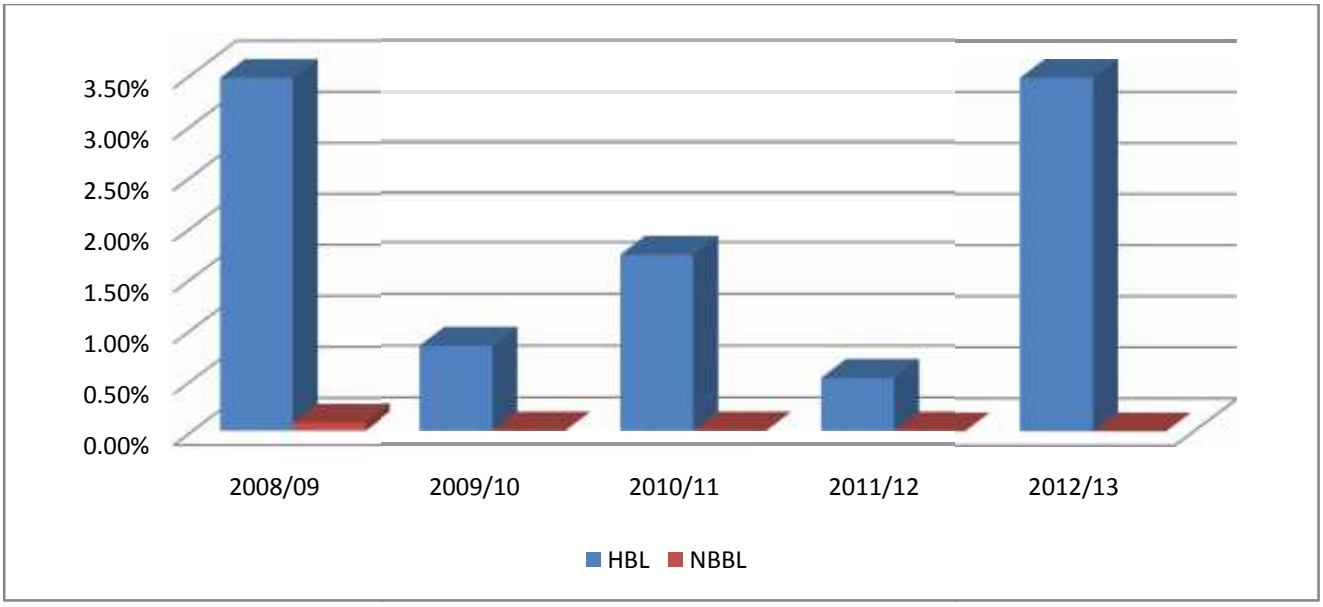
The bank has increasing and decreasing trend. In the first year, the bank has invested 28.51% of its current assets in cash and bank balance. In the second year, it is highly decreased to 16.95%. And then third year it is it is slightly increased to 18.36%. And fourth year; it is also increased to 25.31%. Final year it is decreased to 22.14%.

4.2.1.2 Money at Call or Short- Notice

According to table 4.2 it is clear that money at call or short notice percentages of sample banks are fluctuating all over the study period. Following bar diagram shows it clearly.

Figure: 4.2

Money at call or Short Notice (%)



According to above figure, the sample banks allocate their money at call or short notice as their needs.

HBL

In the first year, money at call or short notice is 3.46% and it is highly decreased to 0.82% in the second year. In the third year, it is slightly increased to 1.70%. In the fourth year, it is highly decreased to 0.51%. In the final year, the percentage of money at call or short notice is increased to 3.46%.

NBBL

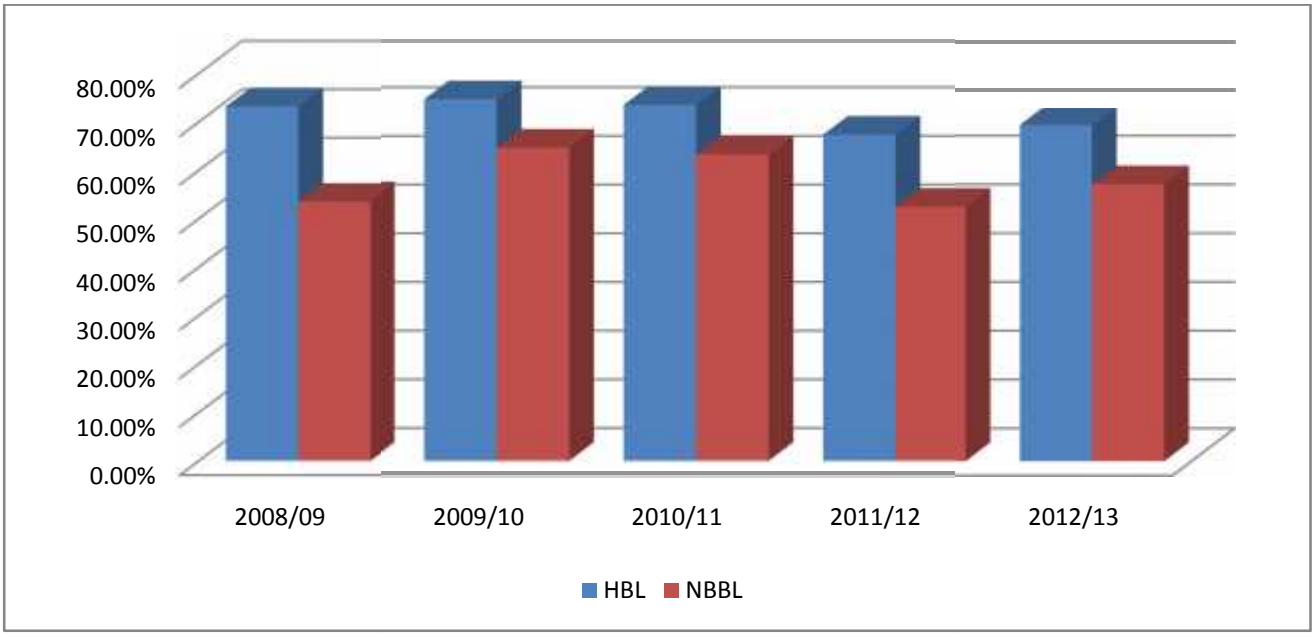
The bank has invested 0.08% of its current assets in money at call or short notice in first year. Then it cannot invest no amount of its current assets in money at call or short notice in throughout the study period.

4.2.1.3 Loan and Advance

According to the table 4.2 it is clear that loan and advance percentages of sample banks are fluctuating all over the study period. Following bar- diagram shows it clearly.

Figure: 4.3

Loan and Advance (%)



According to above figure, the sample banks allocate their loan and advance as their needs.

HBL

In the first year, loan and advance is 73.23% and it is slightly increased to 74.23% in the second year. In the third year, it is decreased to 73.09%. In the fourth year, it is highly decreased to 67.00%. In the final year, the percentage of loan and advance is slightly increased to 68.92%.

NBBL

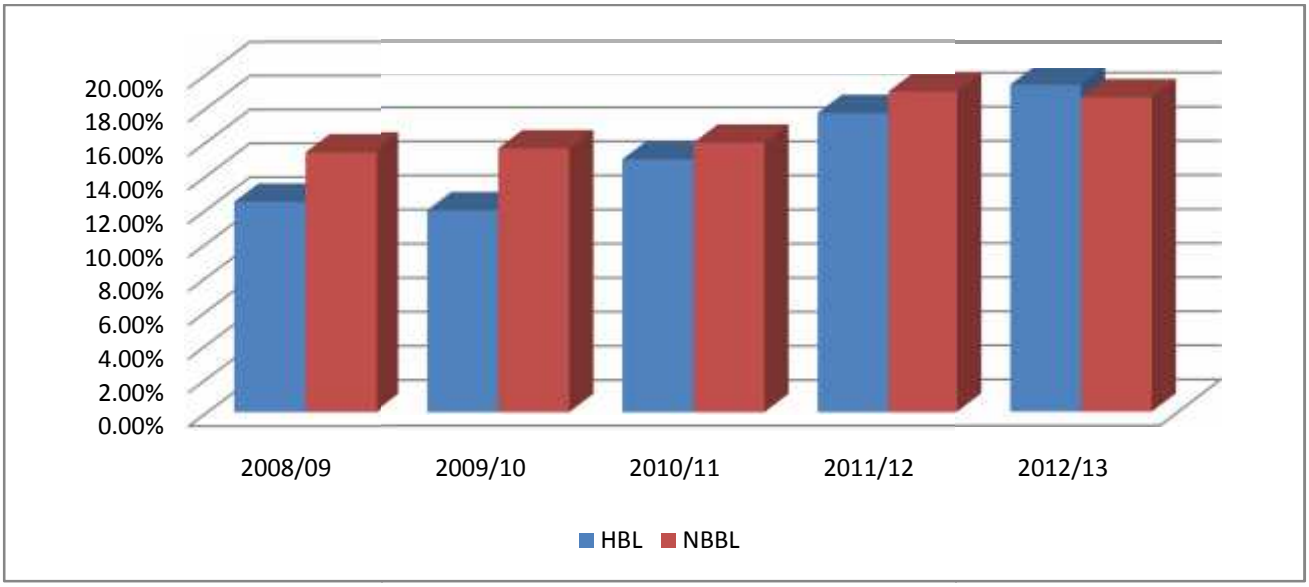
The bank has decreasing and increasing trend. In the first year, it has invested 53.52% of its current assets in loan and advance. Then, it is increased to 64.32% in the second year and slightly decreased to 62.92% in the third year. In the fourth year, it is decreased to 52.17%. In the final year, loan and advance slightly increase to 56.74%.

4.2.1.4 Government Securities

According to table 4.2 it is clear that government securities percentages of sample banks are fluctuating all over the study period. Following bar diagram shows it clearly.

Figure: 4.4

Government Securities (%)



According to above figure 4.4, the sample banks allocate their fund in government securities as their needs.

HBL

In the first year the bank's government securities percentage trend value is 12.44% of its current assets. In the second year it has slightly decreased to 11.85%. But third, fourth and final year, it is increased to 14.84%, 17.55% and 19.19% respectively.

NBBL

In the first year, the bank's government securities percentage trend value is 15.36% of its current assets. Then, it is increased to 15.48%, 15.81% and 18.82% in second, third and fourth year respectively. But in the final year it has slightely decreased to 18.45%. It is concluded that the trend line of NBBL is always higher of the study period due to

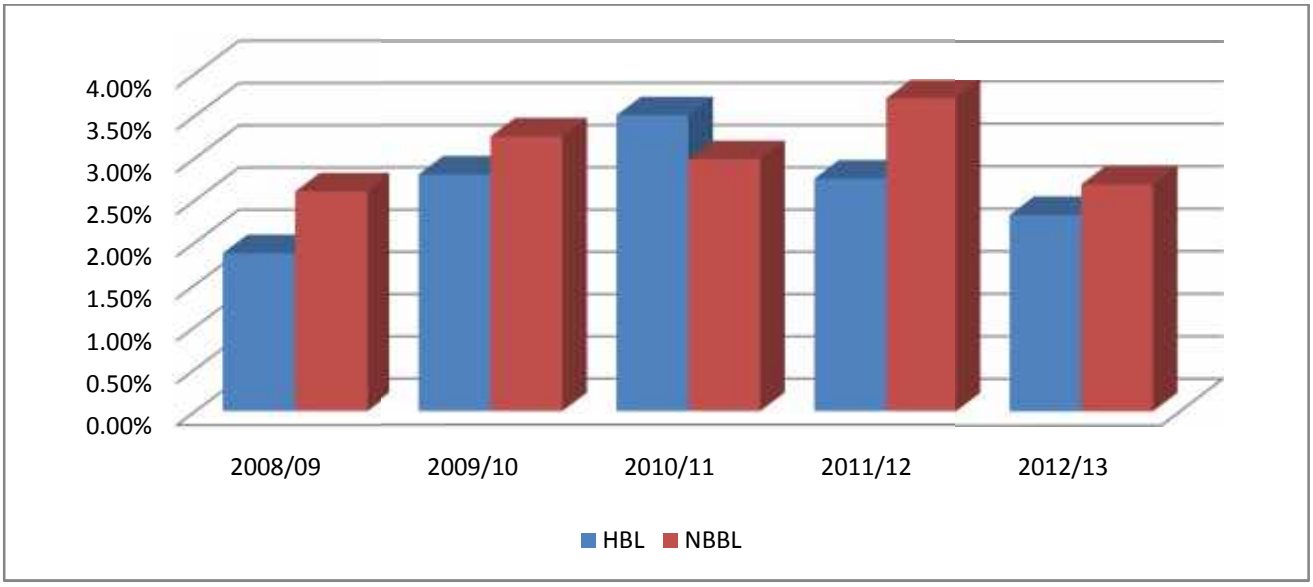
high government securities percentage. In this way, we can say that average government securities percentage of NBBL is higher than HBL. Trend value of government securities of NBBL shows that the bank has maintained constant balance.

4.2.1.5 Miscellaneous Current Assets

According to table 4.2 it is clear that miscellaneous current assets percentages of sample banks are fluctuating all over the study period. Following bar diagram shows it clearly.

Figure: 4.5

Miscellaneous Current Assets (%)



According to above figure, the sample banks allocate their loan and advance as their needs.

HBL

In the first year, percentage of miscellaneous current asset is 1.87% and it is slightly increased to 2.80% in the second year. In the third it is increased to 3.50% and in fourth year decreased 2.75% respectively. In the final year, the percentage of miscellaneous current asset is decreased to 2.31%.

NBBL

The bank has increasing and decreasing trend. In the first year, the bank has invested 2.60% of its current assets in miscellaneous current assets. Then, it is increased to 3.25 in second year. In third year, it is slightly decreased to 2.98%. Third and fourth year it is 3.70% and 2.67% respectively.

From the overall analysis of the composition of working capital, HBL have better utilized their funds on loan and advance to earn interest. NBBL has invested very low percentage of total current assets on loan and advance but has invested high percentage in money at call or short notice and government securities. So compositions of working capital of sample banks are different.

