CASH MANAGEMENT SYSTEM OF COMMERCIAL BANKS IN NEPAL

(With Special Reference to Standard Chartered Bank Nepal limited and Nepal Investment Bank Limited)

Submitted to
Office of the Dean
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In the partial fulfillment of requirements for the degree of Master of Business Studies (MBS)

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RECOMMENDATION

This is to certify that the thesis

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(With Special Reference to Standard Chartered Bank Nepal limited and Nepal Investment Bank limited)"

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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and found that thesis to be the original work of the student and written according to the prescribed format. We recommend this thesis to be accepted as partial fulfillment of the requirements for Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I hereby declare that this thesis entitled **"Cash Management System of commercial Banks in Nepal with Special Reference to Standard Chartered Bank Nepal Limited and Nepal Investment Bank limited."** submitted to office of the dean, faculty management, Tribhuvan University is my original work as partial fulfillment of the requirement of Master's of Business Studies (M.B.S.) prepared under the guidance and supervision of Asso. Prof. Mr. Krishna Gautam, Lumbini Banijaya Campus, Butwal, Rupandehi, Nepal.

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I am very pleased to present myself as an author of the thesis entitled **"Cash Management System of Commercial Banks In Nepal With Special Reference of Standard Chartered Bank Nepal Limited and Nepal Investment Bank Limited"** has been prepared for the partied fulfillment of the Degree of Master of Business Studies (M.B.S.).

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ABBREVIATIONS

ABBS	Any Branch banking system
ATM	Automatic teller Machine
CA	Current asset
CAR	Capital Adequacy Ratio
CV	Coefficient of Variation
DDC	Dairy Development Corporation
DPS	Dividend per Share
DTCS	Depository Transfer checks system
EDTCS	Electric Depository Transfer checks system
EOQ	Economic Order Quantity
FA	Fixed asset
FY	Fiscal Year
IGS	Investment on Governments securities
JVBS	Joint venture Banks
MPS	Market per Share
NIBL	Nepal Investment Bank Limited
NRN	Nepal Raster Bank
NSPSE	Nepal Stock Exchange
P.E.	Probable error
SCBNL	Standard chartered Bank Nepal Limited
SD	Standard Deviation
STCL	Salt Trading Corporation Limited
TA	Total asset
UMHT	United Mission Hospital Tansen
&	and

CHAPTER –ONE

INTRODUCTION

1.1 General Background

The development of country is always measured by its economic indices. Therefore, every country has given emphasis on upliftment of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. The financial institutions act as the intermediaries' by transferring the resources from point of surplus to the point of deficit.

Financial institution plays a great role for economic growth of every country the reason behind Nepal's underdeveloped economy is not only due to lack of resources but it is due to lack of proper utilization of the available resources. Cash is an important asset for every organization. Cash is the life-blood of every organization in the absence of it; no organization can run effectively and smoothly. Cash management leads the organization towards the efficiency and success. Corporate must adopt such a policy that makes optimum cash management possible for improving the efficiency of cash management. Effective method of collection and disbursement should be adopted, however in developing country; cooperative has given not so much attention in assessing the time value of money. So the methods of cash management practiced by corporation in developing countries may not be viable due to the deficiency of knowledge or lack of consciousness among corporate managers of developing country to calculate the interest lost of fund lost if cash not collected promptly. (Pradhan, 1997)

Business transactions without the investment of cash are ethical in the monetary world. Today all segments of organization activities recognize the important of cash management. In Nepalese firm's context, the theory of cash management has not been much effectively applied in practices. Terms such as cash as cash flow analysis, cash budget, forecasting of cash requirement, credit discount policy, cash etc. have never been seriously considered. Traditional approaches are still dominant in Nepal and are reluctant to adopt modern techniques.

However, use of sophisticated forecasting techniques is not the basic requirement of cash budgeting. The inherent quality of cash budget prepared at the beginning quality of fiscal year, if left untouched thereafter can be of no use, even if it was prepared with very sophisticated forecasting tools. If the department are handled independently without consideration of their implication for cash management the conflicting interest of those departments are bound to create serious problems. The study of cash management is therefore considered as an integrated approach to management science. (Thapa, 2010)

The idea behind cash management is therefore maintaining adequate liquid assets wherever and wherever required by the firm. Maintain of the corporate liquidity therefore consists of determining the volume and timing of cash required by the firm. Liquidity and technical solvency are two different terms always confused and misused in cash Management Company should be solvent and at may not have enough cash to meet these current obligations. This is because the solvency of the company is knows only after the sale of its total assets. The technical solvency therefore doesn't means that its current bills can be paid in cash on due date hence "liquidity" denotes the capability to meet its current obligation, Where as solvency is the strength of the enterprises to meet all its obligation including long term loan. In conclusion every rupees reduced in the cash balance may contribute to the generation of additional profit of the organization as it has an indirect impact on their financial interests. (Subedi, 2009)

The term cash management has a meaning according to the purpose for which it is used and persons with varying branches of knowledge, it implies various meaning of cash. Economics considered cash as the means to satisfy human want, the lawyer view that cash is the legal tender money issued by determinate authority. However, our concern of the meaning of cash is to look from the viewpoint of balance sheet cash is an asset constituting the liquid items among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest. indeed cash which has as cost whether received internally through generation of funds in business operations or externally through money market procurement are liability and a wasted opportunity unless it is not put to its optimal use. Management can adopt

various tools and techniques for effective cash management. A company needs cash for following purposes mainly

To make payment possible

To help to meet contingencies

To help regular running of the company.

1.2 Evaluation of Bank and Financial Institution

Banking is the business of collection and safeguarding money as deposits and lending of the same. The history of such business transaction is as old as our civilization. There was existence of the money changers and money lenders of keepers in ancient times that used to by the currency of other countries and give local coins in return and also lend money to the people in need . People used to save and keep security and for use in their old age. Later on, this money – keepers and changers started paying some extra money to induce the deposits& started lending such deposits at higher rate to needy people. Practice of receiving and safeguarding deposits and lending the same led to the emergence of modern banking system .With the passage of time, ACNCODERIAL TO was established as the first bank of the world in venice, Italy in 1587.

During the prime minister ship of Ranodeep sing (1877-1885AD)'Tejaratha Dada' was established at the first financial institution of the country. At the beginning, only government staffs were allowed to take loan at 5%interest rate. Later on, the general public's were also allowed to take the loan at the same rate of interest with gold and silver ornaments as security of collateral. The credit facilities of "tejaratha Adda' were also extended outside the valley during the prime minister ship of Chandra shams her Rana. Although this institution did not accept a any deposits, it had played an important role in the development process of banking in Nepal

We come to know that Bank of Venice was established as the first commercial bank of the world, in 1157 AD and in Nepal, like in other countries the present day banker has three ancestors of particular note. One the merchant, the

banker's two other ancestors are the moneylender and the goldsmith. In B.S. 1933, Tejarath Adda was established during the tenure of the Prime Minister Ranoddip Singh Rana. It provided loans under the security of gold and silver to the government employees and to the public. In this way this government financial institution occupies an important place in the banking history of Nepal. In 1994 B.S., Nepal Bank Ltd as a modern bank was established. Therefore, the incorporation of N.B. Ltd is the real starting of banking institution in Nepal, which carried out the functions of a commercial bank in Nepal, Nepal Bank Limited, was established, as the first commercial bank in B.S. 1994. Its initial authorized capital was 10 million rupees and issued capital wash 15 lakh, paid-up capital was 8 lakh 42 thousand but now it has increased its capital significantly.

It was necessary to establish a central bank. So, in 14th Baishakh 2013 B.S. Nepal Rastra Bank was established as per Nepal Rastra Bank Act 2012 B.S. the growth and development of the country is possible only when competitive providing service reach each and every place of the country. So break up with this problems, the government established Rastriya Banijya Bank in 2022 B.S. , under Banijya Bank Act 2022 further steps for the development of banking institution is taken by establishing Nepal Industrial Development Corporation in 2016 B.S., Agriculture Development Bank in 2024 B.S., Employee Provident fund, National Insurance Corporation and so on. Before 1974 (B.S. 2031), there was no any existence of joint venture banks in the country, there were no provisions made in the old Commercial Bank Act, which facilitated to the establishment of joint venture banks in Nepal.

The new commercial bank act 1974 has, however, made provisions to permit foreign banks to operate in the country by obtaining the approval of Nepal Rastra Bank. In order to establish and develop other joint venture commercial banks and other financial institution Nepal adopted liberal and free economy policy. Accordingly, Nepal allowed establishing different joint ventures banks under collaboration with foreign banks. This was the great significant event in Nepalese banking history competition began to grow. The banks began to offer their valuable services to the people through new scheme, technologies. The finance company started emerging in Nepal only in 2049 after the first

amendment in Finance Company Act 2042. The first Finance Company "Nepal Awash Bikash Bitta Co. Ltd" is established in 2049/4/11 promoted by Rastriya Beema Sansthan, Nepal Bank Ltd., Rastriya Banijya Bank, Agriculture Development Bank, Nepal Arab Bank Ltd. In the same year 2049/12/30 Nepal Finance and Savings Co. Ltd was established from the private sector. All the banking and financial activities were establish and operate by different acts likes, Banijaya Bank Act 2031, Finance Company Act 2042, Development Bank Act 2052, Co operative Act 2048, Financial Mediator Act 2055, Agriculture Development Act 2024, and Nepal industrial Development Corporation Act2046. In that condition Nepal Rastra Bank cannot perfect supervision and control all banks and financial institutions. So uniformity all banks and financial institutions to develop new umbrella Act, called Bank and Financial Institution Act 2063. According to this Act, all the bank and financial institutions are established and control by Nepal Rastra Bank. According to this Act, Bank and Financial institution segregate 4 categories, like Bank, Development bank, Finance company and Co-operative firms.

In the country now a day's also the processes of opening finance companies are still continuing. Till now there are 31 commercial banks, 42 development banks, 77 finance companies, 13 rural development banks, 17 cooperative institutions registered in Rastra bank and plenty of cooperative institutions are doing transactions in the competitive way. So it is necessary for all the financial institutions to search and invest in new probable sectors, bring awareness among the general public about the saving and investment and spreading public reliance as well as it should providing more quality customer service.

1.3 Highlight of Sample Banks

The study focused on the cash management of Bank and finance companies but this study will cover only two Joint venture bank ltd. These are:

Standard Chartered Bank Nepal Limited.

Nepal Investment Bank Limited.

Standard chartered Bank Nepal Limited

Standard chartered Bank Nepal limited has been in operation in Nepal since 1987 when it was initially registered as a joint –venture operation. Today the bank is an integral part of standard chartered group having an ownership of 75% in the company with 25%share owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard chartered has a history of over 150 years in banking and operates in many of the world's fastest –growing markets with an extensive global network of over 1750 branches(including subsidiaries, associates and joint ventures)in over 70 countries in the Asia pacific Region, South Asia, the middle East, Africa, the united kingdom and the Americas. As one of the world's most international banks, Standard chartered employs almost 75000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the bank's values and supports the Bank's growth as the world increasingly becomes one market. With 18 points of representation, 23 ATMS across the country and with more than 350 local staff, standard chartered bank Nepal ltd. Is in a position to serve its customers through and extensive domestic network. In addition, the global network of standard chartered group gives the bank a unique opportunity to provide truly international banking services in Nepal.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. it is the first bank in Nepal that has implemented the Anti money laundering policy and applied the 'know your customer' procedure on all the customer accounts.

Nepal Investment Bank Limited

N**epal investment Bank Ltd(NIBL), Previously Nepal Indosuez Bank Ltd. was established in 1986 as a joint venture between Nepalese and French partner. The French partner (holding 50%of the capital of NIBL)was credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessman, had acquired on April2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez bank ltd. The name of the bank has been changed to Nepal investment bank ltd. upon approval of banks annual general meeting, Nepal Rastra Bank and**

company Registers office with the following shareholding structure.

A group of companies holding 50%of the capital.

Rastriya Banijya Bank holding 15% of the capital

Rastriya Beema Sansthan holding 15% of the capital

The remaining 20% being held by the General Public (which means that NIBL is a company listed on the Nepal stock Exchange) and mission of NIBL to be the leading Nepal bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff to achieve sound financial health with sustainable value addition to all stakeholders and highest level of ethical standards, professional integrity, corporate governance value and principles.

1.4 Statement of the problem

Most of the Nepalese Organizations are still facing the problem of cash management due to the unprofessional manpower. Cash management of Nepalese business organization has lack of scientific approach and they are holding primarily based on traditional practices. A more serious aspect of cash management has been the absence of any formalized system of planning and cash budgeting. The Nepalese organization cannot achieve their objective, due to poor management. Their main problem are ignorance of objectives, ineffective objective setting procedures, communication gap between top levels and lower level about many aspects and limited use of modern technology etc. Banking institutions are inevitable for resource mobilization and all around development of the country it is the resource for economic development.

It maintains economic confidence of various segments and extends credit to people in Nepal. The profitability ratio, operating expenses, divided distribution. The problem of the study will ultimately find out the reason behind the difference in their cash management.

Cash management on finance company is also difficult that of other manufacturing and non-manufacturing business organizations. Finance institutions, which are playing important role to broad interests of the economy, must be ready to pay on demand without warning and notice, a good share of

their liabilities. Finance companies collect funds from different type of deposits for providing loan and advances, investment to different sectors get higher return. Finance companies must try to increase fund from deposits as well as their investment.

The growing entry of non-banking financial institutions into the financial market have also led a cutthroat competition in the market. All of them are focused to the same market however concerned to small savers. The major difficulty of the financial institution is to fill up the gap between the depositors and loaner. Cash management has been most intricate and challenging area of modern corporate. Finance as much as the management always faces a tradeoff between the liquidity and profitability of firm through most of the organization in Nepal have well recognized the important of proper cash management. They are still facing the problems of cash management.

1.5 Research Questions

In this research, following issues are to be deal for the purpose of the study. The research is attempted to sort out the answers to the following questions.

a) **What is the prevailing cash management practice in the banks?**
b) **What is the cash condition? Are the banks financially sound?**
c) **What is the liquidity position of the banks?**

1.6 Objectives of the study

Cash management plays the essential role the achievement or collapse of any kind of company. Thus, every company needs the suitable level of cash management for their daily transaction. The overriding objective of this dissertation is to study the cash management system of SCBNL and NIBL for the year from 2005/06to 2009/10. To be more specific, this proposal study keeps the following objectives.

1-To examine the relative cash management practices of SCBNL and NIBL.

2-To identify the financial strengths and weakness of these banks.

3-To Analyze the liquidity position of banks.

4- To provide suitable recommendation and suggestions.

1.7 Significance of the study

The significance of the study can be highlights though the following points:

1. The study enlightens the shareholders about the cash management of their respective banks. This allows having a comparative retrospect whether their fund was better utilized or not.
2. The study also compels the management of respective banks for self-assessment of what they have done in the past and guides them in their future plan and programs.
3. The financial agencies, stock exchange and stock trades are also interested in the performance of the banks as well as the customers, depositors and debtors who can objectively identify the better bank to deal in term of profitability, safety and liquidity.

1.8 Limitation of the study

This study suffers from the following limitation.

1. The study has been done covering five year data only.(ie2005/06 to 2009/10)
2. The study is fully based on the secondary data collected from various sources their relevancy will depend upon the authenticity of the publishers.
3. The scope of the study is limited within the framework of cash management only.
4. The study doesn't cover other financial performance analysis technique.
5. This study does not cover priority sector investment strategy.

1.9 Organization of the study

The study is mainly related with the problems of cash management .to get objective of the study, this study will be divided into five chapters.

1.9.1 Introduction

This is very first segment of the dissertation that starts with the general of the emergence of JVBs in Nepal. A Brief concept of commercial and joint venture is given followed by the role they play in Nepal. The first chapter deals with Background of study, evolution of banking and financial institutions, focus of the study, statement of problem, objectives of the study, limitations and chapter scheme of the study.

1.9.2 Review of literature

The second chapter deals with the review of literature relating to cash management and various related books, journals, articles, periodicals, reports and other publications have been studies and reviewed in this part of the dissertation. This chapter broadly consists of two segments-review of conceptual framework and review of previous studies. Review of conceptual framework is done in order to make clear the concept of the study. Cash management in this case. Likewise, several other related studies are reviewed in separate segment to show what types of studies were made in this and what conclusions the previous researches drew.

1.9.3 Research and Methodology

The segment of the study attempts to explain the methodology of the research undertaken. The third chapter includes introduction of research design, and sources of data, data processing procedure and tools and techniques of analysis.

1.9.4 Presentation and Analysis of Data

Fourth chapter presents the analysis of data. To the analysis of data, this chapter uses different charts, table, and statistical and financial tools for better understanding of data and to reach towards accurate interpretations of the calculated figure.

1.9.5 Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization in term of cash management. It also gives important suggestion to the concerned organizations for better improvement. The fifth and the final chapter include the summary of the study, findings of the study, conclusion and recommendation also presented on the basic findings.

CHAPTER-TWO

REVIEW OF LITERATURE

This chapter highlight as the existing literature and research related to the present study with a view to finding out what had already been explained and how the present research adds to the dimension. Review of literature is an essential part of all studies. It is way to discover what other research. It is also a way to avoid investing problems that have already been definitely answered. It refers to the reviewing of the past studies in the concerned field such studies could be thesis that written earlier, Book articles and or any sort of other publications concerning the subject matter, Which were written prior by a person or an organization. The purpose of literature review is, thus, to find out what research studies have been conducted in ones chosen of study, and what remains to be done. The available literature are reviewed relating to the field of the study i.e. Conceptual framework, views of different management experts and MBS level students who have carried out research study of different Banking and financial institution as well as the same company related to this study. This cheater is further classified in to two parts.

1. Conceptual Framework.

2. Review of Previous Research Studies.

2.1 Review of Conceptual Framework.

Review of conceptual framework attempts to clarify the concept of the study, Cash management in this case .meaning of cash management, objectives of cash management and its efficiency, Techniques are presented here under.

2.1.1 Meaning of Cash Management.

Cash is the most important current assets for the operation of the business firm.

Cash is lifeblood of the business. This is the most important component of the working capital. It is the most liquid assets has vital importance to daily operation of the firm (Chandra,1984:282). The term of cash constitutes the most readily acceptable item of current assets to a firm an includes the currency, coins, cheques and also some near cash items such as marketable securities and bank time deposits. Some items of cash such as currencies, coins, cheques are readily available in terms of cash, whereas, other items such as treasury bills,

commercial papers and other marketable securities are readily convertible into cash without any delay. Financial manager in his function of cash management must ensure that there is sufficient cash, Meaning that if there is excessive cash, the financial manager must seek to invest in low-risk highly liquid money market instruments that are conveniently convertible into cash within no point in time if need raise Cash is the most liquid asset, is of vital importance to daily operation of business firm. Cash is both beginning and the end of the working capital cycle-cash, inventories, receivables and cash. Its effective management is the key determinate of efficient working capital management. Cash is like the blood stream in the human body gives vitality and strength to business enterprises. The steady and healthy circulation of cash throughout the entire business operation is them business solvency. It is cash, which keeps a business going. Hence, every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or on outflow of cash. In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of cash is necessary to meet the requirement of the business. It is shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. Through its idle cash is sterile, its retention is not without cost. Holding of cash balance is has an implicit cost in the form of its opportunity costs. The highest the level of idle cash the greater is the cost of holding it in the manner of loss of interest, which could have been earned either by investing it in securities or by reducing the burden of interest charges by paying off the loans taken previously.

Meaning cash flows is an extremely important task of financial managers, because the primary goals of a financial manager is to maximize firm's value and is based on cash follows should have on had at any time to ensure normal business operation continue without interruption. If a firm holds more cash than it needs, shareholder's returns will not be maximized. Therefore, for its smooth running and maximum profitability, proper and effective cash management in business is of paramount importance. so, the management of current assets and current liabilities of the business, Which is necessary for day to day operation. It is concerned with the decision regarding the short-term funds influencing overall profitability and risk involving in the firm. Thus, Management of cash has been regarded as one of the conditioning factors in the decision-making..

2.1.2 Objectivges of Cash Management

The basic objectives of cash management are as follows.

a. Meeting Payment Schedule

b. Minimizing funds committed to cash Balance

These two folds are conflicting and mutually contradictory and the task of cash management is to reconcile them.

a) Meeting payment schedule

In the normal course of business, firms have to make payment of cash on a continuous and regular basis to suppliers of goods, employees' and so on. At the same time, there is a constant inflow of cash through collations from debtors. To meet the payment schedules, a firm should maintain an adequate amount of cash balance. The advantages of maintaining adequate cash balance are .

i) The relationship with the bank is not strained.

ii) It prevents insolvency or bankruptcy arising out of the inability of a firm to meet its obligations.

iii) A cash discount can be availed of if payment is made within the due date.

iv) It lend to a strange credit rating which enables the firm to purchase goods on favorable terms and to maintain its line of credit with bank and other sources of credit.

v) To take advantages of favorable business opportunities that comes periodically.

vi) The firm can meet unanticipated cash expenditure with minimum strain during emergencies such as, strikes, fires or new marketing companies.

b) Minimizing funds committed to cash balance.

The second objective of cash management is to minimize cash balance. in minimizing the cash balances ,two conflicting aspects have to be reconciled. A high level of cash balance will as show above ensure prompt payment together without the advantages. But it also implies that large funds will remain idle, as cash is a non –earning asset and the firm will have to forego profits. A low level of cash balances, on the other hand may mean failure to meet the payment schedule. The aim of cash management, therefore, should be have an optimal amount of cash balances.

2.1.3 Factors Determining cash needs.

The factors, which determine cash needs, are described in the following points.

i) Synchronization of cash flow

With a perfect synchronization of cash inflow and outflows and a higher degree of predictability, cash balance could be held to low levels. An example of synchronization demonstrates low cash flows can be improved through more frequent requisitioning of fund to divisional officers from the firm's central office. If fund are requisitioned once a month, it helps to explore the possibility of requisitioning of funds on fortnightly, or weekly of daily basis, moreover, effective forecasting can be achieved. It will enable the firm to economize on the amount of money it must borrow and thereby keeping interest expenses to minimum. it is necessary to understand now that there are different types of flot. The flot is the difference between book cash and bank cash, representing the net effect of changes in process of clarity. The first types of float are disbursement float. When a cheque is written, it declares book balance but does not immediately change available balance. Similarly, the collection float refers to the reset of cheque received, which increases book balance but not immediately change available balance. The net float is the overall difference between the firm's available and its book balance (pradhan, 2004:420)

ii) Short cost

Another general factor is be considered in determining cash need is the cost associated with as short fall in the cash need. The cash forecast presented in the cash budget would revel period of cash shortages. In addition, there may be some unexpected short fall. Every shortage of cash, whether expected or unexpected

involved a cost depending upon the severity, duration and frequency of the shortfall and how the shortage is covered. Expenses incurred as a reset of short fall are called short costs. The costs included in the short cost are following.

- Transaction cost associated with raising cash to tide over the shortage, this is usually the brokerage incurred in relation to the sale of some short term near cash assets such as marketable securities.
- Borrowing cost associated with borrowing to cover the shortage, these include item such as interest on loan, commitment charge and other expenses relating to the loan.
- Loss of cash discount that is substantial loss because of temporary shortage of cash.
- Cost associated with deterioration of the credit rating which is reflected a higher bank charge on loans, stoppages of supplies, demand of cash payments, refusal to sales, loss of image and the attendant decline in sales and profits.
- Penalty rates by bank to shortfall in compensating balance (Khan and Jain 2003:82)

iii) Excess cash balance cost.

The cost of having excessively large cash balance is known as the excessive cash balance cost. If large funds are idle, the implication is that firm has missed opportunities to invest those funds and has thereby lost inters which it would otherwise have earned, this lost of interesting primarily the excess cost (Khan and Jain, 2003:82)

iv) Procurement and management

There are the cost associated with the establishing and operating cash management staff and activities. They are generally fixed and are mainly accounted for by salary, shortage, handling of securities and so on (Khan and Jain, 2003:83)

v) Uncertainly and cash management

Finally, the impact of uncertainty of cash management strategy is also relevant on cash flows cannot be predicated with complete accuracy. The first requirement is a precautionary cushion to cope with irregularities in cash flows. Unexpected delays in collection and disbursement, default and unexpected cash needs. The impact of uncertainty on cash management can. however, be mitigate through(i) improved forecasting of tax payments, capital expenditure dividend, and do on(ii)Increased ability to borrow though over draft facility.(Khan and jain,2003:83)

- A change to speculative on interest rate movement by buying securities when interest rate are expected to decline.
- Delay purchases of raw materials on the anticipation of decline in prices.
- Make purchase at favorable prices.

2.1.4 Principle of cash management.

The size of cash balance in the hand and in the account to be maintained depends on the behavior of the operating cash flows of the firms. Each business operation is unique in the matter of cash collection and disbursement, as such, a firm needs to follow cash management strategies based on if, on financial strength and objective in the matter of cash management, financial manager are mainly concerned with the management of cash receipt, cash disbursement, minimization of cash balance, use of most inexpensive source of financing for cash balance and investment of excess cash balance. The standard principles of cash management are as follows.

i. To collect account receivable as soon as possible without annoying and loosing potential customers by establishing as system of electronics fund transfer, pre-authorized cheques etc.

ii. To delay payment as long as permitted without damaging the firm's credit rating by establishing controlled disbursement system.

iii. To minimize cash balance without adversely effecting the business operation.

iv. To manage most inexpensive source of financing to meet short term cash deficiency by optimal cash between cost and risk.

v. To invest short term excess cash in most efficient market portfolio of securities such money market instrument.(Pradhan 1992:98)

2.1.5 Motives for holding cash

Organization and individual have four primary motives for holding cash and cash back up in from Marketable securities.

1-Transaction Motive

This refers to holding of cash meet routine cash requirement to finance the transaction, which a firm carries in the ordinary course of business. A firm enters in to a variety of transaction to accomplish its objectives, which have to pay for in the form of cash. The requirement of cash balance to meet routine cash needs is known as transaction motive and such motive refers to the holding of cash to meet anticipated obligation whose timing is not perfectly synchronized with cash receipt.

2-Precautionary motive

A firm should also hold some cash for the payment of unpredictable or unexpected events. A firm may have to face different crises such as strikes and lock-ups from employees, increases in cost of raw materials, funds and labor, fall in market demand and so on. How much cash is held against these crises depends on the degree of predictability associated with future cash flow. Firm may hold very minimum amount of cash for this motive. The precautionary needs for holding cash are usually satisfied by holding near cash items such as, investment in marketable securities, short term government bond so on.

3-Speculative motive

In refers to the desire of a firm to make advantage of opportunities which presents themselves at unexpected moments and which is typically outside normal course of business. While the speculative motive is defensive in nature in that firm must make provision to tide over unexpected contingencies, the Speculative motive represents a positive and aggressive approach. The firm's

aim to exploit profitable opportunities and keep cash in reserve does so. The speculative motive helps to take advantages of.

- **An opportunity to purchase raw materials at a reduced price on payment of immediate cash.**
- **To change to speculative on interest rate movement by buying securities when interest rate are expected to decline.**
- **Delay purchase of raw material on the anticipation of decline in price.**
- **Make purchase at favorable price.**

4-Compensative balance

Required demanded by commercial banks for providing short-term loan .Specially, commercial banks demand a regular borrower to maintain an average checking account balance equal to some percentage of the outstanding loan. The cash kept as compensating balance is not allowable for the borrower (or firm) to use. Bank provides different services to the firm. Compensating balance also represents an indirect charge to bank for providing service by them. Hence, this also represents the reason why a firm should hold cash.

