

**Analysis of Cash Flow Statement of banking industry in Nepal  
(With special reference to Standard Chartered Bank and  
Siddhartha Bank)**

**A Thesis**

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Tribhuvan University**

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

**Kathmandu, Nepal  
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## **RECOMMENDATION**

This is to certify that the thesis  
Submitted by:

**REENA MAHARJAN**

Entitled:

**Analysis of Cash Flow Statement of banking industry in Nepal**  
(With special reference to Standard Chartered Bank and Siddhartha Bank)

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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## **VIVA-VOCE SHEET**

We have conducted the viva-voce examination of the thesis  
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Entitled:

**Analysis of Cash Flow Statement of banking industry in Nepal**  
(With special reference to Standard Chartered Bank and Siddhartha Bank)

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

**Master Degree in Business Studies (MBS)**

Viva-Voce Committee

Head of Research Department &  
Thesis Supervisor

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Member (External Expert)

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**TRIBHUVAN UNIVERSITY**  
**Faculty of Management**  
**Nepal Commerce Campus**

**DECLARATION**

I hereby declare that the work reported in this thesis entitled " **Analysis of Cash Flow Statement of banking industry in Nepal** (With special reference to Standard Chartered Bank and Siddhartha Bank) " submitted to Nepal Commerce Campus, faculty of management, Tribhuvan University is my original research work done in the form of partial fulfillment for the requirement of Master of Business Studies (MBS) under the supervision and guidance of Dr. Sushil Bhakta Mathema of Nepal Commerce Campus, Minbhawan, Kathmandu..

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Reena Maharjan  
Roll no.352

## **ABBREVIATION**

<b>AS</b>	<b>:</b>	<b>Accounting Standard</b>
<b>ASB</b>	<b>:</b>	<b>Accounting Standard Board</b>
<b>ATMS</b>	<b>:</b>	<b>Automated Teller machine</b>
<b>CAs</b>	<b>:</b>	<b>Chartered Accountants</b>
<b>CFFA</b>	<b>:</b>	<b>Cash Flow from Financing Activities</b>
<b>CFIA</b>	<b>:</b>	<b>Cash Flow from Investing Activities</b>
<b>CFOA</b>	<b>:</b>	<b>Cash Flow from Operating Activities</b>
<b>COGS</b>	<b>:</b>	<b>Cost of Goods Sold</b>
<b>CRR</b>	<b>:</b>	<b>Cash Reserve Ratio</b>
<b>DCBL</b>	<b>:</b>	<b>Development Credit Bank Limited</b>
<b>FASB</b>	<b>:</b>	<b>Financial Accounting Standard Board</b>
<b>GAAP</b>	<b>:</b>	<b>General Accepted Accounting Principle</b>
<b>IAS</b>	<b>:</b>	<b>International Accounting Standard</b>
<b>IASB</b>	<b>:</b>	<b>International Accounting Standard Board</b>
<b>IASs</b>	<b>:</b>	<b>International Accounting Standards</b>
<b>ICAN</b>	<b>:</b>	<b>Institute of Chartered Accountancy of Nepal</b>
<b>NRB</b>	<b>:</b>	<b>Nepal Rastra Bank</b>
<b>NMB</b>	<b>:</b>	<b>Nepal Merchant Bank</b>
<b>SBL</b>	<b>:</b>	<b>Siddhartha Bank</b>
<b>SCB</b>	<b>:</b>	<b>Standard Chartered Bank</b>
<b>SWOT</b>	<b>:</b>	<b>Strength, Weakness, Opportunity &amp; Threat</b>

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## **Chapter-1**

# **INTRODUCTION**

### **Background of study**

Cash is the lifeblood of business organization. It is the fuel that keeps the business alive. Without cash no business transaction can even imagined to be done. So, analysis of liquidity positions is an important aspect of modern business organizations. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the causes of cash position to change. The analysis of the events and transaction that effect the cash position of the company is termed as cash flow analysis.

Cash flow simply refers the flows of cash 'In' and 'Out' of a business over certain period of time. It defines the flow of cash. Normally there are the two types of cash flows (i.e. positive and negative) Positive cash flow means inflow of cash and negative means outgoing of cash. Cash flow exclude movements between items that constitute cash or cash equivalentents because these components are the part of cash management of enterprises rather than parts of its operating, investing & financing activities.

Cash flow simply refers to the flow of cash into or outflow of business over a period of time. Watching the cash inflow and out flows is one of the major management tasks. The outflow of cash is measured by those checks issued by every month to pay salaries, suppliers, creditors and others. The inflows are the cash received from customers, lenders & inventories or any type of sources. The terms of cash outflow and inflow systematically defined as sources & uses of cash.

Cash flow can be defined as a two ways positive cash flow and negative cash flow. If incoming of cash is more then out going of cash in a business, the company has a positive cash flow. A positive cash flow is very good position for business enterprises like a good health. 'Cash flow' is one of the must vital elements for the survival of a business. It can be negative or positive; the later is obviously a most undesirable situation.

The development of any country can't be imagined without economic activities. The development of the banking system is one of the grounds of economic development. In another word, there is no possibility of economic development of a country without the development of banking system. So, we should take a bank as a strong means for the economic development. The development of a bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without the bank whether it is inside the nation or in foreign countries whether it is industrial development or business and whether it is for the people for the government. So, to solve problems relating to the economic development, development of banking system is need. Even in ancient time banking necessity was realized but today it is considered to be much more necessary.

Normally, an institution established by law, which deals with money and credit, is called bank. On the other side an institution involved in monetary transactions is also called bank. The business providing financial services to consumers and financial institution is also known as bank. It also provides loan, accept deposits, exchange money, transfer the money and checks account, which can be used like money to make payments and purchases and give services. Without the growth of financial field, there is no chance to develop business and without the growth of business, the country cannot develop at any costs. So that bank is very necessary all over the country. So banking sector plays vital role in the economic development of the country.

Bank came into existence mainly with the objective of collecting the idle funds, mobilizing them into productive sector causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. The functions of modern banking system are multifarious in nature and owing to the shift in emphasis of the functions of bank a different stage of development; different economists have defined banking in different ways. According to the Thomson's Dictionary: Word 'Bank' is said to be derived from the Italian word 'Banco' a bench, the yearly bankers the Jews in Lombardy, transacted their business at benches in the market place. In a common sense an institution involved in monetary transaction is called bank. A bank simply carries on the work of exchanging money, providing loan, accepting deposit and transferring the money. Nepal Rastra Bank Act 2058 section 2 (a) defines bank as follows: Bank means the Nepal Rastra Bank established under section of this act, likewise, according to section 2 (b) of the commercial Bank Act 2031 A commercial bank established under the Act. Though the Banks established by both of these acts are called bank. In addition of this, Section 2 (a) of the negotiable Instrument Act 2034 defines that a bank, which established under the existing law shall be called bank.

Following are some of the reasons for necessity of banks;

1. To relieve people from financial exploitation
2. To develop industry and commerce
3. For economic development
4. To provide security to valuable goods and property
5. To transfer fund
6. To create development and skilled
7. To develop habit of saving
8. For monetarism
9. To develop agriculture and backwards area
10. To balance economic development as a whole
11. To exchange and control foreign countries
12. To regulate and control money management credit and price stability
13. To build capital
14. To provide loan at lower rate
15. To provide long-term loan

16. To uplifting the poor people
17. To development country

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which, deals in the process of canalizing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial system contains two components via; depository and non-depository financial institutions and Commercial Banks come under financial institutions. These institutions act as an intermediary between the individuals who lend and who borrow.

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. Commercial banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The banks have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy; intermediation, maturity transformation, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers. Banks are the gathers of saving, allocates of resources providers of liquidity and payment services.

#### List of Commercial Bank Established in Nepal

(in '00'thousand)

S. N O	NAME OF COMMERCIAL BANKS	ESTABLISHED DATE (B.S)	PAID UP CAPITAL	CORPORATE OFFICE
1.	Nepal Bank Limited	1994/07/30	3,804	DharmaPath, Kathmandu
2.	Rastriya Banijya Bank	2022/10/10	11,723	SinghaDarbar, Kathmandu
3.	Agricultural Development Bank.	2024/10/07	94,743	RamshahPath, Kathmandu
4	NABIL Bank	2041/3/29	20,298	Kantipath, Kathmandu
5	Nepal Investment Bank	2042/11/26	24,091	DurbarMarg, Kathmandu
6	Standard Chartered Bank	2043/10/16	16,102	NewBaneshwor, Kathmandu
7	Himalayan Bank	2049/10/5	20,000	Thamel, Kathmandu
8	Nepal SBI Bank	2050/3/23	18,693	Hattisar, Kathmandu
9	Nepal Bangladesh Bank	2051/2/23	20,103	NewBaneshwor, Kathmandu

10	Everest Bank	2051/07/01	11,196	Lazimpat, Kathmandu
11	Bank of Kathmandu	2051/11/28	13,595	Kamaladi, Kathmandu
12	Nepal Credit and Commercial Bank	2053/6/28	13,997	Siddharthnagar, Rupandehi
13	Lumbini Bank	2055/04/01	13,000	Narayangadh, Chitwan
14	Nepal Industrial and Commercial Bank	2055/04/05	13,116	Biratnagar, Morang
15	Kumari Bank	2056//12/21	14,850	Putalisadak, Kathmandu
16	Machhapuchhre Bank	2057/6/17	16,272	Prithbichowk, Pokhara
17	Laxmi Bank	2058//12/21	14,140	Adarshanagar, Birgunj
18	Siddhartha Bank	2058/09/09	15,711	Kamaladi, Kathmandu
19	Citizen Bank	2063/01/07	19,223	Kamaladi, Kathmandu
20	Global Bank	2063/09/18	10,000	Birgunj, Parsa
21	Prime Bank Ltd	2064/06/07	22,457	Newroad, Kathmandu
22	Bank of Asia-Nepal Ltd	2065/06/25	15,175	Tripureshwor, Kathmandu
23	Sunrise Bank	2065/06/25	18,554	Gairedhara, Kathmandu
24	NMB Bank.	2066/09/11	16,517	Babarmahal, Kathmandu
25	KIST Bank	2066/11/09	20,000	Anamnagar, Kathmandu
26	Development Credit Bank Ltd	2066/10/10	19,209	Kamaladi, Kathmandu
27	Janata Bank Nepal Ltd	2066/12/13	20,000	New Baneshwor, Kathmandu
28	Mega Bank Nepal Ltd	2067/04/07	16,310	Kantipath, Kathmandu
29	Commerz & Trust Bank Nepal Ltd	2067/08/04	14,000	Kamaladi, Kathmandu
30	Civil Bank Ltd	2067/08/10	12,000	Kamaladi, Kathmandu
31	Century Commercial Bank Ltd	2067/11/26	10,800	Putalisadak, Kathmandu



### **1.1.1 DEPOSIT:**

Standard Chartered Bank has a numerous types of deposit facility available to the customers.

#### ***1.1.1.1 Saving account***

##### **Features**

- Interest bearing account
- Facility of cheque book, ATM cards, online banking services etc
- Statement issued on quarterly basis
- Can be opened in local currency as well as foreign currency. The opening and transaction in a foreign currency account is subject to Nepal Rastra Bank regulations.

##### **Benefits**

- Convenient and security
- Interest earned on saving
- Access to ATM, online banking services, and select merchant outlets through POS terminals
- Any bank branches services
- Free cheque book for account maintaining the stipulated balance of Rs 100,000.

#### **1.1.1.2 Current Account**

##### **Features**

- Facility of cheque book, ATM cards, online banking services etc
- Statement issued on required frequency
- Can be opened in local currency as well as foreign currency. The opening and transactions of foreign currency account is subjected to Nepal Rastra Bank regulations.

##### **Benefits**

- Convenient and security
- Access to ATMs
- Access to online Banking services any branch banking services.
- Free cheque book for accounts maintaining the stipulated minimum balance.

#### ***1.1.1.3 Fixed Deposit Account***

##### **Features**

- Offered only to account holders
- Can be opened in local currency as well as foreign currency. The opening and transactions of foreign currency account is subjected to Nepal Rastra Bank regulations.

##### **Benefits**

- More secure
- Interest bearing account

- An investment alternative, which is safe and allows funds to be placed for a fixed period with interest rate guaranteed for that period.
- Automatic Renewal/Disposal of principal & interest as per the instruction of the customer.

#### ***1.1.1.4 Kiddy Bank Account***

Kiddy bank account is kind of saving account which can be opened in the name of children below 16 years of age, for future saving.

##### **Features**

- Higher interest rate than that of normal saving.
- Withdrawal not allowed, hence no cheque book or ATM card issued
- No restrictions on deposit

##### **Benefits**

- Secure
- Higher Interest earned on Saving
- Lower minimum balance required
- Can be linked to education protection plan (EPP) under secure living.

#### ***1.1.1.5 Access plus Account***

Access plus account is a saving account, specially designed for young people example students, graduates, young professions etc

##### **Features**

- Withdrawal through branch counter restricted
- No restriction on deposits
- Facility on ATM cards, online banking services available

##### **Benefits**

- Nominal minimum balance requirements
- Easy and 24 hours access to funds through ATM networks
- No account maintenance fees
- 25% discount on drafts, traveler's cheque/swift transfer for educational purpose

#### ***1.1.1.6 Diva Account***

Diva Account is one of saving account, specially designed for modern women who want value for her money.

##### **Features**

- Interest bearing account
- Statement issued on quarterly basis
- Facility of cheque books, ATM cards, online banking services etc

##### **Benefits**

- Nominal minimum balance requirement
- Easy and 24 hours access to funds through our ATM networks
- Higher interest rate than normal saving account

- Free credit card for 1st year (for accounts maintaining balance of NPR 25000 and above)
- Free accidental death insurance (for accounts maintaining balance of NPR 25000 and above)

#### ***1.1.1.7 Amulya Bachat Khata***

Amulya Bachat Khata is a variant of a Savings Bank Account, where we provide better interest rates and offer a host of facilities either free or at discounted prices.

#### **Features**

- Initial Balance = NPR 100,000
- Minimum Balance = NPR 25,000

#### **Benefits**

- Free One Time Credit Card Membership
- Free Online Banking and e-statement
- Free Chequebook
- 50% waiver on FCY and Draft Issuance (excluding TC)
- 25% waiver on Locker Charges. Only a lien to be placed on the savings account for locker security deposit amount (no need to withdraw and place it in our internal Locker Deposit Suspense Account)
- 25% Discount on Balance Certificate Charge
- No inter-branch charge within the country

### **1.1.2 LOANS:**

Standard Chartered Bank provides various kind of loan to its customers mainly divided into:

#### **1.1.2.1 Personal loan:**

Standard Chartered Bank provides various ranges of personal loans to its customer with existing plans, easy repayment, options and competitive interest rates. Standard Chartered Bank makes getting a personal loans hassle free experience.

#### **1.1.2.2 Home loans:**

- We all dream of our own house and Standard Chartered Bank is committed to help such dreams come true by providing various home loans.
- Product under home loans:
- House construction loans
- Readymade home purchase
- Plot purchase
- Renovation/ Extension of house
- Loan against your house
- Refinancing from your existing financier.

### **1.1.2.3 Auto loans:**

Standard Chartered Bank provides various kinds of auto loan facilities to the customers. It is always ready to provide any kind of auto loans to the qualified customers. Product under Auto loans:

- New passenger car financing
- Used passenger car financing
- Commercial vehicle financing
- Cash against existing vehicles
- Refinancing from your existing financier

### **1.1.2.4 Cash/ near cash backed loans:**

The loan against cash and near cash instruments (Government Bond) is designed to offer us the liquidity without compromising on the returns on deposits, bonds.

### **B Priority Banking:**

Priority banking product is one of the unique banking products of Standard Chartered Bank. Priority banking unit provides exclusive service with a new level of care and attention whilst fulfilling the entire gamut of financial needs of most valued customers.