4.2.2 Components of Current Liabilities

Current liabilities is a short term obligation which is payable within a year. The compositions of current liabilities at HBL and NBBL are deposit, short-term loans (Borrowings), and bills payable and miscellaneous current liabilities. Tax provision, staff bonus, divided payable and other current liabilities are included in miscellaneous current liabilities.

Table: 4.3

Components of Current Liabilities of Bank

(Rs. In Millions)

Name of Bank	Fiscal Year	Deposit	Short - term Loan	Bills Payable	Misc Current Liabilities	Total
HBL	2008/09	34682	-	31	996	35709
	2009/10	37611	-	216	951	38778
	2010/11	40921	10	32	1278	42241
	2011/12	47731	-	19	1482	49232
	2012/13	53072	88	-	2530	55690
NBBL	2008/09	9998	-	13	842	10853
	2009/10	10052	-	15	330	10397
	2010/11	11512	-	14	228	11754
	2011/12	16953	-	28	235	17216
	2012/13	17845	-	-	800	18645

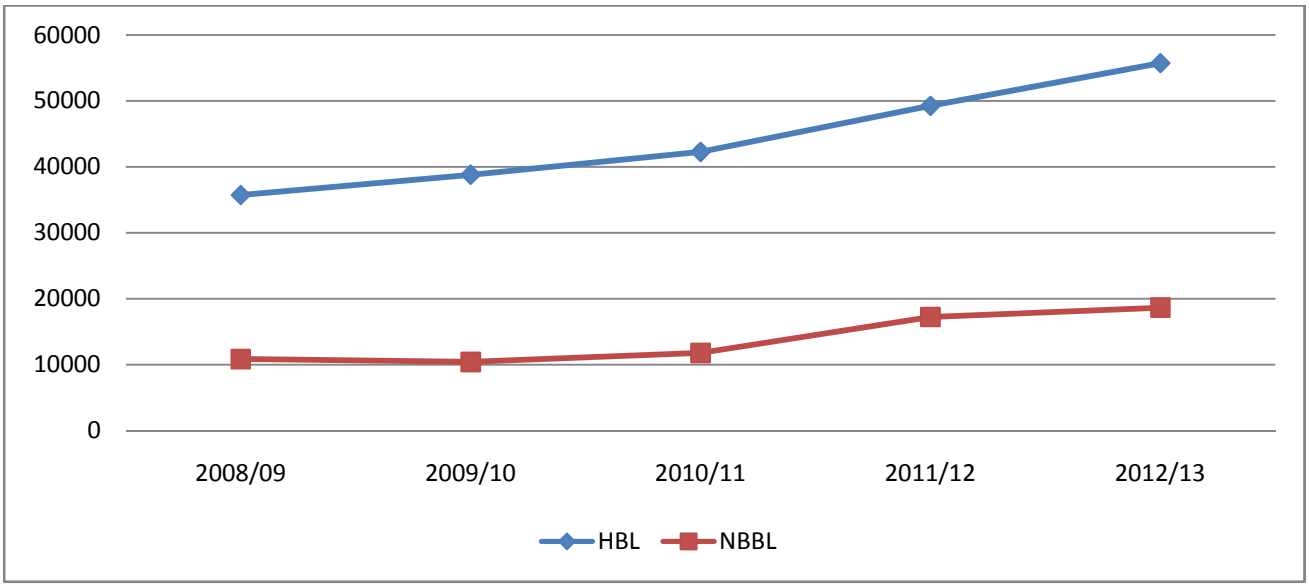
(source: Annual report of HBL and NBBL)

The above table 4.3 shows that the amount of current liabilities are shown in different component in sample years. The amount of current liabilities of HBL are 35709, 38778,42241, 49232 and 55690 million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Likewise; current liabilities of NBBL are 10853, 10397, 11754, 17216 and 18645 million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. So it is clear that HBL has highest all over the selected sample years. NBBL has lowest current liabilities all over the sample years. The lowest current liabilities is Rs. 10397 million of NBBL in FY 2009/10 and the highest is Rs. 55690 of HBL in FY 2012/13.

Figure: 4.6

Current Liabilities of Bank

(Rs. In millions)



As stated in above figure 4.6 the current liabilites of HBL and NBBL is increasing trend in fiscal year 2008/09 to 2012/13.

4.2.3 Net working capital of HBL and NBBL

Net working capital is the difference between current assets and current liabilities. Net working capital can be positive or negative. To achieve the goal of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in banks and determining which one is more beneficial to the bank and which is not. The following table shows the amount of Net working capital of Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd. of the study period.

Table: 4.4

Net Working Capital of Banks

(Rs. In Millions)

Name of bank	Year	Current Assets	Current Liabilities	NWC = CA – CL
HBL	2008/09	32765	35709	(2944)
	2009/10	37675	38778	(1103)
	2010/11	43186	42241	945
	2011/12	52189	49232	2957
	2012/13	59577	55690	3887
NBBL	2008/09	12527	10853	1674
	2009/10	12141	10397	1744
	2010/11	13435	11754	1681
	2011/12	19798	17216	2582
	2012/13	23157	18645	4512

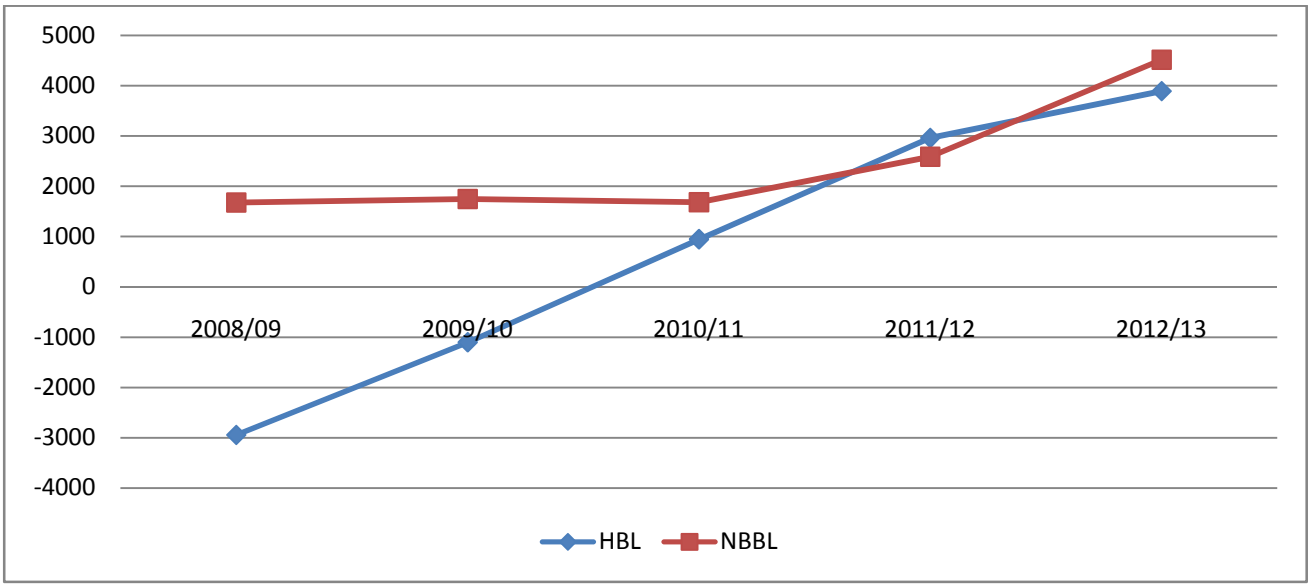
(source: Annual report of HBL and NBBL)

From the above table, the amount of net - workings capital are shown. The net working capital of HBL and NBBL have been increasing trend over the study period (2008/09 to 2012/13). The working capital depicts the liquidity position of any organization. It means higher the working capital higher the liquidity of the firm and vice-versa. Total net working capital of the HBL was to negative Rs. (2944), Rs. (1103), Rs. 945, Rs. 2957, Rs. 2957, and Rs. 3887 million at the end of fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Similarly in case of NBBL of net working capital are Rs. 1674, Rs. 1744, Rs. 1681, 2582 and Rs. 4512 million at the end of the year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. NBBL has highest all over the selected sample years. HBL has lowest current liabilities all over the sample years. The lowest net working capital is negative Rs. 1103 million of HBL in FY 2009/10 and the highest is Rs. 4512 of NBBL in FY 2012/13.

Figure: 4.7

Net Working Capital of Bank

(Rs. in Millions)



As stated in above figure 4.7 the net working capital of HBL and NBBL was increasing trend in fiscal year 2008/09 to 2012/13.

4.3 Liquidity Position

Liquidity of an organization is directly related with the working capital or current assets and current liabilities of that organization. Liquidity is one of the main objectives of working capital management. These ratios provide insight into the present cash solvency in the event of adverse financial condition. In case of banks working capital management is mainly concerned with the liquidity management. And a bank cannot operate its function without sound liquidity. To measure the banks' liquidity position, various liquidity ratios are calculated.

4.3.1 Current Ratio

The current ratio measures the short-term solvency position of a bank, i.e. ability to meet its current obligations. Higher current ratio indicates better liquidity position. A ratio between current assets and current liabilities is known as current ratio. The calculation is made by dividing total of current assets by total of current liabilities. Thus,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \mid 100$$

The following table shows the current ratio of HBL and NBBL.

Table: 4.5

Current Ratio (times)

(Rs. in millions)

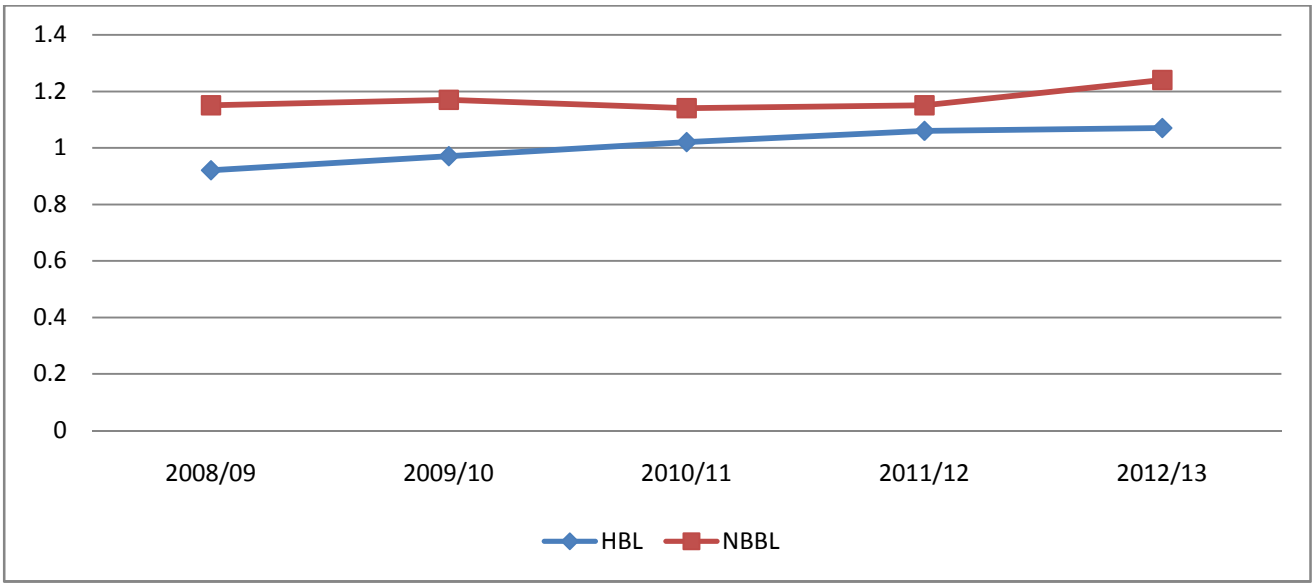
Fiscal year	HBL			NSBL		
	Current Assets	**Current Liabilities**	**Ratio**	**Current Assets**	**Current Liabilities**	**Ratio**
2008/09	32765	35709	0.92	12527	10853	1.15
2009/10	37675	38778	0.97	12141	10397	1.17
2010/11	43186	42241	1.02	13435	11754	1.14
2011/12	52189	49232	1.06	19798	17216	1.15
2012/13	59577	55691	1.07	23157	18645	1.24
Mean	**1.008**			**1.17**		
S.D.	**0.56**			**0.036**		
C.V.	**5.59%**			**3.11%**		

(Source: Annual report of HBL and NBB and Appendix I and ii)

The table 4.5 shows that the ratio of total current assets to current liabilities in five years for the sample commercial banks. Current ratio of HBL ranges the highest of 1.07 times in the fiscal year 2012/13, and the lowest of 0.92 times in the fiscal year 2008/09. Likewise, the ratio of NBBL is highest of 1.24 times in the fiscal year 2012/13 and the lowest of 1.14% in the fiscal year 2010/11 respectively. The mean ratio of NBBL is 1.17%, which is higher than HBL i.e. 1.008 times. It can be concluded that the higher mean ratio indicates the good lending performance. By measuring coefficient of variation, NBBL is more uniformity than HBL since NBBL has lesser CV of 3.11% than that of HBL i.e. 5.59%. Here, HBL and NBBL should focus to increase current ratio to increase lending performance. It is also shown from the following figure.

Figure: 4.8

Current Ratio (times)



4.3.2 Quick Ratio

Quick Ratio establishes a relationship between quick ratio or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without loss of original value. Cash is most liquid assets. Under this study cash and bank balance, money at call or short notice and government securities are included in quick assets. A ratio between quick assets and current liabilities is known as quick ratio. The calculation is made by dividing total quick assets by total current liabilities.

Thus,

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} \mid 100$$

The following table shows the quick ratio of HBL and NBBL.