2.1.6. Efficiency of cash management:

As such corporation must adopt such a policy that optimum cash management possible. The financial manager of the corporation should try to minimizing the corporations holding of cash wide. Still maintaining enough to ensure payment of obligation for improving the efficiency of cash management, effective method of collection and disbursement should be adapted. Some methods of efficiency of cash management are briefly described below.

1. Speedy cash collection

A firm can conserve cash and reduce its requirement for balance if it can speed-up its cash collection. Reducing the lag for gap between the times a customer pays his bill can accelerate cash collection and the time the cheques is collected and fund become available for use. Within this time gap, the delay is caused by the mailing time. The amounts of cheques into usable fund. The techniques which can be used to save mailing and processing time are, concentrating banking,; luck box system and special handling of movement of cash.

2. Concentrating Banking

Concentration banking system is a system of operating through number of collection center, Instead of single collection center centralized at the firm head office. To this system, the firm will have a large number of bank accounts operated in the area the firm its branches. All branches may not have the collection centers. The collection centers will be required to collect cheques. From customers and deposit them in their local bank accounts. The collection center will transfer funds above some pre-determined minimum to a control generally at the firm's head office; each day. A connection bank is one where the firm has a major bank account usually the disbursement.

3. Cash velocity

Efficiency in the use of cash depends upon the cash velocity i.e. level of cash over the period of time.

$$Cash velocity = \frac{Annual Sales}{Average Cash Balance}$$

4. Minimum cash balance

Organizations are required to keep a minimum cash balance requirement of a

bank, either for the service it renders or consideration of lending arrangement.

5. Synchronized cash flows

Situation in which inflow coincides with outflows, thereby permitting a firm to hold transactions balance to a minimum.

6. Using float

The different between the balance shown in a firms or individual's cheque book and the balance on the banks records in known as float or cheque written by firms and not deducted from bank records in float.

7. Delaying Disbursement

A part from speedy collection of account receivable the operation cash requirement can be reduced by slow disbursement of account payable. it may be recalled that a basis strategy of cash management is to delay payment as long as possible without importing the credit rating of the firm in fact, slow disbursement represents a source of funds requiring no interest payments. There are some techniques to delay payment. i.e. Avoidance of early payment, centralized, disbursement floats and accruable.

8. Overdraft System

A system whereby depositors may write cheques in excess of their balances with their banks automatically extend loans to cover the shortage most of the foreign countries use overdraft system.

Transferring funds: (Weston & Copeland: 1982:771-773)

It is also one effective method for efficiency of cash management, the method of transferring funds is:

a) **Depository transfer checks (DTCS)**

   DTCS provide a means for moving funds from local depository banks into concentration banks. A DTC is payable only to the bank of deposit for credit to the firms specific account.

b) **Electronic Depository transfer checks(EDTCS)**

   An electronic DTC (EDTC) is a paperless electronic image transfer via the automated clearing house (ACH) network developed by Federal Reserve System. The EDTC avoids the use of the mails and has uniform one-business-day clearing time. Central company management generally initiates EDTCS

c) Wire transfer

Wire transfer of funds between banks makes funds collected at a bank immediately available for use at another bank. It is the fastest way to move cash between banks, eliminating transit float.

2.1.7 Different Techniques of cash Management.

The extent of firm's efficiency on cash management depends on its ability to forecast cash inflow and outflow, more accurately. If cash inflow and outflow were perfectly predicated, on cash management would be required. But cash outflow were almost certain whereas cash inflows are uncertain and fluctuating. Therefore, first, the firm should determine the extent to which cash flows are non-synchronized. This requires the preparation of schedule forecasting the cash receipts and payments during the months of a year.

1-Cash Budget

Cash budget serves as the most important techniques of planning and controlling the use of cash. Cash budget, simply defined, is the statement that depicts the firm's estimated cash receipt and estimated cash disbursement during the plan period. The essence of preparing cash budget is to determine whether at a given point of time there is surplus or shortage of cash. Preparation of cash budget as a cash flow synchronization model requires several considerations. The first and foremost consideration is to determining the operating and financial cash flows expected for the period. Operating cash inflow includes cash sales, collection of credit sales and proceeds realized from the sale of fixed assets. Whereas operating cash outflow includes, cash purchase, payment of credit purchase, wages &salaries, factory ,office and selling and distribution expenses, purchase of fixed assets etc. Similarly financial cash inflow includes borrowings, interest and dividend received ,and issue of new shares, bonds, debentures, and the sale of securities . Whereas financial cash outflow includes payment of interest, tax, dividends, redemption of shares and debentures and repurchase of shares and debentures. After determining operating and financial cash flow associated with given budget period, finally firm has prepared cash budget to determine net cash flow position. It is control over the cash and liquidates of the firm.

2-Cash planning

Cash Planning is technique to plan and control the use of cash. It protects financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plan are very crucial in developing the overall operating plans of the firm. Cash planning is a technique to plan for and control the use of cash. (Pandey: 1997, p.42).cash plan are very crucial in developing the overall operating plans of the firm. Cash planning may be done on daily, weekly or monthly basis, it's depends upon the size of the philosophy of management.

3-Cash forecasting.

Cash forecasting may be short-term forecasting and long-term forecasting.

i. Short- term forecasting

There are most two common used method of short-term cash forecasting are as follows.

a. Receipt and Disbursement forecasting.

The prime aim of receipt and disbursement forecasts is to summarize these follows during a predetermined period. In case of those companies where cash items of income and expenditure involve flow of cash,. This method is favored to keep a close control over cash.

b. Adjusted Net Income Method

This method of cash forecasting involves the tracing of working capital flows. Sometime, it is also called the sources and uses approach. Two objectives of this method are to project the company's need either for cash at some future date and to show whether the company can generate this money internally or not, how much given will borrow or rise in the capital market. The item can be easily determined from the company's annual operating budget such as net profit, depreciation, taxes, dividend etc. in preparing the adjustment net income forecast.

ii. Long term cash forecasting

Long-term cash forecasting are prepared to given an idle of the company's financial requirement of distant future. Once a company has developed long-term cash forecast, it can be used to evaluate the impact of say new product

development on the firm financial condition three, five or more year in future. The major use of the long term cash forecast are company's future financial needs especially for its working capital requirements to evaluate proposed capital projects and it help to improve corporate planning and long term cash forecast compel each division to plan for future and no formulate project carefully.

2.1.8 Cash Management Models

Different analytical Models are used in cash management are:

i) Baumol Model
ii) Miller Model
iii) Orgler's Model
iv) Cash Management Models

1) Baumol Model

In view of minimizing the opportunity cost of holding cash and maximizing the return on available funds, the cash balance should be maintained at a minimum level and the funds not required for immediate use is invested in the marketable securities. Baumol model is one of the methods that can be used for this purpose. Baumol identifies the cash maintenance as analogues to inventory maintenance and demonstrates that the model of economic order quantity that is applicable to inventory management is perfectly applicable in cash management too. Baumol model is based on the following assumptions.

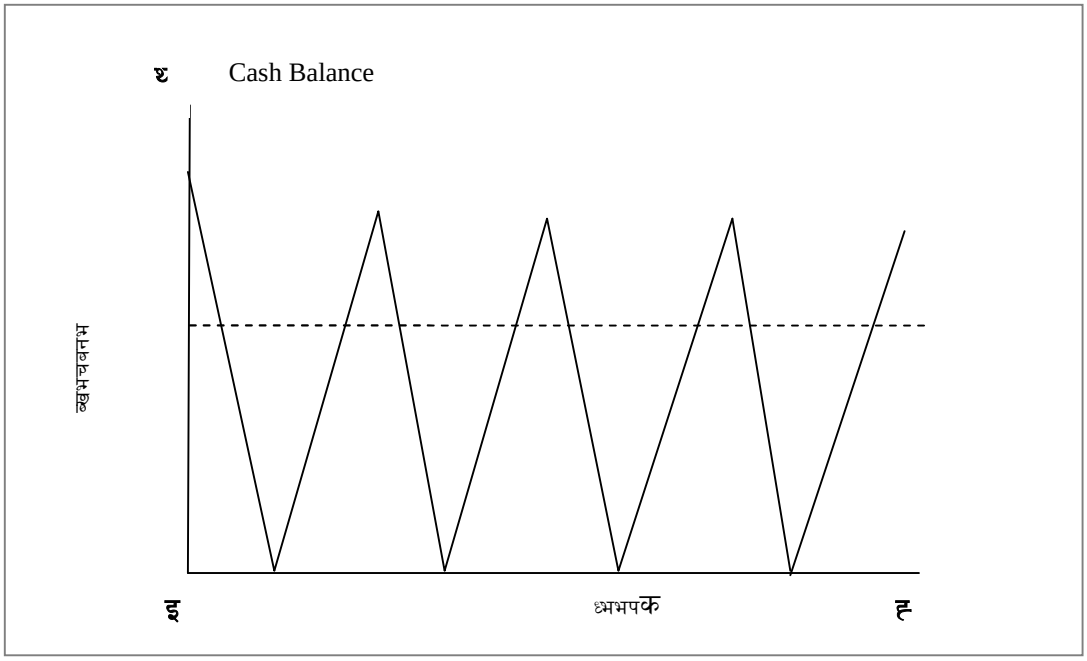
i) The cash is used at a constant rate,

ii) The periodic cash requirement is more or less ,

iii) There are some costs such as opportunity cost that increase and other costs such as transaction cost that decreases as cash balance increases (Baumol, 1952:545-556). Because of the assumptions (i) and (ii) the graphical representation of cash position looks like as follows:

Figure No. 1

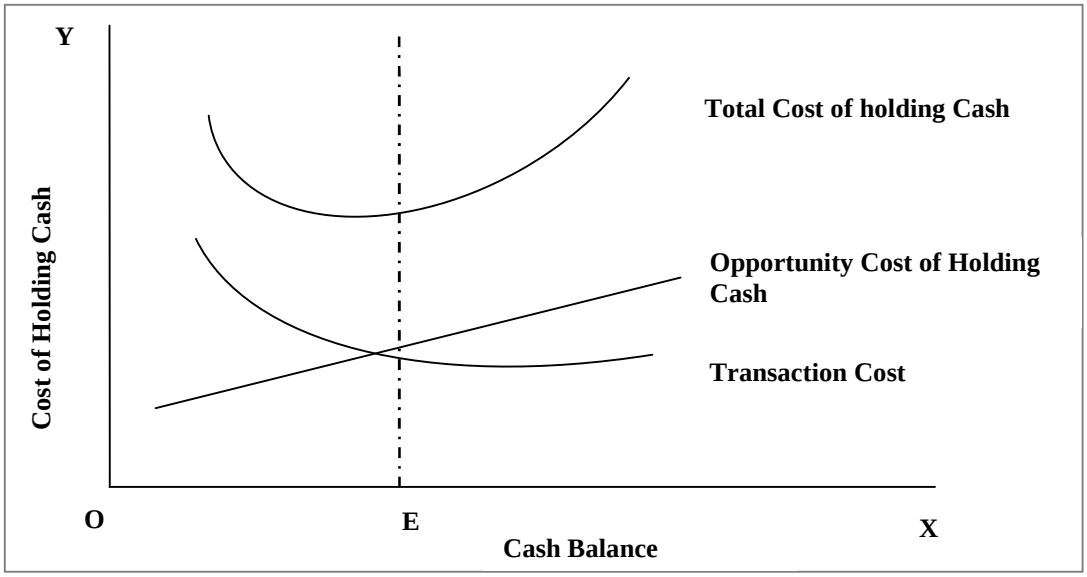
EOQ Model of Cash Balance



Unlike the case of inventory purchase, the cash transfer does not take time. Therefore, it is normally not required to maintain safety stock of cash. Given its assumption, the model prescribes an optimal size of cash balance and the optimal size of cash transfer from marketable securities to cash account or borrowing. What matter for a firm is the total of opportunity cost and transaction cost? Therefore, the objective of model is to minimize the total cost. The figure below shows the relationship between the average size of cash balance and various costs associated with the cash management.

Figure No. 2

Relationship between Cash and various Costs



The optimal size of the cash balance lies in point E **mathematically, the optimal size of cash transfer from investment account or line of credit** E **is determined as follows.**

$$E=\sqrt{\frac{2FR}{K}}$$

Where,

F = fixed transaction cost per transaction.

R = requirement of cash per period

K = opportunities cost of holding cash or interest rate on borrowing.

The Baumol model can be appropriately applied in case of predictable uniform net cash flows, but not in the situations characterized by irregular and uncertain cash flows.

The average cash balance 'C' is calculated as follows:

$$C = \frac{E}{2} + M$$

Where,

M= minimum balance or cash for precautionary purpose.

ii) Miller-Orr Model

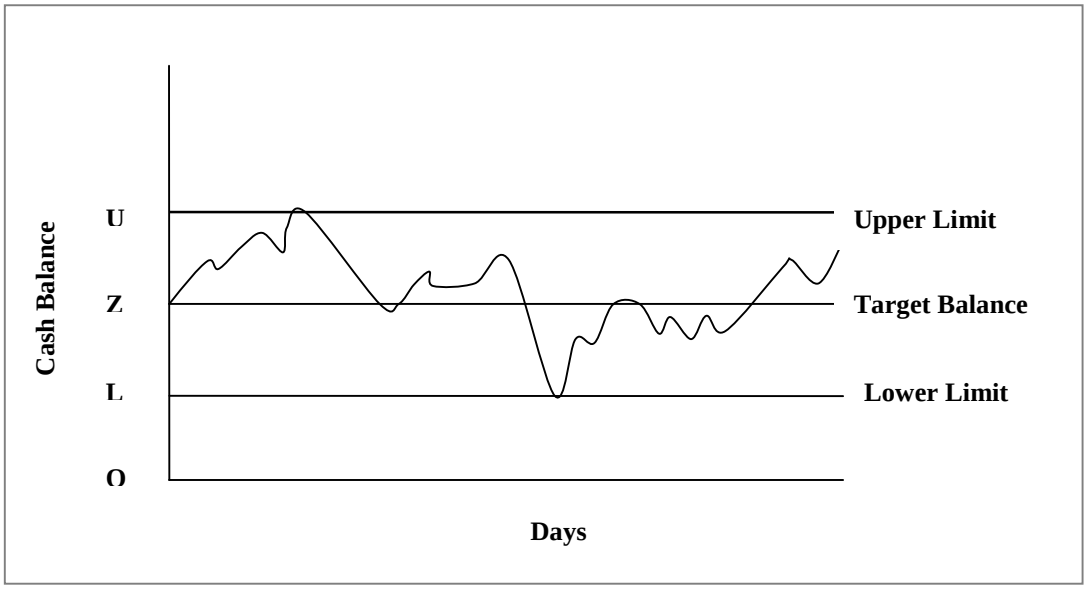
The size of cash requirement depends on the pattern and degree of irregularity of uncertainly of receipt and payments. Merton miller Daniel Orr have developed a model known as miller-Orr Model, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice versa.

The model is based on the assumption that the daily net cash flows are random in size as well as in the negative or positive flows and are normally distributed in the long term. The model sets a range of high and low limits within when the cash balance is allowed to fluctuate and sets the target cash balance(z) in between these two limits(Miller, MH. and Orr,D1996:413-435).

The model suggests bringing the cash balance to target balance whenever it drifts away to the limits in either direction. The rule is to transfer the amount of cash that is necessary to bring the cash position to its target balance. The target balance slides down to the lower limits, to transfer the cash in excess of target balance to the investment account whatever it reaches to the upper limit(u).The(L) in the model is set by either managerial decision to meet emergency need to mountain compensating balance in the account. The graphical presentation of the model is given below.

Figure No. 3

Miller Orr Model of Cash Management



Mathematically the model is set as follows:

Target Balance;

Z = **Target Balance;**

$$Z = \left[\frac{3F\sigma 2}{4i}\right]^{\frac{1}{3}}$$

The (L) is given, the model calculate the 'Z' and 'U'

$$u = 3\left[\frac{3F\sigma 2}{4i}\right]^{\frac{1}{2}} + L$$

The average cash balance is obtained as follows:

C= 4z-l/3

Where, Z=Target cash balance.

F=Fixed transaction cost per transaction.

I = Daily investment.

σ^2 **= Variance of net daily Cash flows**

L = Lower limit

iii) Orgler's Model

According to this model, an optimal cash management strategy can be determined through the use of a multiple linear programming model comprises the following three societies.

i) Selection of the appropriate planning horizon.

ii) Selection of the appropriate decision variables

iii) Formulation of the cash management strategy itself.

The advantage of the linear programming model is that it enables co-ordination of the optimal cash management strategy with the other operation of the firm such as production and with less restriction on working capital balance.(Orgler,1970:220)

The model basically, uses one-year planning horizon with twelve months period because of its simplicity .It has four basic sets of decision variables which influence

cash management of a firm and which must be incorporated in to the linear programming model of the firm.

These are

i) Payment schedule

ii) Short-term financing

iii) Purchase and sale of marketable securities

iv) Cash balance itself

The formulation of the model requires that the financial manager first specify an objective function and then specify a set of constraints. Orgler's objective function is to minimize the horizon value of the net revenues from the cash budget over the entire planning using the assumption that all revenue generated is immediately reinvested and that any cost is immediately financed. The objective recognizes each operation of the firm that generates cash inflow or cash outflow as adding or subtracting profit opportunities for the firm. In the objectives, function decision variables. Which cause inflow such as payment on receivables, have positive coefficient, while decision variables, which generate cash outflows, such as interest on short term borrowings, have negative coefficient.

An example of linear programming model is as follows.

Objective function,

$$Max.profit = a_1x_1 + a_2x_2$$

Subject to:

$$b_1x_1 = Production$$

$$b_2x_2 = constraint$$

$C_1X_1+C_2X_2$ | Cash available constraints

$d_1x_1+d_2x_2$ | Current Assets Requirement constraints

Very important feature of the model is that it allows financial managers to generate cash management with production and other aspects of the firm.

iv. Cash Management Model

In this model, it is assumed that the firm on average is growing and is a net user of cash. The holding cost is the interest foregone a cash balance held. Assuming that expenditure occurred evenly over time and that, cash replenishment comes in lump sums at periodic intervals (Weston J. Fred & Brigham, 1990:784-785).

The optimal size of the cash transfer is formulated as follows.

$$C = \sqrt{\frac{2bT}{i}}$$

C = the optimal size of the cash balance

T = the total cash usage for the period of time involved.

b = the most of transaction in the purchase.

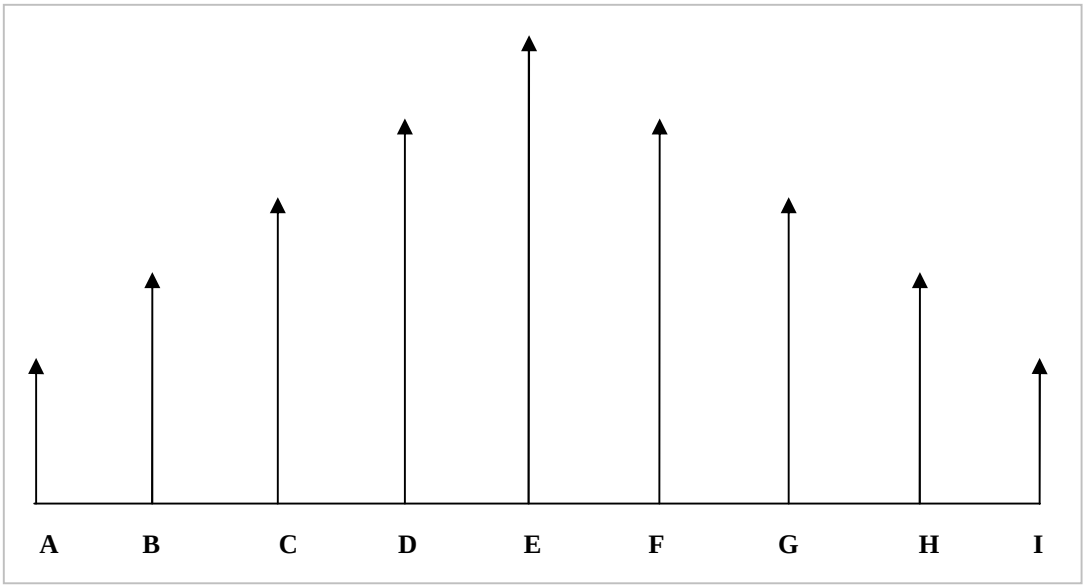
i = the applicable interest rate.

2.1.9 Cash cycle (Solman and Pringle: 1978:178)

The process by which cash is used to purchase materials for producing goods, after production, which are then sold to customers, and they pay bills. The firm receives cash from customers than the cycle is presented. The cycle repeats time to time that is called cash cycle. The several steps are involved in cycle which is given below:

Figure No. 4

Cash Cycle



Where,

A = Materials order

B = Materials received

C = Payment

D = Cheque Clearance

E = Goods Sold

F = Customers mail payment

G = Payment received

H = Cheque Deposited

I = Funds collected

The cash cycle may consume a long time period. If we conduct cash management strategies, we concerned with time period s involves in point B, C, D and F, G ,H ,I it may be mentioned that a firm has no control over the time involved between stage A and B the lag between D and E is determined by the production process and inventory policy. The time period between E and F is determined by credit terms and the payment policy of customers. So, the time horizon taken by cash cycle depends upon

spiller's policy, payment policy, production process and inventory policy, credit terms and customers payment policy etc.

2.2 Review of literature

2.2.1 Review of Book

In this section an attempt has been made to review some books on financial management, which deal with management of cash.

Well known, Indian professors M.Y. Khan and P.K Jain define cash management are one of the key areas of working capital management. Apart from the fact that it is the most liquid current assets, cash is the common denominated to which all current Assets can be reduced because the other major liquid assets get eventually converted in the cash (Khan & Jain,1978:664)

The well-known professors Weston and Brigham have give some theoretical insight in to the cash management after their various researches on it. The bond conceptual finding of their studies provides sound knowledge and guidance for the future studies in the field of management. Cash management is any enterprise and naturally to this study as well. They explain the beginning the motives for holding cash specific advantage of adequate cash synchronization of cash flows, expanding collection and cheques, clearing, using float cost of cash determining the minimum cash balance compensating balance overdraft system cash management, Management of account receivable credit policy, evaluating change in credit policy .(western, Baselly etal.1986,359-396)

Cash management techniques and components are also described in Van-Hore book in cash management chapter. Functions included in cash management are management collections, lock box system and other procedures, control of cash disbursement pay roll and divided disbursement, Zero balance account, electronic fund transfer, balancing cash and marketable securities. Componenstating balance and fee models for determining optimal cash are investor model and stochastic model.(Van-Horne 1999 343-360)

In the type of financial manager should not only attain towards the aspect of profitability but he should also turn towards ensuring the liquidity of the corporation. Since every business is a constant debtor an enterprise borrows funds from financial institution and purchase merchandise on credit, there by

are fewer obligations to the government. Thus every enterprise owns liabilities unless the payments is made at the maturity of the particular debt, the reputation of the firms is tarnished at worst the creditor may focus the firm to terminate its business (Solomon& Donald, 1964:13)

Liquidity is the lifeblood of a corporation a want of cash is the only factor, which may free it out of business cash flow in a corporation by direct cash sales of assets. it flows out indirect purchase and payment to creditors, wages and other costs. Cash also flows in the purchase and payment to creditors, wages and other equipment. in the payment of taking interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate managers unable to pay obligation in time, while each situation in unique the one common thread that runs through all corporate in crisis is a lack of liquidity (Goldness & rongner, 1976:24)

A cash budget show the planned cash inflows, outflows and ending position by interim period for a specific time span. Most companies should develop both long term and short term plans about their cash flows. The short term cash budget is included in the annual profit plan. A cash budget basically includes two parts: the planned cash receipt and the planned cash disbursement. Planning cash inflow and outflow give the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include need for financing probable cash deficit or the need for the investment planning to put excess cash to probable uses (Welsch& Ronald,1973:433)

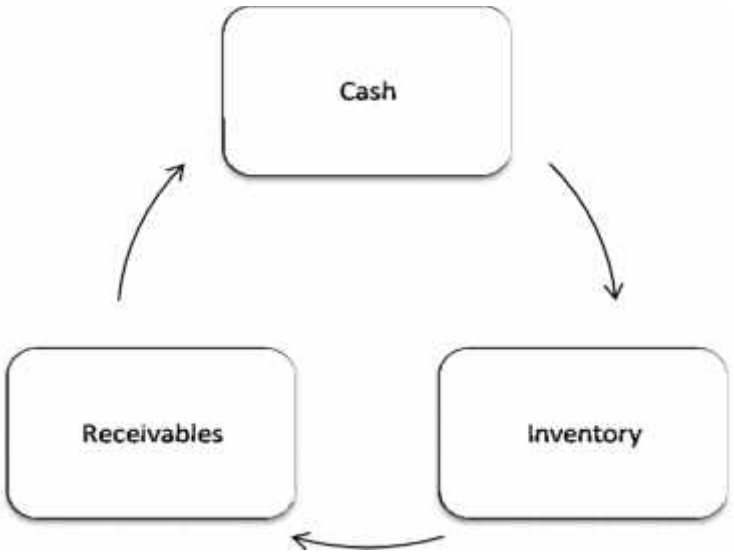
Liquidity is the life-blood of a corporation and a want of cash is the only factor which may free it out of business cash flow in corporation by direct cash sales of assets. It flows out indirect purchases and payment to creditors, wages and other costs. Cash also flows in purchase and payment to creditors, wages and other equipment. In the payment of takes interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate manager's unable to pay obligation in time, while each situation in unique the one common threats that runs through all corporate in crisis in lack of liquidity. (Jerry & Rager: 1976:24)

The cash management of corporation is significant enough to have the best use of idle cash balances and to take the advantages from the opportunity interest in cash velocity determined by sales volume and turnover of assets. Corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement. The various motives for holding cash and determination of safety level based on normal periods and peak period must be adequately considered. The cash flow balance of corporation can be sufficiently improved by increasing volume of sales and turnover of total assets. But on the whole measure should be taken to have efficient collection combined with disbursement. (Shrestha MK. (2006)

First of all it is obvious that cash is component that correlated with working capital which is known to be current assets. The circulation nature of current assets can be depicted as figure given below.

Figure No. 5

Circulation nature of Current Assets



Concerned with management of cash so as to achieve the generally accepted objectives of the firm. Maximum profitability is consistent with minimum liquidity of the firm. It is the management's ability to recognize cash problems before they rise and to delegate someone the identified solution to carry them out. Cash itself is not an asset capable of causing the profit differential for the firm; it is desirable that cash balances be minimized as much as possible. Yet the

maintenance of adequate cash balances is an obvious requirement, if a firm's solvency is to be maintained. Cash management consists basically of having a sufficient quantity of cash yet maintain a balance at the lowest figure adequate to meet current obligations. (Poudel, Baral, etal: 2007:406)

For the cash management, a well-know Indian professors I.M. Pandey has described some conceptual ingredients, which are based on his various research studies. We can learn lesson from it and helpful for the study indeed. He has described various except of cash management which are as follows, fact of cash management, motives for holding cash, cash forecasting and budgeting, managing the cash flows, counting disbursement: determinant of the optimum cash balance.