### **C. Wholesale Banking:**

Standard Chartered Bank has its unique wholesale banking products and is the leading wholesale bank in the country. Products available under wholesale banking

-Transaction banking      -Cooperate and institutional lending      - Financial markets

Other services: Besides above, Standard Chartered Bank provides various services to the customer. The services are;

Automatic Teller Machines (ATMs)

Online Banking

SMS banking

Safe Deposit Locker

Remittance

### **Head office & Branches Offices**

#### **S. No. BRANCHES**

1. Bhairahawa Branch
2. Biratnagar Branch
3. Birgunj Branch
4. Butwal Branch
5. Dharan Branch
6. Hetauda Branch
7. Lalitpur Branch
8. Lazimpat Branch

#### **LOCATIONS**

- Bhairahawa
- Biratnagar
- Birgunj
- Butwal
- Dharan
- Hetauda
- Jawlakhel
- Lazimpat

9.	Lakeside Branch	Pokhara
10.	Narayangarh Branch	Lions chowk
11.	Naya Baneswor Branch	New Baneswor
12.	Nepalgunj Branch	Nepalgunj
13.	New Road Branch	Pokhara
14.	New Road Branch	New road
15.	Teku Branch	Teku

#### Extension Counters

UN building,	Lalitpur
BP Koirala institute of health science,	Dharan
British Gurkhas PPO,	Pokhara
Manipal Hospital,	Phulbari

#### 1.1.3 ATMs

1.Naya Baneshwor, Kathmandu 2.Lazimpat-Kathmandu 3. Mangal Bazar -Patan Lalitpur 4.UNDP Complex, Lalitpur 5.UN House Lalitpur 6. Tewa Investment Building, Teku. 7. Shop No.88, Bishal Bazar, New Road 8.Kathmandu Guest House, Thamel 9.Arcadia Building, Thamel 10.Boudha, Kathmandu 11.Maharajgunj, Kathmandu 12. Durbar Marg, Kathmandu 13.B.P Koirala premises, Dharan 14.Hotel Snow Land, Pokhara 15.Lakeside-Pokhara 16.New Road- Pokhara 17.Maitri Path, Bhairahawa 18.Itahari, 19.Narayanghat 20.Biratnagar 21.Pulchowk, Jawalakhel-Lalitpur

#### 1.1.4 BOARD OF DIRECTOR

Chairman-	Mr. Sunil Kaushal
Director-	Mr. Anurag Adlakha
Director-	Mr. Sujit Mundul
Director & CEO-	Mr. Joseph Silvanus
Public Director-	Mr. Amrit Kumari Thapa
Independent Director-	Mr. Ram Bahadur Aryal

#### 1.1.5 SHARE CAPITAL OWNERSHIP

1 General Public	25%	402,542,000
2. Foreign ownership	75%	1,207,626,000
Total	100%	1,610,168,000

#### 1.1.6 SHARE CAPITAL

Authorised Capital	2,000,000,000
a) 20,000,000 Ordinary Shares of Rs. 100 each	2,000,000,000

Issued Capital 1,610,168,000

a) 16,101,680 Ordinary Shares of Rs. 100 each	1,610,168,000
Paid Up Capital	1,610,168,000
a) 16,101,680 Ordinary Shares of Rs. 100 each	1,610,168,000

### **1.1.7 ACHIEVEMENTS & AWARDS**

*MARCH 2011 - FNCCI National Excellence Award 2066-2067 awarded by The Federation of Nepalese Chambers of Commerce & Industry (FNCCI)*

*November 2009 - "Bank of the Year 2009 Nepal" by 'The Banker' of the Financial Times.*

Best commercial Bank 2004-05” awarded by the boss magazine- 2006

“Manager of the year Award” awarded by Management Association of Nepal (MAN)-2006

A citation for outstanding performance amongst all the commercial banks awarded by Nepal Rastra Bank-2005

“FNCII National Excellence Award 2003-04” awarded by the federation of Nepalese Chambers of commerce and Industry-2005

**Best Commercial Bank for the year 2003-2004**, awarded by The Boss Magazine

Award for the **Best Presented Accounts** in the Financial Institutions Category in Nepal for the Year 2002-2003 and 2002-2001 awarded by Institute of Chartered Accountants of Nepal (ICAN).

*The Best Company, Financial Institutions from Top 10 awards for Business Excellence awarded by 'The BOSS'*

*September 2002 - "Bank of the Year 2002 Nepal" by 'The Banker' of the Financial Times.*

*Commercially important person (CIP) awarded by His Majesty Government of Ministry and finance-2002*

*National Excellence Award 2002" for significant achievement in customers satisfaction and relationship" awarded by FNCCI*

### **1.1.8 CORPORATE SOCIAL RESPONSIBILITY (CSR)**

#### ***Health***

Under CSR SCB have committed and financed various NGO & INGOs to educate people on HIV/AIDS.

The bank have organize Blood donation camp

The bank joined the teams of Hellen Keller International and Nepal Technical Assistance Group to raise awareness and provide support to health volunteers during national vitamin A program’s distribution days.

#### ***Environment***

The bank has launched a greenery projects on Haribhawan Road. The Project was launched with a view to preserve greenery in the area.



## **1.2 Introduction of Siddhartha Bank**

Siddhartha Bank started its operation in the year 2002, led by a group of distinguished business personalities and respected Nepali citizens with the objective of providing excellence and professional banking services. The promoters and public are holding 70% and 30% stake of the Bank respectively. Within 10 years of its operations, the Bank has established its 31-point of sales in major business cities and more branches are expected to start their operation by end of this fiscal year. All branches provide full banking services on a real time basis. Directors of the Bank are eminent personalities from various fields

And they bring a wide gamut of experience and skills. The directors have contributed their professional knowledge, experience and expertise in their respective areas of specialization for the development of the Bank. They are fully committed to the corporate governance model adopted by the Bank, which among others encompasses the principles of full disclosure and transparency, social responsibility and accountability.

The Bank has set its vision to be financially sound, operationally efficient and keeping abreast with technological developments. The Bank firmly believes in customer focus as its core value;

Shareholder prosperity is the prime priority; employee growth is a commitment and economic welfare is a sincere concern.

The mission of the bank is to fulfill the commitments they have made to each of their stakeholders:

Support customers to achieve their financial needs

Generate total returns for shareholders

Create working environment where all employees can excel

And feel proud about their work with the Bank, and

Make a difference in the communities

Objective is consistent sustainable performance over the long-term period. They aspire to be the primary bank for the customers, catering all of their banking requirements. Their Success depends on building strong relationship with the customers and the ability in supporting them to achieve their financial needs.

SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern.

The Bank wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

As a first step, SBL will strive to be in a leading position amongst the banks of its age in terms of profitability, productivity and innovation.

SBL aims at total customer satisfaction by rendering efficient and diversified financial services through improved technology.

SBL will build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness.

SBL will be the place of pride to all its stakeholders.

### **PRODUCTS:**

Siddhartha Bank has wide range of products available to the customer. These products can be classified as follows

-Corporate Banking                      - Wholesale and retail banking                      - Remittance

#### ***A. Corporate Banking:***

Corporate Banking includes all the products targeted to the customers. Siddhartha Bank has a wide range of products available to the customers. They include

#### **1.2.1 DEPOSITS:**

Siddhartha Bank has a numerous types of deposit facility available to the customers.

##### ***1.2.1.1 Current Account:***

It is non-interest bearing account, which is opened purely for business purpose. Any individual, profit or non-profit organization can open current account in Nepalese Rupee or in other convertible foreign currencies.

##### ***1.2.1.2 Call Account:***

In call account you can park your excess fund for short period. Interest rate is based on volume, tenure, nature of transaction etc.

##### ***1.2.1.3 Savings Account:***

These accounts are designed to help individuals to inculcate saving habit to meet the future requirement. This is interest-bearing account, which remains liquid and safe. You can plan and save your hard earned money for your future financial needs.

An easy to operate SBL savings account allows having instant access to your savings from any of our branches or through SCT terminals.

Personalized cheques with name printed on each cheque leaf for enhanced security.

SBL provides different types of savings account that suits your requirement:

***1.2.1.3.1 Siddhartha Bachat:***

- Account can be opened with zero balance
- 4.5% interest on daily balance.
- Issuance of Cheque book upon maintaining Rs 500/- balance.
- Free SCT Debit Card.
- Issuance of TC and Draft at competitive rates
- 50% reduction in Home Loan processing fee
- Preference for Locker facilities
- Other many more facilities

***1.2.1.3.2 Siddhartha Bishesh Bachat:***

- Minimum balance of Rs. 50,000
- 4.5% interest on daily balance.
- Free accidental death insurance coverage upto Rs 500,000/-
- Free SCT Debit Card

***1.2.1.3.3 Siddhartha Mega Savings:***

- Interest rate 4.5% p.a.
- Account can be opened with minimum balance of Rs.50, 000.
- No minimum balance required once the account is opened.
- Interest earning starts from balance of Rs.50, 000 and above.
- Free Internet Banking
- Free Inward Remittance
- Free SCT Debit Card
- ABBS Facility
- Competitive rate on Draft and Travelers Cheques issuance.

***1.2.1.3.4 Siddhartha Bal Bachat:***

- Account to be opened in the name of a minor, i.e. children up to 16 years old
- Parents/Guardians can operate the Account
- Interest Rate 5% per annum on daily balance.
- Minimum Balance of Rs 1,000
- Cheque book issuance at minimum balance of Rs 2,500
- No restrictions for withdrawals and deposits
- Any Branch Banking System (ABBS)
- Free Internet Banking
- Special preference for locker facility

- Special discount in Home Loan Processing fee for Parents/Guardian
- Free Account Statement
- Issuance of Traveler's Cheques/ Drafts at competitive rates for Parents/Guardian

***1.2.1.3.5 Siddhartha Jestha Nagarik Bachat:***

This savings account provides a high yield savings option for Senior Citizens (50 years and above). The main features of this account are as follows:

- Minimum balance of Rs 1,000
- Chequebook issuance at minimum balance of Rs 2,500
- 6% per annum interest on daily balance
- Free Debit Card
- No restrictions for withdrawals and deposits
- Free Internet Banking
- Free Account Statement on request
- Any Branch Banking Services (ABBS)
- 365 days banking
- Evening counters
- Preference for locker facility
- Special discount in Home Loan processing fee
- Issuance of Travelers' Cheques/ Drafts at competitive rates

***1.2.1.3.6 Siddhartha Nari Bachat:***

This savings account is meant for female customers (over 16 years of age). The basic product features are as follows:

- Minimum balance of Rs 1,000
- Cheque book issuance at minimum balance of Rs 2,500
- 50% per annum interest on daily balance
- Accidental death insurance coverage up to four times the account balance of the customer (minimum balance of the month of accidental death) or maximum amount of Rs. 500,000, whichever is lower
- Free Debit Card
- No restrictions for withdrawals and deposits
- Free Internet Banking
- Free Account Statement on request
- Any Branch Banking Services (ABBS)
- 365 days banking
- Evening counters
- Preference for locker facility
- Special discount in Home Loan processing fee
- Issuance of Travelers' Cheques/ Drafts at competitive rates

#### ***1.2.1.3.7 Remit Account:***

Open account with us prior going abroad; we provide you with attractive facility. Your family members who receive remittance can also open remit account.

- Account can be opened with zero balance
- Interest on daily balance: 6% per annum for NPR account and interest on USD shall be determined as per market condition
- No restrictions for withdrawals and deposits
- Free Internet Banking and cheque book Facility
- Free Account Statement on request
- Free Any Branch Banking Services (ABBS)
- Evening counter facility at selective branches
- Preference for locker facility

#### ***1.2.1.3.8 Investor's Saving:***

Investor saving account is an account for you if you want to easily transact when investing in share market.

- Account can be opened with zero balance
- Cheque book issuance at minimum balance of Rs 2,500
- 6% per annum interest on daily balance
- No restrictions for withdrawals and deposits
- Internet Banking Facility
- Free Account Statement on request
- Any Branch Banking Services (ABBS)
- 365 days bankings
- Evening counter facility at selective branches
- Preference for locker facility

#### ***1.2.1.3.9 Sarvottam Bachat:***

- Minimum balance of Rs. 5,000/-
- Free Any Branch Banking Services (ABBS)
- 6% per annum interest on daily balance
- Internet Banking Facility
- No restrictions for withdrawals and deposits
- 365 days banking
- Issuance of cheque book, free of cost
- NTC (Landline& Mobile) Bill Payment Services, free of cost
- Free Account Statement on request
- Evening counter facility at selective branches

#### ***1.2.1.3.10 Super Salary Account:***

Super Salary account is a power-packed offering that befits your Professional organization.

- Account can be opened with zero balance
- 365 days banking

- 6% per annum interest on daily balance
- Free Account Statement on request
- Internet Banking Facility
- Any Branch Banking Services (ABBS)
- Evening counter facility at selective branches
- Preference for locker facility
- Cheque book issuance at minimum balance of Rs 2,500
- No restrictions for withdrawals and deposits

#### ***1.2.1.4 Fixed deposit:***

This is a long-term investment in which you get higher return on your surplus fund in which they provide security, trust and competitive rate of interest.

- Any individual or firms can maintain fixed deposit at SBL.
- Interest rates based on the tenure of the deposit.
- Current tenure ranges from one week to 2 years.

#### ***1.2.1.5 Samridhi Nichyep Yogana (SM)***

- This fixed deposit is eligible for all the individuals.
- Current tenure is 1 year and above.
- Interest Rate is 10.5% per annum and is posted on quarterly basis.
- Minimum Balance required to open this account is Rs. 100,000.
- Customers can open Savings Account (Siddhartha Bachat) in zero balance.
- Issuance of free Debit card whenever requested by the customers.

#### ***1.2.1.6 Foreign currency deposit***

SBL provides attractive interest rate on foreign currency deposits. As per the convenience of the customers they have choice to open savings, current or fixed deposits or call account.

### **1.2.2 LOANS:**

#### **1.2.2.1 Working capital loan**

The purpose of this facility is to finance the working capital requirements of trading, manufacturing and service units/industries. Working capital loans are granted in the form of Overdraft or Demand Loan or Time Loan facility. The working capital loan will help you build up inventories and receivables at a level required to run your business smoothly.

#### **1.2.2.2 Term loan**

This facility is provided in the form of medium/ long-term loan for the purchase of capital goods and creation of fixed assets in the form of purchase of land and construction of buildings. The duration of loan is assessed by analysis of cash flow statement and balance sheet.

### **1.2.2.3 Import loan**

This facility is made suitable in financing your international and local trade transactions carried out through Letters of Credit. For retirement of L/C bills, import loan is granted in the form of Trust Receipt Loan or Time Loan, which needs to be settled within a specified period.

In case of Time L/C, the bills of exchange are to be accepted by the applicant/importer and thereafter the import documents are released for the clearance of goods. On the date of maturity, reimbursement is made to the negotiating / collecting bank by debiting the account of the importer for equivalent local currency.

### **1.2.2.4 Bills discounting under usance letters of credit**

The usance bills under import letters of credit opened by us may be discounted in conformity with Nepal Rastra Bank regulations.

### **1.2.2.5 Export loans**

The Bank provides export finance by way of pre shipment and / or post shipment loan. Against export letters of credit, pre shipment loan is granted up to 80% of the relative export LC. This facility can be availed in foreign currency as well as local currency. The loan is required to be settled by negotiation of documentary bills under export LC or from the proceeds of documentary collections or post shipment loan.

## **1.2.3 CONSORTIUM FINANCING**

When two or more financial institutions decide to extend credit facilities to a borrower jointly, the arrangement is known as consortium financing. By consensus, one of the consortium members (generally one who undertakes the largest portion of lending) acts as the lead bank and handles all administrative assignments including loan documentation, insurance management information, loan disbursement/settlement and regular monitoring of the advance. A formal consortium agreement is drawn up which is signed by the financial institutions and the borrower.

If the funding requirement of your project is relatively larger, we arrange financing for such project through a consortium of the banks and / or financial institutions.

## **1.2.4 BILLS PURCHASED**

This facility is extended by discounting of cheques/drafts.

## **1.2.5 OTHER SERVICES**

In addition to the aforementioned broadly defined products, the Bank provides a number of ancillary services such as ATM cards, safe deposit locker facilities, Internet banking and travelers' cheques. These services have been introduced in quest of providing modern banking services to the Customers. The Bank is planning to further enhance its

payment solutions by bringing in additional ATM outlets, mobile Banking, utility bill payment solutions, etc.