Table: 4.6

Quick Ratio

(Rs. in millions)

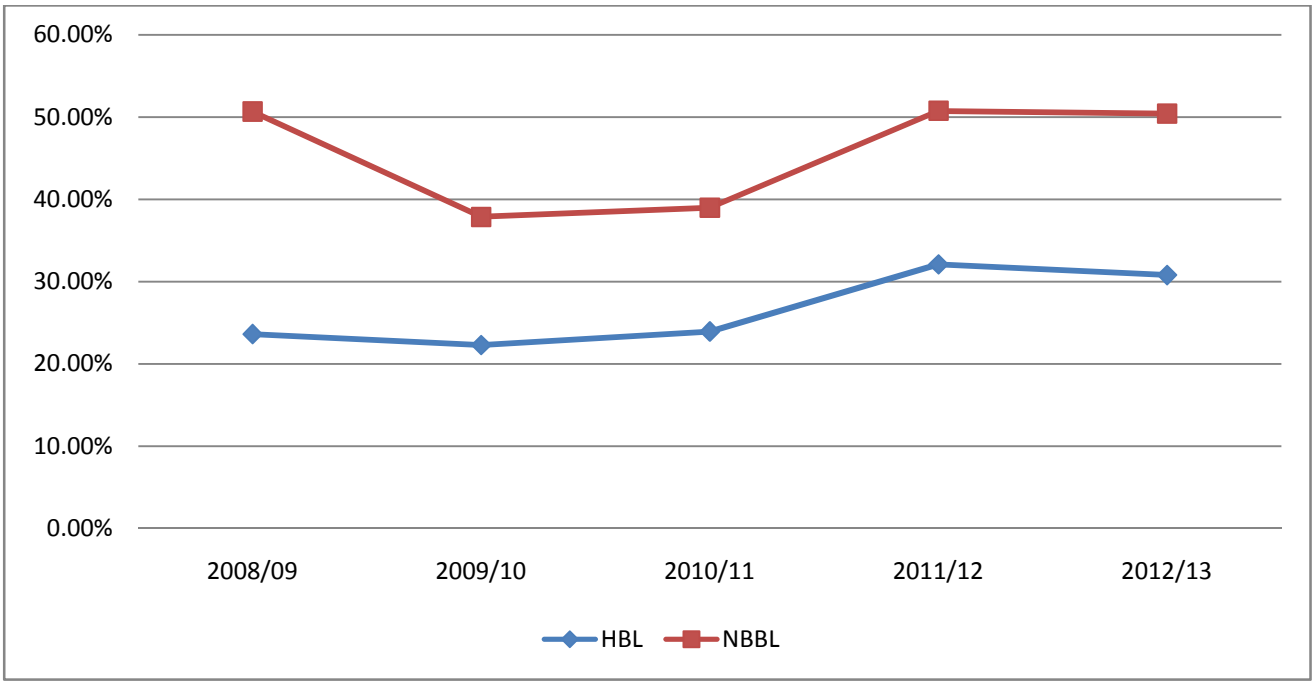
Fiscal year	HBL			NBBL		
	Quick Assets	**Current Liabilities**	**Ratio**	**Quick Assets**	**Current Liabilities**	**Ratio**
2008/09	8431	35709	23.61	5496	10852	50.65
2009/10	8640	38778	22.28	3937	10397	37.87
2010/11	10106	42241	23.92	4581	11753	38.98
2011/12	15789	49232	32.07	8735	17216	50.74
2012/13	17141	55691	30.78	9400	18646	50.41
Mean	**26.53**			**45.73**		
S.D.	**4.04**			**5.98**		
C.V.	**15.28%**			**13.07%**		

(Source: Annual report of HBL and NBB and Appendix i and ii)

The table 4.6 shows the quick ratio of selected commercial banks over the five year study period. The ratio of HBL is highest 32.07% in the fiscal year 2011/12 and lowest 22.28% in the fiscal year 2009/10. Average ratio of HBL is 26.53%. Likewise, this ratio of NBBL is highest 50.74% in the fiscal year 2012/13 and lowest 37.87% in the fiscal year 2009/10. It has mean ratio of 45.73%. Here, average quick ratio of NBBL is highest than HBL, but does not meet standard. HBL has far lower quick ratio than HBL. So both banks have no sound management of working capital. By measuring coefficient of variation, HBL is less uniformity since it has higher CV of 15.28% than NBBL i.e. 13.07%. It is also shown in the following figure.

Figure: 4.9

Quick Ratio (%)



4.3.3 Cash and Bank Balance to Total Deposit Ratio

The Ratio shows the ability of banks immediate funds to cover their deposit. It can be calculated by dividing cash and bank balance by total deposits.

Thus,

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank balance}}{\text{Total Deposit}} \times 100$$

The following table shows the cash and bank balance to total deposit ratio of HBL and NBBL.

Table: 4.7

Cash & Bank Balance to Total Deposit Ratio

(Rs. in millions)

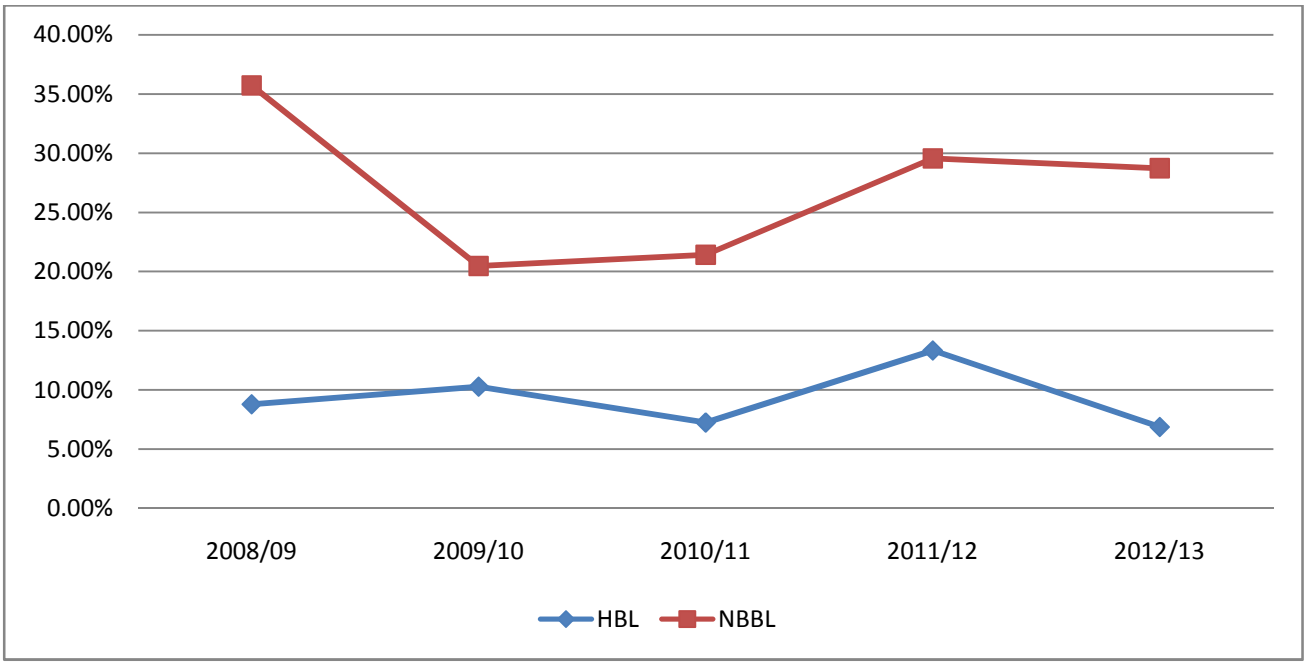
Fiscal year	HBL			NBBL		
	Cash & Bank Balance	Total Deposit	Ratio	Cash & Bank Balance	Total Deposit	Ratio
2008/09	3048	34682	8.79	3571	9998	35.72
2009/10	3866	37611	10.28	2058	10052	20.47
2010/11	2965	40921	7.24	2465	11512	21.41
2011/12	6362	47731	13.33	5010	16953	29.55
2012/13	3648	53072	6.87	5127	17845	28.73
Mean	**9.30**			**27.18**		
S.D.	**2.35**			**5.64**		
C.V.	**25.27%**			**20.76%**		

(Source: Annual report of HBL and NBB and Appendix i and ii)

The above table 4.7 presents the cash reserve ratio of HBL and NBBL during the last five fiscal years. The average cash reserve ratio is 9.30% and 27.18% for HBL and NBBL respectively. This indicates that the cash reserve ratio for the both banks is maintained above the standard as directed by NRB. i.e. to generate the liquidity. Likewise, Standard deviation for the HBL and NBBL are 2.35% and 5.64% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 25.27% and 20.76% for HBL and NBBL respectively. The analysis can be easily seen that the CRR of HBL is more fluctuating as compared to NBBL.

Figure: 4.10

Cash & Bank Balance to Total Deposit Ratio(%)



4.3.4 Saving Deposit to Total Deposit Ratio

Savings deposit is interest bearing short-term deposit. The Ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It is calculated by dividing the total amount of saving deposit by the amount of total deposit, which is as follows:

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

The following table shows the savings deposit to total deposit ratio of HBL and NBBL.

Table: 4.8

Savings Deposit to Total Deposit Ratio

(Rs. in millions)

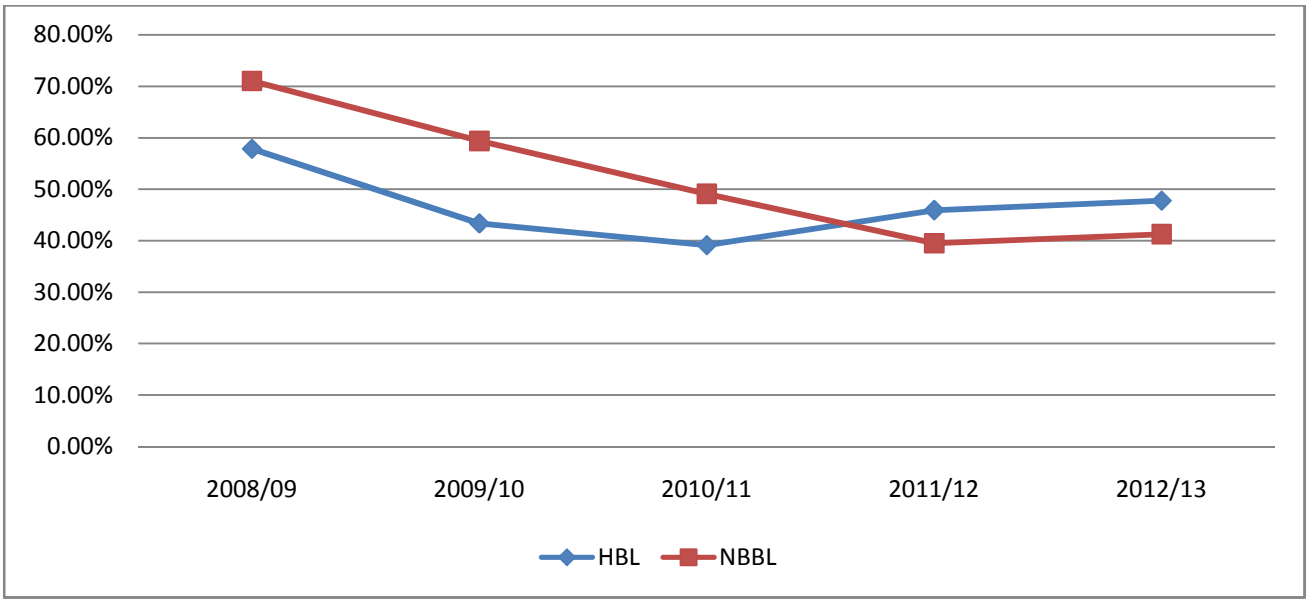
Fiscal year	HBL			NBBL		
	Savings Deposit	Total Deposit	Ratio	Savings Deposit	Total Deposit	Ratio
2008/09	20061	34682	57.84	7099	9998	71.00
2009/10	16295	37611	43.32	5967	10052	59.36
2010/11	15995	40921	39.09	5652	11512	49.09
2011/12	21915	47731	45.91	6695	16953	39.49
2012/13	25346	53072	47.76	7361	17845	41.25
Mean	**46.78**			**52.04**		
S.D.	**6.25**			**11.80**		
C.V.	**13.35%**			**22.67%**		

(Source: Annual report of HBL and NBB and Appendix i and ii)

The above table 4.8 shows the saving deposit to total deposit over the five year study period. The ratio of HBL ranges highest of 57.84% and the lowest is 39.09% in FY 2008/09 and FY in 2010/11 respectively. Likewise, the ratio of NBBL is highest of 71.00% and the lowest of 39.49% respectively in FY 2008/09 and 2011/12. The mean saving deposit to total deposit of HBL and NBBL are 46.78% and 52.04% respectively. NBBL has highest portion of savings deposit, whereas HBL has lower and almost similar. From the above analysis, Higher savings deposit shows higher risk and higher gain. So the large amount of savings deposit in total deposit shows the high liquidity of the bank. By measuring coefficient of variation, HBL is more uniformity since it has 13.55% than NBBL with CV of 22.67%.

Figure: 4.11

Savings Deposit to Total Deposit Ratio (%)



4.4 Activity Turnover Ratio

Activity Turnover Ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the banks' ability to utilize their available resources. It has direct impact on the efficiency of the company. There is no standard of ideal management though a greater turnover is regarded as efficient utilization of the assets.

4.4.1 Loan and Advance to Total Deposit Ratio

This Ratio measures the extent to which banks are successful in utilizing the profit generating purpose. In other words how quickly collected deposits are converted into loan and advances to the clients to earn income. It is calculated by dividing loan and advance by the amount of total deposit.

Thus,

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}} \mid 100$$

The following table shows the loan and advance to total deposit ratio of HBL and NBBL.