As such whatever cash a corporation has must utilized efficiently to meet obligation of interest payment if cash is obtained from borrowing and it is received through issue of share the corporation has responsibility to owners in assuring them to pay favorable are of return since cash is not easy to obtain the available cash must be prudently spent without incurring loss. Although it is impossible to formulate a set of management assets policy of universal applicability, one policy or rule that appears to be unanimously accepted is that cash must be conserved (Kent,1964:128)

Cash management assumes more important than other current asset because cash is the most significant and the least productive asset that a firm holds. The aim of cash management should be to maintain adequate cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. Therefore, firm should try to maintain the optimum level of cash that maximizes the values of the firm. (Manandhar, etal: 2009:6.13).

Cash is often called 'non earning assets'. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash itself earns no interest, thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, the same time, to have sufficient cash i) to take trade discount, ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.(Brigham & Gerhardt: 2009: 656)

The cash budget is forward looking. It seems to estimate future cash receipts and cash disbursement. The primary purpose of cash budget is to:

i. Give the probable cash position at the each period as a result of planned operation.

ii. Identity cash excess or shortage by time periods.

iii. Established the need for financing and or the availability of idle cash for investment.

iv. Co-ordinate cash with total working capital.

A firm's major needs of cash are the following:

i. Transaction Needs:- A firm needs cash to carry out the day to day function of the business.

ii. Contingency Needs:-The firm must be prepared for contingencies and should be concerned with unexpected occurrences or emergencies that require cash.

iii. Opportunity Need:-This involves the chances to profit from having cash available

Collectively, these activities are usually called cash management, which in and of it should be cost effective. Cash management in large company is so important that the related policies and process should be subject to internal audits (leshe, 1987:33)

2.2.2 Review of Nepalese Articles & journals.

Miller, MH & Orr .D, **in their article " A model of the demand for money in firms" an quarterly journal of economic, (VOL.LXY, Aug. 1996) have developed a model known a Miller-Orr model ,that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.**

Baumol (1952) introduced deterministic approach to determine the level of cash balances based on economic order quantity of early inventory model. He

assumed that the firm face fixed cash inflow and out flow patterns and sought to minimize the cost of holding cash necessary for its transaction. Baumol concluded the cash will be demanded by rational individuals in proportion to the square root of the value of transaction, given the price level. Tobin (1956) interposed interest elasticity of transaction demand for cash with a view to maximizing individual's interest earnings net of transaction cost. This is different from Boumol's propositions, but the results are quite similar with Boumol's equations.

W.J Baumol(1952),at his article "The Transaction Demand for cash: An inventory theoretic Approach" on quarterly journal of economics identifies cash maintenance as analogues to inventory maintenance and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

Similarly,M.H.Miller and Orr. D.(1996),in their article "A Model of the demand for money in firms" on quarterly journal of economic, have developed a model known as Miller-orr model takes in to account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.

Taking cognizance of the fact that the optimization of the operating decision subject to various financial constraints is possible, charnes, cooper and Miller(1959) had applied linear programming Model for the first time to finance in their article," Application of linear programming to financial budgeting and cost of funds". Moreover, their model determines the opportunity cost of long-term fund. The major quantitative conclusions that are obtained from the above linear programming model is considered as a major input for capital investment analysis. Therefore, there model is too general to be applied to the short-run cash management problems.

Whalen (1965) in his article "A Cross Section study of Business Demand for Cash" on journal of finance has found the speculative demand for money may be considered as a function of wealth. Assets and sales are the explanatory various

to determine the cash balance of the firm .Since Whalen attempted to incorporate assets as well as transaction in to the demand function, the analysis presented by him in order to determine the cash holding of the firm differed from Meltzer's model. He Hypothesized that the cash holding of the firm is not only for transaction purpose but also as an investment. Miller-orr(1966) assumed that a firm's cash flows could be analyzed by a stochastic process. He followed Baumol's model, without question and deduced that the firm's pattern of payment and receipt is fixed and that the cost of non-payment is infinite. He added that the firm or the individual is presumed to hold that amount of money, which minimizes the interest cost. He further advised holding money rather than bonds; since there is transaction cost associated with the conversation of bonds in to money. This reduces the cost of transaction and maximizes profit by an equivalent amount.

According to the Directives of NRB (2010), The following rules and regulation should be maintained by Nepalese Banking and Finance Institution:-

- As per BASEL I, the minimum CAR is 11%
- As per BASEL II, the minimum CAR is 10%
- Minimum CCR is 5.5%and 6%in BASEL I and II respectively.
- Banks should be maintained 8%SLR up to Ashad 31, 2067.
- Minimum CCR is 5.5%of local currency.
- General Reserve, 20%of NPAT should make reserve up to double of paid-up capital.
- For Exchange reserve 25%should be maintained for future exchange losses.
- NRB has made categories to loan and their provision as follows:-

Types of loan	**Time Period**	**Provision**
Good Loan	**Up to 3 month**	**1%**
Substandard loan	**6 month**	**25%of good loan**

Doubtful loan	**Up to 1Year**	**50% of good loan**
Bad loan	**After 1year**	**100%of good loan**

Source:-Nepal Rastra Bank.

2.2.3 Review of Research Work

In last few years, prior to this thesis, some students of M.B.A. and M.B.S. programme have been found conducting research about the cash Management. Some of them, which are supposed to be relevant, have been reviewed and presented in this section.

Pradhan (1997)**In this report paper, "A Study of Cash Management of Salt Trading Corporation Ltd" he has done his research work with considering following objectives.**

a) To study the Existing cash management system of STCL

b) To access the credit policy adopted by STCL.

c) To explain few suggestion on the basis of above analysis to improve the cash management in future.

The major finding of his study has been presented as under.

a) STCL could not make the best use of available cash balance prudently.

b) The cash collection efficiency in this corporation is very low.

c) No optimum cash balance is maintained.

d) The collection trade credit in the corporation is low during the study period.

e) Management has taken liberal credit policy.

(Prithi, 2003) **had conducted a research in the topic "A study on Cash Management of United Mission Hospital Tansen, UMHT" after completion of the study he has pointed out some findings that are; the cash collection efficiency in UMHT is very low. It is found that management is less concerned to speed of collection of account receivables. Cash balance with respect current assets has been fluctuating trend. Current ratio shows the uncomfortable working situation maybe experienced in payment of current liabilities and day to day operation of the business may suffer. There is no good relationship between cash and revenue, but significant relationship between receivables and cash balance. He**

recommended to prepare monthly trail balance, cash and funds flow statement and looking at the organization‘s inefficiency in the area of internal audit and central system. The UMHT should pay much attention toward collection of account receivable and to decrease average collection period for effective cash management.

(Bhatt, 2004) **had conducted a research in the topic "A Study on Cash Management of Dairy Development Corporation" after completion of the study he has pointed out some findings that are; DDC does not any definite policy regarding how much cash balance to hold in each fiscal year. DDC is able to collect receivables from sundry debtors timely. Liquidity position of the firm has been found dissatisfactory. DDC has not been faced specially shortage of cash .it means DDC able to meet current liabilities. A large portion of DDC's current assets has been tied-up in the most illiquid asset like inventory. Analysis of the liquidity position suggested that current assets have been tied up in slow moving and unsalable inventories. Cash flow and outflow in DDC is not properly managed surplus cash has not been properly employed to earn return by investing in short term investment opportunities. He suggested DDC should determine minimum level of cash balance to hold every year, maintain such minimum level of cash balance as a requirement of precautionary, speculative and compensation motives, besides for daily transactions. Corporation should prepare cash flow statement and cash budget .cash planning manager or experts should be appointed. Idle cash balance should be invested in profitable sectors. There should not be tied up unsalable inventories in current assets. It is the most illiquid current assets, affects the liquidity position of the firm and thus is unfavorable. So it is recommended not to tie up current asset in unsalable inventories.**

Pant (2006), **has studies on"**A Study of Deposite and Its Utilization By Commercial Bank in Nepal". **The main objective of the study is to test whether lending process is significant and to find out the way to encourage lending by increasing bank deposit. The findings of the study are: commercial banks are not able to satisfy the financial need of the economy, commercial banks in Nepal are not playing an active role to utilize their resources collected from different sector, According to the need of the economy. He has recommended the new branches should be open.**

Dhakal (2007), **In his study on "Cash Management of Nepalese Joint venture Banks in Nepal" had the following objectives.**

a) To critically review cash management techniques practice by Nepalese joint venture banks.

b) To examine the demand for cash in the case of Nepalese joint venture banks.

c) To present overall cash management picture of selected joint venture banks.

d) To analysis the cash flow structure.

Major finding of this study are:

a) The growth trend of cash hiding shows variation among selected commercial banks.

b) Almost all commercial banks have negative growth for same years. Though many of them had very high positive growth for some years. This shows that the level of cash balance is changing during the study period.

c) There is no nay fixed growth trend for any listed Banks.

Adhikari (2008),**in his Report paper, "A study of commercial Banks Deposit and Its Utilization" got to notice that the percentage of the total credit supplied by commercial Bank with five year period(2000-2007)is more or less same while in the collection of deposits. The percentage has increased too much. Thus, the increasing gap between collection and utilization shows economic requirement and to contribute the economic upliftment to the country, commercial bank should a fair sector wise and planned policy, he suggested.**

Subedi (2009), **in this study on "Cash Management of Selected Nepalese Manufacturing Companies" had the following objectives:**

a) To analysis the cash position of companies.

b) To compare profit , cash position and other financial variables.

c) To determine receivable and inventory conversion periods and payable deferral periods to net cash conversion cycle.

d) To provide suggestion for concerned parties based on basic findings.

Major finding of his study are

a) Sample Manufacturing Companies failed to maintain the sound cash position.

b) Cash management in Nepalese Manufacturing companies contribute very weakly towards their stock prices.

c) Cash balance cannot explain the position of net profit of sample organization. However, relationship of cash balance and profits is positive. It leads to conclude that there is no signification relationship between net profit and cash balance of the Nepalese manufacturing companies under studied.

d) There is strong role of total assets ,cost of goods sold and total capital employed as cash balance of only one company i.e. Avu among other companies under studies. However, these variables play insignificant role to determine the cash balance of other organizations under studied. It leads to conclude the total assets, cost of goods and capital employed has no significant bearing on cash balance of these organizations.

(Neupane, 2009) **has conducted a research entitled in "A study of Cash management of Nepalese Public Enterprises" (A Case study of Salt Trading Corporation Limited.) He has collected the data from secondary source that are published by Salt trading Corporation Limited and related information through the direct interview and questionnaire. He has pointed out some major finding of research work. STCL could not make the best use of available cash balance prudently. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period. The average inventory conversion period into cash is found little more than two months i.e. 62 days which is very slow. The average payable conversion period is faster than average receivable period which isn't a good single for the purpose of managing cash. Management has taken liberal credit policy of sales of goods. Hence, the cash &Bank balance of the study period is in minimum. No optimum cash balance is maintained .the cash balance with respect to current asset has been fluctuating trend.**

2.2.4 Research Gap

The purpose of this research is to develop some expertise in ones area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to latest information of cash management of NIBL&SCBNL.Thus, the previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, ie cash management: A study on NIBL & SCBNL. Therefore, to fulfill this gap, this research is selected .To complete this research work: many book, journals, articles and various unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of cash management, which is considered only on NIBL & SCBNL. Our main research problem is to analyze whether NIBL & SCBNL has right level of liquidity as well as is able to utilize its resources effectively or not. To achieve this main objective, This study has used to financial ratio analysis ,Correlation coefficient, regression analysis with probable error(P.E) for cash management. Therefore, this study is expected to be useful to the concerned banks as well as different persons., such shareholders, investors, policy makers, stockbrokers, state of government ect.

CHAPTER –THREE

RESEARCH METHODOLOGY

Research Methodology is the way to solve systematically about research problem .As the objectives of the current practice of research is to highlight and it's interpret the current practice of cash management and its effectiveness in the concerned organizations. The research methodology is followed to achieve the basis objective and goals of this research work. Keep in harmony with basic objectives, the description graphical and calculative analysis has been performed in the preceding chapter in consists of research design, collection procedures, population and sample study, source of data, data processing procedure and technique of analysis data this study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools.

Following are major contents of research methodology followed in course of dissertation.

3.1. Research Design

A well settle research design is necessary to fulfill the objective of the study, it means definite procedures and techniques that guides to study and propounds way for research viability. Research design is the plans structure and strategy to obtain answer to research question through investigation and analysis. The research of the study is descriptive as well as analytical. The study is closely related with various accounting statement and reports. The available information from primary and secondary sources are use to examine, explain and evaluate the cash management system of concerned organization. The research study attempts to examine and compare the cash management system of two commercial Bank operating in Nepal. Financial tools have been used to compare the relative performance of the two bank under study .so as the facilitate the assessment, we collected five year data.

3.2. Sources of Data

Information is the life blood of any research task. This study is based on both primary and secondary data. The study is mainly based on secondary data, which are collected from their respective annual reports especially from profit and loss accounts, balance sheet and other publications made by the financial institution. Likewise, some other related information are gathered from related

bank and finance institution and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited, Ministry of Finance, National Planning Commission etc.

3.3 Selection Criteria

In our Nepalese contest many banks are operating. Due to various constraints, Selected bank successful maintain good position, top commercial Bank& market leader in Nepal's banking industry both are joint venture commercial bank and highly maintain Profit, MPPS, CRR&No liquidity problem till data then other bank and financial institution and the main cause of selection of these banks in research for easily provide data

3.4. Data collection procedure

Once the purpose of statically investigation has been defined the next step is to collect the data. The research is based on the historical data of the bank available in annual report of the bank .The annual report were collected from respective bank as well as the website(Error! Hyperlink reference not valid. **on the related subject were extensively reviewed in the library. Question from various authors on the related topics have been placed throughout the chapters.**

3.5. Population and sample

The research work is related with cash management aspects, at present, there are 31 commercial bank are operating in Nepal. Due to various constraints, like time resource scarcity, I have randomly selected SCBNL and NIBL for the purpose of my research work.

3.6. Data Analysis

i) Tools and technique of Data Analysis.

Data are managed and analyzed in proper table and format. Interpretation and explanation are made wherever necessary, to analyze the collected data, financial and statistical tools have been used as per need.

This study is based on both Descriptive and quantitative techniques.

a) Descriptive techniques

These techniques has been used to simplify the research report for better understanding as well as analysis and interpretation of collected data in theoretical form.

b) Quantitative techniques

Descriptive techniques are not enough to prepare excellent research report, to fulfill the gap or make the research .report and better understanding.

ii) Data processing procedure

For the propose of this study, the different data are obtained from different source, which are scanned and tabulated under different heads. After tabulation, they are analyzed by applying both statistical and financial tools.

iii) Financial and statistical tools for analysis of data

The study basically used secondary data, which were firstly collected &tabulated in a separate from systematically. These are presented and analyzed in a descriptive way. Graphs, tables are presented where necessary. In order to make a clear presentation, calculating of the figures has been done separately and the resulting figures are then presented in tables. Simple statistical analysis such a percentage, ratio and arithmetical mean, coefficient of variation, correlation coefficient, probable error and regression analysis used to represent the resultant figures.

3.6.1 Financial Tools for Analysis of Data

Financial analysis the process analyzing relative strengths and weakness of firm's financial position. The quantitative relationship between two or more sets of financial data derived from income statement and balance sheet .The financial Analytical tools have been used for the quantitative analysis of secondary data were as follows. Financial analysis is the process of analyzing various items of financial statement of a firm to ensure its comparative strengths and weakness. In other words, financial analysis involves analyzing financial statement prepared in accordance with generally accepted according principles to ascertain information concerning the magnitude, timing and riskiness of future cash flows. Financial ratio analysis serves the model of financial analysis of the various financial data extracted from different financial statement. Financial ratio analysis is used as a technique to quantify the relationship between two or more sets of financial data taken from income statement and balance sheet. It provides the information relating to strengths and weakness of a financial data in relation to other.

3.6.1.1 Liquidity Ratios

The liquidity ratio measures the ability of a firm to meet its short term obligations

and reflect the short term financial strength/Solvency of firm. Analysis of liquidity need the preparation of cash budget and cash and funds flow statement. Liquidity ratio establishes a relationship between cash and other current assets to current obligations to provide a quick management of liquidity position of firm. A firm should ensure that it does not suffer from lack of liquidity and excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity will result in a poor credit worthiness, loss of creditors confidence or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad, idle cash earn nothing. The firm fund will be unnecessarily tied up in current assets .Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity

i) Cash and bank balance to saving Deposit ratio

This measures the ability of finance companies to pay back the amount of saving deposit. Finance companies are required to maintain optimal balance in the form of cash and bank balance must liquid asset. It is computed as.

The types of liquidity used in current Assets Ratio.

$$Cash\ \&\ bank\ balance\ to\ Saving\ Deposit = \frac{Cash\ \&\ bank\ Balance}{Saving\ Deposit}$$

ii) Cash and bank balance to Total Deposit ratio

It measures the ability of finance companies honoring total deposits. The forgoing ratio considers amount to pay back immediately while it takes care of all account holders. It is computed as.

$$Cash\ \&\ bank\ balance\ to\ Total\ Deposit = \frac{Cash\ \&\ bank\ Balance}{Total\ Deposit}$$

iii) Cash and bank balance to current Assets Ratio

$$Cash\ \&\ bank\ balance\ to\ Current\ \ Assets = \frac{Cash\ \&\ bank\ Balance}{Current\ Assets}\ \mathbf{X100}$$

iv) Loan and advances to Current Assets Ratio.

$$Loan\ and\ advance\ to\ Current\ Assets\ Ratio = \frac{Loan\ and\ Advances}{Current\ Assets}\ \mathbf{X100}$$

v) Fixed deposit to Total Deposit Ratio

$$Fixed\ deposit\ to\ Total\ Deposit\ Ratio = \frac{fixed\ Deposits}{Total\ Deposit}\ \mathbf{X100}$$

vi) Saving Deposit to Total Deposit Ratio

$$Saving\ deposit\ to\ Total\ Deposit\ Ratio = \frac{Saving\ Deposits}{Total\ Deposit}\ \mathbf{X100}$$

3.6.1.2 Activity Ratio or Turnover Ratio

It reflects the firm's efficiency in utilizing its assets. They are employed to evaluation the efficiency to assets with which the firm has utilized its resources. These ratios are called turnover into sales. Activity ratio, thus involves a relationship between sales and assets

The types of activity ratio used in this study are as follows.

i. Loans and advances to total deposit ratio

$$loans\ and\ advance\ to\ total\ deposit\ Ratio = \frac{Loan\ and\ Advances}{Total\ Deposit}$$

ii. Loan and Advance to fixed deposit ratio

$$loans\ and\ advance\ to\ Fixed\ deposit\ Ratio = \frac{Loan\ and\ Advances}{Fixed\ Deposit}$$

iv. Loans & Advance to saving deposit ratio

$$loans\ and\ advance\ to\ Saving\ deposit\ Ratio = \frac{Loan\ and\ Advances}{Saving\ Deposit}$$

Iv. Operating Profit to Net worth ratio

$$operating\ profit\ to\ Net\ worth\ Ratio = \frac{Operating\ Profit}{Networth}$$

3.6.1.3 Profitability Ratio

P**rofitability is the end results of a number of corporate policies and decisions. It measures how effectively the firm is being operated and managed. Besides owners and managers, Creditors are also interested to know the financial soundness of the firm. Owners are eager to know their returns whereas mangers are interested in their operating efficiency. So they calculate profitability ratios because expectations of both owner and manager are evaluated in terms of profit earned by the firm. The future stream of cash flows is the result of a large number of policies and decisions. We start with historical data about cash flow and profitability but emphasize that these represent only the starting point. Further strategic and operating analysis is required to make meaningful projections for the future. Profitability ratio measures the overall performance and effectiveness of the firm .Beside management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get**

interest and payment of principal regularly. Owners want to get the required rate of return on their investment. This is possible only when the company earns enough profits. Profit and loss items determine the extent to which operating profits are sufficient to cover the fixed charges.

Some of the profitability ratios used is.

i. Long term Debt to Net Worth ratio

$$Interest\ earn\ to\ Working\ Fund\ \ Ratio = \frac{Interest\ earned}{Working\ Fund} X100$$

ii. Long term Debt to Net Fixed assets ratio

$$Interest\ Paid\ to\ Working\ Fund\ Ratio = \frac{Interest\ Paid}{Working\ Fund} X100$$

iii. Total Debts (Liabilities)to Net worth ratio

$$Net\ Profit\ to\ Working\ Fund\ Ratio = \frac{Net\ Profit}{Working\ Fund} X100$$

iv. Net Profit to Total Deposit ratio.

$$Net\ Profit\ to\ Total\ Deposit\ Ratio = \frac{Net\ Profit}{Total\ Deposit} X100$$

3.6.1.4 Other Financial indicators

Other financial indicators such as price earnings ratios, earning per share and dividend per share reveal the potentiality of an institution to earn in the future.

$$i. Price\ Earning\ Ratio = \frac{Market\ Value\ Per\ Share(closing\ Value)}{Earning\ Per\ Share}$$

$$ii. Earning\ PerShare = \frac{Market\ Value\ Per\ Share(Closing\ Value)}{Price\ Earning\ Ratio}$$

$$iii. Dividend\ Per\ Share = \frac{Dividend\ Deleared}{No.Of\ Share\ Outstanding}$$

3.6.1.5 Statistical Tools for Analysis of Data

The Statistical tools used for the quantitative analysis of secondary data were as follows:

a) **Arithmetic Mean**

Arithmetic **mean or simply a mean of set of observations is the sum of all the observation divided by the number of observations, Arithmetical mean is also knows as the arithmetic average**

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

Where,

$\bar{x}$= Mean

Ex= Sum of value of all observations

N=No of elements in the sample

b) Standard deviation

The standard deviation is the most important and widely used measure of dispassion or variability. The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ it is also called "root mean-squared deviation ." the S.D or the roots mean squared deviation is the squared root of the mean of the square deviation from their mean of set of values.

The standard deviation is an absolute measure of dispersion the greater the standard deviation the greater the amount of dispersions of a distribution. A small standard deviation indicates a high degree of uniformity or homogeneity of the data, a large standard deviation indicates just the opposite. The fundamental formula for the standard deviation, which has been used in our analysis, is as follows:

$$S.D(\sigma) = \sqrt{\frac{\Sigma x^2}{n}}$$

SD is applied where necessary to analyze the cash management system of selected financial institutions.

c) Coefficient of variation (C.V.)

"The coefficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of standard deviation to the mean expressed in percentage" (Levin R. I. and Rubin, 1994:126).It gives the risk per unit of the expected sales and gives the result regarding the unit of risk to bear for the actual sales.

d) Correlation coefficient (ρ)

The correlation coefficient measures the direction of relationship between two sets of figures. Correlation is the relative measurement of co-movement of the

returns of two stocks. The regression line shows the degree of relationship between target production and actual production. It makes the forecasting possible in coming year.

e) Coefficient of Determination (r2)

The coefficient of determination is a measure of the degree (extent of strength)of linear association or correlation between two variables. One of which happens to be independent and other being dependent variables. In other words(r) measure the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination has value range from 0 to 1. A value of one occur only if the unexpected variation is zero which simply means that all the points in the scatter diagram fall exactly on the regression line.

f) Karl Pearson's Coefficient of Correlation (r):

Correlation analysis is the statistical tools that; we can use to describe the degree to which one variable is linearly to another. The correlation helps in determining the degree of relationship between two or more variable but not shows the causes and effect relationship. In business, correlation analysis enables the executive to estimate costs, sales or price may be functionally related. Some of the guesswork can be removed from decision when the relationship between a variable to be estimated and the one or more other variable on which it depends are closed and reasonably in variant.

In this study, the Karl person's coefficient correlation has been used to determine the relationship between different financial variables of finance companies.

The formula for computing Karl person's coefficient correlation 'r' is as follows.

$$r = \frac{\Sigma xy}{\Sigma x^2 \Sigma y^2}$$

Where,

$$x = x - \bar{x}$$

$$y = y - \bar{y}$$

x& y = variables

The value of coefficient of correlation 'r' always lies between -1 and +1

When,

r = +1, it shows perfectly positive correlation between variables

r = 0, it shows no correlation between variables.

r = -1, it shows perfectly negative correlation between variables

g) Probable Error (P.E) r of Correlation Coefficient:

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of correlation coefficient 'r '

$$P.E.r = \frac{0.6745(1-r^2)}{\sqrt{n}}$$

If 'r' is less than its P.E, it is not at all significant.

If 'r' is more than 6 times, its P.E and greater than is ± 0.5 then it is considered significant.

h) Regression Line:

Regression is the determination of statistical relationship between two or more variables. In simple regression there are only two variables one is independent variables that affects the behavior of dependent variable. Regression can only interpreted on what exists physically i.e. there must be a physical way in which independent variable(x) cab effect dependent variable(y).(Kothari,1989)

The computation of regression analysis is formula is as follows.

1) Regression line of (x) variable on (y) variable (i.e. 'x' on 'y')

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

2) Regression line of (y) variable on (x) variable (i.e. 'y' on 'x')

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

CHAPTER – FOUR

PRESENTATION AND ANALYSIS OF DATA

4. Data Presentation and Analysis

This chapter presents and analyze the various data obtained from two joint venture bank in Nepal in namely Standard Chartered Bank limited and Nepal investment Bank Limited .Those data are presented which are relevant to study ie. analysis of nonperforming assets, loan loss provision and its impact on Non Performing assets, loan loss provision and its impact on profitability position. One of the major responsibilities of management is to plan, control and safeguard the resources of the organization. Cash is a very important asset of the organization. So the management of cash is important in enterprises, whether the organization is large or small, profit making or nonprofit making organization. The basis objectives of this study it is to have a true insight into “cash management” of selected joint venture banks. For accomplishment of these objectives, a definite course of research methodology has been followed, which has been described in chapter iii. Now in this section an effort has been made to assess and analyze the actual cash management in selected joint venture Bank ltd. Analysis of individual data itself is crucial for the decision purpose. Ration analysis, correlation and regression are based on the data provided by the selected Banks companies in their respective period, which has been presented and analyzed here. Analysis of the data is based on the deployment of various financial and statistical tools, so main focus of the study is to analyze these factors, which influence the cash management analysis. Recent Nepalese market movement has been analyzed and diagnosed with special reference to the financial sector.

Cash management practices of the banks

In Nepalese firm's context, the theory of cash management has not been much effectively applied Cash management has not been much effectively applied in practices. Terms such as cash flow analysis, cash budget, forecasting of cash requirement, credit discount policy. Has never been seriously considered, Traditional approaches are till dominant in Nepal and are reluctant to adopted modern techniques. cash management practices of the Nepalese business organization has lack of scientific approach and they are holding primary based on traditional practices. A

more serious aspect of cash management has been the absence of any formalized system of planning and cash budgeting. The Nepalese financial organization can not achieve their objectives due to poor management, ignorance of objectives, ineffective objective setting procedure, communication gap between top level and lower level. Cash management practices of the selected banks analysis in these chapter capital structure, Share subscription, trend analysis of performance loan non performance loan and loan loss provision with comparatively analysis of Key profitability indicators.

4.1 Cash Management Practices of Standard chartered Bank Nepal Limited

Standard chartered bank Nepal limited has been in operation in Nepal since 1987.It is a joint venture operation, registered in Nepal with 50%of the share held by Standard chartered bank of UK. 25% by Australian Bank and 25% by the general public. Standard chartered is the world's leading emerging markets bank with more than 900 offices across over countries primarily in Asia, the sub-continent the Middle East, Africa and Latin America Standard chartered bank has a firm commitment to the emerging markets, where potential for future growth has been visualized. Standard chartered bank completes 155 years of operation in 2009/10. This was considered as a unique opportunity to refresh the brand. The refreshed brand is not only a charge in the colors etc, but it has a brand essence" The Right partner" and the bran campaign" I believe" attached to it. The aim is to be the right partner of choice, as a provider of world-class products and services and be an active member in the communities where the bank operates and as an employer to its people. With the refreshed brand, five values have been launched for the bank. Courageous, responsive, international, Crestview and trustworthy, these values are the heart and soul of the brand.