### 1.2.6 HEAD OFFICE AND BRANCHES

-Corporate Office	-Birgunj Branch	- Biratnagar Branch
- NewRoad Branch	-Pokhara Branch	- Tripureshwor Branch
- Damak Branch	- Narayangarh Branch	- Bhairahwa Branch
-Patan Branch	- Old Baneshowr Branch	- Far Western Branch
- Tikapur Branch	-Dhangadi Branch	- Mahendranagar Branch
- Butwal Branch	- Extention Counter at BnB Hospital, Gwarko, Lalitpur	
-Thamel Branch	-Tinkune Branch	-Kumaripati Branch
-Nepalgunj Branch	-Tulsipur Branch	-Ghorahi Branch
-Kalanki Branch		-Gongabu Branch
-Gatthaghar Branch	-Satdobato Branch	-Saraswotinagar
Branch		
-Swoyambhu Branch	-Maharjgunj Branch	-Janakpur Branch
branch	-Sindhuli Branch	-Bardibas
-Dharan Branch	-Chandragadi Branch	-Hetauda Branch
Namche Branch	-Bagar Branch	-Krishnanagar Branch
-Dailekh Branch		-

### 1.2.7 ATMS (at branches)

-Newroad	-Patan	-Biratnagar	-Thamel
-Old Baneshwor	-Pokhara	-Hittisar	-Civil Mall
-Tinkune	-Gatthaghar	- Maharajgunj	-Halchowk
- New Baneshwor	-Chahabil	- Satdobato	- Gongabu
- Gwarko	-Kalanki	- Kumaripati	- Bouddha
- Budanilkantha	-Bardibas	- Bhairahawa	- Biratnagar
- Birgunj	-Butwal	- Chandragadi	- Damak
-Dhangadi	-Dharan	-Ghorahi	- Hetauda
-Janakpur	-Krishnanagar	- Mahendranagar	- Narayangarh
- Nepalgunj	-Pokhara	- Sindhuli	-Tikapur
- Tulsipur	-Namchhe	- Dailekh	-Birgunj

### 1.2.8 BOARD OF DIRECTORS

Chairman - Chiranjilal Agrawal	Director – Poonam Chand Agrawal
Director – Ratan Lal Kedia	Director – Manoj Kumar Kedia
Director – Subodh Tohi	Director – Mahesh Prasad Pokhrel
Director – Hemant Gwyali	Director – Rajesh Kumar Kedia
Director – Bhagat Bista	

### **1.2.9 SHARE CAPITAL**

Authorized Capital	3,000,000,000	
a) 30,000,000 Ordinary Shares of Rs. 100 each		3,000,000,000
Issued Capital	1,571,130,000	
a) 15,711,300 Ordinary Shares of Rs. 100 each		1,571,130,000
Paid Up Capital	1,571,130,000	
a) 15,711,300 Ordinary Shares of Rs. 100 each		1,571,130,000

### **1.2.10 CORPORATE SOCIAL RESPONSIBILITY**

As one of Nepal's growing banks, SBL has a responsibility to a diverse group of stakeholders. They are committed to succeed as a business, thereby creating wealth for our shareholders, employees and society. At the same time, they believe that the quality of lives is improved and their business best served when economic performance is integrated with respect for our people and communities. SBL, being a strong community partner, committed to support those organizations that help to make communities better place to live and work. They provide supports to our community in several ways. They make direct corporate contributions to worthy causes, and during 2006 /07 they supported over 10 various organizations. Highlighting the year 2006/07, SBL has made contributions to support the flood victims of the Terai region, HIV / AIDs awareness program and also sponsored fund raising program to provide scholarship to needy children. SBL promoted sporting events and shown our presence in several aid events conducted by the corporate and social organizations.

#### *Employees*

To ensure they have the right people to execute our strategies, they have a performance-driven culture. All of employees are focused on the strategic priorities and put their best performance to achieve business objectives. On an ongoing basis, they promote continuous learning to ensure that employees have the skills, knowledge and tools they need to provide exceptional customer service and fulfill their own career aspirations. At the same time, they provide respectful, equitable and inclusive workplace an environment that promotes diversity, well-being and excellence.

#### *Developing Leaders*

They have introduced a consistent, disciplined and department-wide program to assess promising individuals and integrated leadership development in their succession planning process. By investing the resources in recruiting, identifying and developing current and future leaders, they do much to ensure SBL's continued success.

#### *A Culture of Learning*

The HR department plays an essential role in the development of our future leaders and in the creation of a culture of learning by conducting several in-house trainings and encouraging the staffs to participate in domestic and foreign training and seminars.

### **1.3 Statement of the Problem**

Being the reputed banking institution and having almost same organization structure and objectives, the banks are not earning the same amount of profit, cash flows and not able to meet the return on cash basis on equal term and also the share price of these banks is also differ. May be the limited investment bounding and low banking attitude of customer are quite serious problem of these banks. Government rules and regulation with competitive attitude and behavior of commercial banks is the barrier to meet there on going operating cost. Misused of loan amount by the borrowers is the main problem of banking sector in these days in the country.

The investment opportunities are declining due to the economic recession faced by the country. This may be the major reason that commercial banks have been found to be unable in utilizing its fund efficiently. Because of unfavorable situation prevailed in the country these banks are compelled to reduce the interest rate offered to depositors and they are adopting new technique to discourage low scale depositors. Joint venture and other commercial banks are suffering from NPA and low spread rate, which are the major causes to minimize cash in flow

Rules and regulation as well as directives imposed by government and NRB provide both opportunity and threat to the commercial banks operating in the country. The main problems of these commercial banks are mentioned below:

What does their cash flow indicate? Is the cash managed properly or not? Is their any irregularity regarding cash flow?  
Why these banks have not same pattern of cash flow?  
How far they have been able to keep the sound status in terms of business success?  
What are the factors that affect's company's liquidity & solvency?  
Why the investment opportunities of these banks differ?  
What is the condition of cash flow with the highest amount of annual operating profit?  
What is the role of spread to generate positive cash flow from operating activity?

The problem of the commercial banks of the country with special reference to with to Nepal Bank Limited and Rastriya Banijya Banks as reported by KPMG Barents Group, an International Auditing Company, is their unsatisfactory fund position.

The report by the KPMG Barents Group says "By international standard both RBB and NBL suffer serious critical short falls in all key areas, both are technically insolvent". According to the report of KPMG, RBB and NBL are associated with under mentioned difficult systematic problems.

Poor bank governance

Lack of rational banking strategies as well as international banking experience

Lack of independent and capable supervision

Weak financial and management information

Weak legal and accounting practice

To solve the above-mentioned problem, management of the banks has been taken by Nepal Rastra Bank the central bank of the country and reforms programmed are operating with the help of World Bank through foreign management contract with ICCMT.

#### **1.4 Objectives of the Study**

The main objective of the study is to evaluate the performance of a bank with that of the performance of a joint venture bank considering the cash flow in the banking environment of Nepal. Comparison of cash flow individually and yearly is another objective of the study. Suitable and important advice will be recommended on the basis of finding from the study to the concerned authorities for their further enhancement. The specific goals of this study are mentioned below.

Analysis of Life cycle stages of Siddhartha bank and standard chartered bank with the help of cash inflows and outflows.

Analysis of Cash position of SBL and SCB over the period of five years.

To evaluate trend of cash flow of the Nepalese and Joint Venture Commercial Banks.

To compare the cash flow performance into individual banks.

Recommend the appropriate suggestions to the concerned authorize for future improvement.

#### **1.5 Significance of the Study**

Nepalese financial institutions and capital markets are suffered from various cash management problems. Whole Financial sectors are becoming a victim of the same. Shrinking investment opportunities due to recession has put the Nepalese entrepreneurs in a great trouble. This may be the only reason that Nepalese investors are drawing back their hands from the investment sector.

Although the present economic situation is not satisfactory, evaluation of financial institutions, mostly finance companies, are increasing, however under such circumstances the objective finance companies in accordance with finance companies act, 2042 (1985) may not be easily fulfilled. It is because these companies may not properly mobilize, the domestic resources for a sustainable economic growth right this time since most of the Nepalese entrepreneurs are discouraged and they like to prefer idle stay rather than to operate the business by loans from financial institutions due to the lack of opportunities. At present Nepal became a member of WTO family so the world is becoming a single market due to globalization.

So we can sum up the significances' of the study as mentioned below;

-Globalization created competitions everywhere still, Nepalese Financial sectors are not fully conscious.

- The operating activities, which are the main source, which generates cash in financial companies, are not enough for the regular flow of cash. Therefore, the study of financial institutions regarding cash flow becomes an indispensable subject in today's contest.

-Regarding the present situation of Nepal there is no proper management of cash. Still most of the financial institutions are following in a traditional way. They are not maintaining the trend of cash flow in effective way. Due to the crisis of national economy, the investing opportunities are becoming placeless.

Therefore I believe that, this study tries to understand how far these institutions are able to sustain in such a quite unfavorable situation. Obviously saying, this study is essential to check the viability of these institutions regarding cash management. The study detects in the companies and efficiencies of these institutions and helps to explore the appropriate and effective measures for the remedy of company's cash management troubles.

## **1.6 Limitations of the Study**

The study is fundamentally based on the data published financial statements, reports through by financial institutions. Therefore there are various limitations to analyze in details. The data, published by the institutions, public accountants certified are believed as true, accuracy and fairness.

The effect of inflation, which is one of the most important factors for the analysis of economic activities, has not been taken into consideration for the purpose of study. As the whole data have been extracted from the published financial statements, it is mainly based on historical financial information.

Since the methods, theories, standards and indicators etc. employed in the study have their own limitation & assumptions, this study, therefore, is within the limitation of all those employed methods.

In order to analyze & compare the financial position consistently, the B/S & P/L A/C of all the selected companies has been taken into consideration since F/Y 2061/62 to 2065/66.

Regarding the above, I have mentioned the following points:

-The study is mainly confined only on a joint venture bank and a Nepalese commercial bank.

-The study is fundamentally based on the data of published financial statements of banks mention under study.

-Only five years data from F.Y. 2063/64 to 2067/68 is taken for analysis.

-Data are base historical accounting rather than on price-level changes.

## **1.7 Organization of Study**

Considering the objectives in mind, the study has been organized into the following five chapters.

### **Chapter 1: Introduction**

This chapter includes background information on the subject matter, focus of the study, profile of sample banks, statement of the problems, objectives of the study, significance of the study, limitation of the study and organization of the study.

### **Chapter 2: Review of Literature**

This chapter includes the relevant previous writing and studies to find the existing gap; review of textbook, dissertation thesis has been included in this chapter.

### **Chapter 3: Research Methodology**

This chapter contains research design, population and sample size, data collection procedure and tools used for analysis.

### **Chapter 4: Data Presentation and Analysis**

This chapter consists of systematic presentation and analysis of financial statement employing financial and statistical tools. It also includes major findings.

### **Chapter 5: Summary, Conclusion and Recommendations**

This chapter includes the summary, conclusion and recommendations of the study.

## **Bibliography**

## Chapter – 2

### REVIEW OF LITERATURE

Review of literature means the foundation to study any type of research. This is the thing, which helps to the researcher for completion of the study. It provides guidelines, ideas and several important data for the research field. Therefore previous studies are most important for completing any type of study because these are the basic guidelines, which provide way of doing of the research. Cash flow statement is the latest version in accountancy. Cash flow statement is totally replaced in the modern concept of Funds flow statement. Nepal's company act 2053 made compulsion to submit cash flow statement with financial statement. Cash flow statement is introduced in Nepalese curriculum only from the Bachelor degree level. So, previous studies on this chapter are negligible.

Review of literature is basically a stock taking of available literature in the field of research. The textual matters would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. While conducting the research study previous studies cannot be ignored, as those instructions would help to check up the change of duplication in the present study. Thus one can find what research studies have been conducted and what remains to go with. A researcher prepares a report or thesis by reviewing of related thesis, articles & books defined as a review of literature. Like wise other books and thesis, journal and annual report are selected commercial banks are studied while preparing this thesis report.

#### 2.1 Introduction to the Studied Subject Matter

"Cash is the lifeblood of business enterprises. It is the fuel that keeps a business alive". "Cash flow simply refers to the flow of cash into and out of a business over a period of time." If the funds are in form of working capital then funds flow statement should be prepare. But when cash are assumed as fund then cash flow statement should be made to inform the stakeholder about the cash flow position of the enterprise/company. Cash flow statement is the key financial statement that should be prepared by company to submit the report on AGM and BOD. It describes the sources and usage of cash from different items and activities. Cash flow statement is the receipt and payment of cash within an accounting period. According to the Institute of cost and work accountants of India cash flow statement is "a statement setting out the flow of cash under distinct head of sources of funds."

#### 2.2 Funds Flow Analysis

The efficiency of the firm is reflected in the inflow and outflow of funds in the business. To understand the operational efficiency of the business concern, it is necessary to have an analysis of the dynamic aspects of the flow of funds. And such an analysis made through funds flow analysis by preparing a statement is called a statement of change in financial position or funds flow statement. The funds flow statement is a statement,

which shows the movement of funds. In the words of Anthony "the funds flow statement describes the sources from which additional funds were described and the use to which these resources were put."(Shukla, Gupta & Grewal, 2006: 23.22) Therefore, the main purpose of funds flow analysis is to get clear information about the financial transactions that brings changes in the company's resources. It is a kind of financial tools which answers the following questions:

From which source fund received?

How many funds received?

For what purpose the fund is used?

Whether the business is solvent or not?

How can a profitable business be running on low cash and working capital? (Shukla, Gupta & Grewal, 2006: 23.33)

### **2.3 Cash Flow Analysis**

Cash is the lifeblood of business organization. Without cash no any business transactions can get imagine to be done. It is the fuel that keeps a business alive. Without cash no activities can take place. A business must have an adequate amount of cash to operate. So, analysis of liquidity position is an important aspect of modem business organization. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position company is termed as cash flow analysis. (Munankarmi, 1999: 259)

### **2.4 Profits and Cash Flow**

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profits will not always result in higher stock prices, Profits of the firm depend on many factors such as method of depreciation, and non-operating gains incomes expenses and losses. Cash flow analysis not only recognize the profit but it goes a little further and measures the actual cash available for the firm. It is after all the available cash not the profit that determines the firm's future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions. Cash flows are not the profits that determine the wealth.

### **2.5 Cash Flow Statement**

Cash flow statement is the systematic and analytical presentation of cash flow from different sources within an accounting period. It is the reconciliation of opening and closing cash. It shows the actual view of business on cash basis. The FASB no 95 "statement of cash flow" issued reconciliation of opening and closing cash. It shows the actual view of business on cash basis. The FASB no 95 "statement of cash flow" issued in 1987 has classified the cash flow into operating, Investing and financing activities. Similarly Nepal accounting standard (NAS-03) issued by NASB (2003), "cash flow statement should report cash flow during the period classified by operating, investing and

financing activities.” (Wagle & Dahal, First Edition: 11.2) The IAS has also replaced FFS and asked its entire member to present cash flow statement along with the balance sheet and income statement. As such enterprises should prepare a cash flow statement along with the balance sheet and income statement since 1992. Nepal company act 2053 B.S. also made mandatory to present cash flow statement along with balance sheet and income statement. NAS says "The cash flow statement is the part of the complete set of financial statement including balance sheet, income statement and accounting policies and extra-ordinary notes.”

Recognizing the importance and usefulness of cash flows analysis, the FASB issued statement of financial statement standard no.95 "statement of cash flow" in November 1987. This standard requires business to include a statement of cash flows in all financial reports that contain balance sheet and income statement. This statement supersedes opinion no. 19 "statement of change in financial position" The IAS has also replaced FFS and asked its entire member to present cash flows statement along with the balance sheet and income statement. As such an enterprise should prepare a cash flow statement along with the balance sheet and income statement since 1992. Nepal Company Act 2053 B.S. also made mandatory to present cash flow statement along with the balance sheet and income statement. As such an enterprise should prepare a cash flow statement and should present it as an integral part of its financial statement for each period for which financial statement are presented.