Table: 4.9

Loan and Advance to Total Deposit Ratio

(Rs. in millions)

Fiscal year	HBL			NBBL		
	Loan and Advance	Deposits	Ratio	Loan and Advance	Deposits	Ratio
2008/09	24,793	34682	71.49	6705	9998	67.06
2009/10	27981	37611	74.40	7809	10052	77.69
2010/11	31567	40921	77.14	8453	11512	73.43
2011/12	34965	47731	73.25	10530	16953	62.11
2012/13	41057	53072	77.36	13138	17845	73.62
Mean	**74.73**			**70.78**		
S.D.	**2.26**			**3.76**		
C.V.	**3.02%**			**5.32%**		

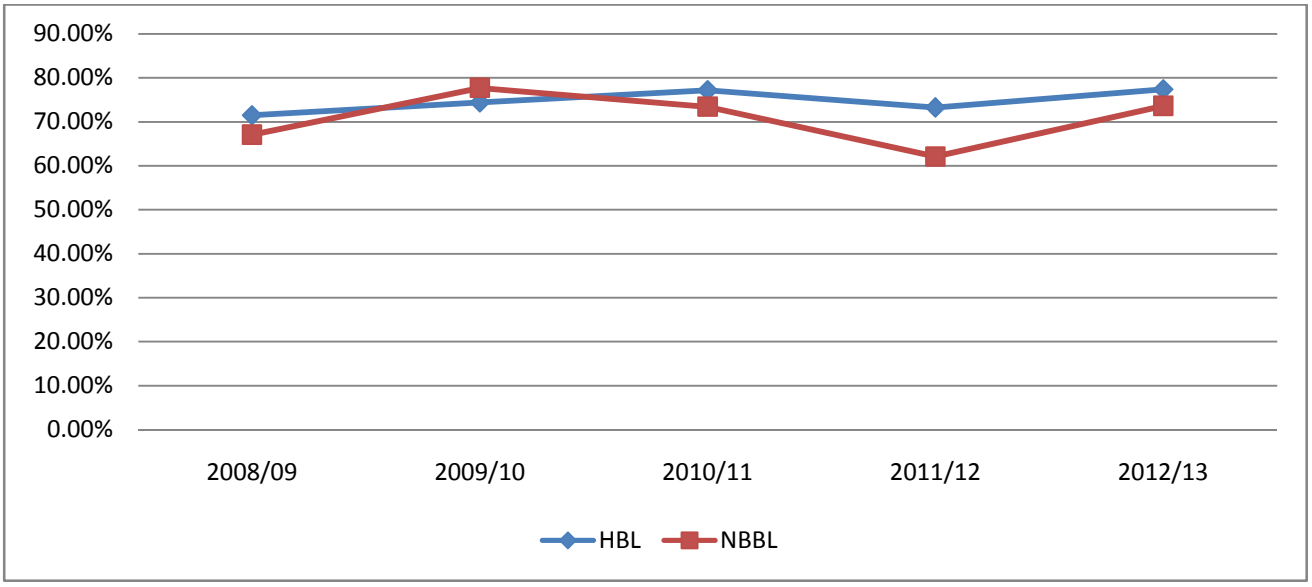
(Source: Annual report of HBL and NBB and Appendix i and ii)

The table 4.9 shows that the total loan & adv. to total deposit ratio of HBL is 71.49%, 74.40%, 77.14% , 73.25% and 77.36% respectively from fiscal year 2008/09 to 2012/13. Similarly, the ratio of NBBL bank is 67.06%, 77.69%, 73.43%, 62.11% and 73.62% from fiscal year 2008/09 to 2012/13 respectively. In average comparison, NBBL Bank has utilized its total deposits better in consecutive years. Likewise, the mean ratio of HBL and NBBL are 74.73% and 70.78% respectively. . Higher loan and advance to total deposit ratio shows higher risk and higher turnover. So, HBL have invested their deposit more in loan and advance to earn higher profit. By coefficient variation analysis, HBL bank has more uniformity than NBBL since HBL has less CV of 3.02%. HBL has been strong to mobilize its total deposit as loan and advances. Nevertheless, higher ratio doesn‟t necessarily mean that it is always better from liquidity point of view. But it is true that the banks should aim

to maintain more than 50% of deposits as loan to achieve profit. It is also presented in the following figure.

Figure: 4.12

Loan and Advance to Total Deposit Ratio (%)



4.4.2 Loan and Advance to Fixed Deposit Ratio

This Ratio examines that how many times the fund is used in loan and advances against fixed deposit. Fixed deposits are interest bearing long term obligation whereas loan and advances are the major sources of investment in generating income for commercial banks. This ratio indicates how many times the long term interest bearing deposits are utilized for generating income. It is calculated by dividing the amount of loan and advances by total deposit in fixed account. The ratio is calculated as follows:

$$\text{Loan and Advance to Fixed Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Fixed Deposit}} \mid 100$$

Table: 4.10

Loan and Advance to Fixed deposit Ratio

(Rs. in millions)

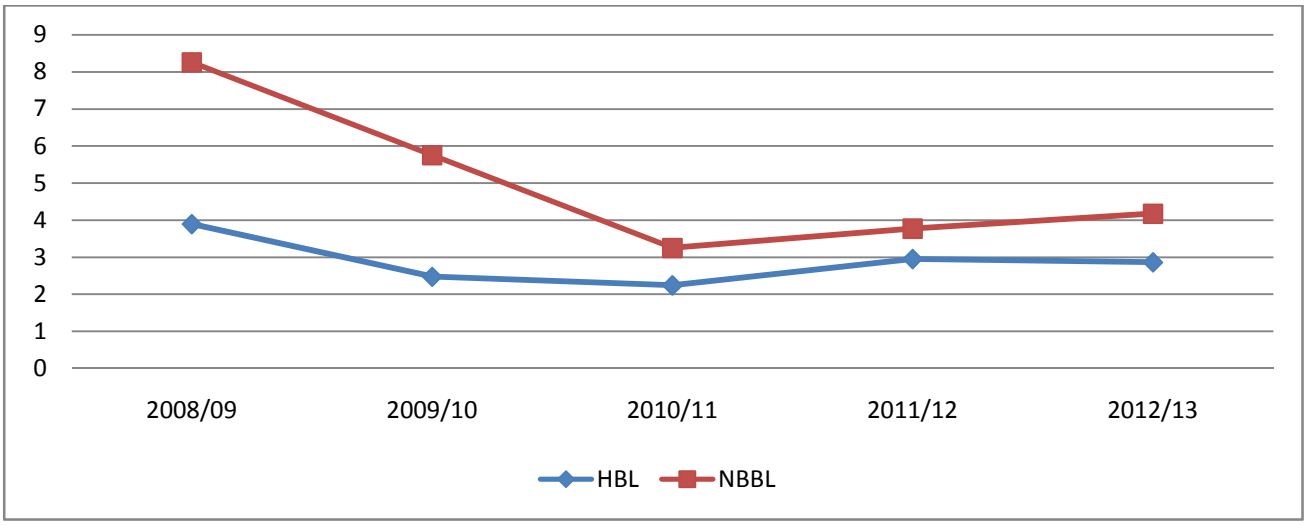
Fiscal year	HBL			NBBL		
	Loan and Advance	Fixed Deposit	Ratio	Loan and Advance	Fixed Deposit	Ratio
2008/09	24,793	6377	3.89	6705	813	8.25
2009/10	27981	11329	2.47	7809	1357	5.75
2010/11	31567	13507	2.24	8453	2602	3.25
2011/12	34965	11867	2.95	10530	2796	3.77
2012/13	41057	14346	2.86	13138	3149	4.17
Mean	**2.88**			**5.04**		
S.D.	**0.57**			**1.81**		
C.V.	**19.66%**			**35.91%**		

(Source: Annual report of HBL and NBB and Appendix i and ii)

Table 4.10 presents the loan and advance to fixed deposit ratio of the sample banks. The average ratio for loan and advance to fixed deposit is 2.88 times and 5.04 times for HBL and NBBL respectively. Higher loan and advance to total fixed deposit ratio shows lower risk and higher turnover. So NBBL has invested more in loan and advance to earn higher profit than HBL. HBL has the lowest investment in loan and advance. So it has higher risk and lower portion of earning Likewise, Standard deviation for the HBL and NBBL are 0.57 times and 1.81 times respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 19.66% and 35.91% for HBL and NBBL respectively. NBBL has more risky that is higher CV 35.91% than HBL. Following figure shows also makes more clear.

Figure: 4.13

Loan and Advance to Fixed deposit Ratio (times)



4.4.3 Loan and Advance to Savings Deposit Ratio

This Ratio examines that how many times the funds are used in loan and advance against saving deposit. For commercial banks, saving deposits are short-term interest bearing obligations, whereas investment in loan and advances are the main sources of earning. This ratio is computed dividing loans and advances by saving deposits. A low ratio indicates idle cash balance. It means total funds are not properly utilized. The ratio is calculated as follows:-

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and Advnce}}{\text{Savings Deposit}} \mid 100$$

The following table shows the loan and advance to saving deposit ratio of HBL and NBBL.

Table: 4.11

Loan and Advance to Saving Ratio

(Rs. in millions)

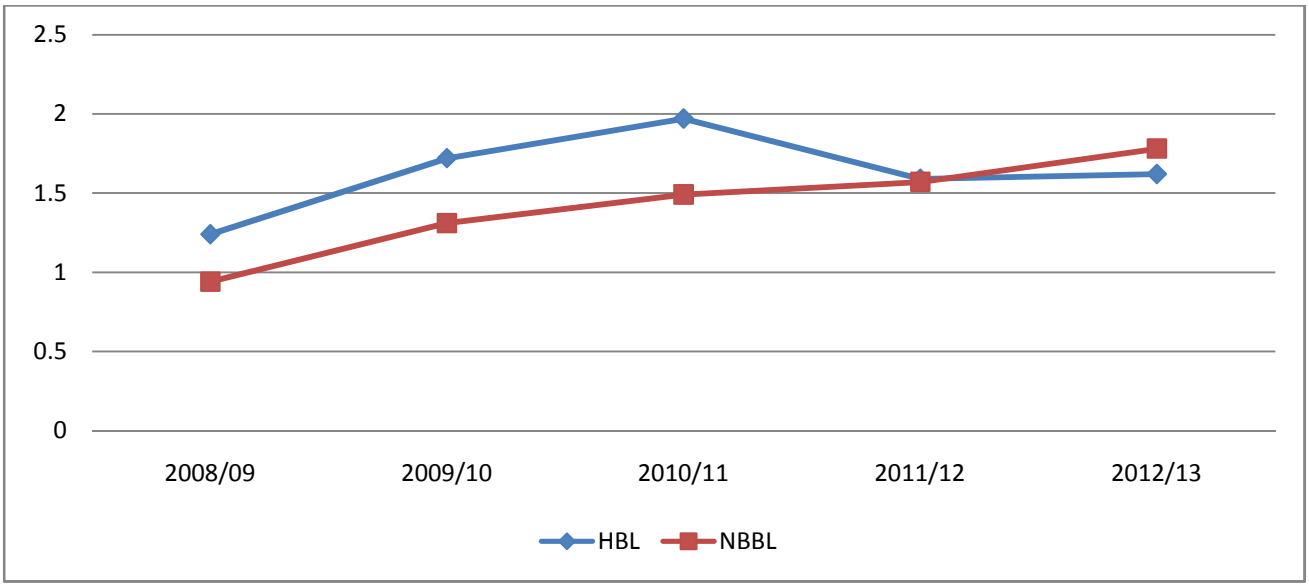
Fiscal year	HBL			NBBL		
	Loan & Advance	Saving Deposit	Ratio	Loan & Advance	Savings Deposit	Ratio
2008/09	24,793	20061	1.24	6705	7099	0.94
2009/10	27981	16295	1.72	7809	5967	1.31
2010/11	31567	15995	1.97	8453	5652	1.49
2011/12	34965	21915	1.59	10530	6695	1.57
2012/13	41057	25346	1.62	13138	7361	1.78
Mean	**1.63**			**1.42**		
S.D.	**0.236**			**0.28**		
C.V.	**14.45%**			**19.91%**		

(Source: Annual report of HBL and NBB and Appendix i and ii)

Table 4.11 shows the loan and advance to saving deposit of selected commercial banks over the study period. Ratio of HBL ranges highest 1.97 times in the fiscal year 2010/11 and lowest 1.24 times in the fiscal year 2008/09. Average ratio of HBL is 1.63 times in an average. The ratio shows the increasing and decreasing trend over the study period. Likewise, the ratio of NBBL ranges highest 1.78 times in the fiscal year 2012/13 and the lowest 0.94 times in the fiscal year 2008/09. Its average ratio is 1.42 times in an average. The ratio increasing trends throughout the study period. Average ratio of NBBL is slightly higher than NBBL. Higher loan and advance to savings deposit ratio shows lower risk and higher turnover. So, HBL has more investment in loan and advance to earn higher profit than NBBL. Likewise, measuring the coefficient of variation, HBL has less CV i.e. 14.45% than HBL i.e. 19.91%. This indicates that HBL is more uniformity than NBBL. It is also clear from the following figure.

Figure: 4.14

Loan and Advance to Saving Ratio (times)



4.5 Trend Analysis

The tools that are used to show gradually increase or decrease of variables over the selected period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly. It is a part of time series analysis. For a long period, it is desire to indicate whether the present data is increasing or decreasing. It is also attempted to find out growth factor. The trend analysis projects the rate of change so that budgeting and planning can be made easier. Therefore, trend analysis is taken as a tool to find out future behavior of data. Least square method of trend analysis is used for the study.

4.5.1 Trend analysis of Current Assets

Here, the trend values of current assets have been calculated for 5 years FY 2008/09 to FY 2012/13 and forecasting for the next 5 years till FY 2017/18.