Table No. 4.1.1

Capital structure of Standard Chartered Bank Nepal Ltd.

As end of 2009/10 Rs. In Million

Authorized Capital	2000.00
Issued Capital	1398.48
Paid up Capital	1398.48

Source: Annual Report 2009/10

Figure No.4.1.1

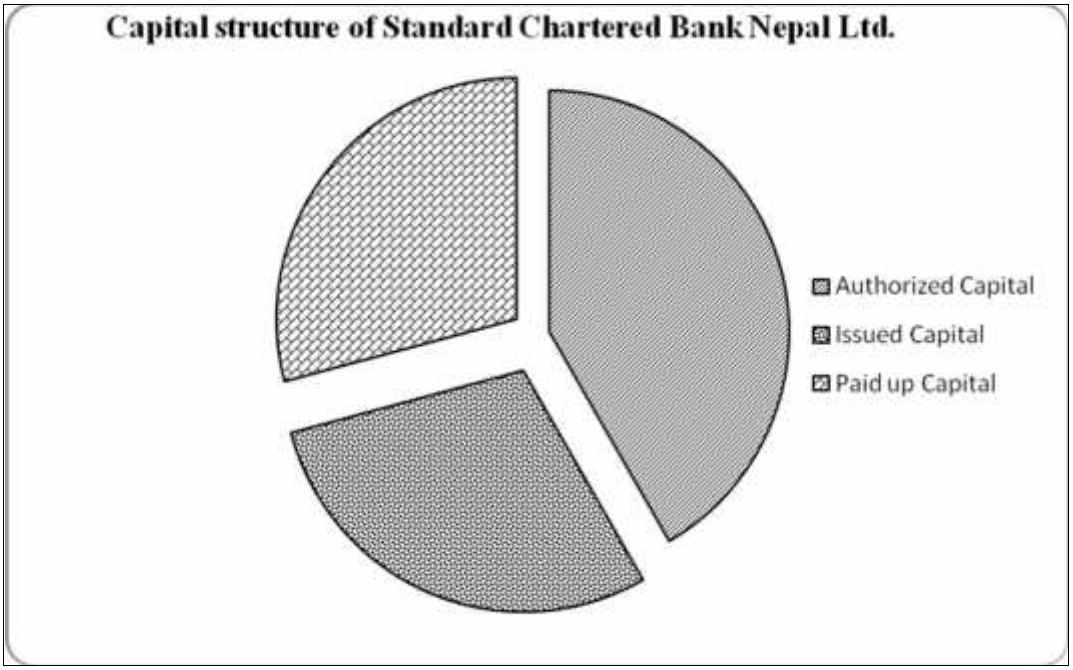


Table No.4.1.2

Share Subscription of standard chartered bank Nepal Ltd.

Standard chartered bank Ltd. UK	50%
Standard chartered bank Ltd. Australia	25%
General Public	25%

Source: Annual Report 2009/10

Figure 4.1.2

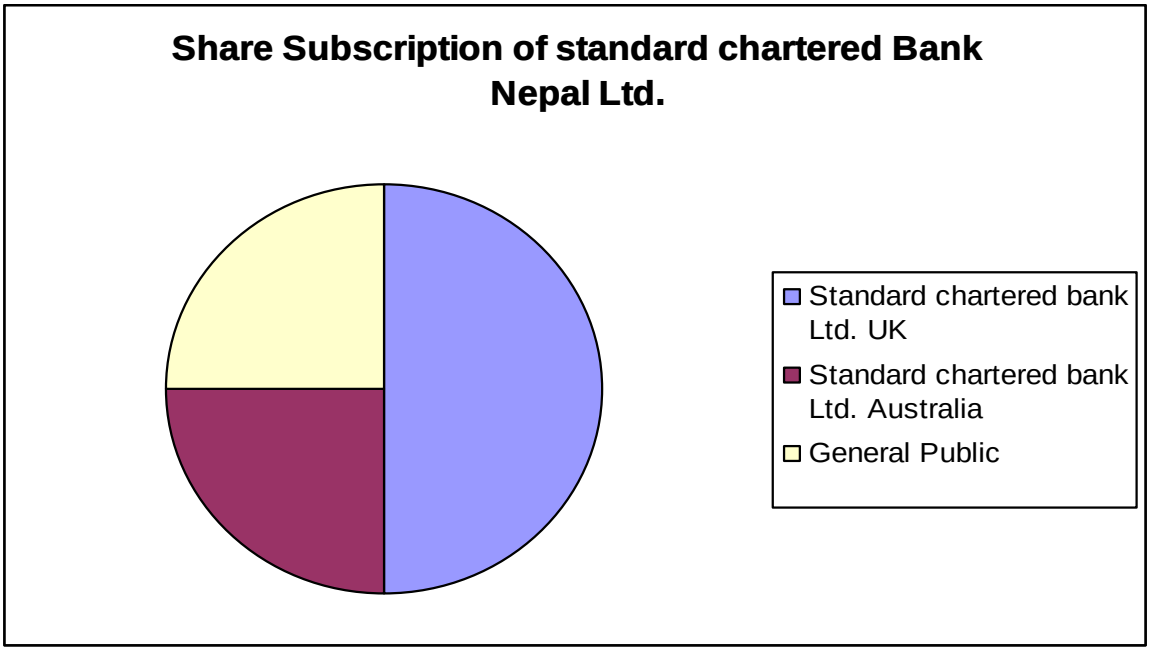


Table 4.1.3

Deposit Statutes of Standard Chartered Bank Nepal Limited for Study period

Years	2005/06	2006/07	2007/08	2008/09	2009/10
Fixed deposit	**2136**	**3196**	**3301**	**7101**	**9175**
Saving deposit	**14597**	**15244**	**17856**	**19140**	**12430**
Call deposit	**1135**	**925**	**1938**	**3001**	**3563**
Non int. bearing deposit	**5191**	**5280**	**6648**	**6130**	**10014**
Total Deposit	23059	24645	29743	35372	35182

Figure 4.1.3

Deposits Status of Standard Chartered Bank Nepal Limited For Study Period

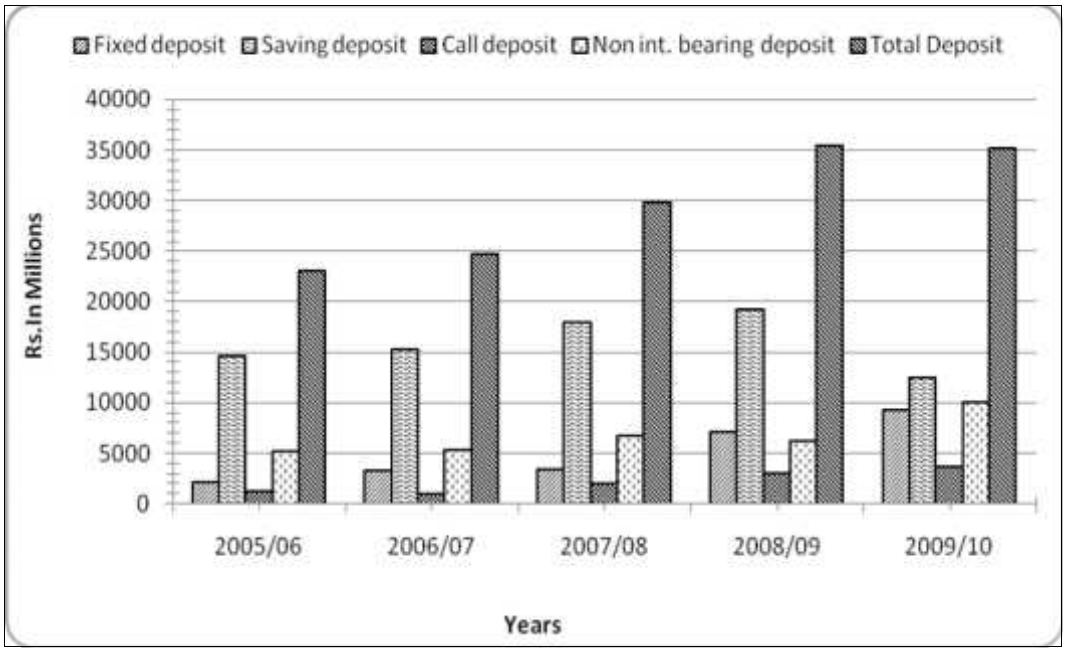


Table No. 4.1.4

Trend Analysis of performing, nonperforming and total loan loss provision.

Particular	2005/06	2006/07	2007/08	2008/09	2009/10
1. Performing Loan	9010	10593	13835	13789	16078
2. Nonperforming Loan	196	197	129	91	98
2.1 Substandard	**16**	**17**	**25**	**34**	**50**
2.2 Doubtful	**66**	**66**	**48**	**12**	**2**
2.3 Loss	**114**	**114**	**56**	**45**	**46**
Total loan (1+2)	**9206**	**10790**	**13963**	**13880**	**16176**

3. Loan loss Provision 3.1 Pass 3.2 Substandard 3.3 Doubtful 3.4 Loss	**90** **4** **63** **131**	**106** **4** **63** **114**	**138** **6** **45** **56**	**138** **9** **10** **45**	**160** **12** **1** **45**
Total Provision	**288**	**287**	**245**	**202**	**218**

Source: Annual Report of Standard Chartered Bank Nepal Ltd.

From the above table, the trend of total loan of standard chartered bank increasing trend except in the year 2008/09. In the total loan category, the proportion of performance lone is raising trend except 2008/09. In 2008/09 performance lone and total lone was decrease, but last year 2009/10 also increasing But doubtful loan is decreasing, The Trend of lone show in the figure.

Figure No.4.1.4

Performing, nonperforming and total loan

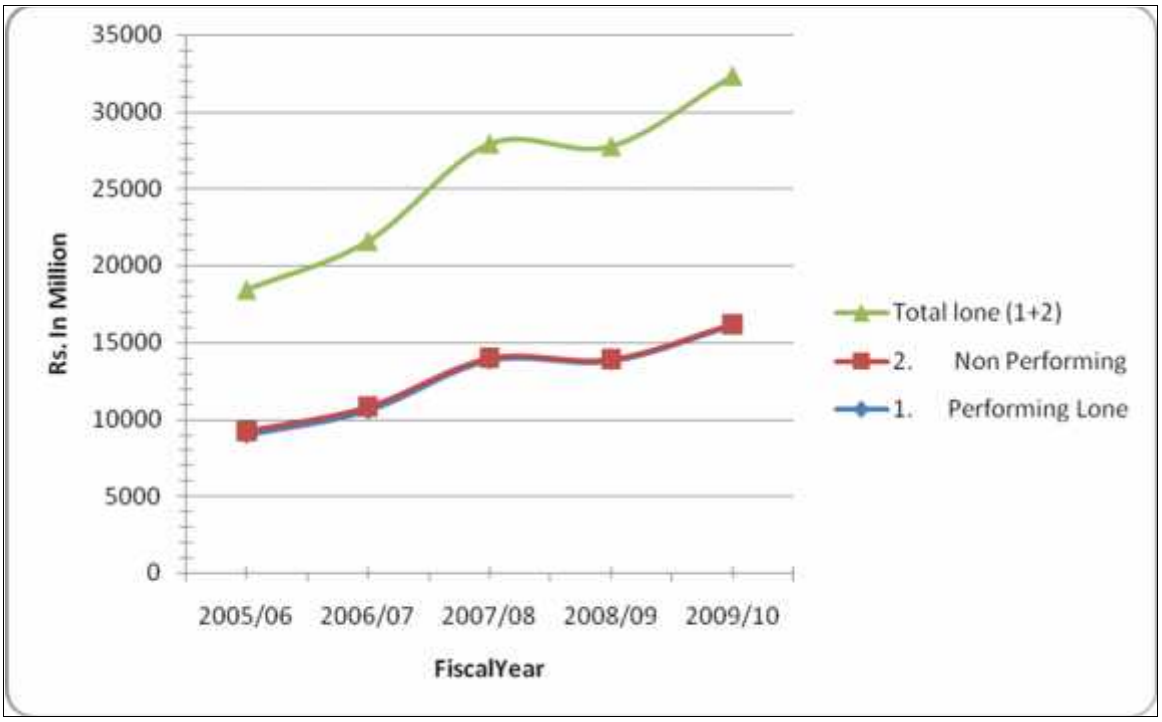


Table No. 4.1.5

Key Profitability Indicator of Standard Chartered Bank Limited

Particular	Indicator	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit/Gross income	%	37.06	34.55	34.94	36.84	36.47
Earnings Per Share	Rs.	175.84	167.37	131.92	109.99	**77.65**
Price earnings ratio	Ratio	21.47	35.25	51.77	54.64	42.23
Market Value Per Share	Rs.	3,775	5,900	6,830	6,010	3,279
Cash Dividend on Share Capital Percent	%	130	80	80	50	55
Interest income/loan &advance	%	6.19	7.11	6.65	8.54	8.78
Net Profit/Loan and Advances	%	7.63	6.75	6.24	7.93	6.91
Net profit/Total Assets	%	2.56	2.42	2.46	2.56	2.70
Total Credit/Deposit	%	39.92	43.78	46.95	39.27	45.98
Liquidity (CRR)	Ratio	6.86	5.46	5.84	8.18	6.74
Non-performing Credit/Total Credit	%	2.13	1.83	0.92	0.66	0.61
Total Shares	No.	37464044	1325486	2078409	319664	13984836
Total Staff	No.	345	351	377	392	429
Net worth Per Share	Rs.	468.22	512.12	401.52	327.53	240.95

Earnings Per Share of the bank increase to 2006/07 but decreasing rate each year from 2006/07 to 2009/10 and MPS also increase first three year and decrease last two year of the study period. CRR of the bank 6.86% in the year 2005/06, 5.46%, 5.84%, 8.18%, and 6.74% for the year 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Higher the level of CRR, higher the liquidity of the CBs, which directly affects in the profitability level of the CBs. Therefore, the trade-off between the liquidity & profitability should be reached as far as possible.

4.2 Cash Management Practices of Nepal Investment bank Ltd.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners.

The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricola Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricola Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rasta Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

We believe that NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. We are sure that your choice of a bank will be guided among other things by its reliability and professionalism.

The Bank fully complies with the provisions of Nepalese Money Laundering Prevention Act, 2008 and regulations made there under and the Guidelines of our central bank viz. Nepal Rastra Bank (NRB) regarding anti-money laundering. In addition to above the Bank has its own policies and procedures to combat to prevent laundering of criminally earned money using its services. The Bank's Management strictly ensures the compliance with all statutory and regulatory requirements, including designating Focal Officer for this specific purpose and
conducting training for staff at all levels.
Bank's compliance with Anti-Money-Laundering requirements and procedures is monitored by the NRB and by Bank's internal and external auditors.

Table No. 4.2.1

Capital structure of Nepal Investment Bank Limited

As end of 2009/10 Rs. In Million

Authorized Capital	4000.00
Issued Capital	2409.00
Paid up Capital	2409.00

Source: Annual Report 2009/10

Figure No.4.2.1

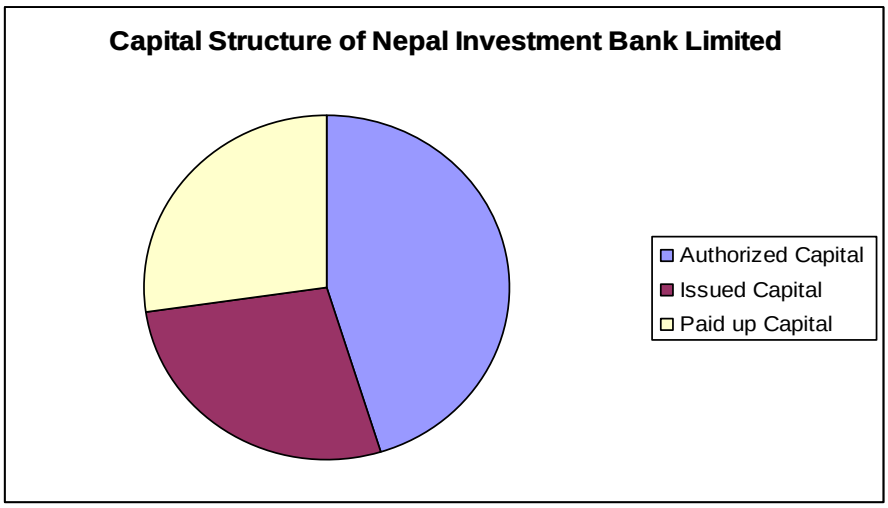


Table No.4.2.2

Share Subscription of Nepal Investment Bank Ltd.

A group of companies holding	50%
Rashtriya Banijya Bank holding	15%
Rashtriya Beema Sansthan holding	15%
General Public	20%

Source: Annual Report 2009/10

Figure No.4.2.2

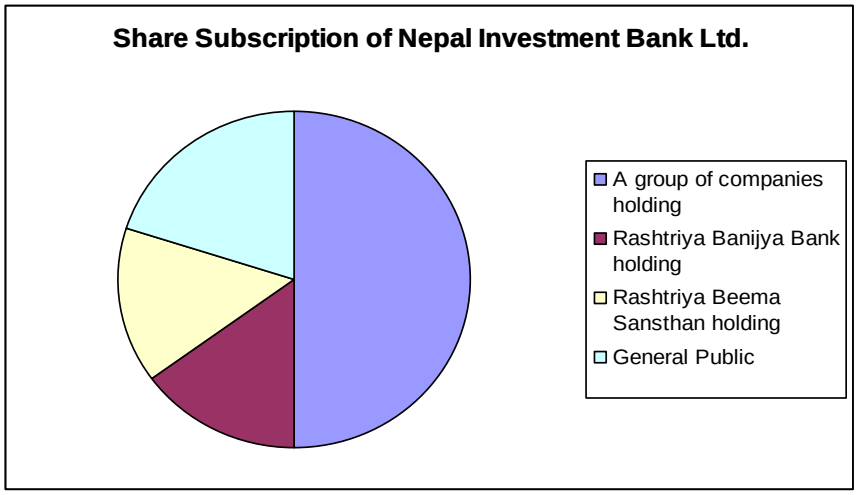


Table No.4.2.3

Deposites Status of Nepal Investment Bank Limited for study period

Years	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Fixed deposit	5412	7516	7944	11633	16825
Saving deposit	8081	10742	13688	11633	14825
Call deposit	3448	3683	9072	13513	14140
Non int. bearing deposit	1984	2546	3745	4484	4805
Total Deposit	**18927**	**24488**	**34451**	**46698**	**50094**

Figure No.4.2.3

Deposits Status of Nepal Investment Bank Limited for Study Period

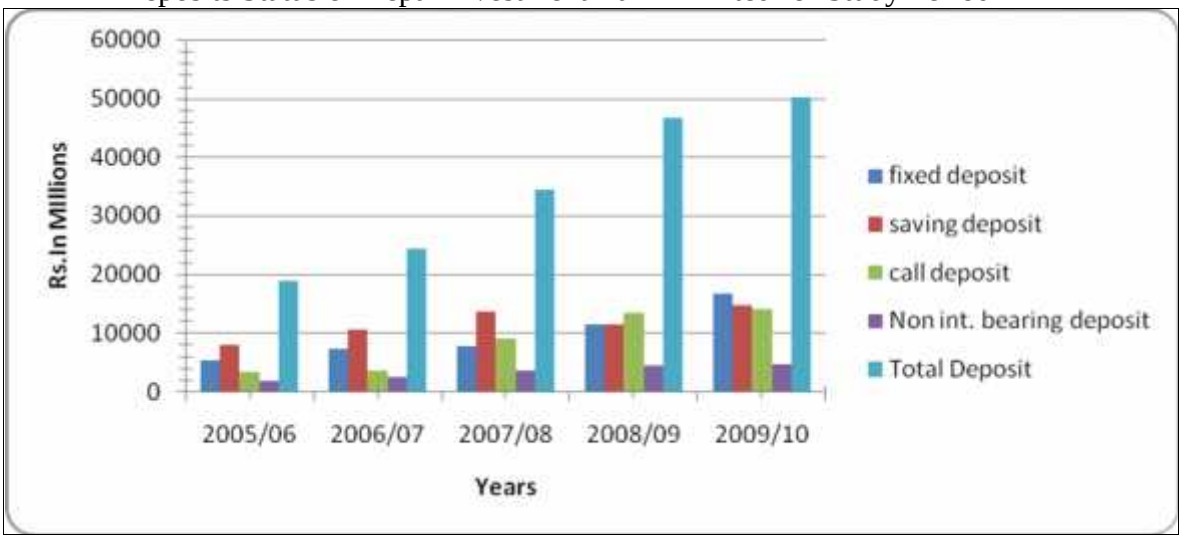


Table No. 4.2.4

Trend Analysis of performing, nonperforming and total loan loss provision.

Particular	2005/06	2006/07	2007/08	2008/09	2009/10
Performing Loan	12906	17347	27220	36613	40694
2.Non Performing Loan	272	422	309	214	254
a. Substandard	44	97	62	11	56
b. Doubtful	1	86	20	11	11
c. Loss	227	239	227	192	187
Total loan (1+2)	13178	17769	27529	36827	40948
3.Loan loss Provision					
Pass	129	173	274	381	421
Restructured	36	5	5	4	3
Substandard	11	25	16	3	14
Doubtful	1	43	10	6	5
Loss	224	236	227	191	187
Total Provision	401	482	532	585	630

Source: Annual Report of Nepal Investment Bank Ltd.

From the above table, the trend of total loan increasing trend to the year 2009/10. In the total loan category, the proportion of performance lone is rising trend .The Trend of loan show in the figure.

Figure No.4.2.4

Performance, non performance and Total Loan

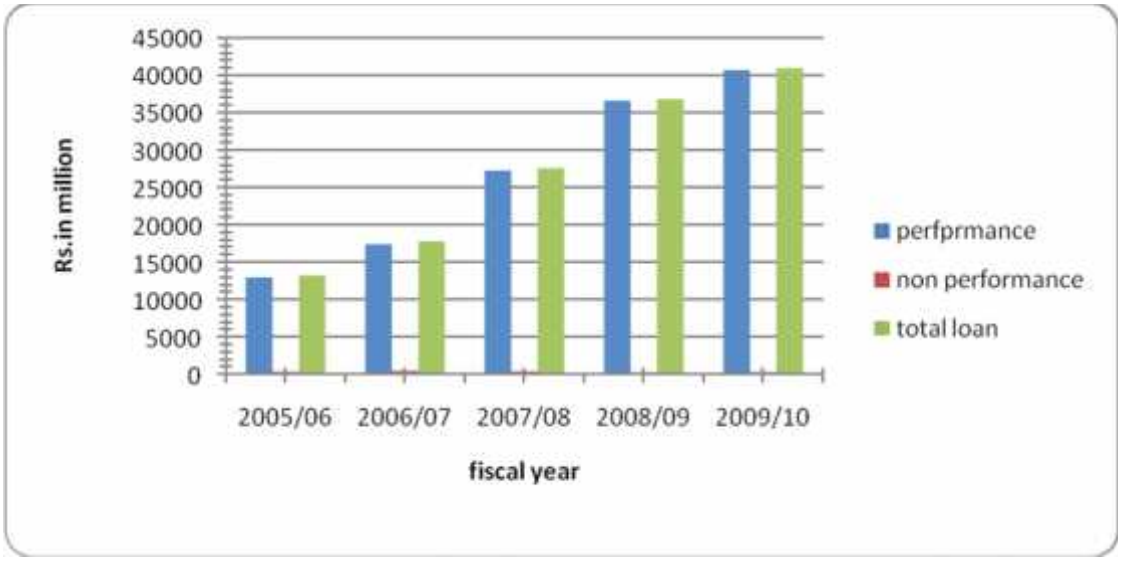


Table No. 4.2.5

Key Profitability Indicator of Nepal Investment Bank Limited

Particular	Indicator	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit/Gross income	%	23.99	25.07	25.33	22.97	23.67
Price earnings ratio	Ratio	21.23	27.63	42.33	37.10	13.42
Earnings Per Share	Rs.	59.35	62.57	57.87	37.42	52.55
Market Value Per Share	Rs.	1260	1729	2450	1388	705
Cash Dividend on Share Capital	%	20	5	7.5	20	25
Net Profit/Total Assets	Ratio	1.61	1.79	1.77	1.68	2.19
Net Profit/Loan &advance	%	2.66	2.82	2.53	2.45	3.09
Total Credit/Deposit	%	69.63	72.56	79.91	78.86	81.74
Liquidity (CRR) Ratio	%	13.61	10.47	10.91	10.32	7.77
Non-performing Credit/Total Credit	Ratio	2.07	2.37	1.12	0.58	0.62
Total Shares	No.	5905860	8013526	12039154	24070689	24090977
Total Staff	No.	390	514	622	766	877
Net worth Per Share	Rs.	240	234	223	162	190

Source: Annual Report of Nepal Investment Bank Ltd.

Earnings per Share of the Investment bank increase to 2006/07 but decreasing rate each year from 2006/07 to 2008/09 and increase 2009/10. MPS also increase first three year and decrease last two year of the study period. CRR of the bank 13.61% in the year 2005/06, 10.47%, 10.91%, 10.32%, and 7.77% for the year 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Higher the level of CRR, higher the liquidity of the CBs, which directly affects in the profitability level of the CBs. Therefore, the trade-off between the liquidity & profitability should be reached as far as possible.

4.3 Adequacy of loan loss Provision

Nepal Rastra Bank has issued some directives for maintaining loan loss provision for different categories of loan of commercial banks. In this way, this analysis comprises the adequacy of loan loss provision as per NRB directives of sampled bank for the study period. Adequacy is measured by calculation the ratio of loan loss provision to loan and advance of different classified loan.

This ratio describes the quality of assets in the form of loan & advances that a bank is holding. Since, there is risk inherent in loan &advance in to different categories and

accordingly make provision for probable loss. LLP signifies the cushion against future contingencies created by default of the borrower in the payment of loan and ensures the continued solvency of the banks. Since, high provisioning has to be made for non-performing loan volume of total loans &advance. The low ratio signifies the good quality of volume of total loan advance.

4.3.1 Adequacy of loan loss provision (LLP) for pass loan

Adequacy ratio of LLP for pass loan for the sample period of the selected banks for the study. A bank is required to maintained 1% loan loss provision for its pass loan as per NRB directives. This ratio calculated by dividing LLP of pass loan By total pass loan. This ratio determines the proportion of provision held on pass loan to pass loan of the banks. This ratio measure in to what extent of risk inherent in pass loan is covered by the provision maintained for pass loan. Higher ratio signifies that the banks are the provision maintained for pass loan. This ratio also determines the banks have maintained or not the LLP for pass loan as per the NRB directives.

Table No.4.3.1

Adequacy of Loan Loss Provision (LLP) for Pass Loan

Year	NIBL	SCBNL
2005/06	0.98	0.98
2006/07	0.98	0.99
2007/08	1.00	0.99
2008/09	1.04	1.00
200/10	1.03	1.00
Average	1.006	0.992

Source: Bank Annual Report.