## **2.6 Importance of Cash Flow Analysis**

Enterprises need cash to conduct their operation, to pay their obligation and to provide returns to their investors. Users of an enterprise financial statement are interested in how the enterprise generates and uses cash and cash equivalents. It helps the user of financial statement evaluate a company's ability to have sufficient cash both in short term and long term basis. For this reason, the statement of cash flow is useful to virtually everyone interested in the company's financial health. Cash flow statement is important to provide information about inflows and outflows of cash and cash equivalents. It provides useful information to the users of the statement in the following ways.

It helps to evaluate financial polices & cash positions.

It helps to inform about the availability of cash. So that management can determine policies regarding financial management i.e. raising utilities of funds.

Assess a company's ability to generate positive future cash flows.

Assess a company's ability to meet its obligation, its ability to pay dividends and its need for external financing.

Assess the reason for difference between income and associated cash receipts and payments.

Assess both the cash and non-cash aspects of a company's investment and financial transactions.

In other words cash flow statement may helps to answer the following:

If a company operates at profit why is it continually short of cash?

How can a company operate at a loss and still generate huge inflows of cash from operations?

How was the company's growth and expansion financed?

Did the company acquire any long-term investment or other income producing assets?

Was financing obtained during the period through issuance of debt or equity securities? If so what were the amount of cash obtained?

Did the company use cash to retire any long-term debt or equity securities during the period?

Are the company's incomes producing activities using more than they are generating?

Do operating activities consistently generate enough cash to assure prompt payment of operating expenses maturing liabilities interest obligation and dividends? (Munankarmi, 2003: 13.02)

## 2.7 The Use of Cash Flow Information

The statement of cash flows is a critical disclosure to company's investors and creditors. Many investors focus on cash flow from operations, rather than Net income, as their key statistic. Similarly, many bankers are as concerned with cash flow from operations as they are with net income because they care about a company's ability to pay its bills. There is the concern that accrual accounting can cover cash flow problems. The statement of cash flows provides investors, analysts, bankers, and other users with a valuable starting point as they attempt to evaluate a company's financial health. From this point, these groups must decide how to use the information presented on the statement. They pay particular attention to the relationships among various items on the statement as well as to other financial statements items. In fact, all the banks have to prepare cash flow statement according to the prescribed model by NRB rules, which typically involve a rearrangement of the items on the statement of cash flows to suit the needs of stakeholders. Now here are some examples of tools appropriate to use cash flow information, which obviously facilitates to analyze the performance of cash flow management and liquidity management capacity of selected commercial banks.

Tools/Ratios	Formula
Investment Deposit Ratio	$\frac{\text{Average Investment}}{\text{Average Deposit}}$
Investment in Government Securities Ratio	$\frac{\text{Investment on Govt. Securities}}{\text{Total Deposit}}$
Credit Deposit Ratio (activity Ratio)	$\frac{\text{Average Net Credit}}{\text{Average Total Deposit}}$
Debt Service Coverage Ratio	$\frac{\text{CFOA Before Interest and Tax}}{\text{Interest and Principal Payments}}$
CFOA to Capital Expenditure Ratio	$\frac{\text{CFOA} - \text{Total Dividends Paid}}{\text{Cash Paid For Acquisitions}}$
Cash Flow Adequacy Ratio	$\frac{\text{CFOA} - \text{Capital Expenditure}}{\frac{\text{Average Amount of Debt}}{\text{Maturing Over Next Five Years}}}$

CFOA Per Share Ratio	<u>CFOA</u> Earnings per Share
Cash Reserve Ratio	NRB Balance (local currency Only) Local Currency Deposit-Margin Deposit
Cash and Bank Balance Ratio	<u>Cash and Bank Balance Ratio</u> Total Deposit
Capital Adequacy Ratio	<u>Total Capital Fund</u> Total Risk Weighted Assets

### **2.7.1 Investment Deposit Ratio**

This is the tool, which provides numerical relation between the level of investment of a bank and its total deposit. To know the level of cash flow management capacity of a bank, this tool provides the fact that, how much profit or cash inflow is going to be generated through investment in different areas in relation to the total deposit accepted. Normally after deducting for CRR provision, cash to be kept in bank itself and to investment in government securities, banks are use to investing certain amount to the highly profitable projects and companies.

### **2.7.2 Investment in Government Securities Ratio**

Banks are also use to invest in Govt. Securities to be more liquid to fulfill the short-term obligations or. The banks instead of keeping their cash unused invest in various government securities, which are liquid in nature as they can be traded in any time. Banks also use to be getting certain interest in such investment. And this is risk free investment or bearing 0% risk. This is also a secure area of investing cash to maintain liquidity for commercial banks. NRB issues such securities for different time frame and provides different level of interest. Normally banks use to invest call deposit amount in Government Securities.

### **2.7.3 Credit Deposit Ratio (Activity Ratio)**

Credit deposit ratio is a tool, which shows relation between deposit accepted, and credit granted to the lenders by a bank. It is the proportion of loan-assets created by banks from the deposits received. The higher the ratio, the higher the loan-assets created from deposits. A high credit-deposit ratio could lead to a rise in interest rates. It determines the amount of total lending from the total deposit form the customers. This Ratio directly shows the credit performance of commercial banks. Credit is major source of generation of cash flow. Commercial banks used to grant credit charging high cost to risky areas to generate maximum cash flow. Management of cash from deposit and cash out flow to credit to generate more profit is strategic tactical job of commercial banks. Most of the effort of commercial banks is use to be concentrated to the credit deposit activity. Banks are earning about 60% to 70% from credit.

#### **2.7.4 Debt Service Coverage Ratio (DSCR)**

The debt service coverage ratio or debt service ratio is the ratio of net operating income to debt payments on a piece of investment real estate. It is a popular benchmark used in the measurement of an income producing

Property's ability to produce enough revenue to cover its monthly mortgage payments. The higher this ratio is, the easier it is to

Borrow money for the property. The phrase is also used in corporate finance and may be expressed as a minimum ratio that is acceptable to a lender; it may be a loan condition, a loan covenant, or a condition of default. In personal finance, DSCR refers to a ratio used by bank loan officers in determining income property loans. This ratio should ideally be over 1. That would mean the property is generating enough income to pay its debt obligations. The debt service coverage ratio is a measure of the amount of cash that is generated from operation activities during the year and that is available to repay interest due and any maturing principal amounts (that is, the amount available to "service" the debt). This ratio shows the capacity of bank to cover or pay the interest and principal by cash from operating activities. This tool provides the information to the cash managers if the cash from operating activities is sufficient to fulfill the interest and principal obligations or not. It can also be used to analyze to know the times of cash flow from operation in relations to its interest and principal obligations. This tool is also helpful to analyze the cash flow management capacity of a bank.

#### **2.7.5 CFOA to Capital Expenditure Ratio**

The cash flow to capital expenditure ratio measures a bank's efforts to acquire long term purchases to better equip it self to do business. Capital

Expenditures of some companies go in cycles-making a series of large purchases over a few periods followed by a time of relative small activity while the company attempts to recoup its investments. Resultantly, this ratio will also often fluctuate in cycles, depending on the bank's activities. A high, or increasing cash flow to capital expenditures ratio is usually a positive sign, indicating the bank has financial flexibility to invest in itself and make upgrades to its buildings, equipments and processes. This ratio is one of a measure tool useful in assessing the solvency of a business. The cash flow from operations to capital expenditure ratio measures a bank's ability to use cash flow from operations to finance its acquisitions of productive assets. To the extent that a company is able to do this, it should rely less on external financing

Or additional contributions by the owners to replace and add to the existing capital base. The numerator of the ratio measures the cash flow after meeting all dividend payments. Dividend paid is reported on the statement of cash flows in the financing activities section. The amount paid should be used for this calculation rather than the amount declared, which appears on the statement of retained earnings. This is a measure of the ability of a bank to finance long-term assets acquisitions with cash from operations.

### **2.7.6 Cash Flow Adequacy Ratio**

The cash flow adequacy measures how well the bank can cover the annual payments of all the long-term annual debt with the cash flow from its operating activities. This performance ratio can be calculated different ways, as the average value of the maturities might include the current year, plus several more years worth of long-term debt amounts. This performance ratio should usually have a value of 1.0 that would mean the bank is able to at least cover its long-term annual debt using its cash flow from operating activities. A bank may have more long-term annual debt, as they may make take on debt to handle emergencies or to fund expansions of its operations, but if the bank is continually borrowing more over time than it can reasonably handle with its inflow of cash, then this might point to rough times ahead for the company. This is a ratio, which shows a bank's ability to meet its principal and interest obligations. Cash flow adequacy is a measure intended to help corporate bond

Investors assess the ability of these companies to meet their maturing borrowings and debt obligations. It estimates the cash available to meet future debt obligations after paying taxes and interest costs and making capital expenditures. Because capital expenditures on new assets and equipments are a necessary for most banks, analysts are concerned with the cash available to repay debt after the company has replaced and updated its existing base of long-term assets. How could we use the information in an annual report to measure a bank's cash flow adequacy is, first, whether a bank uses the direct or indirect method to report cash?

Flow from operating activities, this number represents cash flow after paying interest and taxes. The numerator of the ratio is determined by deducting capital expenditures, as they appear in the investing activities section of the statement, from cash flow from operating activities. A disclosure required by NRB rules provides the information needed to calculate the denominator of the ratio. It is important to report the annual amount of long-term debt maturing over each of the next five years.

### **2.7.8 CFOA Per Share Ratio**

One measure of the relative worth of an investment in a company or in a bank is the ratio of the stock's market price per share to the bank's earnings per share (that is, the price/earning ratio). But many stockholders and even analysts are even more interested in the price of the stock in relation to the company's cash flow per share. Cash flow for purpose of this ratio is normally limited to cash flow from operating activities. These groups to evaluate investments even though the accounting profession has expressly forbidden the reposting of cash flow per share information in the financial statements have used this ratio. The accounting profession's belief is that this type of information is not an acceptable alternative to earnings per share's an indicator of bank's performance. So the researcher attempts to find out the numerical relationship between CFOA per share to earning per share. This assists the analysts to measure the cash from operations to the annual earnings of the bank. This ratio

Should usually have a value of between 1.0 to 2.0, which would mean the bank's annual earning is at least, half of cash flow from operating activities or the bank has fewer expenses.

### **2.7.9 Cash Reserve Ratio**

Liquidity is bank's ability to generate cash quickly to meet its short obligations at a reasonable cost. It reflects the short-term financial strength of a bank. Liquidity of the bank shows the ability to solve one's payment. It shows the overall financial capacity of bank. The bank is considered to be liquid if it has access to immediate spend-able fund at reasonable cost at precisely the time those funds are needed. The liquidity in term of securities, money at call and CRR provision etc. The certain amount of the deposit received by depositors should get maintained so as it can be easily converted into cash. Liquidity helps to reduce the cash risk, which directly leads to bankruptcy. Banks are required to maintain a certain percent of the total deposit as CRR provision as per the NRB rules. Therefore, Nepal Rastra Bank has set a fixed CRR provision for all the Commercial Banks which bank has to comply. According to the directives of NRB all Commercial bank should maintain 5% of amount of total deposit as CRR in their NRB account. This provision helps commercial banks to preserve the liquidity capacity to meet their short-term obligations by themselves.

### **2.7.10 Cash and Bank Balance Ratio**

As we know from above that liquidity is the capacity to meet the short-term cash obligation by the banks. In this regard banks are used to be maintaining some additional amount in their bank account or with themselves. This amount is used to be fulfilling day-to-day payments to their customers. This ratio is the relation between the deposit and cash with the bank. So it can be analyzed that how much amount is getting used in day-to-day payments in relation to the deposit. It is better to maintain 5% of cash and bank balance to fulfill the daily cash requirements. This tool also supports managers to boost the cash management capacity of commercial banks.

### **2.7.11 Capital Adequacy Ratio**

According to the directive issued by NRB, the bank capital has been categorized into two parts, core capital and supplementary capital. The total of these two capitals is considered for calculating capital adequacy ratio. The capital adequacy ratio is based on total risk-weighted assets. The sum of core and supplementary capital is measured to be total capital Fund. For the purpose of calculation of capital fund, the risk-weighted assets have been classified in two parts – On – Balance Sheet Risk-Weighted Assets and Off - Balance Sheet Risk Weighted Items. The capital adequacy ratio would measure the total capital fund on the basis of total risk-weighted assets. As per the rules of NRB commercial banks should maintain 11% capital adequacy.

## **2.8 Objectives of Cash Flow Statement**

The objective of cash flow statement is to highlight the major activities of the business that have provided cash for the business and have used during a period. Similarly, it also shows the resulting effect on the overall cash balance. The objectives of cash flow statement should be assets users:

- a) To assess the company's ability to generate positive cash flow in the future.
- b) To assess its ability to meet its obligations to service loans, pay dividend etc
- c) To assess the reason for differences between reported and related cash flows.
- d) To assess the effects on its finances of major transactions in the year.
- e) To find out the causes of changes in the cash position on two dates.
- f) To evaluate of financial policies can be done with the help cash flow Statement.
- g) To help the management to know and predict its position, it can plan its policy and make decisions regarding the redemption of debentures purchase of fixed assets and so on.

## **2.9 How To Analyze A Cash Flow Statement**

Use the Sources and Uses of Funds Worksheet to complete the indirect method cash flow worksheet. Group transactions according to operating, investing, and financing activities. Once cash flow statement is constructed, it will be leading you much closer to understand the financial position. While a balance sheet and income statement are tools for management, without a cash flow statement they are limited barometers and may even be misleading.

### **Operating Activities**

The cash flow statement will tell us where money came from and how it was used. When analyzing cash flow, the first place to look is the cash flow from operating activities. It tells us whether the firm generated cash or whether it needs a cash infusion. A few periods of negative cash from operating activities is not by itself a reason for alarm if it is based on plans for company growth or due to a planned increase in receivables or inventories. However, if a negative cash flow from operating activities is a surprise to managers and owners, it may be undesirable. Over time, if uncorrected, it can foretell business failure. Managers and owners should pay particular attention to increases in accounts receivable. The cash flow statement gives the true picture of the account. A large increase in accounts receivables may warrant new billing or collection procedures.

### **Investing Activities**

The cash flow statement puts investing activities into perspective. At one glance, we can see whether or not a surplus in operations is being used to "grow" the company. A lack of investing activities that is few purchases of new equipment or other assets may indicate stagnant growth or a diversion of funds away from the company.

### **Financing Activities**

The financing activities section of the cash flow statement will show repayments of debt, borrowing of funds, as well as injections of capital and the payment of dividends. As a company expands, this area of the cash flow statement will become increasingly important. It will tell outsiders how the company has grown and the financial strategies of management. Together, the three sections of the cash flow statement show the net change in cash during the period being examined. A comparison between past periods will give owners and managers a good idea of the trend of their business. Positive trends in cash flow may encourage owners to consider long-term financing as an aid to growth and

increase their comfort level concerning the company's ability to generate cash for repayment. Strong cash flow will also make it easier to acquire financing and to negotiate with lenders from a position of strength. Preparation of a cash flow statement is the first step toward financial management for long-term success. Prepared on a regular basis, it is a powerful tool for growth and long-term success.

*Source: (Analysis and Use of Financial Statements, 2nd ed. by Gerald I. White, Ashwinpaul C. Sondhi, and Dov Fried. (John Wiley & Sons, 1997)*

*Fundamentals of Financial Management, 11th ed. by James C. Van Horne and John Martin Wachowicz. (Prentice Hall, 2001)*

## **2.10 Distinction between Funds Flow and Cash Flow Statement**

**Concept:** Funds flow is based on working capital and Cash flow is based on cash.

**Accounting:** Funds flow statement is based on Accrual basis of accounting and Cash flow statement is based on cash basis of accounting.

**Preparation:** Fund flow statement reveals the sources and application of funds and any difference represents net increase or decrease of working capital whereas cash flow statement reveals the inflow and outflows of cash and difference represents the closing cash balance.

**Purpose:** Funds flow statement shows the causes changes in working capital position of a firms between two balance sheets dates whereas cash flow statement shows the causes of changes in cash position of a firm between two balance dates.

**Usefulness:** Funds flow statement is useful in planning intermediate and long term financing, cash flow statement is more useful for short-term analysis and cash planning of business.