Table: 4.12

Actual & Trend of current assets

(Rs. In millions)

Year	Actual & Estimated Current assets of HBL	Actual & Estimated Current Assets of NBBL
2008/09	32765	12527
2009/10	37675	12141
2010/11	43186	13435
2011/12	52189	19798
2012/13	59577	23157
2013/14	65520	24887
2014/15	72334	27778
2015/16	79147	30670
2016/17	85961	33562
2017/18	92775	36454

(Source: Annual report of HBL and NBBL and appendix - ix)

Figure: 4.15

Actual & Trend line of Current Assets

(Rs. In millions)

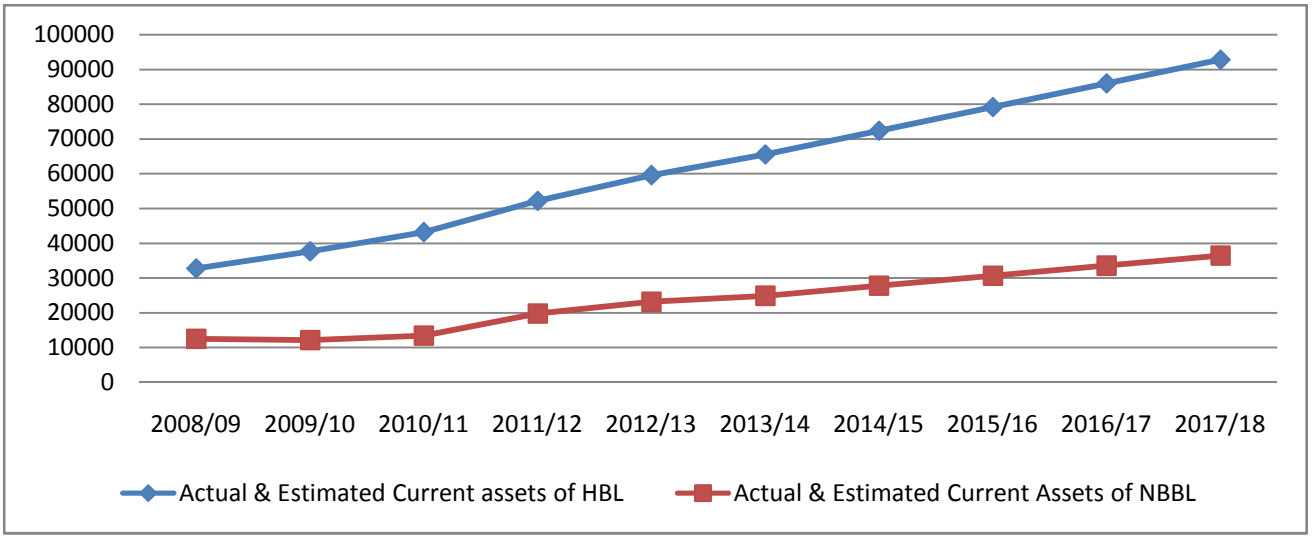


Table 4.12 and figure 4.15 reveal the trend of current assets which shows that the both banks have inconsistent current assets throughout the study period. The trend of HBL is Rs 32765 million in year 2008/09 and it will increase Rs 92775 million in the year 2017/18. In case of NBBL, it is forecasted that the bank will have increasing trend of current assets. In the year 2008/09 current assets is Rs.12527 million and in 2017/18 it will increase to Rs. 36454, if the business environment remains constant.

4.5.2 Trend analysis of Current Liabilities

Under this topic, the trend values of current liabilities for 5 years from 2008/09 to 2012/13 is calculated and forecasted for next 5 years 2013/14 to 2017/18.

Table: 4.13

Actual & Trend of current Liabilities

(Rs. In millions)

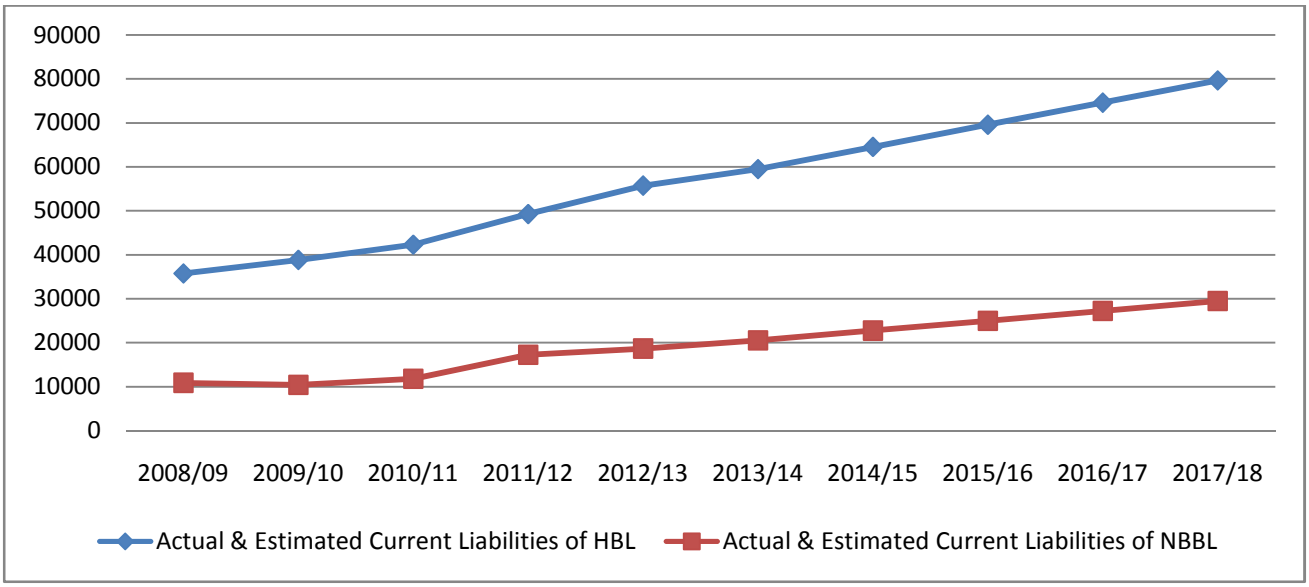
Year	Actual & Estimated Current Liabilities of HBL	Actual & Estimated Current Liabilities of NBBL
2008/09	35709	10852
2009/10	38778	10397
2010/11	42241	11753
2011/12	49232	17216
2012/13	55691	18646
2013/14	59456	20495
2014/15	64497	22736
2015/16	69539	24976
2016/17	74581	27217
2017/18	79623	29458

(Source: Annual report of HBL and NBBL and appendix- x)

Figure: 4.16

Actual & Trend line of Current Liabilities

(Rs. In millions)



Above table 4.13 and figure 4.16 show the trend of current liabilities is in increasing trend. HBL have 35709 millions as current liabilities in 2008/09 but it will increase to 79623 million in 2017/18. This is based upon the year 2008/09 to 2012/13. So within the estimated period if the business environment remains same trend of current liabilities will increase. Also the trend of current liabilities in NBBL is revealed. The bank has 10852 millions as current liabilities in 2008/09 but it will increase to 29458 million in 2017/18. The trend of increasing value is higher and aggressive. It is suggested to decrease the NPL to minimize loan loss provision.

4.5.3 Trend analysis of Net working capital

Under this topic, the trend values of net working capital for 5 years from 2008/09 to 2012/13 is calculated and forecasted for next 5 years 2013/14 to 2017/18.

Table: 4.14

Actual & Trend of Net working capital

(Rs. In millions)

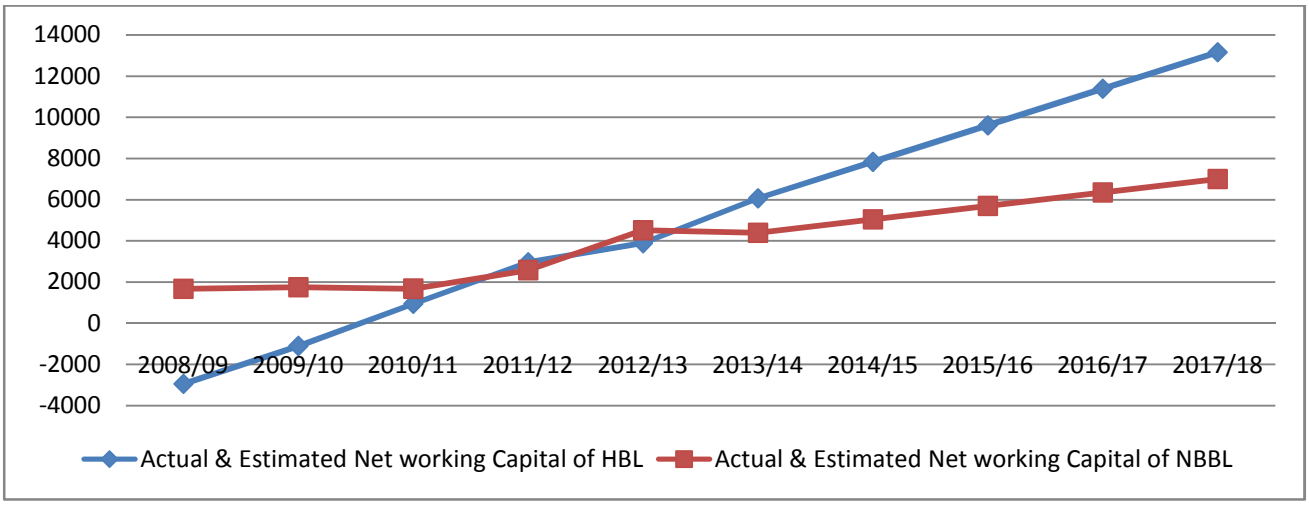
Year	Actual & Estimated Net working Capital of HBL	Actual & Estimated Net working Capital of NBBL
2008/09	(2944)	1674
2009/10	(1103)	1744
2010/11	945	1681
2011/12	2957	2582
2012/13	3887	4512
2013/14	6065	4393
2014/15	7837	5044
2015/16	9609	5696
2016/17	11382	6347
2017/18	13154	6998

(Source: Annual report of HBL and NBBL and appendix - xi)

Figure: 4.17

Actual & Trend line of Net working capital

(Rs. In millions)



Above table 4.14 and figure 4.17 show that the trend of HBL Net working capital is gradually increasing trend. It has negative (Rs 2944) million in year 2008/09 then it

has continuesely increasing at 13154 million in 2017/18 .This trend is good for the bank. Bank is able to utilize resources in productive sources. So bank will continuously increase its net working capital in coming days if the economic environment remains same as the past performances were occurred. In case of NBBL it has increasing trend. The bank has 1674 millions as NPL in 2008/09 but it will increase to 6968 million in 2017/18. It means working capital management is good for coming year.

4.6 Correlation Analysis

Correlation is the statically tool, which measure the relationship between two or more variables of a population or a sample. In other words, it describes the degree to which one variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1 when r is +1, it means there is perfect relationship between two variables and vice versa. When r is 0 it means there is no relationship between two of them.

4.6.1 Correlation between Current assets and Net working capital

The relationship between the current assets with the net working capital of the samples banks it tries to analyze whether the current assets and net working capital of the banks are moving in the same direction or not. The following table shows the correlation coefficient between the current assets and net working capital denoted by r. "r^2" indicates the coefficient of determination, t_{cal} and t_{tab} refers to calculated value of t- statistic and tabulated value of t-statistic at 5% level of significance at 3 degree of freedom two tailed test for respectively. The following results are worth highlighting.

Table: 4.15

Correlation between Current assets and Net working capital

Name of Bank	r	r^2	$t_{cal.}$	$t_{tab.}$	Result
HBL	0.9804	0.961	8.609	3.182	Significant
NBBL	0.9332	0.871	4.49	3.182	Significant

(Source: appendix iii and iv)

The table above 4.15 clearly highlights the relationship between the current assets and the net working capital by the HBL and NBBL. The positive relationship shown by correlation coefficient of HBL pointed out the fact that an increase in total current assets has resulted in an increase in the net working capital. This positive relationship is considered significant as the increase in current liabilities. affect the net working capital of the HBL. On the other hands, NBBL has positive correlation coefficient between current assets and net working capital pointed out the fact that increase in current assets has resulted in an increase in net working capital and vice-versa. In the context of significant relationship a few inferences can be made. The calculated value t_{cal} of HBL i.e. 8.609 is less than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182) . Since, the calculated value of t is greater than tabulated "t" value, null hypothesis is rejected and H_1 is accepted. Likewise, the calculated value t_{cal} of NBBL i.e. 4.49 more than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182). Thus, we conclude that there is significant relation between current assets and net working capital of HBL whereas significant in case of NCC.

4.6.2 Co-efficient of Correlation between Loan and Advance and Total Deposit

The relationship between the total loan and total deposit is of great significant, as it indicates the direction taken by the total loan with the changes in the volume of total deposit. A bank will be unable to provide large volumes of loan if it does not receive adequate and sufficient deposits in a timely basis. The following table shows the correlation coefficient between the total credit and total deposits denoted by r. "r^2"

indicates the coefficient of determination, t_{cal} and t_{tab} refers to calculated value of t-statistic and tabulated value of t-statistic at 5% level of significance at 3 degree of freedom respectively. The following results are worth highlighting.

Table: 4.16

Co-efficient of Correlation between Investment on Loan and Advance and Total Deposit

Name of Bank	r	r^2	$t_{cal.}$	$t_{tab.}$	Result
HBL	0.9902	0.980	12.27	3.182	Significant
NBBL	0.946	0.985	5.05	3.182	Significant

(Source: appendix v and vi)

The table 4.16 clearly highlights the relationship between the total Loan and the total deposit received. The positive relationship shown by their correlation coefficient points out the fact that the changes in each variable are taking place in the same direction, i.e., an increase in total loan is supported by an increase in the total deposit. This positive relationship is highly significant as the banks won't be able to sustain for a longer period if any one of these variables do not increase or decrease with one another. The calculated value t_{cal} of both sample banks i.e. HBL and NBBL (12.27 and 5.05) is greater than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182). It indicates that there is significant difference between total loan and total deposit of HBL and NBBL.

4.6.3 Co-efficient of Correlation between Cash and Bank Balance and Current Liabilities

The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. Commercial banks use large amount of cash and bank balance to meet their current obligation. The purpose of computing correlation coefficient is to justify whether the excess cash and bank balance are significantly used to meet current obligation or not or whether there is any relationship between these two variables. . The following table shows the correlation coefficient between cash &

bank balance and current liabilities and denoted by r. "r^2 " indicates the coefficient of determination, t_{cal} and t_{tab} refers to calculated value of t- statistic and tabulated value of t-statistic at 5% level of significance at 3 degree of freedom respectively. The following results are worth highlighting.

Table: 4.17

Co-efficient of Correlation between Cash and Bank Balance and Current Liabilities

Name of Bank	r	r^2	$t_{cal.}$	$t_{tab.}$	Result
HBL	0.416	0.173	0.791	3.182	Insignificant
NBBL	0.912	0.832	3.846	3.182	Significant

(Source: appendix vii and viii)

The above table 4.17 shows the correlation between cash and bank balance to current liabilities of the sample banks. HBL bank's correlation between cash and bank balance and current liabilities is 0.416 which shows low degree of positive correlation. The calculated value t_{cal} of HBL i.e. 0.791 is less than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182). So there is insignificance difference between cash & bank balance and current liabilities. In case of NBBL correlation between cash and bank balance and current liabilities is 0.912 which shows positive correlation. The calculated value t_{cal} of NBBL i.e. 3.846 is greater than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182) .Which indicates that there is highly significant relationship between cash and bank balance and current liabilities.