From the above table, we can see that loan loss provision maintained by SCBN & NIBL, for 2005/06 were 0.98% .NIBL failed to maintained provision for pass loan first 2year and SCBN first 3year.other year both banks have been successful to maintain the LLP of 1% for pass loan as per the NRB directives,

4.3.2 Adequacy of Loan Loss Provision (LLP) for substandard loan

The adequacy ratio of loan loss provision for substandard loan for the sampled period of the selected banks of the study bank is required to maintain 25%loan loss provision for its substandard loan as per NRB directives. This ratio is calculated by dividing LLP of substandard loan by Total Substandard loan of the banks. This ratio determines the proportion of provision held on substandard loan of the banks. This ratio determines the proportion of provision held on substandard loan of the banks. this ration measure in to what extent of risk inherent in substandard loan is covered by the provision maintained for substandard loan. Higher ratio signifies that the banks are safeguard against future contingency of loss loan. This ratio also determines whether the bank have maintained or not the LLP for Substandard loan as per the NRB directives.

Table No.4.3.2

Adequacy of loan loss Provision (LLP) for substandard loan

Year	NIBL	SCBNL
2005/06	25.00	25.00
2006/07	25.77	23.53
2007/08	25.80	24
2008/09	27.27	26.47
2009/10	25	24
Average	25.768	24.60

Source: Bank Annual Report.

From the above table., we can see that the LLP for substandard loan both bank has maintained exactly 25%provision in the FY2005/06.NIBL has maintained the highest provision all fiscal year. SCBN failed to maintain the provision of 25% as per the NRB directives. FY2006/07,2007/08&2009/10.In the FY2008/09 the adequacy of LLP for substandard loan maintained by NIBL & SCBN bank were 27.27%, 26.47% respectively.

4.3.3 Adequacy of Loan Loss Provision (LLP) for Doubtful Loan.

Adequacy ratio of LLP for doubtful loan for the sampled period banks of the study. A bank is required to maintain 50%LLP for its doubtful loan as per NRB directives. This ratio is calculated by dividing LLP of doubtful loan by Total doubtful loan. This ratio determines the proportion of provision held on doubtful loan of the banks. This ratio measure what extent of risk inherent in doubtful loan is covered by the provision maintained for doubtful loan. Higher ratio signifies that the banks are safeguard against future contingency for loss loan. This ratio also determines whether the banks have maintained or not the LLP for doubtful loan as per the NRB directive.

Table No.4.3.3

Adequacy of loan loss provision (LLP) for Doubtful Loan

Year	NIBL	SCBNL
2005/06	**100**	**95.45**
2006/07	**50**	**95.45**
2007/08	**50**	**93.75**
2008/09	**54.54**	**83.33**
2009/10	**45.45**	**50**
Average	59.99	83.596

Source: Bank Annual Report

From the above table, We can see that LLP for doubtful loan maintained by NIBL, SCBNL for FY 2005/06 were 100%&95.45% respectively. In FY 2006/07 the adequacy of LLP for doubtful loan of NIBL, SCBNL bank were 50%, 95.45% respectively. SCBNL has maintained the highest provision first three year. NIBL bank have maintain exactly 50% provision FY 2006/06&2007/08.In FY 2009/10 ,the LLP for doubtful loan maintained by NIBL, SCBNL ,bank were 45.45%,50% respectively. In this year, NIBL Bank has failed to maintain the Provision as per the NRB directives.

Identification of the financial Strengths and weakness of the Banks.

Financial Statement serves as a means to various stakeholders of the bank to analyze the organizations financial Strengths and weakness with performance. There are

various ways to conduct the financial performance study. One of them is the financial ratio analysis. A financial ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a selected organization. Ratio analysis is a process of identifying the financial strengths and weakness of the firm .This may be accomplished either through a trend analysis of the firms ratios over a period of time or through a comparison of the firms ratios with its nearest competitors and with the industry average.

We can see the table and graph for study period both bank Maintain good position& market leader in Nepal's Banking industry. Between the two joint venture banks. SCBNL proved itself as a market leader in Nepal's banking industry. This is reflected in its EPS of SCBNL is far away from NIBL. The market strength of a bank can also be reflected by the (MVPS) recorded in the Nepal Stock Exchange .In this regard, SCBNL again leads the whole industry with its share being quoted at Rs.6830 per share in the FY2007/08 But MVPS of NIBL Rs.2450/- Similarly, Net profit/Gross income of SCBNL is highest then NIBL. Both bank highest profit Fy2007/08 but SCBNL is ahead in comparison with other banks.

Each Bank has its responsibility to provide maximum return to its shareholders and on the other hand the safety aspect of the public money, which they are mobilizing. Hence NRB they have consider liquidity of the deposit they have to ensure the liquidity. NRB the regulatory authority has fixed a certain % of total deposit as cash reserve ratio, in terms of which liquidity is measured every commercial bank manages liquidity in the form of cash and bank balance, money at call and short notice, short term investment in treasury bill. In this regard, every bank seems to have maintained enough CRR. So, the fY2008/09. NIBL & SCBNL have maintained high CRR of 10.32%, 8.18% respectively. From this NIBL have maintained the highest liquidity than SCBNL for study period. This data suggest that all these bank have managing their fund quite efficiently ensuring both liquidity as well as profitability. It is very important to have a look at the CD ratio ie Total Credit/Total Deposit. In this count, NIBL has the highest CD ratio 79.91% where as SCBNL has the lowest CD ratio of 46.95% FY 2008/09 similarly NIBL bank has maintained average(70-80)%CD ratio.

Examination of the liquidity position of the Banks.

A satisfactory liquidity positions is one of the distinguishing characteristics of a sound bank. As a critical factor of evaluation, liquidity is the ability of a bank to satisfy the credit needs of the community, to meet demands for deposit, withdrawals, pay maturing obligations on time, and to convert non- cash assets into 'cash' to satisfy immediate needs without loss to bank and consequent impacting the long- term profitability.

Therefore, this chapter particularly analyzes and interprets the following aspects of financial position of SCSBNL and NIBL;

- Liquidity position
- Activity/ Turnover Position
- Profitability position
- Other financial positions such as; price earnings ratio, earnings per share, and dividends per share

4.4 Liquidity Ratio

Liquidity ratios such as cash and bank balance to current assets ratio, loans and advances to current assets ratio, fixed deposit to total deposit ratio, saving deposit to total deposit ratio, and investment in government securities to current assets ratio attempts to figure out the liquidity position of the two banks under study.

Cash &Bank balance to Deposit Ratio:

This Ratio evaluates ability of Finance Company to satisfy the demand of depositors. The depositors are opening different accounts in the Finance company and there is time constraint in drawing back the deposits. This study is undertaken cash and bank balance to deposit excluding fixed deposit as well as including.

4.4.1 Cash &Bank balance to Saving Deposit Ratio:

This measures the ability of bank to pay back the amount of different accounts holder except fixed deposit. Finance Company is required to maintain optimal balance in the form of cash and bank balance must liquid assets.

A high ratio refers the ability of Finance Companies to honor the large withdrawals by the depositors. Too high ratio is harmful as in the current ratio as it is none performing assets, which bear cost.

Table No. 4.4.1

Analysis of Cash & bank Balance and Saving Deposits

Bank	Fiscal years	Cash & Bank balance	Saving Deposit	Ratio
NIBL	2005/06	1952	8081	0.241554
	2006/07	2325	10742	0.21644
	2007/08	3951	13688	0.288647
	2008/09	7825	11633	0.672655
	2009/10	6793	14825	0.458212
	Total	22846	58969	0.387424
	Average	4569.2	11793.8	0.387424
SCBNL	2005/06	1215	14597	0.083236
	2006/07	1937	15244	0.127066
	2007/08	2654	17856	0.148634
	2008/09	3136	19140	0.163845
	2009/10	1928	12430	0.155109
	Total	10870	79,267.00	0.137131
	Average	2174	15853.4	0.137131

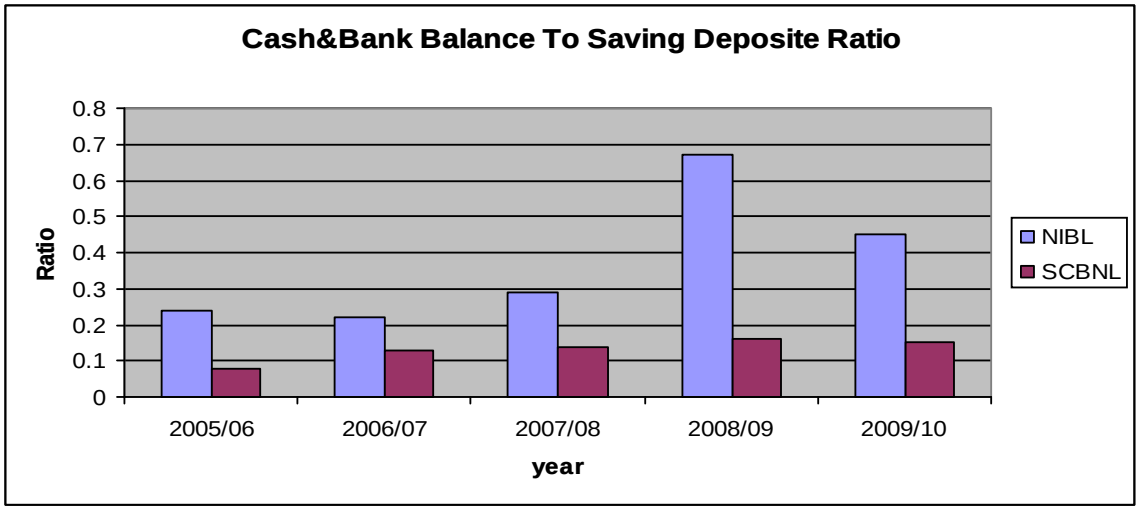
The above study shows that the Cash & Bank balance to saving deposits of NIBL has fluctuating trend. During the study period it is lowest 0.22 for the year 2006/07 and highest 0.67 for the year 2008/09. In a average the projection of cash

&Bank balance to saving deposits for the study period is 0.39. While comparing with the average, it is found that the ratio of cash &Bank balance to saving deposits is lower in the year 2005/06 and 2006/07 and highest in .2007/08, 2008/09&2009/10.

The Cash &Bank balance to saving deposits of SCBNL has increasing trend. During the study period it is lowest 0.08 for the year2005/06 and highest 0.16 for the year 2008/09.in a average the projection of cash & Bank balance to saving deposits for the study period is 0.13. While comparing with the average, it is found that the ratio of cash & Bank balance to saving deposits is increasing trend up to 2008/09 and decrease for the last year.

The above analysis helps to conclude that the SCBNL hold less cash balance. The higher ratio shows that ability of financial institutes immediate funds to cover its current calls and saving deposit. But large amount of idles cash and bank balance badly effect the profitability of finance companies as well as low ratio of SCBNL can considered as a plus point of company but at the same time low cash balance reduces rapidity of company to repay its deposits whenever demanded by its customers. SCBNL has previously maintained unnecessary largest portion of deposit 0.16. In the form of cash &bank balance which build credit of finance company, finance company fail to grab favorable investment opportunity. However, it has been rapidly reducing the ratio more variation. It has highest ratio that implies that it is sacrificing income-generating sector that negatively enhances its profitability

Figure No.4.4.1



4.4.2 Cash &Bank balance to Total Deposit Ratio:

It measures the ability of bank honoring the total deposits. The forgoing ratio considers amount to be paid back immediately while it takes care of all the account holders.

Table No. 4.4.2

Analysis of Cash & bank Balance and Total Deposits

Bank	Fiscal years	Cash & Bank balance	Total Deposits	Ratio
NIBL	2005/06	1952	18927	0.103133
	2006/07	2325	24488	0.094944
	2007/08	3951	34451	0.114685
	2008/09	7825	46698	0.167566
	2009/10	6793	50094	0.135605
	Total	22846	174658	0.130804
	Average	4569.2	34931.6	0.130804
SCBNL	2005/06	1215	23061	0.052686
	2006/07	1937	24647	0.07859
	2007/08	2654	29743	0.089231
	2008/09	3136	35871	0.087424
	2009/10	1928	35182	0.054801

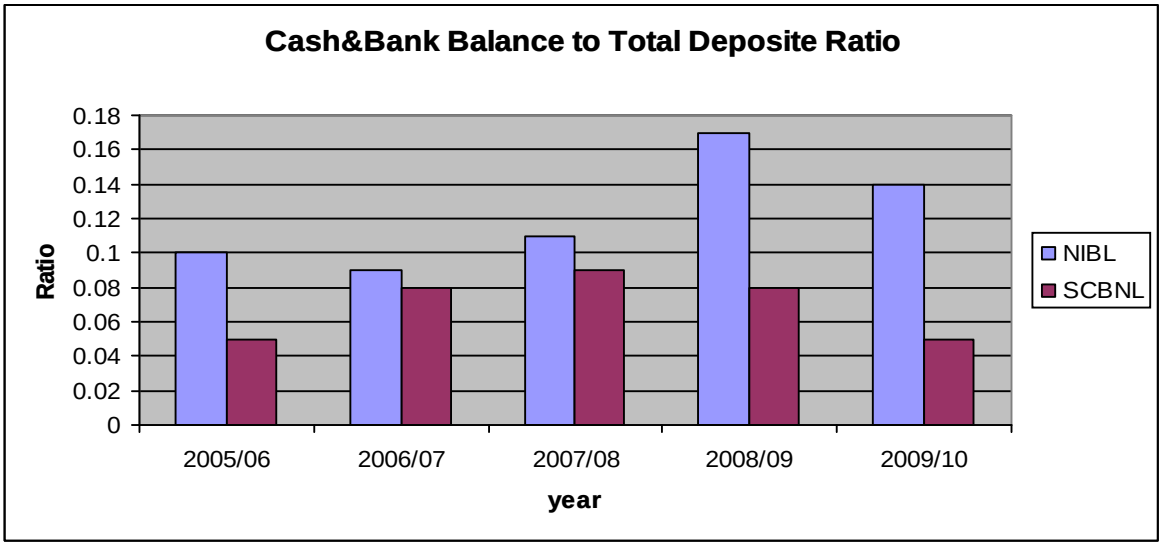
	Total	**10870**	**148,504.00**	**0.073197**
	Average	**2174**	**29700.8**	**0.073197**

Source: Annual Report of NIBL and SCBNL.

The above study shows that the Cash & Bank balance to Total deposits of NIBL has fluctuating trend. During the study period, it is lowest 0.09 for the year 2006/07 and highest 0.17 for the year 2008/09. In a average the projection of cash & Bank balance to total deposits for the study period is 0.13. While comparing with the average, it is found that the ratio of cash & Bank balance to total deposits is lower in the year first two year & last year.

The Cash & Bank balance to Total deposits of SCBNL has fluctuating trend. During the study period, it is lowest 0.05 for the year 2005/06, 2009/10 and highest 0.21 for the year 2007/08. In a average the projection of cash & Bank balance to total deposits for the study period is 0.07. While comparing with the average, it is found that the ratio of cash &Bank balance to saving deposits is lower in the year 2005/06 and 2009/10 and highest in 2006/0, 2006/07, 2007/08and 2008/09

Figure No.4.4.2



4.4.3 Cash & Bank Balance to Current Assets Ratio

The cash & Bank Balance to Current Assets Ratio measures the portion of cash & bank balances maintained against its current assets position of the sampled banks, researcher obtained the required data from these banks and the results of the analysis have been presented in the Table.

Table no. 4.4.3

Cash & Bank Balance to Current Assets Ratio

Fiscal Year	SCBNL	NIBL
2005/06	5.16	6.83
2006/07	7.87	7.43
2007/08	9.43	11.44
2008/09	10.05	18.99
2009/10	5.79	14.68
Mean	7.67	11.88
Standard Deviation	2.15	5.09
C.V.	28.12	42.87

Source: Annual Report of NIBL and SCBNL.

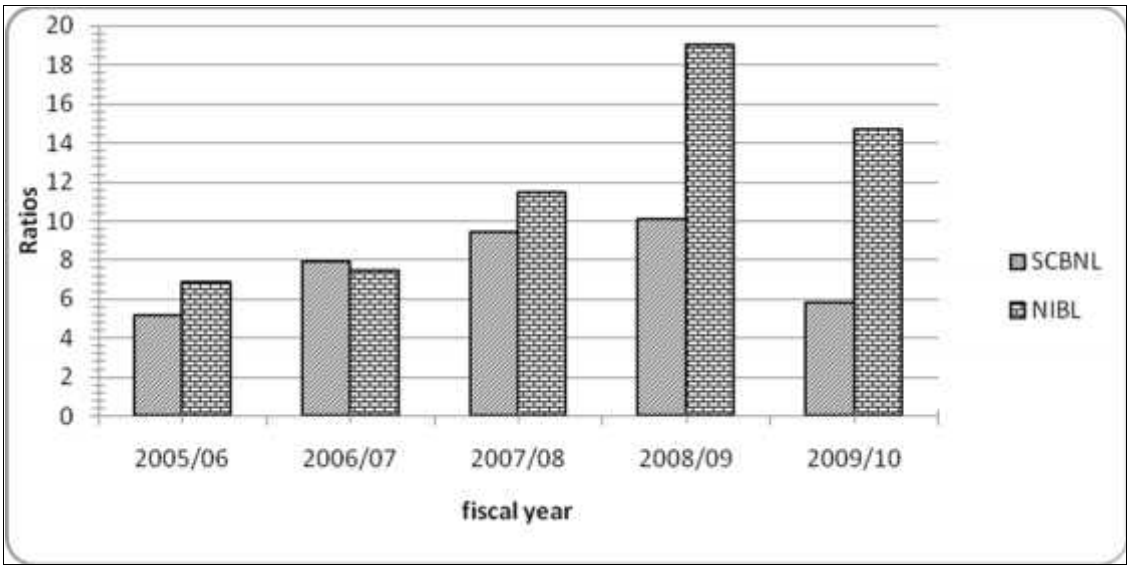
In the above table show cash & Bank Balance to Current Assets Ratio. The Ratio of SCBNL are 5.16, 7.87, 9.43, 10.05 and 5.79 for the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio is 7.67 and SD is 2.15, it means no fluctuate in the ratio. The ratios are NIBL 6.83, 7.43, 11.44, 18.99 and 14.68 for the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The mean of ratio is 11.88 and SD is 5.09, it means no fluctuated in the cash & Bank Balance to Current Assets Ratio. Co-variance of the banks are 28.12 and 42.87 are SCBNL and NIBL respectively.

Cash and bank balances are assets that constitute the bank's first line of deference and consist of cash in hand. Foreign cash on hand, cheques and other near cash items, balance with domestic/ foreign banks etc. these are bank's liquid and immediately available funds to meet it's anticipated and unanticipated calls on deposit. Current Assets, on the other hand, also have high liquidity. These are investment assets that can be converted into cash in a short span of time. However, cash and balances have a high liquidity ratio than current assets and it is necessary for banks to maintain to a

certain level of highly liquid assets at any time to meet contingent demands. It is also necessary to ensure that a certain level of ratio of highly liquid assets to less liquid assets is maintained. While highly liquid assets are important for an organization, high ratio of the same can result in potential assets lying idle.

Figure 4.4.3

Cash &Bank Balance to Current Assets Ratio.



4.4.4 Loans & Advances to Current Assets Ratio

This ratio measures the portion of current assets that have-been given as loans and advances to other organization. The current assets and loans & advances of SCBNL and NIBL for the year's from 2005/06 to 2009/10 have been collected and calculated ratio presented in the table below.

Table 4.4.4

Loans & Advances to Current Assets Ratio

Fiscal Year	SCBNL	NIBL
2005/06	38.01	54.35
2006/07	42.68	70.26
2007/08	48.77	95.98
2008/09	43.84	116.15

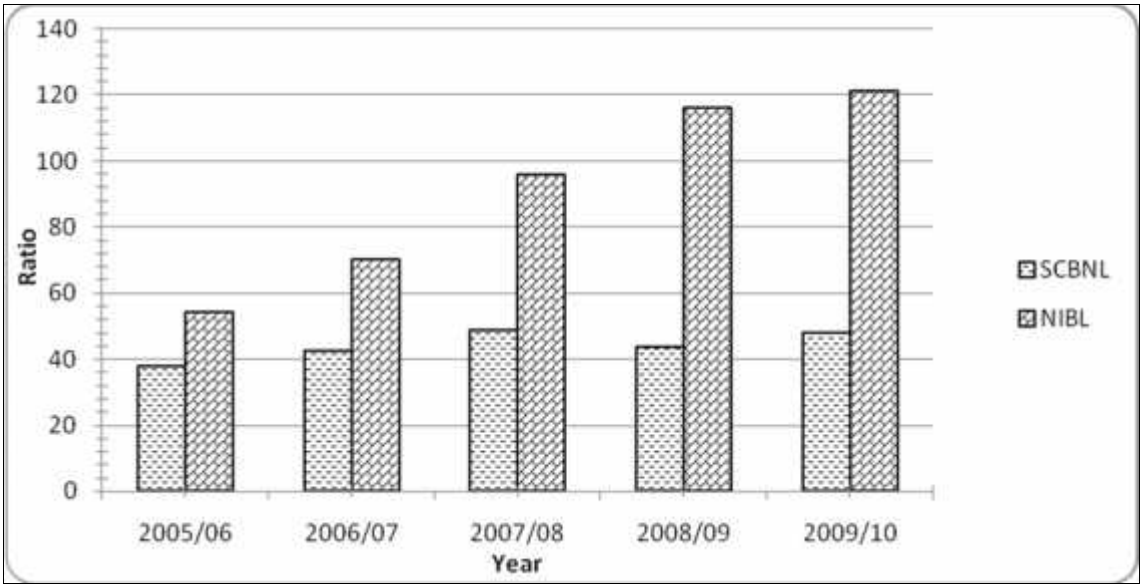
2009/10	47.98	121.25
Mean	44.26	91.59
Standard Deviation	4.36	28.91
C.V.	9.84	31.57

Source: Annual Report of NIBL and SCBNL

Loan and advance included loans, cash credit, overdraft, bill discounted and bill purchases. These are profit earning assets of a commercial Bank. Generally speaking an increase in banks investment on loans and advances would lead to an increase in its profit earning capacity, but it is necessary to ensure that the quality of investment is maintained so that it may not turn in to non-performing loan. Assets turn in to NPAS when the borrower becomes incapable to repay the debt .In the above table show ratio measures the portion of current assets that have-been given as loans and advances. The ratios of SCBNL are 38.01, 42.68, 48.77, 43.84 and 47.98 of the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The ratios of NIBL are 54.35, 70.26, 95.98, 116.15 and 121.25 the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Mean of the ratios are 44.26 and 91.59, SD are 4.36 and 28.91, CV are 9.84 and 31.57 for the banks SCBNL and NIBL respectively. Comparatively NIBL is higher ratio than SCBNL, we can see that the loans and advance to current assets ratio NSCBL increase first 2 year and decrease 2007/08 and after increase But NIBL increases position. A graphical presentation of the loan and advances to current ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below.

Figure 4.4.4

Loans & Advances to Current Assets Ratio



4.4.5 Fixed Deposit to Total Deposit Ratio

This Ratio measures the proportion of fixed deposits against the total deposit maintained by banks. Fixed deposits are term deposits and these are the funds that bank can fully utilize until it maturity date. As fund from fixed deposits will be uncalled for until it is matured, the provision made for unanticipated call will be very low. As a result bank will have the capacity to invest more profitability, however depends on how productivity and efficiency the funds have been utilized for the purpose of income generation. Total deposits are constituted from fixed deposits, saving deposit, current deposits call & short deposits ect. While fixed and saving deposits are interest-bearing deposits are likely to have less transaction then other kind of deposits. Fixed deposit and total deposit of SCBNL and NIBL for the years from 2005/06 to 2009/10 have been collected and calculated ratios have presented in the table below.

Table 4.4.5

Fixed Deposit to Total Deposit Ratio

Fiscal Year	SCBNL	NIBL
2005/06	9.26	28.59
2006/07	12.96	30.69
2007/08	11.09	23.06
2008/09	19.79	24.91

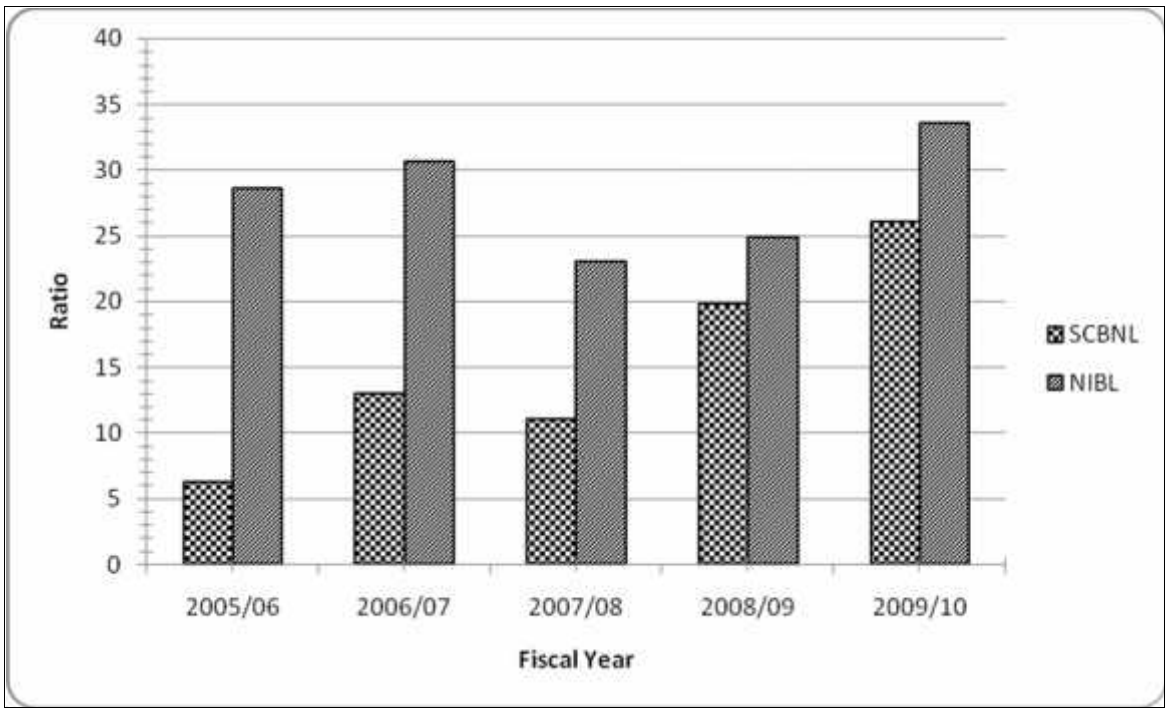
2009/10	26.08	33.59
Mean	15.84	28.17
Standard Deviation	6.97	4.26
C.V.	44.02	15.12

Source: Annual Report of NIBL and SCBNL

The above table show Fixed deposit and total deposit ratio. The ratio of SCBNL and NIBL are 9.26, 12.96, 11.09, 19.79 and 26.08, & 28.59, 30.69, 23.06, 24.91 and 33.59 for the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The mean & SD of the ratio are 15.84,6.97 and 28.17,4.26 SCBNL and NIBL respectively.. while SCBNL, fixed deposits against total deposit its total deposits was 15.84% and NIBL was 28.17% nearly1/3 of the total deposits. The CV between SCBNL & NIBL are 44.02% &15.12% respectively which indicate that ratio of NIBL have remained more uniform than the ratio of SCBNL. Although a high % of fixed deposits will increase a bank's lending investment capacity, It will also increase its operation cost and high interest bearing deposits, A graphical presentation of the fixed deposit and total deposit ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below

Figure 4.4.5

Fixed Deposit to Total Deposit Ratio



4.4.6 Saving Deposit to Total Deposit Ratio

The saving deposit to total deposit ratio represents the proportion of savings deposits in the total deposits. Saving deposits are interest-bearing deposits. However, the interest paid on these types of deposits is comparatively chapter then interest paid on fixed deposits. Transaction on saving deposits are higher compared to fixed deposit In order to assess the saving deposit to total deposit ratio, the volume of saving and total deposit of SCBNL and NIBL for the years from 2005/06 to 2009/10 have been collected and calculated ratios presented in the table below.