**Schedule of changes in working capital:** To get information about current assets and liabilities it is necessary to prepare the schedule of changes in working capital before preparing funds flow statement whereas in cash flow statement it is not necessary to prepare the schedule of changes in working capital.

## **2.11 Preparation of Cash Flow Statement**

The cash flow statement is prepared on the basis of cash basis of accounting. While calculating operating profits for cash flow statement, adjustment for prepaid and outstanding expenses and incomes are made to convert the data from accrual basis to cash basis. Taking the opening balance cash, adding to this all the inflows of cash and deducting all outflows of cash from the total prepay the statement. The statement is more useful for short-term analysis and cash planning of the business. Cash flow statement shows the sources and application of cash. Sources are the inflows of the cash and uses are the outflows of the cash.

## **Cash Flows**

Cash flow is simply refers to the flow of a cash into or out of a business over a period of time. Watching the cash inflows and out flows is one of the major management tasks.

## Sources of Cash

If the cash is coming into the business through by different activities, this is called cash inflows. The following are the cash inflows:

- Opening cash & cash equivalents
- Cash from operation
- Cash from issue of shares
- Cash from issue of debentures
- Cash from long term loan
- Cash from share premium
- Cash from sales of fixed assets
- Cash from sales of investment.

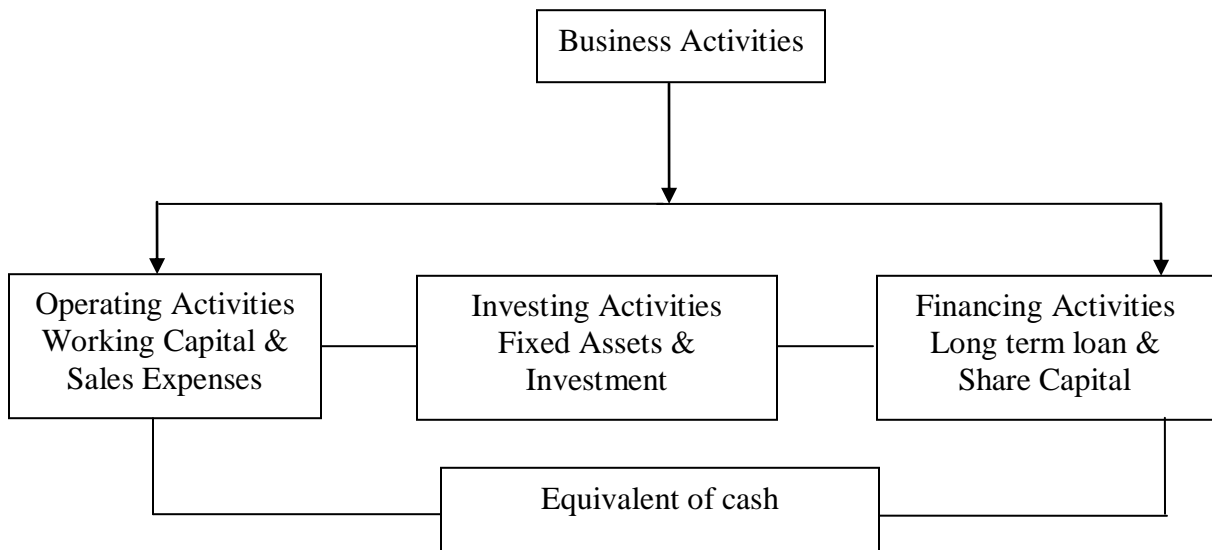
## Uses of Cash

If the cash is going out from the business for different purpose, this is called cash outflows. The following are the cash outflows:

- Cash depleted from operation
- Cash purchase of fixed assets
- Cash purchase of investment
- Redemption of debenture
- Repayment of long-term loan
- Dividend paid
- Income tax paid
- Closing cash & cash equivalent

*(Munankarmi, 2003: 13.05)*

*Component of Cash Flow: (Wagle & Dahal, First Edition: 11.2)*



As per the FASB's statement no. 9 the cash flows statement, should be presented under informative approach in activity format. Under informative approach the cash flow statement may be presented using:

1. Indirect Method
2. Direct Method

### **2.11.1 Indirect Method to Cash Flow Statement**

Under this method, the cash from operating activities could be derived by preparing funds from operation, as have been done in case of fund flow analysis. This from operation could be converted in to cash from operation by adjusting change in short term assets and liabilities excluding cash. Cash from investing activities are generated internally from non-operating activities like fixed assets and long term investment. Similarly cash from financing activities are the presentation of cash from or to lenders, investors and shareholders that affect cash.

#### **Operating Activities:**

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to repay loans, maintain the operating capability of the enterprise, paying dividends and make new investments without resources to external sources of financing. It relates to a company's primary revenue generating activities. It is the single major continuing sources of cash. Operating activities are always within the management control and they provide base for management estimation of fund needed to rise from available sources. Cash flow from operating activities is generally the cash effects of transactions and economic events included in the determination of income.

Under this method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effect of:

- Changes during the period in inventories and operating receivables and payables.
- Non- cash items such as depreciation, provision, deferred taxes and unrealized gains or losses.
- All other items for which the cash effects are investing or financing cash flows.
- Cash receipts and payments from contracts help for dealing or trading purpose.

Alternatively the net cash flows from operating activities under indirect method may be present showing operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes in inventories and operating receivables and payables during the period. Example of operating activities:

- Non-cash and non-operating gains/losses/expenses.
- Depreciation/loss on sales of assets provision for taxes.
- Gain on sales of fixed assets.
- Operating profit before working capital changes.
- Increase/ decrease in current assets and current liabilities.

**Investing Activities:**

All the cash flows (either outflows or inflows) from investing activities can be determined by the long-term assets and investment of two accounting periods. Any increase in assets shall be considered as having purchased and cash paid for it unless any information contrary to the same is provided. At the same time, decrease in assets accounts represents the sale of those assets and cash inflows unless information opposing to that is provided. The gain or loss on sale need to be adjusted to calculate the exact amount cash received. Investing activities are:

- Cash payment to acquire the fixed assets.
- Cash receipts from disposal of fixed assets.
- Cash payments to acquire shares, warrants or debt instrument of other companies.
- Cash advances and loan made to other parties.
- Cash receipts from the repayment of advances and loans made to third parties.

**Financing Activities:**

Cash flows from financing activities are calculated by analyzing the liabilities side of the balance sheet. The amounts of secured loans, unsecured loans, the amount of share capital and retained earnings accounts are analyzed to calculate the inflows and outflows from financing activities. The increase in these amounts can be taken as inflows either with the name of more borrowing or issuance of shares. Similarly, the decrease in these amounts can be taken as outflows with the name of redemption of debts or preference shares. Besides the capital and loan amounts, another financing activity is dividend paid or drawings by the owners. Dividend may be in the form of cash dividend or stock dividends do not use any cash. Hence, they should not be considered for cash flow statement.

The separate discloser of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from financing activities are:

- Cash proceeds from issuing shares or others equity instruments.
- Cash payments to owners to acquired or redeemed the enterprises shares.
- Cash proceeds from issuing debentures, loans, notes, bonds and mortgages and other short or long-term borrowings.
- Cash repayments of amounts borrowed.
- Cash payment by a lessee for the reduction of the outstanding liability relating to a finance lease.

*[International accounting standard 7 (Revised 1992)]*

**Format of Cash Flow Statement under Indirect Method**

A. Cash from Operating Activities (CFOA)	
Provision for dividend of this year (dividend payable)	
Interim dividend	
Profit transfer to Balance Sheet (This year-Last year)	

Profit and loss a/c General reserve Retained Earnings Funds etc. Net Profit after tax / Profit for the year Add: Non Cash and non operating items Depreciation of tangible assets Amortization of intangible fixed assets (i.e. goodwill, patent, copyright, trademark etc.) Amortization of fictitious assets (i.e. preliminary expenses, P&L Dr. Balance, discount on share/ debenture) Loss on revaluation or sales of fixed assets or investment Premium on redemption of preference shares or debentures Discount on issue of shares or debentures  Less: Non Operating incomes of Gains Gain on revaluation or sales of fixed assets or investment Discount on redemption of preference share and debenture Premium on issue of Preference share and debenture Tax refund Interest/ dividend received on other investment Extra income (If any) Funds From Operation (FFO) Add: Decrease in Working Capital except cash (item wise) (i.e. decrease in current assets and increase in current liabilities) Less: Increase in Working Capital except cash (item wise) (i.e. increase in current assets and decrease in current liabilities) Cash from Operating Activities (CFOA)	
<b>B. Cash from Investing Activities (CFIA)</b>	
Purchase of fixed assets (Individual as per ledger) Purchase of Investment (as per ledger if any) Sales of fixed assets (individually) Dividend or interest received from other investment if any Cash from Investing Activities (CFIA)	
<b>C. Cash from Financing Activities (CFFA)</b>	
Issue of share/debenture with premium or discount Redemption of Preference Share/debenture at premium or discount Payment of dividend (Provision of dividend last year) Interim dividend (if any) Cash from Financing Activities (CFFA)	
Net cash increase/decrease (A+B+C) (+) Opening Cash/Bank Balance	
Closing Cash/Bank Balance	

### **2.11.2 Direct Method**

International accounting standard committee (IAS) has encouraged preparing cash flow statement only on direct method. Therefore as far as possible we need to follow direct method. When the direct method is used the cash flow statement does not begin with net income, rather, it shows cash collected from customer and deducted cash used for various expenses. That is, major of class of gross cash receipt and gross cash payments are disclosed. (Munankarmi, 2003: 13.12)

### **Operating Activities**

Operating activity only include transaction that return to the calculation of net income. It involves the purchase and the sales of goods and services to customers. Cash flow from operating activities includes all cash flows from transaction that are not defined as financing and investing activities. The cash flow from operating activities is primarily derived from the principal revenue - producing activity of the enterprise. Examples of cash flow from operating activities are:

- Cash receipts from the sales of goods and services.
- Cash receipts from royalties fees, commission and other revenue.
- Cash payment to suppliers of goods and services.
- Cash payments to and on behalf of employees.
- Cash receipts and cash payments of an insurance company for premium and claims, and other policy benefits.
- Cash payments refund of income taxes.
- The direct provides information which may be useful in estimating future cashFlows and which are not available under the indirect method. Under the direct method information about the major classes of gross receipts and gross cash payments may be obtained either.
- From the accounting records of the firms or by adjusting sales, cost of sales and other items in the statement of profits and loss for: Changes during the period in inventories and operating receivables and payables Other non- cash items and Other items for which the cash effects are investing or financing cash flows.

### **Investing Activities**

Determinations of cash flows from investing activities require analyzing the non-operating incomes and expenses in income statement relating to:

Productive assets.

Investment in share and debentures.

Intangible assets.

Short-term investment other than cash equivalents.

*(Munankarmi, 2003: 13.16)*

### **Financing Activities**

A company's transaction with its owners and long term creditors are typically called financing activities also it includes borrowing of cash on short term basis for determination of cash flow from financing activities items relating to:

- Share capital (Equity)

- Share premium
- Debenture
- Dividend proposed

Comparative balance sheets should be analyzed by preparing necessary accounts.

### **Format of Cash Flow Statement under Direct Method**

A. Cash from Operating Activities (CFOA)	
<p>a. Cash Sales and collection from customers:</p> <p style="padding-left: 20px;">Total Net Sales (less sales return)</p> <p style="padding-left: 20px;">(+) Decrease in debtors (sundry debtors, A/R and B/R)</p> <p style="padding-left: 20px;">(-) Increase in debtors (sundry debtors, A/R and B/R)</p> <p style="padding-left: 20px;">(+) Decrease in bad debt provision (Bad debt recover)</p> <p style="padding-left: 20px;">(-) Increase in bad debt provision</p> <p style="padding-left: 20px;">(-) Bad debt written off</p> <p>b. Cash Purchase and payment to creditors:</p> <p style="padding-left: 20px;">Total cost of goods sold (COGS)</p> <p style="padding-left: 20px;">(+) Increase in Inventory</p> <p style="padding-left: 20px;">(-) Decrease in Inventory</p> <p style="padding-left: 20px;">(+) Decrease in creditors (sundry creditors, A/P and B/P)</p> <p style="padding-left: 20px;">(-) Increase in creditors (sundry creditors, A/P and B/P)</p> <p>c. Cash operating expenses and other warranty services:</p> <p style="padding-left: 20px;">Total cash operating expenses (selling, distribution, Adm. etc)</p> <p style="padding-left: 20px;">(+) Decrease in outstanding expenses</p> <p style="padding-left: 20px;">(-) Increase in outstanding expenses</p> <p style="padding-left: 20px;">(+) Increase in prepaid expenses</p> <p style="padding-left: 20px;">(-) Decrease in prepaid expenses</p> <p>d. Interest expenses:</p> <p style="padding-left: 20px;">Interest expenses</p> <p style="padding-left: 20px;">(+) Decrease in interest payable</p> <p style="padding-left: 20px;">(-) Increase in interest payable</p> <p style="padding-left: 20px;">(+) Increase in prepaid interest</p> <p style="padding-left: 20px;">(-) Decrease in prepaid interest</p> <p>e. Income tax payments:</p> <p style="padding-left: 20px;">Tax paid (or, provision for taxation as per P&amp;L a/c)</p> <p style="padding-left: 20px;">(+) Decrease in provision for tax or tax payable</p> <p style="padding-left: 20px;">(-) Increase in provision for tax or tax payable</p> <p style="padding-left: 20px;">(+) Increase in prepaid tax</p> <p style="padding-left: 20px;">(-) Decrease in prepaid tax</p> <p>Cash from Operating Activities before extra ordinary items (a-b-c-d-e)</p> <p>Extra ordinary items:</p> <p style="padding-left: 20px;">(+) Increase in bank overdraft</p>	

(-) Decrease in bank overdraft (+) Decrease in marketable securities (-) Increase in marketable securities Cash From Operating Activities (CFOA)	
<b>B. Cash from Investing Activities (CFIA)</b>	
Purchase of fixed assets (Individual as per ledger) Purchase of Investment ( as per ledger if any) Sales of fixed assets (individually) Dividend or interest received from other investment if any Cash from Investing Activities (CFIA)	
<b>C. Cash from Financing Activities (CFFA)</b>	
Issue of share/debenture with premium or discount Redemption of Preference Share/debenture at premium or discount Payment of dividend (Provision of dividend last year) Interim dividend (if any) Cash from Financing Activities (CFFA)	
Net cash increase/decrease (A+B+C)	
(+) Opening Cash/Bank Balance	
Closing Cash/Bank Balance	

### 2.12 Group Cash Flow Statement:

Group cash flow statement deals both cash and accrual based figure, whereas group cash flow statement attempts to report only cash movement. Group cash flow statement is prepared from the consolidated accounts. After the completion of consolidated profit and loss account and consolidated balance sheet, the holding company can prepare this statement.