4.7 Major Findings of the Study

The major findings of this study during the period of five fiscal years i.e. 2008/09 to 2012/13 are summarized as follow.

1. The current assets of HBL are 32765, 37675,43186, 52,189 and 59577 million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Likewise; current assets of NBBL are 12527, 12141, 13435, 19798 and 23157

million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. It shows that HBL has highest all over the selected sample years and NBBL has lowest current assets all over the sample years. The lowest current asset is Rs. 12141 million of NBBL in FY 2009/10 and the highest is Rs. 59577 of HBL in FY 2012/13. *(Table 4.1)*

2. The above table 2.1 shows the major components of the current assets like; cash and bank balance, money at call or short notice, loan and advance, government securities and miscellaneous assets are represent in percentage in different sample years. The highest percentage of HBL of loan and advance at 74% in year 2009/10 and lowest percentage of money at call short notice 0.51% in year 2011/12. Similarly; in case of NBBL the highest percentage of NBBL of loan and advance at 64.32% in year 2009/10 and lowest percentage of money at call short notice (i.e nil). On the other hand it shows that loan and advance, money at call or short notice and are higher in HBL. the cash and bank balance, government securities and miscellaneous current assets percentages are higher in NBBL. *(Table 4. 2)*
3. From the analysis, the amount of current liabilities are shown in different component in sample years. The amount of current liabilities of HBL are 35709, 38778,42241, 49232 and 55690 million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Likewise; current liabilities of NBBL are 10853, 10397, 11754, 17216 and 18645 million in year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. So it is clear that HBL has highest all over the selected sample years. NBBL has lowest current liabilities all over the sample years. The lowest current liabilities is Rs. 10397 million of NBBL in FY 2009/10 and the highest is Rs. 55690 of HBL in FY 2012/13. *(Table 4.3)*
4. The net working capital of HBL and NBBL have been increasing trend over the study period (2008/09 to 2012/13). The working capital depicts the liquidity position of any organization. It means higher the working capital higher the liquidity of the firm and vice-versa. Total net working capital of the HBL was to negative Rs. (2944), Rs. (1103), Rs. 945, Rs. 2957, Rs. 2957, and

Rs. 3887 million at the end of fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Similarly in case of NBBL of net working capital are Rs. 1674, Rs. 1744, Rs. 1681, 2582 and Rs. 4512 million at the end of the year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. NBBL has highest all over the selected sample years. HBL has lowest current liabilities all over the sample years. The lowest net working capital is negative Rs. 1103 million of HBL in FY 2009/10 and the highest is Rs. 4512 of NBBL in FY 2012/13. *(Table 4.4)*

5. The Current ratio of HBL ranges the highest of 1.07 times in the fiscal year 2012/13, and the lowest of 0.92 times in the fiscal year 2008/09. Likewise, the ratio of NBBL is highest of 1.24 times in the fiscal year 2012/13 and the lowest of 1.14% in the fiscal year 2010/11 respectively. The mean ratio of NBBL is 1.17% which is higher than HBL i.e. 1.008 times. It can be concluded that the higher mean ratio indicates the good lending performance. By measuring coefficient of variation, NBBL is more uniformity than HBL since NBBL has lesser CV of 3.11% than that of HBL i.e. 5.59%. Here, HBL and NBBL should focus to increase current ratio to increase lending performance. *(Table 4.5)*
6. The quick ratio of HBL is highest 32.07% in the fiscal year 2011/12 and lowest 22.28% in the fiscal year 2009/10. Average ratio of HBL is 26.53%. Likewise, this ratio of NBBL is highest 50.74% in the fiscal year 2012/13 and lowest 37.87% in the fiscal year 2009/10. It has mean ratio of 45.73%. Here, average quick ratio of NBBL is highest than HBL, but does not meet standard. HBL has far lower quick ratio than HBL. So both banks have no sound management of working capital. By measuring coefficient of variation, HBL is less uniformity since it has higher CV of 15.28% than NBBL i.e. 13.07%. *(Table 4.6)*
7. The average cash reserve ratio is 9.30% and 27.18% for HBL and NBBL respectively. This indicates that the cash reserve ratio for the both banks is maintained above the standard as directed by NRB. i.e. to generate the liquidity. Likewise, Standard deviation for the HBL and NCC are 2.35% and

5.64% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 25.27% and 20.76% for HBL and NBBL respectively. The analysis can be easily seen that the CRR of HBL is more fluctuating as compared to NBBL. *(Table 4.7)*

8. The saving deposit to total deposit ratio of HBL ranges highest of 57.84% and the lowest is 39.09% in FY 2008/09 and FY in 2010/11 respectively. Likewise the ratio of NBBL is highest of 71.00% and the lowest of 39.49% respectively in FY 2008/09 and 2011/12. The mean saving deposit to total deposit of HBL and NBBL are 46.78% and 52.04% respectively. NBBL has highest portion of savings deposit, whereas HBL has lower and almost similar. From the above analysis, Higher savings deposit shows higher risk and higher gain. So the large amount of savings deposit in total deposit shows the high liquidity of the bank. By measuring coefficient of variation, HBL is more uniformity since it has 13.55% than NBBL with CV of 22.67%. *(Table 4.8)*
9. The total loan & adv. to total deposit ratio of HBL is 71.49%, 74.40%, 77.14% , 73.25% and 77.36% respectively from fiscal year 2008/09 to 2012/13. Similarly, the ratio of NBBL bank is 67.06%, 77.69%, 73.43%, 62.11% and 73.62% from fiscal year 2008/09 to 2012/13 respectively. In average comparison, NBBL Bank has utilized its total deposits better in consecutive years. Likewise, the mean ratio of HBL and NBBL are 74.73% and 70.78% respectively. . Higher loan and advance to total deposit ratio shows higher risk and higher turnover. So, HBL have invested their deposit more in loan and advance to earn higher profit. By coefficient variation analysis, HBL bank has more uniformity than NBBL since HBL has less CV of 3.02%. HBL has been strong to mobilize its total deposit as loan and advances. Nevertheless, higher ratio doesn"t necessarily mean that it is always better from liquidity point of view. But it is true that the banks should aim to maintain more than 50% of deposits as loan to achieve profit. *(Table 4.9)*
10. The average ratio for loan and advance to fixed deposit is 2.88 times and 5.04 times for HBL and NBBL respectively. NBBL has invested more in loan and

advance to earn higher profit than HBL. HBL has the lowest investment in loan and advance. So it has higher risk and lower portion of earning Likewise, Standard deviation for the HBL and NBBL are 0.57 times and 1.81 times respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 19.66% and 35.91% for HBL and NBBL respectively. NBBL has more risky that is higher CV 35.91% than HBL. *(Table 4.10)*

11. The loan and advance to saving deposit ratio of HBL ranges highest 1.97 times in the fiscal year 2010/11 and lowest 1.24 times in the fiscal year 2008/09. Average ratio of HBL is 1.63 times in an average. Likewise, the ratio of NBBL ranges highest 1.78 times in the fiscal year 2012/13 and the lowest 0.94 times in the fiscal year 2008/09. Its average ratio is 1.42 times in an average. Average ratio of NBBL is slightly higher than NBBL. So HBL has more investment in loan and advance to earn higher profit than NBBL. Likewise, measuring the coefficient of variation, HBL has less CV i.e. 14.45% than HBL i.e. 19.91%. This indicates that HBL is more uniformity than NBBL. *(Table 4.11)*
12. The trend value of current assets of HBL is always higher than NBBL of the study period . So the HBL has better liquidity position in comparison to NBBL. The trend of HBL is Rs 32765 million in year 2008/09 and it will increase Rs 92775 million in the year 2017/18. Likewise, NBBL, it is forecasted that the bank will have increasing trend of current assets. In the year 2008/09 current assets is Rs. 12527 million and in 2017/18 it will increase to Rs. 36454. *(Table 4.12)*
13. The trend of current liabilities is in increasing trend of both banks. HBL have 35709 millions as current liabilities in 2008/09 but it will increase to 79623 million in 2017/18. This is based upon the year 2008/09 to 2012/13. So within the estimated period if the business environment remains same trend of current liabilities will increase. Also the NBBL has 10852 millions as current liabilities in 2008/09 but it will increase to 29458 million in 2017/18. HBL the trend of increasing value is higher and aggressive than NBBL. *(Table 4.13)*

14. The trend of HBL Net working capital is gradually increasing trend. It has negative (Rs 2944) million in year 2008/09 immediately it has continuesely increasing at 13154 million in 2017/18 .This trend is good for the bank. In case of NBBL it has increasing trend. The bank has 1674 millions as NPL in 2008/09 but it will increase to 6968 million in 2017/18. It means working capital management is good for coming year both banks. *(Table 4.14)*
15. There is positive relationship between current assets and net working capital of HBL and NBBL. By testing t statistic, the calculated value t_{cal} of HBL i.e. 8.609 and NBBL is 4.49 are greater than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182) the relationship is significant difference between current assets and net working capital of both banks. *(Table 4.15)*
16. There is highly positive relationship between total loan and total deposit between of both banks i.e. HBL and NBBL. The calculated value t_{cal} of both sample banks i.e. HBL and NBBL (12.27 and 5.05) is greater than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182). It indicates that there is significant difference between total loan and total deposit of HBL and NBBL. *(Table 4.16)*
17. There is positive relationship between cash and bank balance to current liabilities of HBL whereas this relationship is also positive for NBBL. By testing t statistic, the calculated value t_{cal} of HBL is less than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182), the relationship is insignificant. But t_{cal} of NBBL is greater than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182), it indicates the relationship is significant. *(Table 4.17)*

CHAPTER –V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter explains the summary of whole study, major findings, conclusion of the study and forwards the applicable recommendations for better and efficient management of working capital management of sample banks. The main purpose of this study is to make familiar about the working capital management as well as financial performance of HBL and NBBL to the reader and interested person.

5.1 Summary

Establishment of commercial banks especially joint venture bank or commercial banks, has economic liberalization policies of the government. As a result, in Nepal there are 31 commercial banks at present competing with each other's in their business. These banks have concentrated themselves on financing foreign trade, commerce and industry. In competitive financial market, performances of commercial banks are very good. The main objective of the study was to evaluate the working capital management as well as financial performance of Siddhartha Bank Ltd. Commercial bank is income oriented, thus proper financial decision making is more important in banking transaction for its efficiency and profitability.

Most of the financial decisions of a bank are concerned with current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between current assets and current liabilities. Thus working capital management has been regarded as one of the conditioning factor in the decision making issue of commercial banks. The term working capital management closely relates with short term financing: it is concerned with collection and allocation of resources. Working

capital management relates to problems that arise in attempting to manage the current assets, current liabilities and interrelationship that exist between them.

The main objective of this study is to evaluate the working capital management of HBL and NBBL. To fulfill the objective, an appropriate research methodology has been developed, which includes ratio analysis as financial tool and trend analysis and correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position and turnover position. Under these, main ratios and their trend position are studies in the chapter four. In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient 'r' is calculated and analyzed. The following are the major necessary data are derived from the balance sheet and profit & loss account of both bank HBl and NBBL for the period of five years from fiscal year 2008/09 to 2012/13.

To make this thesis more understandable to the interested party, available data and information are presented in different tables and diagram with appropriate analysis and interpretations. This thesis work has been divided into five chapters. They are introduction, review of literature, research methodology, presentation and data analysis and finally summary, conclusion and recommendation.To carry out thesis work secondary data have been used. The necessary data are derived from the balance sheet and profit and loss account of NABIL, NIBL and SCBNL. Only five fiscal years data i.e. 2063/64 to 2067/68 is taken as sample.

To fulfill the objective of this study and specific objective which is described in chapter one, an appropriate research methodology has been developed which includes the ratio analysis as financial tools and trend analysis, correlation coefficient and test of hypothesis as statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity position and turnover position. To test the relationship between various components of working capital, Karl Pearson’s

correlation coefficient r is calculated and analyzed. Some null hypothesis is set, calculated and tested the validity by using t- test.

5.2 Conclusions

Working capital components of the sample banks are fluctuating all over the study period. Cash and bank balance, money at call or short notice and miscellaneous current assets cover the small portion of the total current assets. Loan and advance and government securities cover huge portion of total current assets. HBL invests more in loan and advance to earn more income than NBBL. NBBL invests more in government securities to earn more as secured income. It is found that NBBL segregates its fund in working capital more efficiently. In liquidity position, the net working capital of the bank HBL and NBBL were increasing trend during the study period . But the liquidity position of the HBL is better than NBBL. Over all study of the working capital management of the HBL bank is more sound and manageable than NBBL. Then also the current ratio of both banks were increasing trend during the study period. It seems to be satisfactory position of liquidity. The cash & bank balance to total deposit ratio (i.e. CRR) of HBL is more fluctuating as compared to NBBL. But it seems to be satisfactory level.

In activity or turnover position the loan & advances to total deposit ratio of the bank was fluctuating trend during the study period. It shows the low capital of the bank to mobilize its deposit. In correlation analysis, the coefficient of correlation between current assets and networking capital and loan and advance & total deposit is significant over the study period and by testing "t" statistic, the calculated value t_{cal} of both banks are greater than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182). But the correlation between cash & bank balance and current liabilities of HBL is insignificant where as this relationship of NBBL is positive and significant over the study period. By testing "t" statistic, the calculated value t_{cal} of HBL i.e. 0.791 is less than tabulated "t" at 5% significance level at 3 degree of freedom for two tailed test (3.182). Except that condition it is significant or t_{cal} greater than t_{tab}(i.e 3.182). From trend analysis, current assets, current

liabilities and net working capital are increasing trend for coming year for both banks. But HBL is always higher than NBBL of the study period .