Table 4.4.6

Saving Deposit to Total Deposit Ratio

Fiscal Year	SCBNL	NIBL
2005/06	63.30	42.69
2006/07	61.85	43.86
2007/08	60.03	39.73
2008/09	53.36	24.91
2009/10	35.33	29.54
Mean	54.77	36.16
Standard Deviation	11.52	8.43
C.V.	21.03	23.32

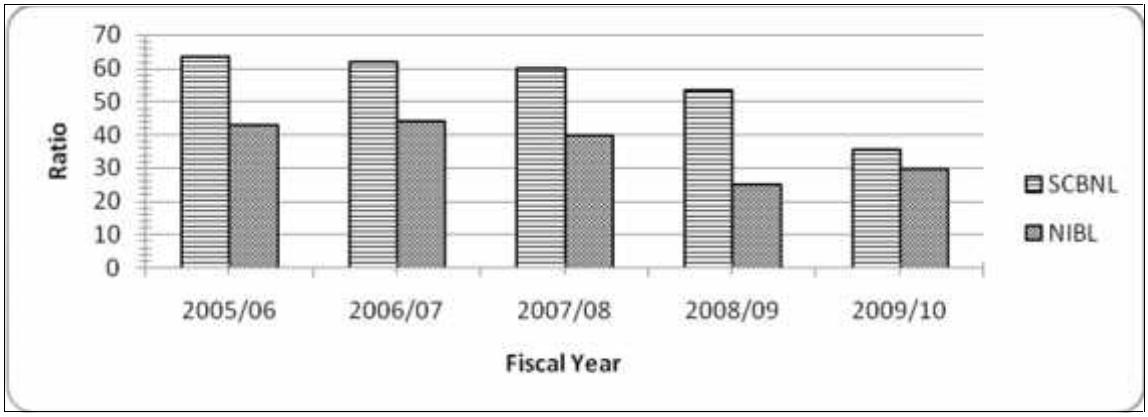
Source: Annual Report of NIBL and SCBNL

In the above table show the saving deposit to total deposit ratio represents the proportion of savings deposits in the total deposits. The ratio of SCBNL are 63.30, 61.85, 60.03, 53.36 and 35.33 for the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Mean and SD are 54.77and 11.52.The mean ratio SCBNL is higher the mean ratio NIBL indicating the SCBNL proportion of saving deposits on its total deposits is comparatively higher than that of NIBL. In the whole both bank have been able to increase its saving deposits. The CV for SCBNL(21.03%)and NIBL(23.32%)indicate the ratio of both bank are similarly. The ratio of NIBL are 42.69, 43.86, 39.73, 24.91 and 29.54 for the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Mean and SD are 36.16and 8.43. A graphical presentation of the saving deposit to total deposit ratio represents the proportion of savings

deposits in the total deposits ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below.

Figure 4.4.6

Saving Deposit to Total Deposit Ratio



4.4.7 Cash Reserve Ratio

Bank has to maintain 5.5% of their total deposit in local currency in the form of balance at NRB, failing which they will be penalized by the central bank, it is a NRB directives. It should be maintained or to ready to pay to depositors when they come to withdraw deposit amount .Cash reserve ratio of SCBNL and NIBL are collected from their annual report from year 2005/06 to 2009/10 and presented in table no 4.4.5

Table No 4.4.7
Cash Reserve Ratio

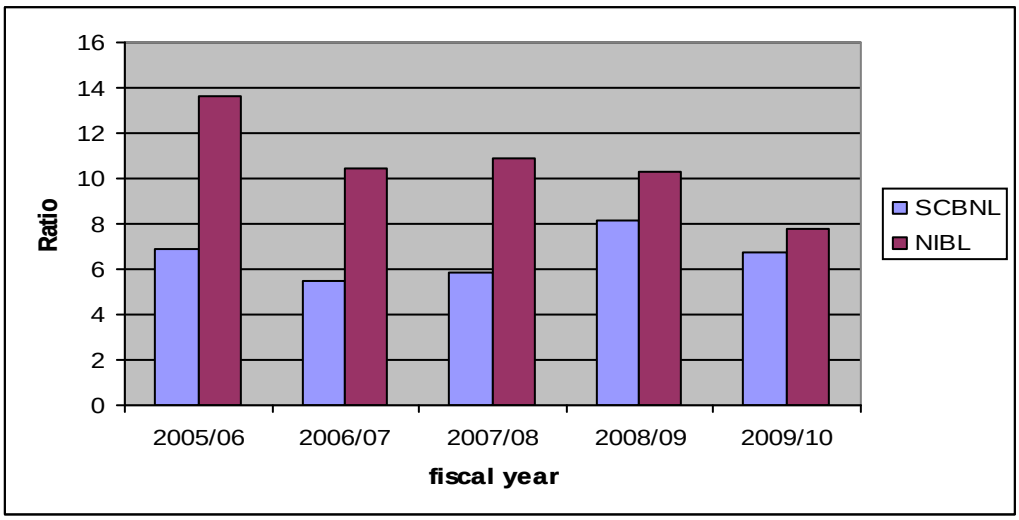
Year	SCBNL	NIBL
2005/06	6.86	13.61
2006/07	5.46	10.47
2007/08	5.84	10.91
2008/09	8.18	10.32
2009/10	6.74	7.77
Total	33.08	53.08
Mean	6.616	10.616
Standard deviation	1.0558788	2.0772049
CV	15.959474	19.566737

Source: Table No.4.1.4&4.2.4

In the table presented above, we can observe that the cash reserve ratio of SCBNL is 6.86,5.46,5.84,8.18 and 6.74 in year 2005/06,2006/07,2007/08,2008/9&2009/10 respectively. Similarly NIBL has 13.61,10.47,10.91,10.32&7.77 in year 2005/06, 2006/07, 2007/08, 2008/9& 2009/10 respectively .Cash reserve ratio of SCBNL has fluctuating trend but NIBL has slightly decrease trend. NIBL is able to maintain to NRB directives which 5.5% But SCBNL is fail to maintain this ratio. The liquidity position cash management of SCBNL is not better then SCBNL for the study periods. So SCBNL has to improve in this performance. The required data in order calculate the Cash reserve ratio of SCBNL and NIBL for the fiscal years from 2005/06 to 2009/10 is presented in the table below.

Figure No.4.4.7

Cash Reserve Ratio



4.5 Turnover ratios

Turnover ratios have been used to evaluate the efficiency with have managed and utilized their assets. These include loans and advances to total deposit ratio, loans and advances to fixed deposit ratio, loans and advances to saving deposit ratio, investment to total deposit ratio, performing assets to total assets ratio and performing assets to total debt ratio.

4.5.1 Loans & Advances to Total Deposit Ratio.

The loans and advances to total deposit ratio reflect the extent to which the banks are successful in mobilizing their total deposits on loans and advances. It is calculated by dividing loans and advances by total deposits. The required data in order to calculate the loans and advances to total deposit ratio of SCBNL and NIBL for the fiscal years from 2005/06 to 2009/10 is presented in the table below;

Table No. 4.5.1

Loans & Advances to Total Deposit Ratio

Fiscal Year	SCBNL	NIBL
2005/06	38.75	67.50
2006/07	42.60	70.58
2007/08	46.12	78.36
2008/09	38.13	77.61
2009/10	45.35	80.48
Mean	42.19	74.91
Standard Deviation	3.67	5.56
C.V.	8.70	7.43

Source: Annual Report of NIBL and SCBNL

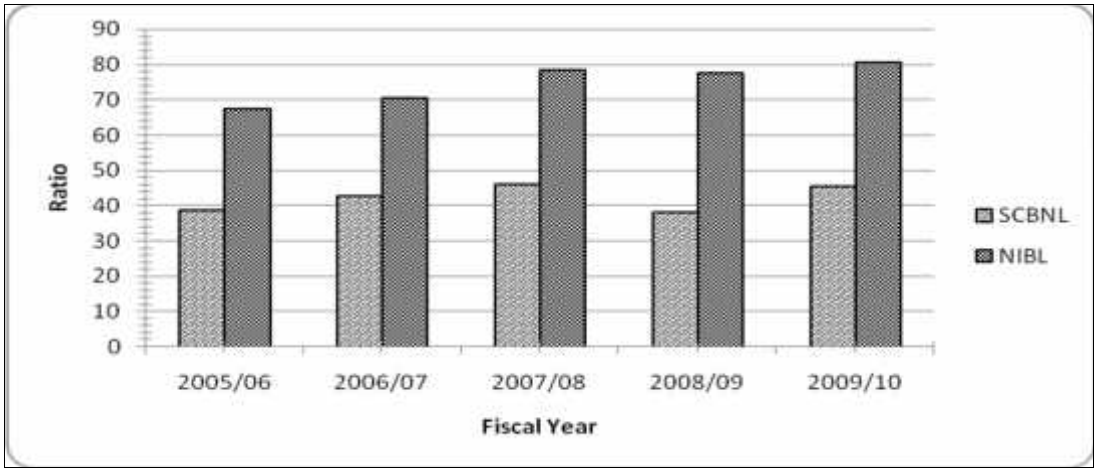
The ratio in SCBNL and NIBL slightly fluctuated throughout the study period. It descended to 45.35% in the last year form 38.75% in the base year of SCBNL. It depicted increasing trend in SCBNL up to the three year of review period and marginally declined in the fourth year and last year increase to 45.35%. Mean ratio of SCBNL is 42.19%. The ratio of NIBL slightly fluctuated throughout the study period. It descended to 80.48% in the last year form 675% in the base year of NIBL. It depicted increasing trend in NIBL up to the three year of review period and marginally declined in the fourth year and last year increase to 80.48%. Mean ratio of NIBL is 42.19%, which appeared considerably higher which signifies that SCBNL is more successful in utilizing the resources in profitable sectors.

"The trend of the ratio in NIBL showed that in spite of increase in the final year, there remained higher utilization capacity in each succeeding year. In last year, fall in the

ratio could be noticed due to the increase in the amount of deposit by large volume than the volume of loans and advances. CV of the ratios depicted that the ratio remained more consistent in NIBL as compared to SCBNL. A graphical presentation of the lone and advance to total deposit ratio represents the proportion of lone and advance in the total deposits ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below.

Figure No. 4.5.1

Loans & Advances to Total Deposit Ratio



4.5.2 Loans and Advance to Fixed Deposit Ratio

The loans and advances to fixed deposit ratio measure the extent to which the fixed deposits have been utilized as loans and advances. The ratios of SCBNL and NIBL for the years from 2006/07 to 2009/10 have been presented in the table below.

Table 4.5.2

Loans and Advance to Fixed Deposit Ratio

Fiscal Year	SCBNL	NIBL
2005/06	4.18	2.36
2006/07	3.29	2.29
2007/08	4.16	3.39
2008/09	1.92	3.11
2009/10	1.73	2.39
Mean	3.06	2.71
Standard Deviation	1.18	0.50

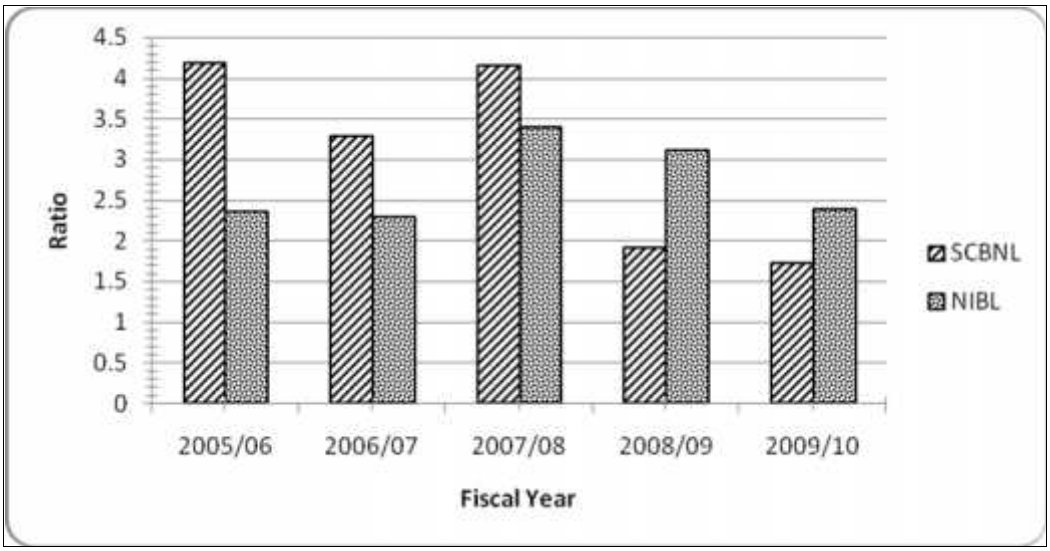
C.V.	38.49	18.67

Source: Annual Report of NIBL and SCBNL

The ratio of SCBNL and NIBL revealed decreasing trend up to last year. It showed fluctuating trend in SCBNL for the period. The ratio in SCBNL ranged form 4.18 in the first year to 1.73% in the last year. The ratio of NIBL also decreasing trend 2.36 in base year and slightly increase in the year 2007/08 is 3.39 after that decrease to 2.39 in the last year. With respect to this ratio, both of the banks have shown good performance. In other words, both of these banks have well utilized the high interest bearing fixed deposit in the sector yielding satisfactory return. SCBNL seems more efficient in utilizing the fixed deposit between two banks as revealed by higher mean ratio. CV analysis showed the lesser uniformity of ratios in NIBL as against the SCBNL. A graphical presentation of the loan and advance to fixed deposit ratio represents the proportion of lone and advance in the fixed deposits ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below.

Figure No. 4.5.2

Loans and Advance to Fixed Deposit Ratio



4.5.3 Loans and advances to saving deposit ratio

Order to calculate the loans and advances to saving deposit ratio for SCBNL and NIBL from 2005/06 to 2009/10, the researcher collected the required data and presented it in the appendix. The amount of loans and advances, saving deposit, and

the calculated values of loans and advances to saving deposit ratio. Its standard deviation, coefficient of variation has also been presented in the table

Table No. 4.5.3

Loans and advances to saving deposit ratio

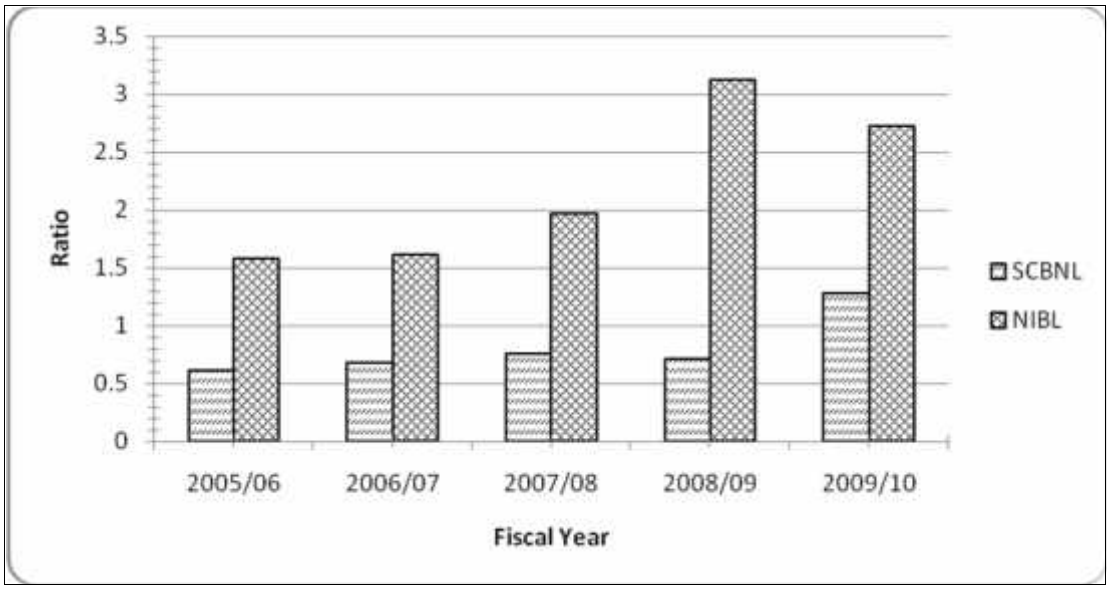
Fiscal Year	SCBNL	NIBL
2005/06	0.61	1.58
2006/07	0.68	1.61
2007/08	0.76	1.97
2008/09	0.71	3.12
2009/10	1.28	2.72
Mean	0.81	2.19
Standard Deviation	0.27	0.69
C.V.	33.03	31.27

Source: Annual Report of NIBL and SCBNL

The ratio in SCBNL and NIBL obviously showed increasing trend up to the fourth year and then dropped in the last year of NIBL. Average of the ratios NIBL seemed almost double the same of SCBNL and which indicates that NIBL has more successfully utilized the interest bearing deposit in terms of loans and advances moreover, turnover position of NIBL is better than that SCBNL with respect to this ratio. The consistency in the ratio was found higher in SCBNL from the CV analysis. It indicates insufficient utilization of saving deposit in form of loans and advance in NIBL. But it necessarily does not mean that the turnover position of the bank is really poor because the portfolio management of the bank depends upon its lending policy, risk analysis and diversification. The bank might have allocated its most of the deposits in other assets with low risk. A graphical presentation of the lone and advance to saving deposit ratio represents the proportion of lone and advance in the saving deposits ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below.

Figure Table No. 4.5.3

Loans and advances to saving deposit ratio



4.6 Profitability Ratios

Profitability ratios measure overall performance and effectiveness of the firm. Besides management of the company, creditors and owners are also infested in the profitability of the firm. Creditors want to get interest and payment of principal regularly. Owners want to get a required rate or return on their investment. This is possible only when the company earns enough profits.

4.6.1 Interest Earned to Working fund ratio

The interest earned to working fund ratio measures the amount of interest earned against the working fund employed. in order to calculate the interest earned to working fund ratio, the researcher collected the required data and the calculated results have been presented in the table below. The interest earned to working fund ratio, standard deviation, and coefficient of variation of SCBNL and NIBL for the years from 2005/06 to 2009/10.

Table no. 4.6.1

Interest Earned to Working Fund ratio

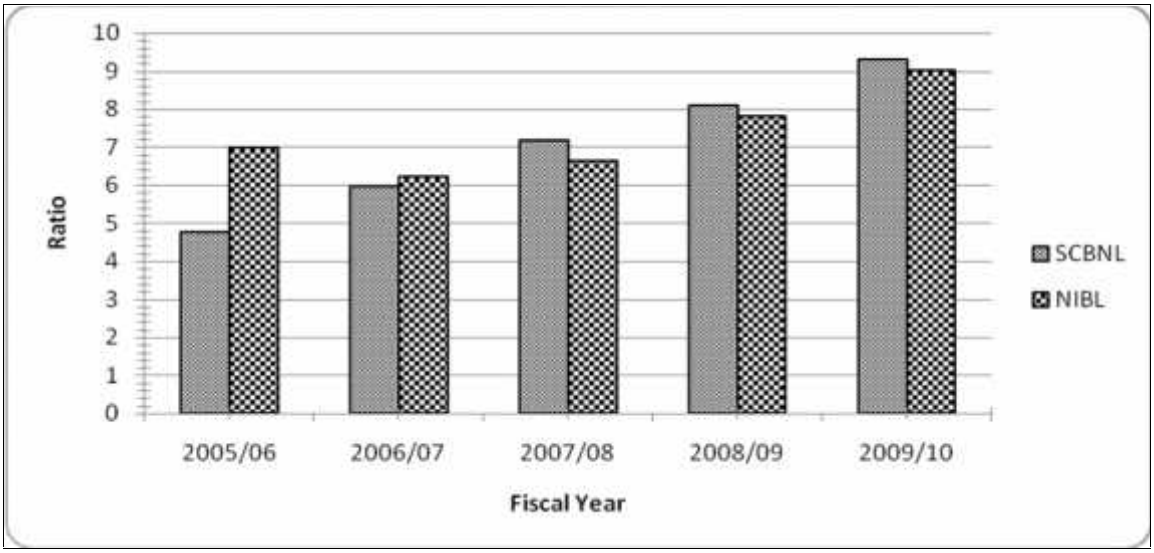
Fiscal Year	SCBNL	NIBL
2005/06	4.75	6.99
2006/07	5.97	6.21
2007/08	7.19	6.64
2008/09	8.08	7.81
2009/10	9.31	9.03
Mean	7.06	7.33
Standard Deviation	1.77	1.11
C.V.	25.12	15.14

Source: Annual Report of NIBL and SCBNL

The ratio interest earned to working fund ratio showed increasing trend, it followed rising trend of the study period. In SCBNL, the ratio ranged from 4.75% in the base year to 9.31% in the last year. In NIBL, it ranged from 6.99% in the base year to 9.03% in the last year. Mean ratio was higher in NIBL, which loads us to the conclusion that NIBL managed the assets more effectively to earn interest. Further more, interest earned to total assets in different years of the study period remained more uniform in NIBL as revealed by lower CV. A graphical presentation of the interest earned to working fund ratio represents the proportion of interest earned in the working fund ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below.

Figure No. 4.6.1

Interest Earned to Working Fund ratio



4.6.2 Interest paid to Working Fund Ratio

The interest paid to working fund ratio for SCBNL and NIBL for the years from 2005/06 to 2009/10 is presented in the table below. In order to calculate the ratio, the amount of interest paid and working fund was collected from the banks' financial statements. The calculated interest paid to working fund ratio, their mean, standard deviation, coefficient of variation has also been presented in the table.

Table No. 4.6.2
Interest paid to Working Fund Ratio

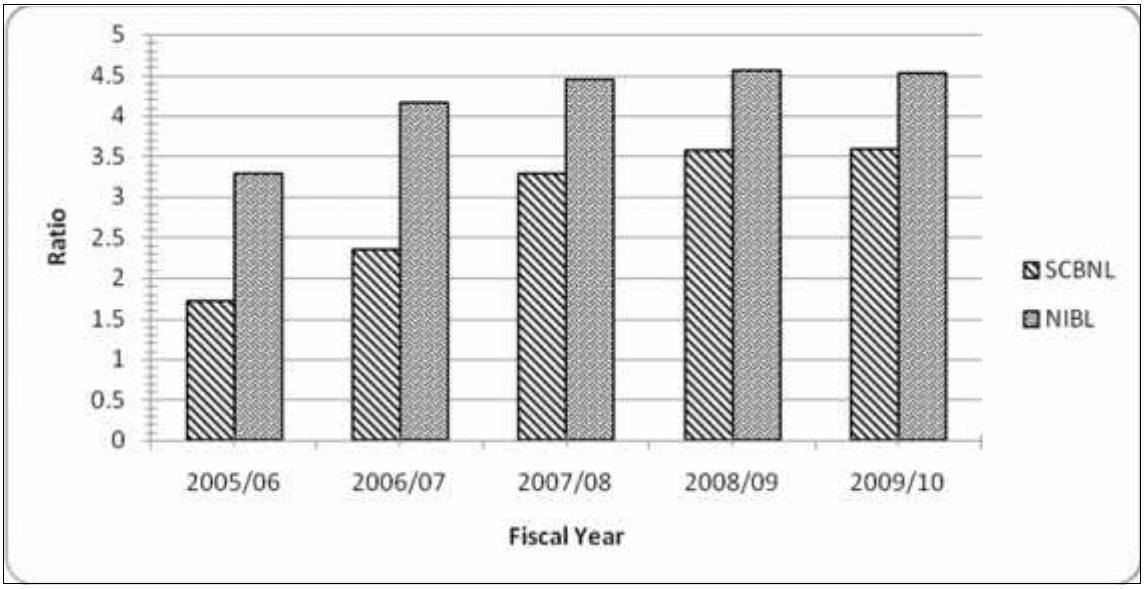
Fiscal Year	SCBNL	NIBL
2005/06	1.71	3.29
2006/07	2.35	4.16
2007/08	3.28	4.45
2008/09	3.57	4.55
2009/10	3.59	4.53
Mean	2.90	4.20
Standard Deviation	0.01	0.53
C.V.	28.74	12.68

Source: Annual Report of NIBL and SCBNL

The interest paid to working fund ratio of SCBNL and NIBL rising trend, which reached 3.59 in the final year from 1.71 in the base year of SCBNL. In NIBL, it depicted increasing trend in the following years. Lower mean ratio in SCBNL indicates better profitability position as compared to NIBL. Overall picture shows that SCBNL is more successful in allocating the interest bearing debt in profitable sectors. On the other hand, it is also obvious that interest spread rate is high in the bank CV of the ratios appeared greater in SCBNL, which mean that were relatively less uniform throughout the review period.

Figure No. 4.6.2

Interest paid to Working Fund Ratio



4.6.3 Net Profit to Working Fund Ratio

This ratio measures the percentage of net profit against the company total working fund .The ratio calculated by dividing Working fund by net profit. In order to calculate the net profit to working fund ratio the required data the amount of net profit and working fund have been collected and presented in the appendix.

Table No.4.6.3

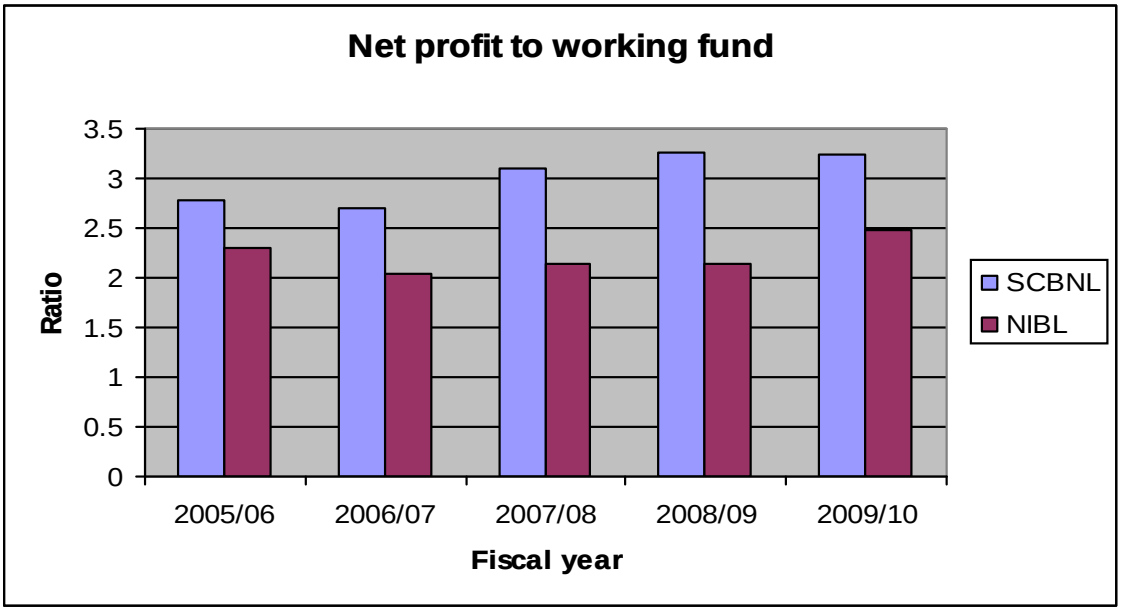
Net Profit to Working Fund Ratio

Fiscal Year	SCBNL	NIBL
2005/06	2.78	2.30
2006/07	2.71	2.04
2007/08	3.10	2.14
2008/09	3.27	2.14
2009/10	3.24	2.47
Mean	3.02	2.22
Standard Deviation	0.26	0.17
C.V.	8.58	7.59

We see that the Net profit has increased for both the banks. The amount of net profit SCBNL was Rs.658 million on 2005/06 and it increased to Rs.1085 million in2009/10. Similarly, NIBL net profit increase from 351 million on 2005/06 and increase to 1265 in 2009/10.The net profit to working capital fund ratio of banks has witnessed an increase and decreasing trend. The mean net profit to working fund ratio of SCBNL &NIBL is 3.02 and 2.22 respectively.