The format of group cash flow statement is similar to basic cash flow statement. It can be prepared by applying either direct or indirect method. For the preparation of group cash flow statement, the activity of business concern is divided in the following three categories:

- Operating Activities
- Investing Activities
- Financing Activities

These three activities are similar to basic cash flow statement. According to the IAS-7 para 40 states: " the aggregate cash flows arising from acquisition and from disposal of subsidiaries or other business unit should be presented separately and classified as investing activities." – para 39 (Dangol, Third Edition: 447)

International accounting standard -7, para 40 states: "An enterprises should be disclose, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following:

- The total purchase or disposal consideration

- The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.
- The amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of: and
- The amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarized by each major category."
- Non-cash transaction related to investing and financing activities should not be included in the cash flow statement. According to IAS-7, Para- 43 "Investing and financing transaction that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transaction should be disclosed elsewhere in the financial statement in a way that provides all the relevant information about the investing and financial transactions activities." Examples of non-cash transactions are as follows:
  - The acquisitions of assets either by assuming directly related liabilities or by means of a finance lease;
  - The acquisition of an enterprise by means of an equity issue
  - The conversion of debt to equity (Dangol, Third Edition: 456)

While preparing a group cash flow statement, the net value of subsidiary purchase has to be determined for the calculation of cash flow from investing activities. It is determined as follows:

### Calculation of Net Value of Assets

Particulars	Details	Amount
Fixed assets of subsidiary company		xxx
Current Assets of Subsidiary company other than cash		xxx
Total Assets Acquired		xxx
Less: Current Liabilities		(xxx)
Net Worth or Net Assets		xxx
Less: Receivable from Holding Company		(xxx)
Add: Payable to Holding Company		xxx
Net assets acquired		xxx
Less: Minority Interest	xxx	
Capital Reserve	(xxx)	
or Goodwill	xxx	
Value of share in Holding Company (If share are issued on Acquisition)	xxx	
Reserve of Holding Company	xxx	xxx
Net Value of Subsidiary Purchase		xxx

### 2.13 Cash flow Statement for Financial Institution:

Financial enterprises like banks, finance companies, co-operatives etc. represents the institution that deals on financial transaction. Such enterprise also needs to prepare

financial statement including cash flows statement. The cash flows statement of financial enterprise under method is prepaid in following format:

**Cash Flow Statement for Financial Institution:**

<p>A. Cash Flow from Operating Activities:</p> <ul style="list-style-type: none"> <li>Interest and commission receipts</li> <li>Interest payments</li> <li>Recoveries on loans previously</li> <li>Cash payment to employees and suppliers</li> <li>Short term fund-increase</li> <li>Deposits held for regulatory or monetary control purpose</li> <li>Funds advanced to customers</li> <li>Net increase in credit card receivable</li> <li>Increase other short term securities</li> <li>Deposits from customers</li> <li>Certificate of deposits</li> <li>Net cash from operating activities before income tax</li> <li>Income tax paid</li> <li>Net cash from Operating Activities</li> </ul>	
<p>B. Cash flow from Investing Activities:</p> <ul style="list-style-type: none"> <li>Dividend received</li> <li>Interest received</li> <li>Purchase of permanent investment</li> <li>Purchase of fixed assets</li> <li>Net Cash from Investing Activities</li> </ul>	
<p>C. Cash flow from Financing Activities:</p> <ul style="list-style-type: none"> <li>Issue of shares</li> <li>Share premium</li> <li>Repayment of long term borrowing</li> <li>Net decreased in other borrowing</li> <li>Dividend paid</li> <li>Net Cash from Financing Activities</li> </ul>	
<ul style="list-style-type: none"> <li>Net increase/decrease in cash and cash equivalents</li> <li>Cash and cash equivalents at the beginning of the period</li> </ul>	
<ul style="list-style-type: none"> <li>Cash and cash equivalent at the end of the period</li> </ul>	

**2.14 Cash Flow Statement under N.R.B. Directives:**

Following is the cash flow statement for the Financial Institution, the specimen provided by the N.R.B. directives in accordance with which the cash flow statement of the finance institutions have been prepared for the study of the cash flow analysis. (Report of the C.A, Of the Office of Auditor General)

.....Company  
Cash Flow Statement for the F/Y.....

Particulars	Amount (in Rs.)	Current Year (in Rs.)
(A) Cash Flow From Operations		.....
1. Cash receipt		.....
1.1 Interest Incomes	.....	
1.2 Commission and discount income	.....	
1.3 Exchange gain	.....	
1.4 Non-Operating income	.....	
1.5 Other income	.....	
2. Cash payment		.....
2.1 Interest expenses	.....	
2.2 Staff expenses	.....	
2.3 Office operating expenses	.....	
2.4 Exchange loss	.....	
2.5 Non-operating expenses	.....	
2.6 Other expenses	.....	
(B) Cash Flow From Investing Activities		.....
1 Change in balance with bank	.....	
2 Change in money at call and short notice	.....	
3 Change in Investments	.....	
4 Change in loans advance and bill purchased	.....	
5 Change in fixed assets		.....
6 Change in other assets	.....	
(C) Cash Flow From Financing Activities	.....	
1 Change in borrowing	.....	
2 Change in deposits	.....	
3 Change in bills payable		.....
4 Change in other liabilities		.....
(D) Net Cash Flow for the year		.....
(E) Opening Cash Balance		
(F) Closing Cash Balance		

## 2.15 Review of Books and Articles:

### 2.15.1 Review of Books:

In this topic, reviews of books relating to cash management have been considered. Cash is the basic and common needs of every organization. It is the foundation and target point. It is the most important aspect of working capital cash is the basic input needed to keep the business running on continuous basic so the cash should be managed efficiently

in order to keep the firm sufficient liquid and to use excess cash in some profitable way. The firm should hold sufficient cash neither more nor less. Cash storage will disrupt the firm's operation while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Thus, the major function of a financial manager is to maintain sound cash position.

Corporates must adopt such a policy that makes optimum cash management possible for improving the efficiency of cash management. Effective collection and disbursement should be adopted. However, in a developing country, a corporation has given not so much attention in assessing the time value of money so certain methods of efficient cash management practiced by corporations in developed countries may not be viable in the view of either the deficiency of knowledge or lack of consciousness among corporate managers of developing countries for calculating the interest lost or fund loss. It is notifying that cash is maintained correctly.

In any type of firm, financial managers should not only attend towards the aspect of profitability but he should also turn towards ensuring the liquidity of the corporation. Since every business is constantly indebted and enterprises borrow funds from financial institutions and purchase merchandise on credit there is less obligation to the government. Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt the reputation of the firm is tarnished at worst the creditors may force the firm to terminate its business.

It was analyzed that the goal of working capital is to manage each of the firm's current assets efficiently in order to maintain the firm's liquidity while not keeping any assets at too high a level. Cash is one of the most liquid assets, if the common denominator can be reduced because the major liquid assets get eventually converted into cash.

Budgeting is the planning before doing of the particular task. A cash budget shows the cash planning which planned cash in flows, out flows and ending position by interim period for a specific time span. Most companies should develop both long 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: cash receipts and cash disbursement. Planning cash inflow and outflow will include need for financing probable cash deficit or the need for investment planning put excess cash to probable use.

As such whatever cash a corporation has must be utilized efficiently to meet obligations of interest payment if cash is obtained from borrowing and if it is received through issues of shares the corporation has responsibility to owners in assuring them to pay a favorable rate 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 assets management policy of universal applicability, one policy or rules that appears to formulate a set of assets management policy of universal applicability, one policy of rules that appears to be unanimously accepted is that cash must be conserved.

The cash management of corporation is significant enough to have the best use of idle cash balances and to take advantage 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. As per the Nepal accounting standard the cash flow statement is the part of the complete set of financial statement includes balance sheet, income statement and accounting policies and extra ordinary notes.

### **2.15.2 Review of Articles:**

Associate Prof. S.P. Munankarmi in his article defined about cash flow analysis. It is an integral part of financial planning stated the importance of cash in organization by calling as the lifeblood of business enterprise. According to him it is the fuel that keeps a business alive. So a business must have adequate amount of cash to operate and decision makers should pay attention to the firm's cash position and events and transaction that affects the cash position of the company is termed as cash flow analysis.

Due to the increasing importance of cash flow analysis FASB stated that financial statements should include information about how a business obtains and spends cash about its borrowing and repayment activities, about the sales and repurchase of its ownership securities, about dividend payments and other distribution to its owners and about others factors that affect a company's liquidity and solvency.

According to the articles profits are accounting measures that may be not reflect the economic conditions of the firms that means profit can be manipulated and increasing profit will not always result in higher stock prices. Cash flow analysis not only recognizes profit but also goes a little further and measures the actual cash available for the firm. It is after all the available cash not the profit that determines the firm's future investment growth.

As the article stated further that recognizing the importance of the cash flow analysis FASB issued financial statement standards no.95 and statements of cash flows in November 1987. This standard requires business to include a statement of cash flows in all financial reports that contains balance sheets and income statements. The IAS has also replaced FFS and asked its entire member to present cash flow statement along with the balance sheet and income statement since 1992.

As the article suggest following are importance of cash flow statement:

- A company's ability to generate positive future cash flows
- A company's ability to meet it's obligations it's ability to pay dividends and it's need for external financing
- The reasons for differences between income and associated cash receipts and payments
- Both the cash and non cash aspects of a company's investment and finance transaction

- A company's quality of earning refers to how closely income is correlated with cash flow the higher the correlation the higher the earning quality
- A company's solvency liquidity and financial flexibility. Solvency is the ability of a company to pay its debt as they mature. The liquidity is the ability to generate adequate amount of cash and it also refer assets and liabilities. Financial flexibility refers to adaptation during the period of financial adversity to obtain financing to liquidate non-operating assets for cash.
- Net cash provided or used by operating activities.

Investment activities as the article stated include the lending money (investment) and collecting on loans buying and selling securities not classified as cash equivalent are defined as short term highly liquid investment that are readily convertible to known amounts of cash and must be sufficiently close to its maturity date. Determinations of cash flow from investing activities, the analysis of non-operating incomes and expenses, statement relating to assets, investment in shares and debenture short term investment other than cash equivalent.

Net cash from financing activities are determined by the flow of short-term loans and over drafts. There may be some non-cash investing and financing payments and such payments are not reported in the statement of cash flows. The FASB concluded that non-cash portions of investing and financing activities should not report in the statement of cash flow. However the board recognizes that non-cash investing and financing activities are important events and so they should be disclosed by preparing a separate schedule for such activities.

As per the format of cash flow statement the article stated further that section seven of Nepal Company act 2053 B.S. mentions the company's books of accounts and accounting system to be adopted by the company. Article 83 of the act is related to annual financial reporting statements which includes balance sheets income statement and cash flow statement, and article 84 of the act mentioned that the balance sheet and profit and loss account should be prepared in the prescribed format, but the cash flow statement is not prescribed as such it should in the author's opinion be presented in the format as prescribed by the FASB.

The article concluded that an accurate cash flow projection being an integral part of financing plans help to avoid cash flow problems and also helps to keep borrowing costs as low as possible.

## **2.16 Review of Previous related Thesis**

Thesis related with cash management and working capital has been considered in this section.

Neupane, Hari Prasad (2006), "A Study of Cash Flows Analysis of Commercial Banks in Nepal, Comparative Study of Himalayan Bank and Nabil Bank Ltd." He has set the

following objectives during the study. To analyze the cash flow statement i.e. operating, investing and financing activities of those two joint venture commercial Bank. .

- To examine the liquidity position of HBL and Nabil Bank Ltd.
- To analyze the profitability results of those two commercial Bank.
- To find out the stage of lifecycle of HBL and Nabil Bank Ltd.with the help of cash flow statement.
- To examine the cash flow statement of Nabil and HBL at par of Nepal Accounting Standard (NAS).
- To provide the package of constructive suggestion and recommendation for improving cash.

After completion of the study, Summary of the findings

- The need for working capital to run date-to-date business activities cannot be overemphasized. Working capital requirements are basically influenced by the nature of business. Obviously, the requirements of working capital manufacturing sectors business. From the study both these banks had negative working capital figures. Working capital should be managed efficiently for safeguarding the banks against the danger of liquidity and insolvency. Therefore, promote and timely action should be taken by the management of HBL And Nabil to improve and correct the regarding amount of working capital.
- Business organization is the product of their environment. To adopt in changing environmental forces these banks are recommended to study and predict the business environment continuously as well as should take SWOT analysis so that the activities can be adjusted according to the changing environment
- In order to increase the cash flows from operating activities for the future period Nabil should operate growth stage of its life cycle.
- These banks should accurately forecast the amount and timing of cash flows so that borrowings can be minimized and thus lessening interest expenses.
- No business can run without cash and making default on its obligations. Even being a few days late in meeting payrolls or paying suppliers or creditors should be cut business relationships. In addition to cash flows statement, cash budget should also be included in the directives issued by NRB for financial institution. Cash flows report the cash activities of the past period. In reflects the actual results of past cash transaction. To know the expected cash amount for future period, cash budget should be prepared
- One of the management basic responsibilities is to ensure that the business has enough cash to meet its obligation as they became due. Therefore, in order to improve cash flows, both these banks are recommended to collect several

strategies like deferring income taxes , peak pricing and developing are effective product mix in both the short and long terms

Bista, Navaraj (2054), had conducted a research in the topic “A Comparative Financial Analysis of Joint Venture Banks Nabil, Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd.” In the research, he centered with the study of financial position of these three banks, evaluation of trend of total deposit & loan and investment pattern, in the analysis, Bista has set the following objectives:

- To study financial position of three Banks.
- Evaluation of assets management, capital structure & liquidity position of the Banks.
- Evaluation of the trend of total deposit, loan & investment pattern.
- Providing conclusions, findings and recommendation to the related Banks to overcome and improve problems and performance.

#### **Summary of the findings after the analysis of data by Bista, Navaraj**

- The volume of operations in terms of amount Nabil stood in the first positions. HBL had successfully increased the operation in very short span of time and NBBL was unable to take steps in this regard for the analysis period.
- The revenues, expenses and income of NBL were the highest followed by HBL and NBBL. It was concluded that NBBL was in maturity rise stage while HBL and NBBL were growth and introduction stages respectively.

Bhandari, Suman (2060), had conducted a research in the topic “A study of cash flows Analysis in Nepalese Public Enterprises (A case study of Salt Trading Corporation Limited). ” The objective of this research was:

- To analyze cash flow statement of STCL.
- To analyze functional to generate cash flow in future periods.
- To find out the ability to meet its obligation
- To provide suggestion and recommendation for effective cash management

#### **Summary of the findings after the analysis of data by Bhandari, Suman**

- The sales revenues of STCL increased except in the current fiscal year.
- The company is not adopting the definite inventory policy because the levels of inventory were fluctuated.

- The company has ability to pay short-term obligation, which shows the financial strength of company.
- The long-term solvency position of company is not satisfactory as it has used more debt as compare to equity.
- The company is not utilizing effectively its assets because its fixed assets turnover ratio is very low.
- Over all profitability ratio is not satisfactory although it has made profit every year of the study period except in the first year.
- The cash flow from operating activities was not adequate to meet the short-term and long-term obligation. The trend of cash flow from operating activities was fluctuated.
- The company has raised funds through loan and overdraft. It has not issued shares except in the first year of the study period, which was also of very small portion. Due to such loan, the company paid more interest.
- No optimum cash & Bank balance were maintained. The cash and bank balances were fluctuated that indicated no definite policy was maintained regarding the amount of cash hold at the end of each year.

**Bhogendra Dangi (2054)**, had conducted a research in the topic “*Comparative Study of Financial Performance of Standard Chartered Bank, Nabil and Himalayan Bank Ltd.*”

The objectives of that research were:

- To analyze the financial strengths, weakness and to evaluate financial positions of the sample financial institutions.
- To analyze the Banks deposit mobilization and investment procedure
- To make relevant suggestions and recommendation for their effective and efficient future performance.

### **Summary of the findings after the analysis the data by Bhogendra Dangi**

The analysis of financial statement of SCBNL, Nabil and HBL reveals that liquidity positions in terms of current ratio of these banks were below the normal standards. Current ratio of these three banks showed unsatisfactory liquidity positions. Comparatively SCBNL had better liquidity positions than Nabil and HBL.

- Interest coverage ratio of SCBNL was higher than that of Nabil and HBL.
- Profitability ratios of all these banks revealed positive return doing the study period Net profit to the deposit ratio of SCBNL was higher than that of Nabil and HBL while interest earned to total assets ratio and net profit to net worth ratio of HBL were slightly higher than that of SCBNL and Nabil.
- Regarding to operating income HBL was earning higher percentage of operation income from interest than SCBNL and Nabil

### **2.17 Benefits from Using Cash Flow**

The cash flow statement is one of the four main financial statements of a company. The cash flow statement can be examined to determine the short-term sustainability of a

company. If cash is increasing (and operational cash flow is positive), then a company will often be deemed to be healthy in the short-term. Increasing or stable cash balances suggest that a company is able to meet its cash needs, and remain solvent. This information cannot always be seen in the income statement or the balance sheet of a company. For instance, a company may be generating profit, but still have difficulty in remaining solvent.

The cash flow statement breaks the sources of cash generation into three sections: operational cash flows, investing, and financing. This breakdown allows the user of financial statements to determine where the company is deriving its cash for operations. For example, a company may be notionally profitable but generating little operational cash (as may be the case for a company that barter its products rather than selling for cash). In such a case, the company may be deriving additional operating Cash by issuing shares, or raising additional debt finance. Companies that have announced significant write-downs of assets, particularly goodwill, may have substantially higher cash flows than the announced earnings would indicate. In certain cases, cash flow statements may allow careful analysts to detect problems that would not be evident from the other financial statements alone. Use of one measure of cash flow would potentially have detected that there was no change in overall cash flow (including capital investments).