5.3 Recommendations

On the basis of analysis and major findings of the study following recommendations are as follows:

- NBBL segregates low portion in the loan and advance, so it is unable to maximize the shareholders' value to compare HBL. NBBL should increase loan and advance portion from 70% to 75%. The bank should improve its current investment policy about loan and advance. *(Findings no. 3)*
- The both banks' liquidity position is not good. Their current and quick ratio are lower than normal standard. So they have faced liquidity problem for last years. It is better, as soon as the HBL and NBBL try to maintain the standard by increasing current and quick assets. *(Findings no. 5&6)*
- Working capital is essential to meet short-term obligations. But high level of working capital increased idle fund which affects the profitability of the bank. Therefore, the bank should maintain sound working capital position. It means neither more nor loss. The working capital of both banks namely HBL and NBBL has been increasing trend. Thus, the bank should try to maintain sound working capital. *(Findings no. 14)*
- The average current ratio of the both banks are more than one. It is true that such higher ratio supposed by the greater ability of bank to pay its bills. But if a bank has more than sufficient current assets is indication of unfavorable of distribution of current assets then current liabilities. Therefore, there is quite higher idle fund. This may result unproductive for bank. Thus, the bank should try to reduce its current assets to increase its profitability. *(Findings no. 5)*
- The loan and advances to total deposit ratio indicates the capacity of bank to mobilize, its deposit into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the loan and advances to total deposit ratio of HBL and NBBL were

fluctuating trend over the study period. The bank could not able to mobilize its total deposit through loan and advances. Therefore, the bank should disburse its total deposit as much as possible by means of loan and advances. *(Findings no. 9)*

- Cash reserve ratio for the both banks is maintained above the standard as directed by NRB. i.e. to generate the liquidity. *(Findings no. 4.7)*

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- www.google.com

APPENDICES - I

For HBL

Fiscal Year	Current Ratio		Quick Ratio		C & B balance to Deposit ratio		Saving Deposit to Total Deposit	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2008/09	0.92	0.007744	23.61	8.5264	8.79	0.2601	57.84	122.3236
2009/10	0.97	0.001444	22.28	18.0625	10.28	0.9604	43.32	11.9716
2010/11	1.02	0.000144	23.92	6.8121	7.24	4.2436	39.09	59.1361
2011/12	1.06	0.002704	32.07	30.6916	13.33	16.2409	45.91	0.7569
2012/13	1.07	0.003844	30.78	18.0625	6.87	5.9049	47.76	0.9604
Total		0.01588		82.1551		27.6099		195.1486
Mean	**1.008**		**26.53**		**9.30**		**46.78**	
S.D.	**0.056%**		**4.04**		**2.35**		**6.25**	
C.V.	**5.59%**		**15.28**		**25.27**		**13.35**	

$\bar{X} = \frac{\phi x}{n}$, **S.D.** $= \sqrt{\frac{\phi(X - \bar{X})^2}{n}}$ and **C.V.** $= \frac{\text{S. D.}}{\bar{X}}$

Fiscal Year	Loan to Deposit ratio		L&D to Fixed Deposit ratio		L&D to Saving Deposit ratio	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2008/09	71.49	10.4976	3.89	1.0201	1.24	0.1521
2009/10	74.40	0.1089	2.47	0.1681	1.72	0.0081
2010/11	77.14	5.8081	2.24	0.4096	1.97	0.1156
2011/12	73.25	2.1904	2.95	0.0049	1.59	0.0016
2012/13	77.36	6.9169	2.86	0.0004	1.62	0.0001
Total		25.5219		1.6031		0.2775
Mean	**74.73**		**2.88**		**1.63**	
S.D.	**2.26**		**0.57**		**0.236**	
C.V.	**3.02**		**19.66**		**14.45**	

APPENDICES – II

For NBBL

Fiscal Year	Current Ratio		Quick Ratio		C & B balance to Deposit ratio		Saving Deposit to Total Deposit	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2008/09	1.15	0.0004	50.65	24.2064	35.72	72.9316	71.00	359.4816
2009/10	1.17	0	37.87	61.7796	20.47	45.0241	59.36	53.5824
2010/11	1.14	0.0009	38.98	45.5625	21.41	33.2929	49.09	8.7025
2011/12	1.15	0.0004	50.74	25.1001	29.55	5.6169	39.49	157.5025
2012/13	1.24	0.0049	50.41	21.9024	28.73	2.4025	41.25	116.4241
Total		0.0066		178.551		159.268		695.6931
Mean	**1.17**		**45.73**		**27.18**		**52.04**	
S.D.	**0.036**		**5.98**		**5.64**		**11.80**	
C.V.	**3.11**		**13.07**		**20.76**		**22.67**	

$$\bar{X} = \frac{\phi x}{n}, \quad \textbf{S.D.} = \sqrt{\frac{\phi (X - \bar{X})^2}{n}} \quad \text{and} \quad \textbf{C.V.} = \frac{\text{S. D.}}{\bar{X}}$$

Fiscal Year	Loan to Deposit ratio		L&D to Fixed Deposit ratio		L&D to Saving Deposit ratio	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2008/09	67.06	13.8384	8.25	10.3041	0.94	0.2304
2009/10	77.69	47.7481	5.75	0.5041	1.31	0.0121
2010/11	73.43	7.0225	3.25	3.2041	1.49	0.0049
2011/12	62.11	75.1689	3.77	1.6129	1.57	0.0225
2012/13	73.62	8.0656	4.17	0.7569	1.78	0.1296
Total		151.8435		16.3821		0.3995
Mean	**70.78**		**5.04**		**1.42**	
S.D.	**3.76**		**1.81**		**0.28**	
C.V.	**5.32**		**35.91**		**19.91**	

APPENDICES -III

Correlation between Net working capital and Current assets of HBL

(Rs. In Millions)

Year	net working capital (x)	Current assets (y)	xy	x^2	y^2
2008/09	-2944	32765	-96460160	8667136	1073545225
2009/10	-1103	37675	-41555525	1216609	1419405625
2010/11	945	43186	40810770	893025	1865030596
2011/12	2957	52189	154322873	8743849	2723691721
2012/13	3887	59577	231575799	15108769	3549418929
sum(p)	px X|MTNA|	py = ΛΛΞMΣΛ|	pxy = ΛPPOΣMTEET|	px^2 = MNOΛΣMPP|	py^2 = KI OMKI ΣΛI ΣO|

Source: Appendix I and II

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\phi xy - \phi x\phi y}{\sqrt{n\phi x^2 - (\phi x)^2}\sqrt{n\phi y^2 - (\phi y)^2}} = \frac{1443468785 - 843416864}{12615 \mid 48517} = \frac{600051921}{612041955}$$

$= 0.9804$ r = 0.9804

Coefficient Determination $r^2 = 0.9804 \mid 0.9804 = 0.961$

For T – test

$$t = \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2} = \frac{0.9804}{\sqrt{1 - (0.9804)^2}} \mid \sqrt{5 - 2}$$

$= 4.9762 \mid 1.73$

$= 8.609$

APPENDICES -IV

Correlation between Net working capital and Current assets of NBBL

(Rs. In Millions)

Year	net working capital (x)	Current assets (y)	xy	x^2	y^2
2008/09	1674	12527	20970198	2802276	156925729
2009/10	1744	12141	21173904	3041536	147403881
2010/11	1681	13435	22584235	2825761	180499225
2011/12	2582	19798	51118436	6666724	391960804
2012/13	4512	23157	104484384	20358144	536246649
sum(p)	py = KΛKΣM|	py = PKIΞP|	pxy =ΛΛI MMKKΞT|	px^2 = MΞCΣNNNK|	py^2 =KNKMI MOΛPP|

Source: Appendix I and II

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\phi xy - \phi x \phi y}{\sqrt{n\phi x^2 - (\phi x)^2}\sqrt{n\phi y^2 - (\phi y)^2}} = \frac{1101655785 - 988340194}{5459 \mid 22244} = \frac{113315591}{121429996}$$

= 0.9332 r = 0.9332

Coefficient Determination r^2 = 0.9332 | 0.9332 =

For T – test

$$t = \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2} = \frac{0.9332}{\sqrt{1 - (0.9332)^2}} \mid \sqrt{5 - 2}$$

= 2.5968 | 1.73

= 4.49

APPENDICES - V

Correlation between loan & advances and total deposit of HBL

(Rs. In Millions)

Year	Loan and Advance (x)	Total Deposit (y)	xy	x^2	y^2
2008/09	24,793	34682	859870826	614692849	1202841124
2009/10	27981	37611	1052393391	782936361	1414587321
2010/11	31567	40921	1291753207	996475489	1674528241
2011/12	34965	47731	1668914415	1222551225	2278248361
2012/13	41057	53072	2178977104	1685677249	2816637184
sum(p)	**px** =NSMIPSP=	**px** =ONQMNT=	**pxy** = TMRNVMUVQP=	px^2 = RPMOPPPNTP=	py^2 = VPUSUQOOPN=

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\phi xy - \phi x \phi y}{\sqrt{n\phi x^2 - (\phi x)^2}\sqrt{n\phi y^2 - (\phi y)^2}} = \frac{35259544715 - 34320408171}{28202 \mid 33629} = \frac{939136544}{948405058}$$

$= 0.9902$ r =0.9902

Coefficient Determination $r^2 = 0.9902 \mid 0.9902 = 0.980$

For T – test

$$t = \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2}$$

$$= \frac{0.9902}{\sqrt{1 - (0.9902)^2}} \mid \sqrt{5 - 2}$$

$= 7.09 \mid 1.73$

$= 12.27$

APPENDICES - VI

Correlation between loan & advances and total deposit of NBBL

(Rs. In Millions)

Year	Loan and Advance (x)	Total Deposit (y)	xy	x^2	y^2
2008/09	6705	9998	67036590	44957025	99960004
2009/10	7809	10052	78496068	60980481	101042704
2010/11	8453	11512	97310936	71453209	132526144
2011/12	10530	16953	178515090	110880900	287404209
2012/13	13138	17845	234447610	172607044	318444025
sum(p)	**px** = QSISPR=	**py** = SSPSM=	**pxy** = SRRUMSOVQ=	px^2 = QSMUTUSRV=	py^2 = VPVPTTMUS=

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\phi xy - \phi x \phi y}{\sqrt{n\phi x^2 - (\phi x)^2}\sqrt{n\phi y^2 - (\phi y)^2}} = \frac{3279031470 - 3094698600}{11383 \mid 17124} = \frac{184332870}{194922492}$$

$= 0.946$ r =0.946

Coefficient Determination $r^2 = 0.946 \mid 0.946 = 0.895$

For T – test

$$t = \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2}$$

$$= \frac{0.946}{\sqrt{1 - (0.946)^2}} \mid \sqrt{5 - 2}$$

$= 2.918 \mid 1.73$

$= 5.05$

APPENDICES - VII

Correlation between Cash & Bank Balance and Current Liabilities of HBL

(Rs. In Millions)

Year	Cash & Bank Balance (x)	Current Liabilities (y)	xy	x^2	y^2
2008/09	3048	35709	108841032	9290304	1275132681
2009/10	3866	38778	149915748	14945956	1503733284
2010/11	2965	42241	125244565	8791225	1784302081
2011/12	6362	49232	313213984	40475044	2423789824
2012/13	3648	55691	203160768	13307904	3101487481
sum(p)	px= NVIUUV=	py = OONSRN=	pxy = VMMPTSMVT=	px^2 = USUNMQPP=	py^2 = NMMUUQQRPRN=

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\phi xy - \phi x \phi y}{\sqrt{n\phi x^2 - (\phi x)^2}\sqrt{n\phi y^2 - (\phi y)^2}} = \frac{4501880485 - 4408416739}{6203 \mid 36236} = \frac{93463746}{224771908}$$

$= 0.416$ r $=0.416$

Coefficient Determination $r^2 = 0.416 \mid 0.416 = 0.173$

For T – test

$$t = \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2}$$

$$= \frac{0.416}{\sqrt{1 - (0.416)^2}} \mid \sqrt{5 - 2}$$

$= 0.457 \mid 1.73$

$= 0.791$

APPENDICES - VIII

Correlation between Cash & Bank Balance and Current Liabilities of NBBL

(Rs. In Millions)

Year	Cash & Bank Balance (x)	Current Liabilities (y)	xy	x^2	y^2
2008/09	3571	10852	38752492	12752041	117765904
2009/10	2058	10397	21397026	4235364	108097609
2010/11	2467	11753	28994651	6086089	138133009
2011/12	5010	17216	86252160	25100100	296390656
2012/13	5127	18646	95598042	26286129	347673316
sum(p)	**px** = NUIOPP=	**py**= SUUSQ=	**pxy** = OTMVVQPTN=	px^2 = TQQRVTOP=	py^2 = NMMUMSMQVQ=

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\phi xy - \phi x \phi y}{\sqrt{n\phi x^2 - (\phi x)^2}\sqrt{n\phi y^2 - (\phi y)^2}} = \frac{1354971855 - 1255597312}{6313 \mid 17264} = \frac{99374543}{108987632}$$

$= 0.912$ r $=0.912$

Coefficient Determination $r^2 = 0.912 \mid 0.912 = 0.832$

For T – test

$$t = \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2}$$

$$= \frac{0.912}{\sqrt{1 - (0.912)^2}} \mid \sqrt{5 - 2}$$

$= 2.22336 \mid 1.73$

$= 3.846$

APPENDICES - IX
Least Square of Linear Trend of Current Assets

(Rs. In millions)

Fiscal Year (t)	HBL				NBBL			
	Current Assets (Y)	X = t-2010/11	X^2	XY	Current Assets (Y)	X = t-2010/11	X^2	XY
2008/09	32765	-2	4	-65530	12527	-2	4	-25054
2009/10	37675	-1	1	-37675	12141	-1	1	-12141
2010/11	43186	0	0	0	13435	0	0	0
2011/12	52189	1	1	52189	19798	1	1	19798
2012/13	59577	2	4	119154	23157	2	4	46314
Sum(ϕ)	**ϕy = ΛΛΞΜΣΛ**	**0**	**10**	**68138**	**81058**	**0**	**10**	**28917**