The Mean net profit to working fund ratio SCBNL & NIBL are 3.02 and 2.22 respectively implying that while SCBNL was able to generate net profit 3.02% of it is working fund. The ratio also reveal that SCBNL is more capable generating income compared to NIBL the degree of variability of the ratios is measured by CV which is 8.58%SCBNL&7.59% for NIBL. The CV indicates that the net profit to working fund ratio of NIBL varied less compared to SCBNL. A graphical representation of the net profit to working fund ratio is given below.

Figure-4.6.3



4.6.4 Net Profit to Total Deposit Ratio

The net profit to total deposit ratio measures the percentage of net profit earned against its total deposit. In order to calculate the net profit to total deposit ratio of SCSBNL and NIBL for the years from 2005/06 to 2009/10 the required data have been collected. The table contains the amount of net profit and total deposit of both the banks for the study period. Net profits to total deposit ratio, its standard deviation, and coefficient of variation have also been presented in the table below.

Table No. 4.6.4

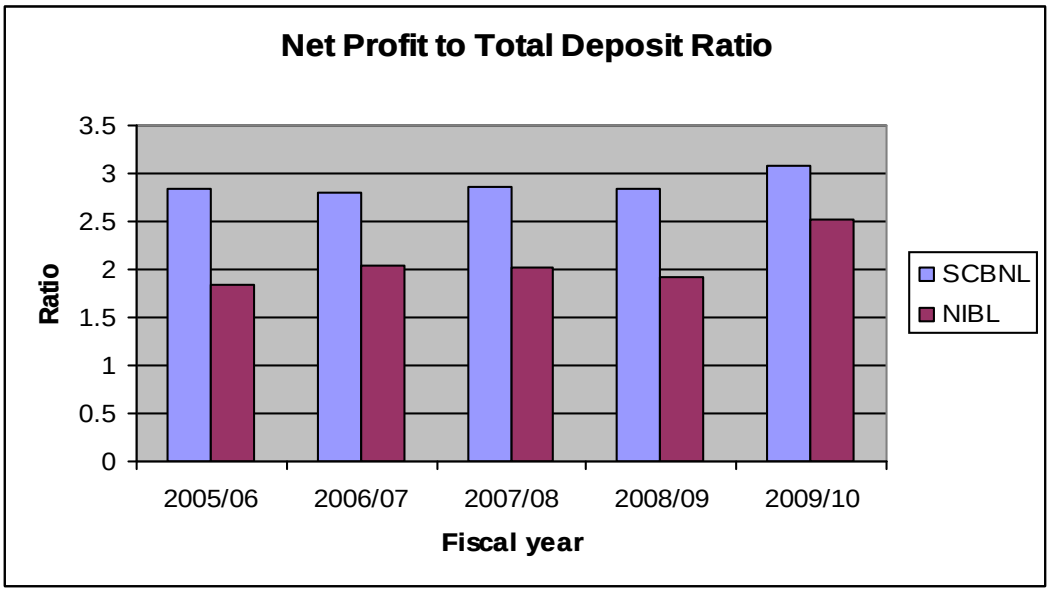
Net profit to Total Deposit Ratio

Fiscal Year	SCBNL	NIBL
2005/06	2.85	1.85
2006/07	2.81	2.05
2007/08	2.87	2.02
2008/09	2.85	1.92
2009/10	3.08	2.52
Mean	2.89	2.07
Standard Deviation	0.11	0.26
C.V.	3.71	12.68

Source: Annual Report of NIBL and SCBNL

The ratio Net profit to total deposit ratio showed increasing trend, it followed rising trend of the study period. In SCBNL, the ratio ranged from 2.85% in the base year to 3.08% in the last year. In NIBL, it ranged from 1.85% in the base year to 2.52% the last year. Mean ratio was higher in SCBNL, which loads us to the conclusion that SCBNL managed the assets more effectively to increase profit. Further more, profit earned to total deposit in different years of the study period remained more uniform in SCBNL as revealed by lower CV. A graphical presentation of the Net profit to total deposit ratio represents the proportion of Net profit to total deposit ratio of the SCBNL and NIBL for the year 2005/06 to 2009/10 is given below.

Figure No. 4.6.4



4.7 Financial indicators

Other financial indicators such as price earnings ratio, earnings per share, and dividend per share reveal the potentiality of an institution to earn in the future. Investors contemplating to invest in the common stocks would be keen to know the investment potentiality of a company, which is revealed by these indicators.

4.7.1 Price earnings (P/E) ratio

The price earnings ratio is used as a going concern method of valuing stock. As long as the company is viable business entity, its real value is reflected in its profits. A low P/E ratio of the stock is the indicator of under valuation of the stock and vice-versa the ratio is the most important measure of value used by investors in the market place.

The market price of a quit share is influenced by many factors like the dividend and earnings rate record, stability and rate of growth of earnings and services, credit rating and financial strength, management competitiveness and efficiency, competitive position of the bank etc. P/E ratio expresses the relationship between market price of a share of a share of the stock and the stock's earnings per share. Thus, it is calculated by dividing market price of share (MPS) by earning per share (EPS). In order to calculate the price earnings ratio of SCBNL and NIBL, the required data has been collected and presented in the appendix- 14

Table No. 4.7.1

Price Earning Ratio

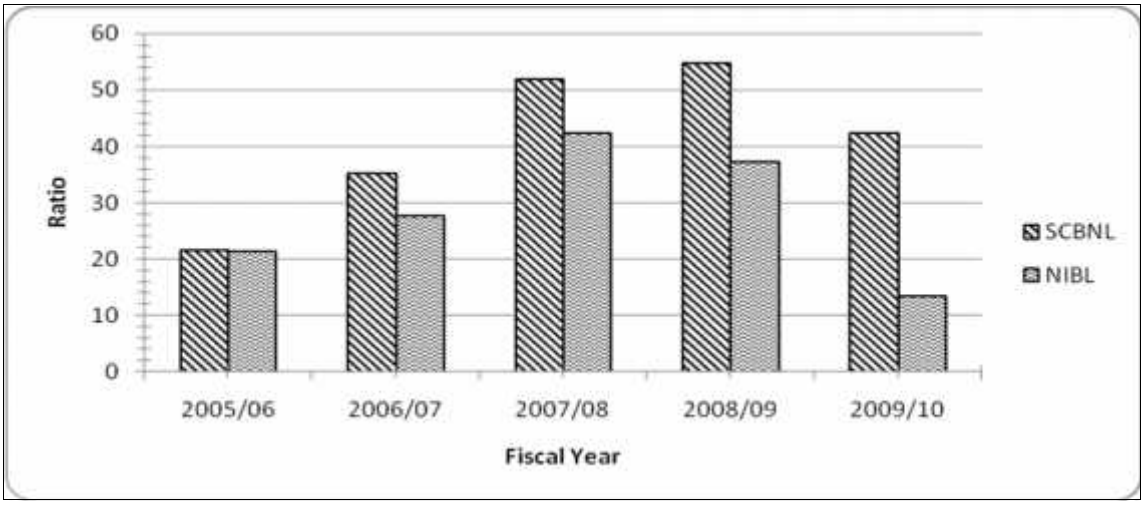
Fiscal Year	SCBNL	NIBL
2005/06	21.47	21.23
2006/07	35.25	27.63
2007/08	51.77	42.33
2008/09	54.64	37.1
2009/10	42.23	13.42
Mean	41.07	28.34
Standard Deviation	13.39	11.68
C.V.	32.62	41.22

Source: Annual Report of NIBL and SCBNL

The ratios in SCBNL did not reveal particular direction of change. The ratios in the first year remained very high as compared to the rest of the years. In NIBL, it remained negative up to the fourth year of the study period. Then it went positive and increased gradually later on. Mean ratio of SCBNL appeared significantly higher which mean the investors are well satisfied with the performance of the bank. In other words, market has positively judged the performance of SCBNL. Higher CV of the ratios in NIBL indicates that the ratio varied widely in the bank.

Figure No. 4.7.1

Price Earning Ratio



4.7.2 Earning Per Share

Shareholder pays special heed to the EPS of their companies because it expresses the ratio of return on their share. It is calculated by dividing the closing value of share by its P/E ratio. In order to calculate the EPS of SCBNL and NIBL the researcher collected the required date for the years from 2005/06 to 2009/10, the closing value of share, P/E ratio, calculated EPS have been presented in the closing value of share, EPS have been presented in the table below, The mean earning per share, their standard deviation and coefficient of variation have also been calculated and their results presented in the table below.

Table No. 4.7.2

Earning Per Share

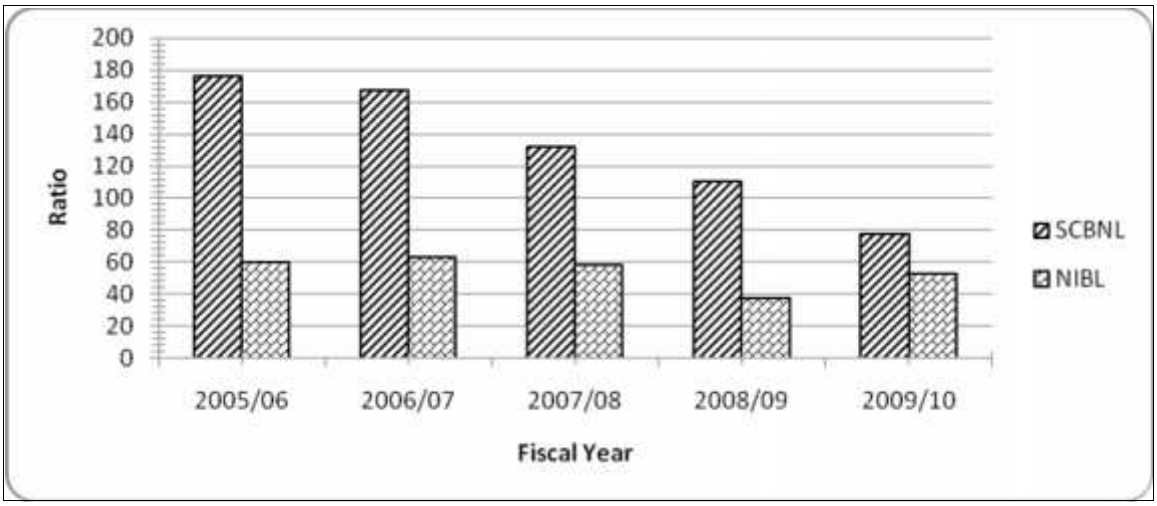
Fiscal Year	SCBNL	NIBL
2005/06	175.84	59.35
2006/07	167.37	62.57
2007/08	131.92	57.87
2008/09	109.99	37.42
2009/10	77.47	52.55
Mean	132.51	53.95
Standard Deviation	40.71	9.92
C.V.	30.7	18.39

Source: Annual Report of NIBL and SCBNL

EPS in SCBNL depicted decreasing trend up to the last year of review period. The ratio of in NIBL for the first two years increasing then decreasing to 37.42 in fiscal year 2008/09 and then remained almost same increasing to 52.55 in year 2009/10. The ratio in NIBL is the result of normal suffered by the bank for the period. Mean ratio was much higher in SCBNL is contrast to NIBL, which indicates that the profitability position of the formed is far better than that of the latter. In this sense, SCBNL seems more successful to attract the investors. CV of the ratio in SCBNL higher the same in NIBL by a highly fluctuate , which shows lack of consistency in SCBNL in the different years.

Figure No. 4.7.2

Earning Per Share



4.7.3 Dividend per share

DPS is also one of the inputs of valuing stock. It is the amount that is paid out to shareholders. Usually, the amount of dividend that is paid out to its shareholders is from the organization's earning after deducting all its expenses including taxes and retaining a portion of it for future investments. The amount of dividend policy adopted by organizations.

Table No.4.7.3

Dividend Per Share

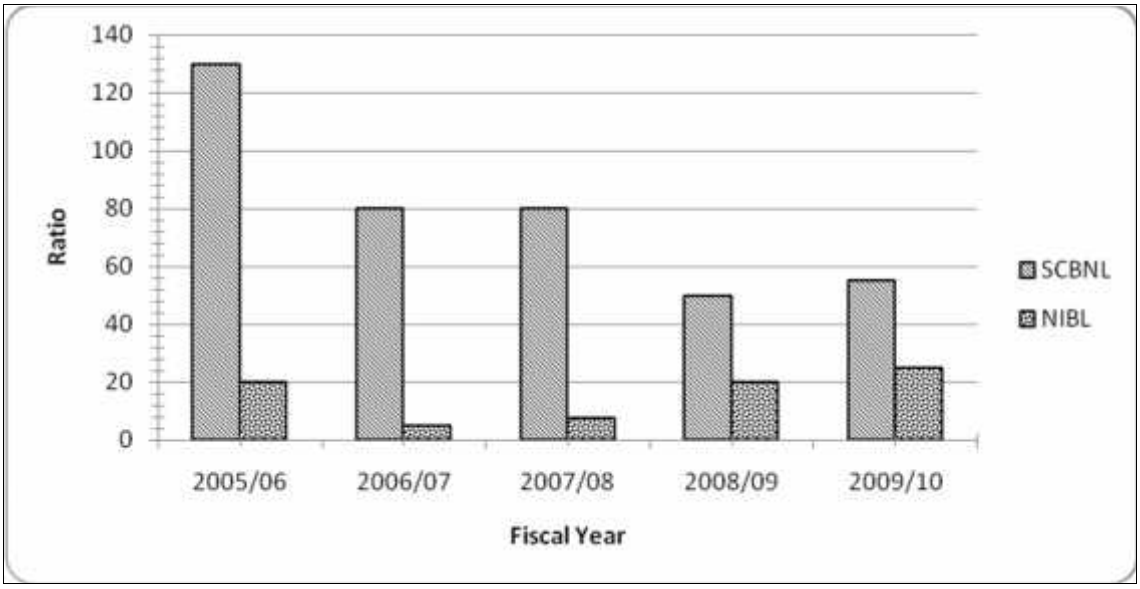
Fiscal Year	SCBNL	NIBL
2005/06	130	20
2006/07	80	5
2007/08	80	7.50
2008/09	50	20
2009/10	55	25
Mean	79	15.50
Standard Deviation	31.70	8.73
C.V.	40.12	56.33

Source: Annual Report of NIBL and SCBNL

In the above table shows the DPS of banks, Dividend per share in following years decreasing trend of SCBNL, 130 in year 2005/06 and at last year 55. NIBL pay dividend for first years only 20, and decreasing to 5, 7.50, 20, 25 for the year 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Mean DPS of SCBNL came remarkably higher in NIBL which signifies that SCBNL is more successful to win the confidence of the investors. As dividend is the direct return received by the shareholders, they evaluate the organization paying high dividend as the better one. This means SCBNL can sell its shares more easily than NIBL. Higher CV of the ratios in NIBL depicts that income not pay dividend in the no consistent manner.

Table No.4.7.3

Dividend Per Share



4.8 Correlation Co-efficient and Regression Analysis

Correlation Co-efficient Analysis

A mathematical method for measuring the intensity or the magnitude of linear relationship between to variable series was suggested by Karl Pearson (1867-1936).Karl Parsons coefficient of correlation measures the degree of association between the two variables.

Regression Analysis

Regression analysis is a mathematical measure of the average relationship between two or more variable in terms of the original units of the data. Thus, it can be said that regression is the estimation or prediction of one variables value from the given of other variables value.

4.8.1 Correlation and Regression Analysis of cash & bank balance and Current Assets

Correlation coefficient and regression analysis between Cash & bank balance and current assets of SCBNL & NIBL Banks limited during the study period determinations as well as indicates the degree of relationship between two

variables .Hence , correlation coefficient and regression helps to find out whether Cash and bank balance and current assets of SCBNL & NIBL Banks limited are significantly correlated or not. Karl Pearson correlation coefficient & Regression analysis has been used to find out the relationship between two variables.

Table No-4.8.1

Correlation & regression Analysis of cash & bank Balance to current Assets

Variables	r	r^2	P.E	a-Value	b-Value	6P.E	No	Remarks
CBB Vs. CA(SCBNL)	0.564	0.318	0.206	-645.283	0.100	1.234	5	Insignificant
CBB Vs. CA (NIBL)	0.922	0.851	0.045	-7581.57	o.339	0.271	5	significant

For Details visit Appendix

As presented in table, there is direct relationship between cash bank balance to current assets of SCBNL and NIBL. The correlation coefficient of SCBNL is 0.564, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.318, which indicates that 31.8% variation is explained the dependent Current Assets due to change in the value of independent variable cash and Bank balance.

Probable error of correlation coefficient has also calculated to measure the significant of the relationship between cash and balance and Current Assets. As far as significant of relationship is concerned, the data related to SCBNL show that there is insignificant relationship between cash balance and actual sales because r is less than 6P.E.

Correlation coefficient of NIBL is 0.922, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.851, which indicates that 85.1% variation is explained the dependent variable Current Assets due to change in the value of independent variable cash & Bank balance. Probable error of correlation coefficient has also calculated to measure the significant of the relationship between cash balance and Current Assets. As far as significant of relationship is concerned, it is difficult to say anything about the significance of the relationship since through r is more than P.E, & 6P.E.

Regression Analysis of cash & Bank balance and Current Assets:

Regression Equation: **Y = a+bx**

Current Assets = a+b×cash& Bank balance

Here, cash and Bank Balance and Current Assets denote cash & bank (independent variable) and Current Assets (dependent variable) respectively. The table, clear to say that Current Assets have indirect influence on Cash of SCBNL, as the regression coefficient is Positive. Regression coefficient is 0.100, which indicates that a one rupee increase in Current Assets leads to an average of about Rs 0.100 increase in cash and bank balance.

It is clear to say that Current Assets have direct influence on cash & Bank balance of NIBL, as the regression coefficient is positive. Regression coefficient is 0.339, which indicates that a one-rupee increase in Current Assets leads to an average of about Rs 0.339 increase in cash.

4.8.2 Correlation and Regression Analysis of Investment on Government Security and Current Assets

Correlation coefficient and regression analysis between investment on government security and current assets of SCBNL & NIBL Banks limited during the study period determinations as well as indicates the degree of relationship between two variables. Hence .correlation coefficient and regression helps to find out whether investment on government securities and current assets of SCBNL & NIBL Banks limited are significantly correlated or not. Karl Pearson correlation coefficient & Regression analysis has been used to find out the relationship between two variables

Table No-4.8.2

Correlation and regression analysis of IGS & CA

Variables	r	r^2	P.E	a-Value	b-Value	6P.E	No	Remarks
IGS Vs. CA(SCBNL)	0.521	0.272	0.219	4819.237	0.13	1.314	5	Insignificant
IGS Vs. CA(NIBL)	0.947	0.896	0.031	426.081	0.08	0.187	5	Significant

For Details visit Appendix

Correlation(r) Between Investment on Government Securities and Current Assets

As presented in table, there is direct relationship between investment on government security and Current Assets of SCBNL and NIBL. The correlation coefficient of SCBNL is 0.521, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.272 which indicates that 27.2% variation is explained the dependent variable Current Assets due to change in the value of independent variable investment on government security.

Probable error of correlation coefficient has also calculated to measure the significant of the relationship between IGS & CA. The data related to SCBNL show that there is insignificant relationship between Investment on government security & Current Assets because r is Less than 6 P.E.

Correlation coefficient of NIBL is 0.947, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.896, which indicates that 89.60% variation is explained the independent variable IGS due to change in the value of independent variable Government Securities. Probable error of correlation coefficient has also calculated to measure the significant of the relationship between receivables and total sales. As far as significant of relationship is concerned, it is difficult to say anything about the significance of the relationship since through r is more than P.E, & 6P.E.

Regression Analysis of Investment Government Securities and Current Assets:

Regression Equation: Y=a+bx

Here, Current Assets = a+b× IGS

Here, investment on government security and Current Assets denote IGS (independent variable) and Current Assets (dependent variable) respectively. The table, clear to say that Current Assets have indirect influence on IGS of SCBNL, as the regression coefficient is Positive. Regression coefficient is 0.130, which indicates that a one rupee increase in IGS leads to an average of about Rs 0.130 increase in investment government securities.

It is clear to say that Current Assets have direct influence on IGS of NIBL, as the regression coefficient is positive. Regression coefficient is 0.080, which indicates

that a one rupee increase in IGS leads to an average of about Rs 0.080 increase in IGS. This equation is the regression equation of IGS on CA ,the regression constraint equation to 426.082,this means when CA fall to Zero IGS equal to Rs.426.082.The coefficient of CA equal to 0.080 implied that when CA increase by 1.IGS increase 0.080 in vise versa

Government securities offer stable returns and default risk free assets. While it is common for all banks to invest to a certain portion of its current assets in these securities, the volume of investment depends upon the individual policies of banks. The interest rates on these types of securities have recently declined to very minimum and banks have started to lose preference on them. The responsibility is on the banks to assess to what degree the investment is to be made since the risk-free securities have a bearing on cost of funds

4.8.3 Correlation and Regression Analysis of Operating profit to Net worth

Correlation coefficient and regression analysis between Operating profit and Net Worth of SCBNL & NIBL Banks limited during the study period determinations as well as indicates the degree of relationship between two variables .Hence .correlation coefficient and regression helps to find out whether Operating profit and Net worth of SCBNL & NIBL Banks limited are significantly correlated or not. Karl Pearson correlation coefficient &Regression analysis has been used to find out the relationship between two variables

Table No-4.8.3

Correlation and Regression Analysis of operating profit and net worth

Variables	r	r^2	P.E	**a-Value**	**b-Value**	6P.E	No	Remarks
OP Vs. NW(SCBNL)	**0.997**	**0.995**	**0.001**	**554.33**	**0.404**	**0.006**	**5**	**significant**
OP Vs. NW(NIBL)	**0.959**	**0.919**	**0.0242**	**121.746**	**0.355**	**0.145**	**5**	**significant**

For Details visit Appendix

Correlation(r) Between operating profit and net worth

As presented in table, there is direct relationship between operating profit and net worth of SCBNL and NIBL. The correlation coefficient of SCBNL is 0.997,

which shows high degree of positive correlation between operating profit and net worth during the study period. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.995, which indicates that 99.50% variation is explained the dependent variable net worth due to change in the value of independent Operating profit.

Probable error of correlation coefficient has also calculated to measure the significant of the relationship between Operating profit and net worth. The data related to SCBNL show that there is significant relationship between Operating profit and net worth because r is greater than 6 P.E.

Correlation coefficient of NIBL is 0.959, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.919, which indicates that 91.9% variation is explained the dependent variable Net worth due to change in the value of independent variable operating profit . Probable error of correlation coefficient has also calculated to measure the significant of the relationship between operating profit and net worth because r is greater than 6.P.E.

Regression Analysis of operating profit and net worth :

Regression Equation: Y=a+bx

Here, Net worth = a+b× Operating Profit

Here, dependent variable is Net worth and independent variable is operating profit. The table is clear to say that Net worth have direct influence on operating profit of SCBNL, as the regression coefficient is positive. Regression coefficient is 0.404, which indicates that a one-rupee increase in Net worth leads to an average of about Rs 0.404 increases in operating profit. Likewise, Net worth has direct influence on operating profit of NIBL, as the regression coefficient is positive. Regression coefficient is 0.355, which indicates that a one-rupee increase in net worth leads to an average of about Rs 0.28 increases in operating profit.

4.9 Major Findings

The findings of the study have been summarized and presents below:

1. The cash and bank balance to current assets ratio of both banks reveal a fluctuation trend. The degree of fluctuation for NIBL is higher then SCBNL .For example, this ratio for NIBL in 2005/06 was 5.16 and it increased to 7.43 in 2006/07. It again jumped up to 18.99 in 2008/09.This fluctuation can also be interpreted through the coefficient of variation, which is 42.87. The ratios of SCBNL were more uniform than that of NIBL.

2. The loan and advance to current ratio were somewhat stable for both the banks. The mean ratios of the banks reveal that NIBL ratio of loan and advance to its current assets is higher than that of SCBNL. However, the variability is similar for both banks.

3. The mean of fixed deposit to total deposit reveal that a major portion of NIBL fixed deposit constitute its total deposit. The mean of fixed deposit to total deposit ratio of SCBNL and NIBL is 15.84 and 28.17 respectively. However, the degree of variability between the ratios SCBNL throughout the study period is less then that of NIBL.

4. Earning per Share of the NIBL increase to 2006/07 but decreasing rate each year from 2006/07 to 2008/09 and increase 2009/10. MPS also increase first three year and decrease last two year of the study period. CRR of the bank 13.61% in the year 2005/06, 10.47%, 10.91%, 10.32%, and 7.77% for the year 2006/07, 2007/08, 2008/09 and 2009/10 respectively.

5. Earning per Share of the bank Higher the level of CRR, higher the liquidity of the CBs, which directly affects in the profitability level of the CBs. Therefore, the trade-off between the liquidity & profitability should be reached as far as possible.

6. The portion of current assets that have-been given as loans and advances. The ratios of SCBNL are 38.01, 42.68, 42.29, 43.84 and 47.98 of the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The ratios of SCBNL are 53.71, 70.26, 95.98, 116.15 and 121.25 the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively.

7. Fixed deposit and total deposit ratio. The ratio of SCBNL and NIBL are 6.26, 12.96, 11.09, 19.79 and 26.08, and 28.59, 30.69, 23.06, 24.91 and 33.59 for the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The mean of the ratio are 15.84 and 28.17 SCBNL and NIBL respectively.

8. Loan & advance to total deposit Ratio the ratio in SCBNL and NIBL slightly fluctuated throughout the study period. It descended to 45.35% in the last year form 38.75% in the base year of SCBNL. It depicted increasing trend in SCBNL up to the three year of review period and marginally declined in the fourth year and last year increase to 45.35%. Mean ratio of SCBNL is 42.19%.

9. Loan & advance to total deposit Ratio the ratio of NIBL slightly fluctuated throughout the study period. It descended to 80.48% in the last year form 675% in the base year of NIBL. It depicted increasing trend in NIBL up to the three year of review period and marginally declined in the fourth year and last year increase to 80.48%. Mean ratio of NIBL is 42.19%, which appeared considerably higher which signifies that SCBNL is more successful in utilizing the resources in profitable sectors.