### **2.18 Research Gap**

The review, clearly pointed out that the cash management is the common and major problem in Nepalese enterprises. But the success and failure of an organization is greatly depends upon the efficient management of cash

There is a gap between the present research and previous research. Most of the researches conducted preciously were in financial performance and profitability positions were based on secondary data. Though some of the researches in the area of cash flow statement were found depth analysis like cash flow per share, cash flow margin, liquidity ratio were not used and also the data as other necessary information's were taken from secondary sources.

As the accounting is the language of business, it is required to be uniform through the business world. The accounting language used by all enterprises to another must be similar in order to here an effective communication. Accounting practices should be uniform both corporation and other organizations. Financial reports of enterprises should be readily comparable with these of another.

No doubt accounting standards are not the bad evil, they are granting of a loan to an enterprises. Recently, Nepal has shown interest in accounting standards. So far eleven accounting standards have been issued. Six of them have been implemented from neither government side nor private sectors regarding whether the financial institution conform to Nepal Accounting Standards while preparing the different books of accounts. Similarly, there is no any research done on comparative study of cash flow analysis of a bank with a joint venture bank in Nepal. Probably this might be the first research study. This study has made an effort to raise general awareness exploring the cash flow of a selective bank and a joint venture bank.

## Chapter 3

### RESEARCH METHODOLOGY

#### 3.1 Introduction

Research Methodology is mainly associated with Research Design, sample design, period of study, sources of data & data collection procedures. Data processing & terms methods, tools techniques, theories employed in the analysis & interpretation.

#### 3.2 Research Design

In order to fulfill the objectives of the study as much as possible, an adequate attention has been paid in the process of research design. The research is carried out on the basis of secondary data. All the required data and essential information is collected from the concerned commercial bank. In the study, descriptive cum analytical research design has been followed to analyze the financial performance of the selected finance companies, various financial parameters and an effective research technique are employed to especially identify the weaknesses of these institutions. On the ground of observed in ferities and inefficiencies, an attempt will lie made to suggest the reasonable and useful recommendations to the concerned authorities.

#### 3.3 Populations and Sample

Now a day a number of commercial banks have been emerging rapidly. Some have already been established and others are in the process of establishment. Currently there are 31 commercial banks in Nepal. In the study all the commercial banks are population of study. Among them SCB is from joint venture commercial banks and SBL from Nepalese commercial banks has been selected as sample for the present study. Financial statements of last five years from 2061/062 to 2065/066 have been taken as sample data for the comparative study of cash flow.

Sample banks are taken on the criteria of a Nepalese bank and a joint venture bank so as to reach to a conclusion with proper suggestion either to a Nepalese bank to live up with that of joint venture bank or to a joint venture bank to have a firm establishment in Nepalese ground.

#### 3.4 Period of Study

The study is based on previous 5 years data covering the F/Y 2061/062 to 2065/066

#### 3.5 Sources of Data & Data Collection Procedures

The data employed in the study derived is from secondary sources. The audited Balance Sheet, profit & loss A/C and related schedules of the concerned commercial Banks were collected. Besides these, other essential data and information were collected from some published and unpublished documents.

So Far as the data collection procedure is concerned, making an access to the commercial Banks and the Chartered Accountants firm collected annual reports of selected organization. In addition, answers on certain queries made to the staff's of concerned organization also assists in data collection procedure. The researcher has also consulted the library to gather necessary data and information during the course of study.

Annual report of the bank and Internet are the most important source of the data they are taken into consideration while collecting the data.

First of all, the audited accounts of different years of all the concerned commercial banks presented in two different separate sheets each for balance sheet & profit/loss account in order to depict the over all picture of different years of such banks. Thereafter, cash flow statement has been prepared by comparing the 5 consecutive fiscal year balance sheets. After preparing the cash flow statements the data are analyzed by observing all the financial statement.

### **3.5.1 Terms, Tools, Methods & Techniques of Analysis**

While conducting the analysis the researcher use trend of cash flow through chart of cash flow and other important method of analysis is ratio or percentage.

### **3.5.2 Cash Flow Analysis**

Cash is the lifeblood of business enterprises. It is the fuel that keeps a business alive. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

### **3.5.3 Importance of Cash Flow Analysis**

Information about cash flow is useful in many ways. It can also influence the decision makers in many ways. Decision makers may be,

- Investors
- Creditors
- Management

Investor have to decide whether to invest or not in a given company.

Investor will value higher to the company whose regular operating cash flow in more than uses.

Creditors have to decide whether to provide credit facility or not to the given company. Information about cash flow can help creditors decide whether a company will have enough cash to pay the debts as they mature.

Management has to evaluate whether the company has ability to meet unexpected obligations and ability to take advantage of new business opportunities that may arise, and for this the management has to use cash flow analysis. Cash flow analysis could be done by either using cash budget of Cash flow Statement.

### **3.5.4 Cash Budget**

Cash budget is not a financial statement and such used only by decision makers within the organization. A cash budget is always prepared for expected results for future period's cash transaction. The cash budget usually broken into monthly segments showing in detail the cash flows expected from each department. It emphasizes on the financial pattern to meet seasonal to temporary cash needs. (Munankarmi, 2003: 13.03) In thesis work cash flow statement is used to cash flow analysis, which is based on historical cost basis.

### **3.5.5 Cash Flow Statement**

An important activity-oriented financial statement is the statement of cash flows. This Statement provides information not otherwise available in either an income statement of balance sheet; it presents the Sources and the uses of the enterprise's funds by operating activities, investing activities, and financing activities. The statement identifies the cash generated or used by operations; the cash exchanged to buy and sell plant and equipment; the cash proceeds from stock issuances and long term borrowings; and the cash used to pay dividends, to Purchase tile company's outstanding shares of its own stock, and to pay off debts.

*(Www.cashflow.com)*

Cash is the lifeblood of a business enterprise. It is the fuel that keeps a business alive. Without cash no activities can take place, so a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

### **3.5.6 Cash Flow Statement as per the International Accounting Standard 7**

- The cash flow statement should report cash flows during tile period classified by operating, investing and financing activities.
- An enterprise presents its cash flow from operating investing and financing activities in a manner, which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalent. This information may also be used to evaluate the relationship among those activities.
- A single transaction may include cash flows that are classified differently. For example when the cash repayment of a loan includes both interest and capital the interest element may be classified as an operating activity and he capital elements is classified as a financing activity.

### **Operating Activity**

- The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprises have generated sufficient cash flows to repay loans. Maintain the operating capability of the enterprise, pay dividends and make new investments without resource to external sources of

financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

- Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the enterprise. Therefore they generally result from the transactions and other events that enter into the determination of net profit or loss.

Examples of cash flows from operating activities are,

Cash receipts from the sale of goods and the rendering of services

- Cash receipts from royalties, fees, commissions and other revenue
- Cash payments to suppliers for goods and services
- Cash payments to and on behalf of employee
- Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits.
- Cash payments of refunds of income taxes unless they can be specifically identified with financing and investing activities; and

Cash receipts and payments from contracts held for dealing or trading purposes.

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

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

### **Investing Activity**

The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditure has been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are.

- Cash payments to acquire property plant and equipment intangible and others long term assets. These payments include those relating to capitalized development costs and self constructed property plant and equipment.
- Cash receipts from sales of property plant and equipment intangible and other long-term assets.
- Cash payments to acquire equity or debt instrument of other enterprises and interest in joint venture.
- Cash receipts from sales of equity of debt instrument of other enterprises and interest in joint venture.
- Cash advances and loans made to other parties.

- Cash receipts from the repayment of advances and loans made to other parties.
- Cash payments for futures contracts forward contracts option contract and swap contracts except when tile contracts are held for dealing of trading purposes of the payment are classified as financing activities. And
- Cash receipts from future contracts, forward contracts option contract and swap contracts except when the contract are held for dealing of trading purposes of the receipts are Classified as financing activities.

### **Financing Activity**

The separate disclosure of cash flows from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from financing activities are.

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

### **3.5.7 Financial Statement**

Financial statements are organized summaries of detailed financial information. The financial statements employed in this study are as follows;

### **3.5.8 Balance Sheet**

Balance sheet is a financial statement, which reveals information about the financial position of a company at a particular point of time. It contains information in respect of capital & liabilities, assets & equities.

### **3.5.9 Income Statement / P/L a/c**

It is the financial statement or an accounting report that summaries the revenue and the expense items along with their difference during the accounting period of time.

### **3.5.10 Comparative Balance Sheet**

The balance sheets of selected commercial banks over the study period are presented in five separate sheets each for an institution to see the comparative changes in items of liabilities & assets during that particular time.

### **3.5.11 Trend Analysis**

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

### **3.5.12 Financial Tool**

Ratio is the tools to analyze cash flow statement. Also the tools bar is used for cash flow analysis.

### **3.5.13 Assumptions of the Study**

The following assumptions arte made in this these to draw valid and reliable conclusions;  
Short-term liability like bills payable are assume as financing source.

The numbers of working days are assumed as 360 in a year

The fixed assets, which are in balance sheet, are kept by deducting depreciation.

Annex presented by the banks on annual report are reliable.

## Chapter – 4

### DATA PRESENTATION AND ANALYSIS

In this chapter, the researcher analyzes five year's data of selected Commercial Bank according to research methodology as mentioned in previous chapter. Cash flow statement is the reconciliation of opening and closing cash balance. Just the balance sheet, income statement and shareholder's equity do not answer the question raised by the users of financial statement. For such queries, cash flow Statement answers those questions by analyzing and comparing through informative accounting system. For this purpose a joint venture commercial bank and a Nepalese commercial bank are taken into analysis. Before starting the presentation and analysis of the data let's have a short look at the main items included in the cash flow statement.

#### **A. Cash Flow from Operating Activity**

Operating activities relate to a company's primary revenue generating activities. Operating activity is the main part of cash flow statement as well as main activity for any company/enterprises. It is the single major continuing source of cash. Operating activities are always with in the management control and they provide basic for estimation of fund needed to rise from available sources. It is the principle revenue producing activity of the enterprises. The following are the activities related with operating activities according to the IAS 7.

- Cash receipt from the sale of good and rendering service.
- Cash receipt from royalties, fees, commissions and other revenue.
- Cash payment to supplies for goods and services.
- Cash payment to staff and on behalf of employees.
- Cash receipt and cash payment to insurance.
- Cash receipt and payment for insurance premium and claims, and other policy benefit.
- Cash payment or refund of income tax.
- Cash receipt and payment from contract held for dealing or trading purpose.

This chapter deals with cash flow analysis with reference to selected Commercial bank. So under the NRB directive following are the items of operating cash flow.

Interest income

Commission and discount income

Exchange gain

Non-operating income

Other income related with main business

Interest expenses

Exchange loss

Non-operating expenses

Other expenses

According to NAS-03 (Sec. 14) cash flow from operating activities items are identified same as international accounting standard.

## **B. Cash Flow from Investing Activity**

This activity includes purchase and sale of fixed assets. Banks are the purchaser or seller of the cash. So loans, advance and bills purchase are the main source of investing activities. This is the main revenue-generating sector by interest income. Investing activities include all of those investments made or sold inside or outside of the company. Sale of these securities as well as investment on land and building is the investing activities.

It is better to generate cash by selling fixed assets or investment than increasing investment to the fixed assets. Higher cash in inflow shows the cash conversion ability of fixed assets. But investment on government securities and bonds is the requirement of the banks due to the liquid and short time investment. Loans and advance should have negative cash flow in order to maintain business alive. Therefore if the cash inflow were higher than the cash outflow than the situation would be favorable because the company is able to invest more it is considered to be able to expand. According to IAS the following items should be included under investing activities.

- Cash payment to acquire fixed assets, tangible or intangible as well as long term assets. These payments include those relating to capitalized development cost and self constructed property plant and equipment.
- Cash receipt from sale of fixed assets.
- Cash payment to acquire debt, share or warrant of other companies.
- Cash advance and loans made to other parties
- Cash receipt from the repayment of advance and loan made to third parties.

As far as the commercial banks investing activities include.

- Change in balance with bank.
- Change in money at call and short notice.
- Change in investment.
- Change in loans, advance and bills purchase.
- Change in fixed assets.
- Change in other assets.

According to the Nepal Accounting Standard (NAS) investing activities includes, Cash payment to acquire property, plant and equipment, intangible and other long term assets

- Cash payment to acquire equity or debt instrument of other companies
- Cash advance and loans made to other parties
- Cash receipt and payment for future contracts, forward contracts, option contract and swap contract
- Cash receipt from sale of property
- Cash from sale of equity or debt instrument of other company
- Cash receipt from the repayment of advances and loans made to other parties.

### **C. Cash Flow from Financing Activity**

This activity is the main source to raising long term fund. In order to increase total capital of the organization the company can issue share and debenture and internal financing source like retained earning. These activities include borrowing money from creditors and obtaining resource from owner's capital. Deposits receive from the customer and the excess pending amount on bills payable are the main sources of financing cash flow. For the commercial banks cash from this source should be excess especially non-interest bearing deposit. Repayment of borrowed amount and payment of dividend as well as withdrawal of the deposits are the main cash outflow source under financing activities. According to IAS financing activities are:

- Cash receipt from issuing share or other equity instrument.
- Cash payment to owner to acquire or redeem enterprises share.
- Cash proceed from issuing debt loan, bond, mortgage and other short term borrowing.
- Cash payment of amount borrowed.
- Cash repayment by a lessee for the reduction of the outstanding liability to a finance lease.

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

- Change in borrowing.
- Change in deposit.
- Change in bills payable.
- Change in other liability.

### **D. Cash Equivalent**

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

Now, it is necessary to present cash flow statement of selected sample commercial banks and their analyses. Analysis of the data is done on the following way.

- Comparison with five year data individually.
- Comparison with every year data between selected sample commercial banks.

Showing graphic and diagrammatic representation through trend analysis.