For HBL

$\phi x = 0$, $a = \frac{\phi y}{n} = \frac{225392}{5}$ = Rs. 45078.4 & $b = \frac{\phi xy}{\phi x^2} = \frac{68138}{10}$ =Rs 6813.8

Substituting these values in the following formula,

y = a + bx = 45078.4 + 6813.8 × 3 = Rs. 65519.8, 45078.4 + 6813.8 × 4 = Rs.72333.6 , 45078.4 + 6813.8 × 5 = Rs.79147.4 , 45078.4 + 6813.8 × 6 = Rs. 85961.2 , 45078.4 + 6813.8 × 7 = Rs. 92775

For NBBL

Since, $\phi x = 0$, $a = \frac{\phi y}{n} = \frac{81058}{5}$ = Rs. 16211.6 & $b = \frac{\phi xy}{\phi x^2} = \frac{28917}{10}$ =Rs2891.7

Substituting these values in the following formula,

y = a + bx, Y = 16211.6 + 2891.7 | 3 = Rs. 24886.7, 16211.6 + 2891.7 | 4 = Rs. 27778.4, 16211.6 + 2891.7 | 5 = Rs. 30670.1, 16211.6 + 2891.7 | 6 = Rs. 33561.8, 16211.6 + 2891.7 | 7= Rs.36453.5

APPENDICES - X

Least Square of Linear Trend of Current Liabilities

(Rs. In millions)

Fiscal Year (t)	HBL				NBBL			
	Current Liabilities (Y)	X = t-2010/11	X^2	XY	Current Liabilities (Y)	X = t-2010/11	X^2	XY
2008/09	35709	-2	4	-71418	10852	-2	4	-21704
2009/10	38778	-1	1	-38778	10397	-1	1	-10397
2010/11	42241	0	0	0	11753	0	0	0
2011/12	49232	1	1	49232	17216	1	1	17216
2012/13	55691	2	4	111382	18646	2	4	37292
Sum(ϕ)	py = OONSRN=	**0**	**10**	**50418**	py= SUUSQ=	**0**	**10**	**22407**

For HBL

Since, $\phi x = 0$, $a = \frac{\phi y}{n} = \frac{221651}{5}$ = Rs. 44330.2 & $b = \frac{\phi xy}{\phi x^2} = \frac{50418}{10}$ =Rs 5041.8

Substituting these values in the following formula,

y = a + bx = 44330.2 + 5041.8 x 3 = Rs. 59455.6, 44330.2 + 5041.8 x 4 = 64497.4 , 44330.2 + 5041.8 x 5 = 69539.2 , 44330.2 + 5041.8 x 6 = 74581 , 44330.2 + 5041.8 x 7 = 79622.8

For NBBL

Since, $\phi x = 0$, $a = \frac{\phi y}{n} = \frac{68864}{5}$ = Rs. 13772.8 & $b = \frac{\phi xy}{\phi x^2} = \frac{22407}{10}$ =Rs 2240.7

Substituting these values in the following formula,

y = a + bx, Y = 13772.8 + 2240.7 | 3 = Rs. , 20494.9 + 2240.7 | 4 = 22735.6 , 13772.8 + 2240.7 | 5 = 24976.3 , 13772.8 + 2240.7 | 6 = 27217 , 13772.8 + 2240.7 | 7 = 29457.7

APPENDICES - XI
Least Square of Linear Trend of Net working capital

(Rs. In millions)

Fiscal Year (t)	HBL				NBBL			
	Net working capital (Y)	X = t-2010/11	X^2	XY	Net working capital (Y)	X = t-2010/11	X^2	XY
2008/09	-2944	-2	4	5888	1674	-2	4	-3348
2009/10	-1103	-1	1	1103	1744	-1	1	-1744
2010/11	945	0	0	0	1681	0	0	0
2011/12	2957	1	1	2957	2582	1	1	2582
2012/13	3887	2	4	7774	4512	2	4	9024
Sum(ϕ)	pyXMNV	**0**	**10**	**17722**	py = KΛKΣM	**0**	**10**	**6514**

For EBL

Since, ϕ x = 0, $a = \frac{\phi y}{n} = \frac{3742}{5}$ = Rs. 748.4 & b = $\frac{\phi xy}{\phi x^2} = \frac{17722}{10}$ = Rs. 1772.2

Substituting these values in the following formula,

y = a + bx = 748.4 + 1772.2 x 3 = Rs. 6065, 748.4 + 1772.2 x 4 = 7837.2 , 748.4 + 1772.2 x 5 = 9609.4 , 748.4 + 1772.2 x 6 = 11381.6 , 748.4 + 1772.2 x 7 = 13153.8

For NSBL

Since, ϕx =0, $a = \frac{\phi y}{n} = \frac{12193}{5}$ = Rs. 2438.6 & b = $\frac{\phi xy}{\phi x^2} = \frac{6514}{10}$ =Rs 651.4

Substituting these values in the following formula,

y = a + bx Y = 2438.6 + 651.4 | 3 = Rs. 4392.8, 2438.6 + 651.4 | 4 = 5044.2 , 2438.6 + 651.4 | 4 = 5695.6 , 2438.6 + 651.4 | 6 = 6347 , 2438.6 + 651.4 | 7 = 6998.4

APPENDICES -XII

BALANCE SHEET OF HIMALAYAN BANK LTD.

(Rs. in millions)

LIABILITIES	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Share Capital	1,600	2,000	2,400	2,760	2,760
Reserves and funds	1,519	1,439	1,595	1,872	2,896
Debenture & Bonds	500	500	500	500	1,100
Borrowings	-	-	10	-	88
Deposits	34,682	37,611	40,921	47,731	53,072
Bills payable	31	216	32	19	48,339
Proposed dividend	162	189	337	322	4,733
Income tax liabilities	10	-	-	-	75
Other liabilities	824	761	942	1,160	2,454
Total liabilities	**39,330**	**42,717**	**46,736**	**54,364**	**62,447**
ASSETS					
Cash balance	474	514	632	951	3,648
Balance with NRB	2,328	2,605	1,391	3,979	
Balance with bank and other financial institution	246	747	942	1,431	
Money at call and short notice	1,171	308	734	265	2,061
Investment	8,711	8,445	8,769	10,032	12,992
Loans, Advances & B.P	24,793	27,981	31,567	34,965	41,057
Fixed assets	952	1,062	1,187	1,305	1,309
Non banking assets	23	-	-	-	-
Other assets	632	1,054	1,513	1,435	1,379
Total assets	**39,330**	**42,717**	**46,736**	**54,364**	**62,447**

APPENDICES -XIII

PROFIT AND LOSS ACCOUNT OF HIMALAYAN BANK LTD.

(Rs. in millions)

Particulars	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Interest Income	2,342	3,149	4,326	4,725	4,627
Interest Expenses	935	1,554	2,415	2,816	2,119
Net Interest Income	**1,407**	**1,595**	**1,911**	**1,908**	**2,508**
commission and Discount	284	270	350	510	551
Other Operating Income	46	112	129	182	165
Exchange Fluctuation Income	249	180	195	309	300
Total operating Income	**1,988**	**2,158**	**2,587**	**2,911**	**3,524**
Staff Expenses	361	415	517	634	710
Other Operating Expenses	398	471	582	714	852
Exchange Fluctuation Loss	-	-	-	-	-
Operating profit before Provision for Possible Loss	**1,229**	**1,272**	**1,487**	**1,563**	**1,961**
Provision for Possible Losses	199	693	472	505	637
Operating Profit	**1029**	**579**	**1,015**	**1,057**	**1,324**
Non-operating Income/loss	4	12	15	8	6
Provision for Possible loss written back	149	266	228	860	369
Profit from Regular Operation	**1,183**	**857**	**1,259**	**1,925**	**1,699**
Profit/loss from extra-ordinary Activities	(10)	(26)	102	(397)	(7)
Net profit after All Activities	**1,173**	**831**	**1,361**	**1,528**	**1692**
Provision for staff Bonus	107	76	124	138	154
Provision for Income Tax	313	246	344	431	515
Net Profit/Loss	**753**	**509**	**893**	**959**	**1,024**

APPENDICES – XIV

BALANCE SHEET OF NEPAL NEPAL BANGLADESH BANK LTD.

(Rs. in millions)

LIABILITIES	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Share Capital	1,860	1,860	2,009	2,009	2,009
Reserves and funds	(748)	273	241	945	1,535
Debenture & Bonds	-	-	-	-	-
Borrowings	-	-	-	-	-
Deposits	9,998	10,052	11,512	16,953	17,845
Bills payable	13	15	14	28	17,344
Proposed dividend	-	-	-	-	500
Income tax liabilities	7	-	-	-	-
Other liabilities	835	330	228	235	801
Total liabilities	**11,965**	**12,531**	**14,004**	**20,169**	**22,191**
ASSETS					
Cash balance	459	422	553	569	5,127
Balance with NRB	1,869	1,423	1,563	4,094	
Balance with bank and other financial institution	242	213	369	346	
Money at call and short notice	1	-	-	-	-
Investment	2,222	2,113	2,378	3,869	3,104
Loans, Advances & B.P	6,705	7,809	8,453	10,330	13,138
Fixed assets	139	155	308	228	203
Non banking assets	-	-	-	-	-
Other assets	326	395	401	733	619
Total assets	**11,965**	**12,531**	**14,004**	**20,169**	**22,191**

APPENDICES - XV

PROFIT AND LOSS ACCOUNT OF NEPAL BANGLADESH BANK LTD.

(Rs. in millions)

Particulars	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Interest Income	1,337	1,168	1,437	1,529	1,623
Interest Expenses	409	477	745	1,038	937
Net Interest Income	**927**	**691**	**691**	**491**	**686**
commission and Discount	122	145	159	198	223
Other Operating Income	125	50	53	54	84
Exchange Fluctuation Income	80	50	60	64	63
Total operating Income	**1,255**	**937**	**963**	**807**	**1,054**
Staff Expenses	138	146	181	201	238
Other Operating Expenses	123	128	140	165	194
Exchange Fluctuation Loss	-	-	-	-	-
Operating profit before Provision for Possible Loss	**994**	**662**	**642**	**440**	**622**
Provision for Possible Losses	283	148	218	71	61
Operating Profit	**710**	**513**	**424**	**369**	**561**
Non-operating Income/loss	23	18	24	75	12
Provision for Possible loss written back	1,906	1,318	324	1,364	91
Profit from Regular Operation	**2,369**	**1,849**	**771**	**1,808**	**664**
Profit/loss from extra-ordinary Activities	(15)	(523)	(715)	(775)	138
Net profit after All Activities	**2,624**	**1,326**	**57**	**1,033**	**802**
Provision for staff Bonus	239	121	65	94	73
Provision for Income Tax	227	184	130	130	139
Net Profit/Loss	**2,158**	**1,021**	**(138)**	**809**	**591**

APPENDICES - XVI

List of Commercial Banks Operating in Nepal

S.N	Bank Name	Operation Date	Head Office	(Rs in Million) Paid up Capital
1	Nepal Bank Ltd.	11/15/1937	Dharmapath, Kathmandu	1772.83
2	Rastriya Banijya Bank Ltd.	1/23/1966	Singhadurbarplaza, Kathmandu	1172.3
3	Agriculture Development Bank Ltd.	1/21/1968	Ramshahpath,Kathmandu	9474.3
4	Nabil Bank Ltd.	7/12/1984	Kantipath, Kathmandu	2435.72
5	Nepal Investment Bank Ltd.	3/9/1986	Durbarmarg,Kathmandu	3012.92
6	Standard Chartered Bank Nepal Ltd..	2/28/1987	Nayabaneshwor, Kathmandu	1610.17
7	Himalayan Bank Ltd.	1/18/1993	Thamel, Kathmandu	2400
8	Nepal SBI Bank Ltd.	7/7/1993	Hattisar, Kathmandu	2093.99
9	Nepal Bangladesh Bank Ltd.	6/6/1994	Nayananeshwor, Kathmandu	2009.4
10	Everest Bank Ltd.	10/18/1994	Lazimpat , Kathmandu	1391.64
11	Bank of Kathmandu Ltd.	3/12/1995	Kamaldi, mKathmandu	1604.19
12	Nepal Credit and Commerce Bank Ltd.	10/14/1996	Siddharthanagar, Rupandehi	1400
13	Lumbini Bank Ltd.	7/17/1998	Narayangadh, Chitawan	1430
14	Machhapuchhre Bank Ltd.	10/3/2000	Prithwichowk, Pokhara, Kaski	2478.79
15	Kumari Bank Ltd.	4/3/2001	Durbarmarg, Kathmandu	1603.8
16	Laxmi Bank Ltd.	4/3/2002	Adarsanagar, Birgunj, Parsa	1694.08
17	Siddhartha Bank Ltd.	12/24/2002	Kamaladi, Kathmandu	1619.2
18	Global IME Bank Ltd.	1/2/2007	Birgunj, Parsa	2184.86
19	Citizens Bank	4/20/2007	Kamaladi, Kathmandu	2101.84

	International Ltd.			
20	Prime Commercial Bank Ltd	9/24/2007	Newroad, Kathmandu	2245.75
21	Sunrise Bank Ltd.	10/12/2007	Gairidhara, Kathmandu	2015
22	Grand Bank Nepal Ltd.	5/25/2008	Kamaladi, Kathmandu	2000
23	NMB Bank Ltd.	6/2/2008	Babarmahal, Kathmandu	2000
24	Kist Bank Ltd.	5/7/2009	Anamnagar, Kathmandu	2000
25	Janata Bank Nepal Ltd.	4/5/2010	Naya Baneshwor, Kathmandu	2000
26	Mega Bank Nepal Ltd.	7/23/2010	Kantipath, Kathmandu	1631
27	Commerz & Trust Bank Nepal Ltd.	9/20/2010	Kamaladi, Kathmandu	1400
28	Civil Bank Ltd.	11/26/2010	Kamaladi, Kathmandu	1200
29	Century Commercial Bank Ltd.	3/10/2011	Putalisadak , Kathmandu	1080
30	Sanima Bank Ltd.	2/15/2012	Nagpokhari, Kathmandu	2016
31	Nic Asia Bank Nepal Ltd.	30/06/2013	Trade Tower, Thapathali, Kathmandu	5000