10. Loan & advance to fixed deposit Ratio the ratio of SCBNL and NIBL revealed decreasing trend up to last year. It showed fluctuating trend in SCBNL for the period. The ratio in SCBNL ranged form 4.18 in the first year to 1.73% in the last year. The ratio of NIBL also decreasing trend 2.36 in base year and slightly increase in the year 2007/08 is 3.39 after that decrease to 2.39 in the last year. With respect to this ratio, both of the banks have shown good performance. The ratio in SCBNL and NIBL obviously showed increasing trend up to the fourth year and then dropped in the last year of NIBL. Average of the ratios NIBL seemed almost double the same of SCBNL and which indicates that NIBL has more successfully utilized the interest bearing deposit in terms of loans and advances moreover, turnover position of NIBL is better than that SCBNL with respect to this ratio

11. The ratio interest earned to working fund ratio showed increasing trend, it followed rising trend of the study period. In SCBNL, the ratio ranged from 4.75% in the base year to 9.31% in the last year. In NIBL, it ranged from 6.99% in the base year to 9.03% in the last year. Mean ratio was higher in NIBL, which

loads us to the conclusion that NIBL managed the assets more effectively to earn interest.

12. The interest paid to working fund ratio of SCBNL and NIBL rising trend, which reached 3.59 in the final year from 1.71 in the base year of SCBNL. In NIBL, it depicted increasing trend in the following years. Lower mean ratio in SCBNL indicates better profitability position as compared to NIBL. Overall picture shows that SCBNL is more successful in allocating the interest bearing debt in profitable sectors. On the other hand, it is also obvious that interest spread rate is high in the bank CV of the ratios appeared greater in SCBNL, which mean that were relatively less uniform throughout the review period.

13. The ratio Net profit to total deposit ratio showed increasing trend, it followed rising trend of the study period. In SCBNL, the ratio ranged from 2.78% in the base year to 3.23% in the last year. In NIBL, it ranged from 1.85% in the base year to 2.08% in the last year. Mean ratio was higher in SCBNL, which loads us to the conclusion that SCBNL managed the assets more effectively to increase profit. Further more, profit earned to total deposit in different years of the study period remained uniform in SCBNL as revealed by lower CV. The ratios in SCBNL did not reveal particular direction of change. The ratios in the first year remained very high as compared to the rest of the years. In NIBL, it remained negative up to the fourth year of the study period. Then it went positive and increased gradually later on. Mean ratio of SCBNL appeared significantly higher which mean the investors are well satisfied with the performance of the bank.

14. EPS in SCBNL depicted decreasing trend up to the last year of review period. The ratio of in NIBL for the first two years increasing then decreasing to 37.42 in fiscal year 2008/09 and then remained almost same increasing to 52.55 in year 2009/10. The ratio in SCBNL is the result of normal suffered by the bank for the study period. Mean ratio was much higher in SCBNL is contrast to NIBL, which indicates that the profitability position of the formed is far better than that of the latter.

15. Dividend per share in following years decreasing trend of SCBNL, 130 in year 2005/06 and at last year 55. NIBL pay dividend for first years only 20, and decreasing to 5, 7.50, 20, 25 for the year 2006/07, 2007/08, 2008/09 and 2009/10

respectively. Mean DPS of SCBNL came remarkably higher in NIBL, which signifies that SCBNL is more successful to win the confidence of the investors. As dividend is the direct return received by the shareholders, they evaluate the organization paying high dividend as the better one. This means SCBNL can sell its shares more easily than NIBL

16 . Correlation between cash and bank balance and current assets of SCBNL is 0.564 R^2; Probable error and 6 P.E of SCBNL are 0.138, 0.206 and 1.234 respectively. Correlation between cash and bank balance to current assets of NIBL is 0.922. R^2, Probable error and 6 P.E of NIBL are 0.851, 0.045 and 0.271 respectively.

17. Correlation between investment on government securities to current assets of SCBNL is 0.521 R^2; Probable error and 6 P.E of SCBNL are 0.272, 0.219and 1.319 respectively. Correlation between cash and bank balance to current assets of NIBL is 0.947 R^2, Probable error and 6 P.E of PFCL are 0.896, 0.031 and 1.187respectively.

18 Correlation between Operating profit to net worth of SCBNL is 0.997R^2; Probable error and 6 P.E of SCBNL are 0.995, 0.001and 0.006 respectively. Correlation between operating profit to net worth of NIBL is 0.959 R^2, Probable error and 6 P.E of PFCL are 0.919, 0.0242 and 0.145 respectively

CHAPTER –FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

A summary of the study is presented in this chapter outlining the study's introduction, purpose, objectives, and methodology. The findings of the study are also presented in a summarized form and recommendations are made where possible.

5.1 Summary

Financial information required for financial planning, analysis and decision- making. The financial statement, Balance Sheet and profit & loss a/c are the basic instrument of an accounting system to communicate financial information to users. Balance Sheet shows the financial condition of the state of affairs of the firm at a particular point of time while the profit & loss a/c shows the profitability of the firm by giving details about revenues and expenses for accounting period.

The financial statements serve as a means to the various stakeholders of the firm to analyze the organization's financial strengths, weakness, and performance. There are various ways to conduct a financial performance study. One of them is the financial ratio analysis. A financial ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a firm ratio analysis is a process of identifying the financial strengths and weaknesses of the firm. This may be accomplished either through a trend analysis of the firm's ratios over a period of the or through a comparison of the firm's ratios with its nearest competitors and with the industry average.

Banks play a vital role in the economy of most of the countries in the world. They are the backbone of a country's financial system. Although banking is relatively new concept in Nepal compared to its centuries old traditional cultural existence, this sector has witnessed a phenomenal growth in the last two decades. With the entry of joint- venture banks, customers have been receiving specialized and efficient services. Competitive interest rates, customer- focused services, extra benefits are what customers look in order the choose the institution they want to bank with. This has certainly led to cutthroat competition among the various national and joint- venture banks operating in Nepal while nature of service and rate of interest attract customers to a great extent, the nature and state of the bank's financial performance also play a

vital role. In order to fulfill the partial requirement for the Degree of Masters in Business studies, a study titled" Cash management *of joint venture Banks in Nepal (Standard Chartered Bank Ltd. And Nepal investment Bank Ltd.)"* was undertaken. The study seeks to assess the financial performance of the tow banks with the help of ratio analysis as well as other relevant analysis (i.e. study of loan loss provision) for the period starting from to 2005/06 to 2009/10 (5years). As the study is analytical – cum – descriptive in nature, research is based on the historical data of the bank available in the annual reports of the banks. The annual reports were collected form the respective banks as well as the internet (www. Nepalstock.com) books, periodicals, journals; articles on the related subject were extensively reviewed in the library quotations from various authors on the related topic have been placed throughout the chapters, reviews of the previously undertaken research studies have also been made in order to highlight the difference and significance of the study.

Financial as well as statistical tools have been used to determine the financial performance of the two banks. While ratio analysis is used to assess the liquidity, profitability position of the banks for which statistical tools such as; mean, standard deviation, coefficient of variation, Correlation co-efficient and regression have been used to determine the extent of variability and similarity between the ratios of the banks. The findings of the study have been presented in tables and graphs. Analysis and interpretation of the findings are also presented for each of the ratios. Finally, the correlation and regression analysis done for each ratio to determine whether the similar ratios of the two banks significantly differ or not.

5.2 Conclusions

The conclusion of the study have been summarized and presented below.

1. Earning per Share of the bank Higher the level of CRR, higher the liquidity of the CBs, which directly affects in the profitability level of the CBs. Therefore, the trade-off between the liquidity & profitability should be reached as far as possible.

2. Through the analysis of liquidity ratio of SCBNL has maintained high growth rate in comparison to NIBL. We must say that the bank should be successful to use its resource ,we must say that bank is successful in increasing its resource of

fund and its mobilization further the bank is maintaining better financial position.

3. Through the analysis of activity ratio, it can be concluded that SCBNL is more efficient in utilizing collected fund as compared to NIBL. Although NIBL as a higher loan and advance to total deposit ratio, the efficiency of the use of shareholders fund as revealed in operating profit to net worth is higher for SCBNL.

4. The profitability position of NIBL is better than SCBNL. The interest earned to total working fund ratio for NIBL is higher than SCBNL, while SCBNL has mixed trend in the interest paid and SCBNL is higher interest paid to working fund ratio with reveals that the bank is collecting fund from expensive source. Similarly, NIBL has lower net profit to working fund ratios the ratio for SCBNL during the study period. So NIBL should to augment its profitability like SCBNL.

5. Both the banks have not used long-term loans in their financial sources .This means both the banks have relied on public deposits, borrowing and finally the shareholders' equity .Partially their capital structures consist of other liabilities like bill payables.

6. EPS in SCBNL depicted decreasing trend up to the last year of review period. the ratio of in NIBL for the first two years increasing then decreasing to 37.42 in fiscal year 2008/09 and then remained almost same increasing to 55in year 2009/10. The ratio in NIBL is the result of normal suffered by the bank for the study period. Mean ratio was much higher in SCBNL is contrast to NIBL, which indicates that the profitability position of the formed is far better than that of the later.

7. The interest paid to working fund ration of SCBNL and NIBL rising trend, which reached 3.59 in the final year from 1.71 base year of SCBNL. In NIBL, it depicted increasing trend in the following years. Lower mean ratio in SCBNL indicates better profitability position as compared to NIBL. Overall picture show that SCBNL, is more successful in allocating the interest bearing debts in profitable sectors. On the other hand, it is also obvious that interest spread rate is

high in the bank CV of the ratios appeared greater in SCBNL ,which mean that were relatively less uniform through out the review period.

8. The ratio Net profit to total deposit ratio showed increasing trend, it followed rising trend of the study period. In SCBNL, the ratio ranged from 2.78in base year to 3.23 in the last year. In NIBL, it ranged from 1.85 in the base year to 2.08 in the last year. Mean ratio was higher in SCBNL, which loads us to the conclusion that SCBNL managed the assets more effectively to increase profit. Furthermore, profit earned to total deposit in different year of the study period remained more uniform in SCBNL as revealed by lower CV.

9. For the valuation of stock, the price-earning ratio can also be used .A high profit-earning ratio indicates over valuation of stock of an organization either vice versa. The price earnings ratio of NIBL 28.34 times and SCBNL 41.07 time respectively indicating that on an average SCBNL has higher price earning ratio compared to NIBL. This indicates that the SCBNL stock is overvalued.

5.3 Recommendations

Based on the analysis and findings of the study, following recommendation can be advanced

Portfolio Diversification

As we see the two ratios cash and bank to current assets and loan and advances to current assets, for these two financial institutions are not using its liquidity in investment in securities other than government securities. I think because of the current political situation they are not interest in investment. But if this financial institution invests in investment, it will help the country to boost the economic growth. Financial institution plays an important role in economic, growth of the country so I will recommend theses banks to have little eye on investment.

Credit supervision and Monitoring Mechanism

Liquidity is the ability to turn investment into cash quickly at a value close to the face value of investment. The degree liquidity maintained varies form institution to institution. While it is necessary for all organizations, including banks, to have a comfortable liquidity position, absence of liquidity can prove to be hazardous as it can

lead to tying up of assets. Current ratio of 2:1 is the standard norm. However, this can vary form industry to industry.

Although, NIBL seem to have floated tremendous amount of loan and advances, this can lead to tying up of liquidity go income generating assets. We can see that more than half of its total assets constituted its loans and advances. In the long term, this can create a liquidity crisis if these assets were to stop performing properly. Negligence in controlling the performance of these assets can bring about failure in the bank's performance as a whole. Credit supervision and monitoring mechanism must be put in operation to maintain the quality of credit.

Investment policy

Loans and advances are profit-earning assets of a commercial bank, which include loans cash credit, overdrafts; bill discounted and bill purchase. A bank is able to earn more if it is able to increase its investment in loan and advances. However, it is necessary to strictly maintain the quality of credit. While the looks impressive, it would be appropriate to suggest that a proper balance be maintained between loan, advance, and current assent. So as to help increase returns as much as possible and still maintain the required liquidity.

Both of the banks have maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. Therefore, both of the banks are suggested to lower this ratio and invest the surplus fund in other current assets such as loans and advances, bills purchase and discount, money at call and short notice. Both of the banks are suggested to review their investment ponies to see if there is any better mix than the present one.

Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the banks are suggested to diversify their loans in priority and deprived sectors as per the directive of NRB.

Reduce the cost of deposits

As we se the statistic I will recommend NIBL to provide some benefit to the depositors, which will lure them to have their income to be deposited in fixed deposits. Similarly, SCBNL should discourage its depositor to deposit in saving deposit. For financial institution if they have placed to invest them in long- term assets, fixed deposit is better than saving deposits.

Maintain the Shareholders welfare

When we compare price earnings ratio of these banks it shows that NIBL has Lowest P/E ratio than SCBNL. The Lower P/E ratio implies that the stock's price, NIBL is under valuated in comparison to SCBNL .NIBL is advised to take measures to increase the P/E ratio, which reflect the welfare maximization of the shareholders of the bank. Similarly SCBNL should Maintain its higher P/E ratio in the days to come.

Adapt ion of Stable dividend policy

When we see DPS of these two commercial banks, it shows that DPS of NIBL is not satisfactory for study period so it will reduce the shareholders confidences. Therefore, to get confidences of shareholders it should provide dividend regularly to its shareholders by generating more profit .And it should also maintain a stable dividend policy as standard chartered bank has maintained.

Provide Quick Service to Customers

Due to increasing competition in this sector, such as situation the business should be more clients oriented, market oriented, service oriented, and step forward on new business activities and should offer a complete range of financial services. The company should strive to increase fee-based income by providing service to their clients. Company should be provided the quick services to its clients in depositing, withdrawn, loan providing procedure and other services. Company should provide broad and reliable service in cheapest cost. Company should be better to extend its investment in loan and advance gradually in the risk free sector in order to yield certain income for minimizing total market risk. Company should operate its branches in different areas for expand its market areas. Company should be provided ATM card, Debit Card, Credit Card, ABBS service, Remittance service and other services. Finance company should be provided the attractive schemes to all small, medium and higher level customers in enjoying depositing, borrowing and other services. Company should be provided the attractive schemes to house-wives, students and job holders to deposit in financial organization

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Annex I

1. Ratio of Cash and Bank Balance to Current Assets of Standard Chartered Bank Nepal Ltd.

Years	Cash and Bank Balance	Current Assets	Ratios
2005/06	1215	23505	5.16911295
2006/07	1937	24601	7.87366367
2007/08	2654	28125	9.43644444
2008/09	3136	31201	10.0509599
2009/10	1928	33251	5.79832185
Mean			7.66570057
SD			2.1557074
CV			28.1214663

Annex II

2. Ratio of Cash and Bank Balance to Current Assets of Nepal Investment Bank Ltd.

Years	Cash and Bank Balance	Current Assets	Ratios
2005/06	1952	28541	6.83928384
2006/07	2325	31256	7.43857179
2007/08	3951	34512	11.4481919
2008/09	7825	41201	18.9922575
2009/10	6793	46251	14.68725
Mean			11.881111
SD			5.09378089
CV			42.872934

Annex III

3. Loan and advance to current assets of Standard Chartered Bank Ltd.

Years	Loan and advance	Current Assets	Ratios
2005/06	8935	23505	38.0131887
2006/07	10502	24601	42.6893216
2007/08	13718	28125	48.775111
2008/09	13679	31201	43.8415435
2009/10	15956	33251	47.9865267
Mean			44.26114
SD			4.357124
CV			9.844123

Annex IV

4. Loan and advance to current assets of Nepal Investment Bank Ltd.

Years	Loan and advance	Current Assets	Ratios.
2005/06	12776	23505	54.35439268
2006/07	17286	24601	70.2654364
2007/08	26996	28125	95.9857778
2008/09	36241	31201	116.153328
2009/10	40318	33251	121.253496
Mean			91.160249
SD			28.91293
CV			31.56348

Annex V

5. Fixed deposited to Total deposits of Standard Chartered Bank Ltd.

Years	Fixed Deposits	Total Deposits	Ratios.
2005/06	2136	23061	9.26239105
2006/07	3196	24647	12.9670954
2007/08	3301	29743	11.0984097
2008/09	7101	35871	19.7959354
2009/10	9175	35182	26.0786766
Mean			15.8405016
SD			6.97282441
CV			44.0189621

Annex VI

6. Fixed Deposits to Total Deposits of Nepal Investment Bank Ltd.

Years	Fixed Deposit	Total Deposit	Ratios
2005/06	5412	18927	28.594072
2006/07	7516	24488	30.6925841
2007/08	7944	34451	23.0588372
2008/09	11633	46698	24.9111311
2009/10	16825	50094	33.5868567
Mean			28.1686962
SD			4.26115617
CV			15.1272751

Annex VII

7. Saving deposit to Total deposits of Nepal Investment Bank Ltd.

Years	Saving Deposits	Total Deposits	Ratios.
2005/06	**8081**	**18927**	**42.69562**
2006/07	**10742**	**24488**	**43.866384**
2007/08	**13688**	**34451**	**39.731793**
2008/09	**11633**	**46698**	**24.911131**
2009/10	**14825**	**50094**	**29.594363**
Mean			**36.159858**
SD			**8.433638**
CV			**23.3232066**

Annex VIII

8. Saving Deposits to Total Deposits of Standard Chartered Bank Ltd.

Years	Saving Deposit	Total Deposit	Ratios
2005/06	**14597**	**23061**	**63.297342**
2006/07	**15244**	**24647**	**61.849312**
2007/08	**17856**	**29743**	**60.034294**
2008/09	**19140**	**35871**	**53.357866**
2009/10	**12430**	**35182**	**35.330567**
Mean			**54.773876**
SD			**11.51554**
CV			**21.023781**

Annex IX

9. Loan and advance and total deposits of Standard Chartered Bank Ltd.

Years	Loan and advance	Total Deposit	Ratio
2005/06	8935	23061	38.745067
2006/07	10502	24647	42.609648
2007/08	13718	29743	46.121777
2008/09	13679	35871	38.133869
2009/10	15956	35182	45.352737
Mean			42.19262
SD			3.672792
CV			8.70482113

Annex X

10. Loan and advance And Total Deposits Nepal Investment Bank ltd.

Years	Loan and advance	Total Deposit	Ratio
2005/06	12776	18927	67.501453
2006/07	17286	24488	70.5896766
2007/08	26996	34451	78.3605701
2008/09	36241	46698	77.607178
2009/10	40318	50094	80.4846888
Mean			74.9087133
SD			5.56349966
CV			7.42703942

Annex XI

11. Loan and advance to fixed deposits of Nepal Investment Bank Ltd.

Years	Loan and advance	Fixed deposit	Ratio
2005/06	**12776**	**5412**	**2.36067997**
2006/07	**17286**	**7516**	**2.29989356**
2007/08	**26996**	**7944**	**3.39828802**
2008/09	**36241**	**11633**	**3.11536147**
2009/10	**40318**	**16825**	**2.39631501**
Mean			**2.71410761**
SD			**0.50660241**
CV			**18.6655241**

Annex XII

12. Loan and advance and fixed deposits of Standard Chartered Bank Ltd.

Years	Loan and advance	Fixed Deposit	Ratio
2005/06	**8935**	**2136**	**4.18305243**
2006/07	**10502**	**3196**	**3.28598248**
2007/08	**13718**	**3301**	**4.15571039**
2008/09	**13679**	**7101**	**1.9263484**
2009/10	**15956**	**9175**	**1.73907357**
Mean			**3.05803345**
SD			**1.17716708**
CV			**38.4942513**

Annex XIII

13. loan and advance to saving deposits of Investment Bank Ltd.

Years	Loan and advance	Saving deposit.	Ratio
2005/06	**12776**	**8081**	**1.58099245**
2006/07	**17286**	**10742**	**1.60919754**
2007/08	**26996**	**13688**	**1.97223846**
2008/09	**36241**	**11633**	**3.11536147**
2009/10	**40318**	**14825**	**2.71959528**
Mean			**2.19947704**
SD			**0.68774227**
CV			**31.2684451**

Annex XIV

14. Loan and advance to saving deposits of Standard Chartered Bank Ltd.

Years	Loan and advance	Saving deposit.	Ratio
2005/06	**8935**	**14597**	**0.61211208**
2006/07	**10502**	**15244**	**0.68892679**
2007/08	**13718**	**17856**	**0.76825717**
2008/09	**13679**	**19140**	**0.71468130**
2009/10	**15956**	**12430**	**1.28366854**
Mean			**0.81353054**
SD			**0.27**
CV			**33.03**

Annex XV

15. Interest earned and working fund of Nepal Investment Bank Ltd.

Years	Interest earned	Working fund	Ratio
2005/06	1066	15247	6.991539
2006/07	1524	24517	6.216095
2007/08	2165	32568	6.64763
2008/09	3289	42112	7.810125
2009/10	4625	51225	9.028795
Mean			7.338837
SD			1.110968
CV			15.1382071

Annex XVI

16. Interest earned and working fund of Standard Chartered Bank Ltd.

Years	Interest earned	Working fund	Ratio
2005/06	1125	23642	4.758481
2006/07	1524	25491	5.978581
2007/08	1982	27545	7.195498
2008/09	2533	31325	8.086193
2009/10	3121	33521	9.310581
Mean			7.065867
SD			1.775024
CV			25.1211024

Annex XVII

17. Interest paid and working fund of Nepal Investment Bank Ltd.

Years	Interest paid	Working fund	Ratio
2005/06	502	15247	3.292451
2006/07	1021	24517	4.164457
2007/08	1452	32568	4.458364
2008/09	1920	42112	4.559271
2009/10	2325	51225	4.538799
Mean			4.202668
SD			0.532796
CV			12.6775584

Annex XVIII

18. Interest paid to working fund of Standard Chartered Bank Ltd.

Years	Interest paid	Working fund	Ratio
2005/06	405	23642	1.713053
2006/07	601	25491	2.357695
2007/08	904	27545	3.281902
2008/09	1120	31325	3.575419
2009/10	1205	33521	3.594761
Mean			2.904566
SD			0.08348
CV			28.7409702

Annex XIX

19. Net profit to working fund of Nepal Investment Bank Ltd.

Years	Net profit	Working fund	Ratio
2005/06	351	15247	0.02302092
2006/07	501	24517	0.0204348
2007/08	697	32568	0.02140138
2008/09	900	42112	0.02137158
2009/10	1265	51225	0.02469497
Mean			0.02218473
SD			0.00168357
CV			7.58887387

Annex XX

20. Net profit to working fund of Standard Chartered Bank Ltd.

Years	Net profit	Working fund	Ratio
2005/06	658	23642	0.02783182
2006/07	691	25491	0.02710761
2007/08	854	27545	0.03100381
2008/09	1025	31325	0.03272147
2009/10	1085	33521	0.03236777
Mean			0.0302065
SD			0.00259201
CV			8.58097162

Annex XXI

21. Net profit to total deposit of Nepal Investment Bank Ltd.

Years	Net profit	Total deposit	Ratio
2005/06	351	18927	1.854494
2006/07	501	24488	2.0459
2007/08	697	34451	2.023163
2008/09	900	46698	1.927277
2009/10	1265	50094	2.52553
Mean			2.075217
SD			0.0263014
CV			12.6740581

Annex XXII

22. Net profit to total deposit of Standard chartered Bank Ltd.

Years	Net profit	Total deposit	Ratio
2005/06	658	23061	2.853302
2006/07	691	24647	2.803587
2007/08	854	29743	2.871264
2008/09	1025	35871	2.857461
2009/10	1085	35182	3.083963
Mean			2.893915
SD			0.109281
CV			3.776217

Annex XXIII

23) Cash and bank balance to current assets of standard chartered bank Nepal limited

Year	Cash and Bank Balance	Current Assets
2005/06	**1215**	**23505**
2006/07	**1937**	**24601**
2007/08	**2654**	**28125**
2008/09	**3136**	**31201**
2009/10	**1928**	**33251**
Total	**10870**	**140683**
Mean	**2174**	**28136.6**
SD	**740.3057**	**4168.332**
CV	**34.0527**	**14.81462**

Variables	r	r^2	P.E	a-value	b-value	6PE	Remarks
CBB Vs. CA of SCBNL	**0.564181**	**0.318299809**	**1.366632**	**-645.283**	**0.1002**	**1.234**	**Insignificant**

Annex XXIV

24) Cash and bank balance to current assets of Nepal investment bank limited

Year	CBB	CA
2005/06	1952	28541
2006/07	2325	31256
2007/08	3951	34512
2008/09	7825	41201
2009/10	6793	46251
Total	22846	181761
Mean	4569.2	36352.2
SD	2636.942	7277.87
CV	57.71125	20.02044

Variables	r	r^2	PE	a-value	b-value	6PE	Remarks
MPS Vs. DPS	0.922522	0.85104639	0.045	-7581.57	0.334251	0.271	significant

Annex XXV

25) Investment of government securities to current assets of Nepal Investment Bank Limited.

Years	IGS	CA
2005/06	8635	23505
2006/07	7107	24601
2007/08	8136	28125
2008/09	9997	31201
2009/10	8530	33251
Total	42405	140683
Mean	8481	28136.6
SD	1040.586	4168.332
CV	12.26961	14.81462

Variables	**r**	**r^2**	**PE**	a-Value	b-Value	**6PE**	**Remarks**
IGS Vs. CA	0.521	0.272	0.219	4819.237	0.130142	1.314	Insignificant

Annex XXVI

26) Investment on government security to current assets of Nepal Investment Bank Limited

YEAR	Investment on govt. security	Current Assets
2005/06	2522	28541
2006/07	3256	31256
2007/08	3155	34512
2008/09	3622	41201
2009/10	4201	46251
Total	16756	181761
Mean	3351.2	36352.2
SD	618.5917	7277.87
CV	18.45881	20.02044

Variables	r	r^2	PE	a-value	b-value	6PE	Remarks
IOGS Vs. CA	0.946701	0.896243164	0.031	426.0816	0.080466	0.187	significant

Annex XXVII

27) Operating profit to net worth of Standard chartered bank Nepal limited

YEAR		OF	NW
2006/07		1092	2116
2007/08		1248	2492
2008/09		1506	3052
2009/10		1612	3369
Total		6139	12783
Mean		1227.8	2556.6
SD		202.6356	661.0377
CV		16.50396	25.85612

Variables	r	r^2	PE	a-value	b-value	6PE	Remarks
0P Vs. Nw(SCBNL)	0.997	0.994009	0.001	554.33	0.404	0.006	significant

Annex XXVIII

28) Operating profit to net worth of Nepal investment bank limited

YEAR		Operating profit	Net Worth
2005/06		648	1415
2006/07		857	1878
2007/08		1013	2686
2008/09		1310	3907
2009/10		1925	4585
Total		5753	14471
Mean		1150.6	2894.2
SD		495.6927	1336.844
CV		43.08124	46.19046

Variables	r	r^2	PE	a-value	b-value	t-table	Remarks
OP Vs. NW(NIBL)	0.958724	0.91915082	0.0242	121.7462	0.355488	0.145	Signification

APPENDIX

VITAE -SHEET

A. PERSONAL DETAILS

Name : Debi Ram Acharya

Permanent Address : **Mareng - 6,Chhedakothati, Arghakhanchi**

Contact No. : **9847330926**

Date of Birth : **2040/10/02**

Nationality : **Nepali**

Religion : **Hindu**

Marital status : **Unmarried**

Occupation : **Banking**

B. EDUCATIONAL QUALIFICATION:

S.N.	Board/Institution	Level	Passed Year	Division	Major Subject
1	HMG Board (Shree Siddha Na. Ra. Secondary School)	S.L.C	2058	2nd	Opt. Economics, Science, Health Education
2	HSEB (Shree Sarsawati Higher Secondary School, Arghakhanchi)	10+2.	2061	2nd	Account, Economics, Marketing
3	T.U.(Lumbini Banijya Campus, Butwal)	BBS	2065	2nd	Account, Taxation, Marketing, Economics
4	T.U. (Lumbini Banijya Campus, Butwal)	M.B.S.	On thesis	-	Account & Taxation