Following are the cash flow statement of Siddhartha bank and Standard Chartered of the F/Y 2064/65 to 068/069

## 4.1 CASH FLOW STATEMENTS OF SIDDHARTHA BANK

**Table-1**

	2064/65	2065/66	2066/67	2067/68	2068/69
<b>A</b>					
<b>Cash flow from operation</b>	<b>(186,453,300)</b>	<b>1,195,235,761</b>	<b>963,699,358</b>	<b>(562,670,036)</b>	<b>2,313,614,114</b>
<b>1. Cash receipt</b>	<b>810,614,678</b>	<b>1,388,421,388</b>	<b>2,123,912,220</b>	2,849,610,786	<b>3,221,252,093</b>
Interest Income	729,872,484	1,265,582,131	2,018,291,813	2,680,619,718	2,902,578,027
Commission and discount income	21,454,424	32,547,830	42,758,283	68,049,045	108,180,648
Exchange gain	27,487,389	38,682,163	12,167,702	38,689,741	115,626,926
Non operating income					
Other income	31,800,381	46,354,212	50,694,422	62,252,282	94,866,493
Tax income	-	5,255,052			
<b>2. Cash Payment</b>	<b>(595,774,179)</b>	<b>(1,115,329,574)</b>	1,769,003,531	2,418,793,252	<b>2,658,161,248</b>
Interest expenses	(408,188,955)	(813,619,042)	1,386,818,348	1,910,297,401	2,051,561,248
Staff expenses	(48,247,208)	(79,384,785)	134,180,467	190,671,004	219,621,208
Office operating expenses	(71,480,863)	(114,816,885)	142,769,756	189,789,561	251,322,003
Exchange loss	-	-			
Income tax paid	(65,769,319)	(98,651,396)	103,688,012	129,959,990	135,656,213
Differed tax expenses	(2,087,834)	-		-	
Other expenses	-	(8,857,466)	1,546,947	(1,924,703)	
Cash Flow before changes in working capital (1-2)	<b>214,840,499</b>	<b>273,091,814</b>	<b>354,908,689</b>	<b>430,817,534</b>	<b>563,090,845</b>
<b>Decrease/ (Increase) of Current Assets</b>	<b>(3,810,899,190)</b>	<b>(4,827,910,250)</b>	(3,836,519,916)	(2,109,519,839)	<b>(2882569602)</b>
1. Decrease/(Increase) in money at call and short notice	(355,289,579)	99,895,884	(214,202,011)	(183,739,373)	235,301,884
2. Decrease/(Increase) in short term investment	(284,027,237)	(819,881,997)	(174,010,133)	(86,251,213)	(804,958,707)
3. Decrease/(Increase) in loan and bills purchase	(3,161,059,745)	(4,024,008,758)	(3,390,552,628)	(1,751,847,215)	(19,809,779,700)
4. Decrease/(Increase) in other assets	(24,727,224)	(83,915,379)	(57,755,144)	(87,682,039)	(331,934,809)
5. Decrease/(Increase) in non banking assets	14,204,595	-			
<b>Decrease/(Increase) of Current Liabilities</b>	<b>3,409,605,391</b>	<b>5,750,054,197</b>	4,445,310,585	1,116,032,269	<b>4,633,092,872</b>
1. (Decrease)/Increase	3,566,362,464	5,663,357,433	4,342,230,999	1,378,624,580	4,372,851,798

	in deposits					
	2. (Decrease)/Increase in short term borrowing	(224,867,123)	122,467,123	17,400,000	(300,000,000)	
	3. (Decrease)/Increase in other liabilities	66,465,613	(37,763,248)	85,679,586	37,407,690	260,241,073
	4. (Decrease)/Increase in bills payable	1,644,437	1,992,889			
<b>B</b>	<b>Cash flow from investing activities</b>	<b>(26,610,942)</b>	<b>(306,210,088)</b>	<b>(312,662,330)</b>	<b>(81,185,253)</b>	<b>(137,221,335)</b>
	Changes in long term investments	(880,000)	(206,450,000)	(102,287,732)	817,449	(50,000,000)
	Interest income on long term investments	-	-			374,329
	Changes in fixed assets	(25,730,942)	(99,760,088)	(221,233,175)	(83,435,435)	(88,148,584)
	Dividend Income			750,000	1,050,000	552,900
	Others			10,108,577	382,733	
<b>C</b>	<b>Cash flow from financing activities</b>	<b>133,263,158</b>	<b>221,233,158</b>	<b>207,889,077</b>	<b>142,930,063</b>	<b>248,829,439</b>
	Changes in loan (bond, debenture)	-	227,770,000	-	-	400,000,000
	Changes in bills payable	-	-			
	Changes in proposed dividends and dividend payables	(4,736,842)	(6,536,842)	(7,517,368)	(131,456,632)	(200,170,561)
	Changes in share capital fund	138,000,000	-	215,406,445	274,386,695	49,000,000
	Changes in other liabilities	-	-			
<b>D</b>	Net cash flow of the year <b>A+B+C</b>	<b>(79,801,085)</b>	<b>1,110,258,831</b>	<b>858,926,104</b>	<b>(500,925,226)</b>	<b>2,425,222,198</b>
<b>E</b>	Opening cash balance	517,226,354	437,425,269	<b>1,547,684,101</b>	<b>2,406,610,204</b>	1,905,684,978
<b>F</b>	Closing cash balance	437,425,269	1,547,684,100	<b>2,406,610,205</b>	<b>1,905,684,978</b>	4,330,907,076

Sources: Annual reports of Siddhartha and Standard chartered bank from 2064 to 2068

#### 4.1.1 Cash Flow from Operating Activity

Total Cash flow from operating activities of the Siddhartha Bank in early years were in descending order and it has been in ascending order in later years. This reality is presented in the following table as;

Comparative study of cash flow from operation of different years

**Table -2**

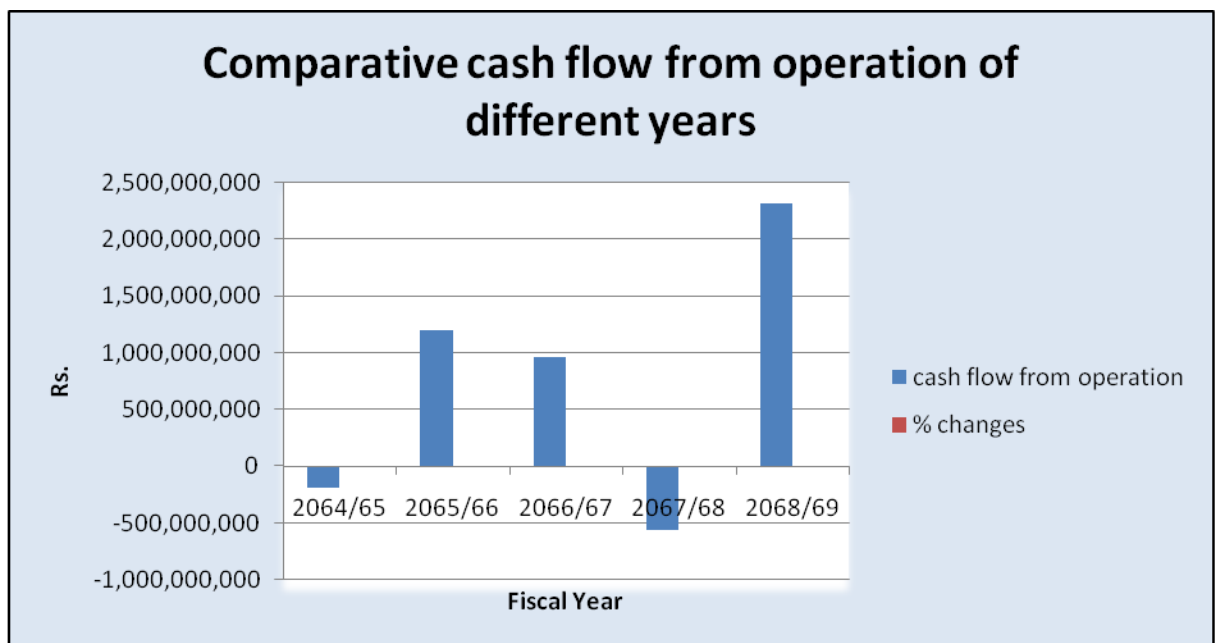
FISCAL YEARS	2064/65	2065/66	2066/67	2067/68	2068/69
Cash flow from operation	(186,453,300)	1,195,235,761	963,699,358	(562,670,036)	2,313,614,114
% Changes	-	541.04% ↑	19.37% ↑	-41.61% ↓	311.19% ↑

From the table presented above, the total cash flow of the bank is in increasing trend in second and fifth fiscal year in comparison to base year and dressing trend in third year under the study and so as negative cash flow in fourth year under the study. The percentage declined in total cash flow in the fiscal year is; -41.61% in 2067/68 and where as the increase percentage in the other two fiscal years are; 541.04% and 311.19% in 2065/66 and 2068/69 respectively.

The graphic presentation of the above reality could be done in the following manner through simple bar diagram;

Figure

**Figure -1**



The total cash flow of the bank is the combination of cash from operating activities, cash from investing activities and cash from financing activities. The cash flow of the bank from investing section in different fiscal years is as follows;

#### 4.1.1.1 Cash from operating (i.e. receipt) section

**Table- 3**

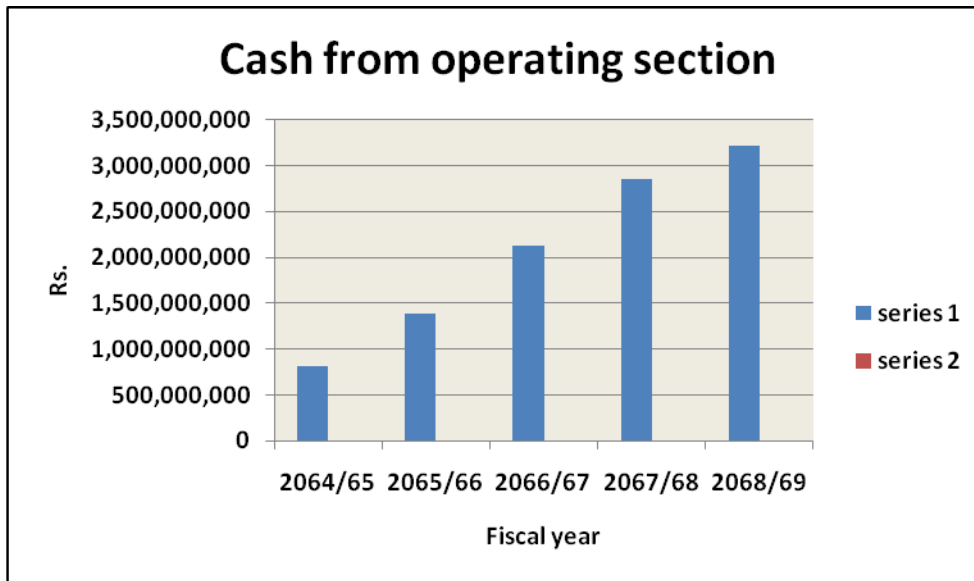
<b>Fiscal Year</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Cash Flow	810,614,678	1,388,421,388	2,123,912,220	2,849,610,786	3,221,252,093
% Change	-	40.26% ↑	52.97% ↑	3.28% ↑	13.04% ↑

The cash flow form operating section is in ascending order, which is a positive aspect to the bank. The increase in cash in flow are 13.04% and 3.28% respectively in the year

2068/69 and 2067/68 in compare to the fiscal year 2063/64 2062/63 and 63.04%, 40.26% in the following fiscal years.

The graphic view of the cash from operating section for different fiscal years is given as;

**Figure -2**



The operating cash flow included various headings to the various banks. But the cash flow from operating section of the bank under study comprise of the following sections;

- Interest income
- Commission and discount
- Exchange gain
- Non-operating income
- Other source income

The table given below states the cash inflow from various sources in the total inflow from the given section;

**Composition of operating cash flow**

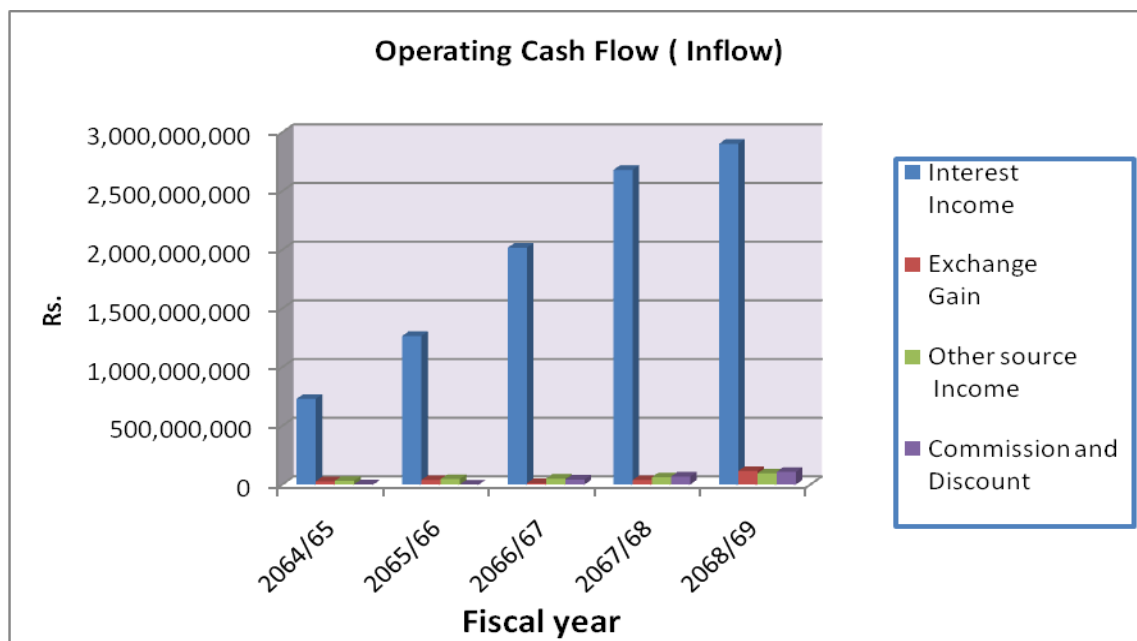
**Table-4**

Fiscal years	Interest Income	Exchange Gain	Other source Income	Commission and Discount
2064/65	729,872,484	27,487,389	31,800,381	21,45424
2065/66	1,265,582,131	38,682,163	46,354,212	32,547,83,40
2066/67	2,018,291,813	12,167,702	50,694,422	42,758,283
2067/68	2,680,619,718	38,689,741	62,252,282	68,049,045
2068/69	2,902,578,027	115,626,926	94,866,493	108,180,648

From the above given table, we can conclude that the main source of cash from operating section is cash from interest income. Cash from commission and discount, exchange gain are the rest of the cash source of the bank.

This reality is made more clear through the given below simple bar diagram as follows.

**Figure-3**



From the above table we can be conform that the main source of cash inflow of the bank is cash from interest income then only Commission and discount, exchange gain are the other contributors in cash from operating activities.

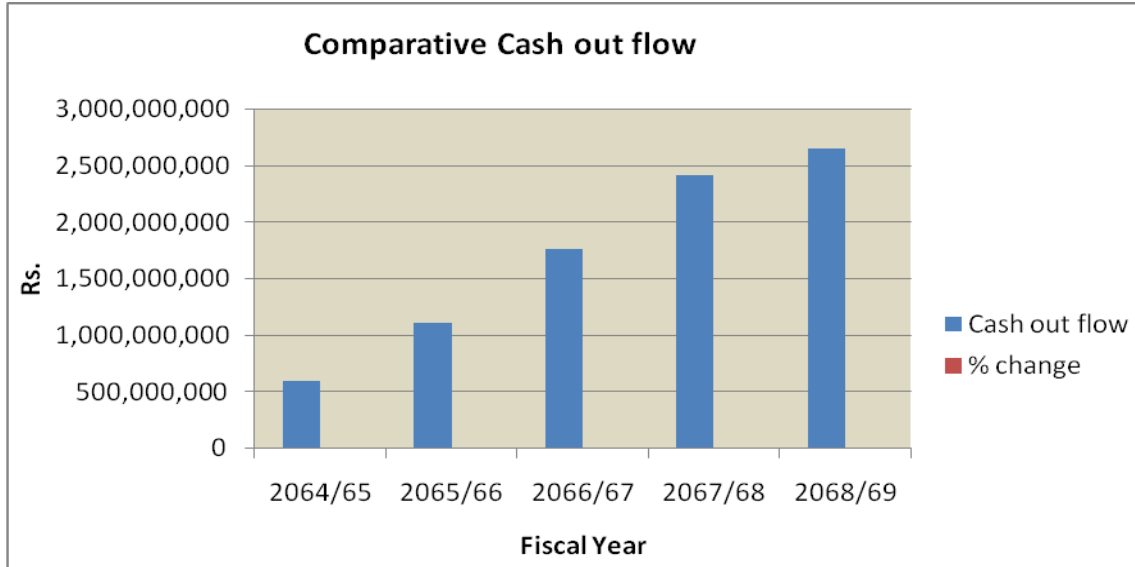
On the other hand, total cash payment from the operating activities also in increasing trend. The total cash out flow of the bank is shown in the following section;

#### 4.1.1.2 Cash to operating section

**Table-5**

FISCAL YEARS	2064/65	2065/66	2066/67	2067/68	2068/69
Cash out flow	595,774,179	1,115,329,574	1,769,003,531	2,418,793,252	2,658,161,248
% change	55.22% ↑	87.21% ↑	58.61% ↑	36.73% ↑	9.87% ↑

**Figure -4**



The operating cash payment of the bank has risen. In the fiscal year 2064/65 and 2065/66 the cash payment has raised by 55.20% and 87.21% where as the cash payment has raised by 58.61% in year 2066/67 and 36.73% in year 2067/68 and its 9.87 % increment in year 2068/69. The base year of the comparison is fiscal year 2061/062.

Similarly, the total cash payment could be studied by dividing it into various sub headings. The various sub-sectors where the cash payment is required for the bank is as follows;

- Interest expenses
- Staff expenses
- Exchange loss
- Office operating expenses
- Other expenses
- Income tax paid
- Differed tax expenses

**In the following section, the composition of cash payment of the bank is shown as;**

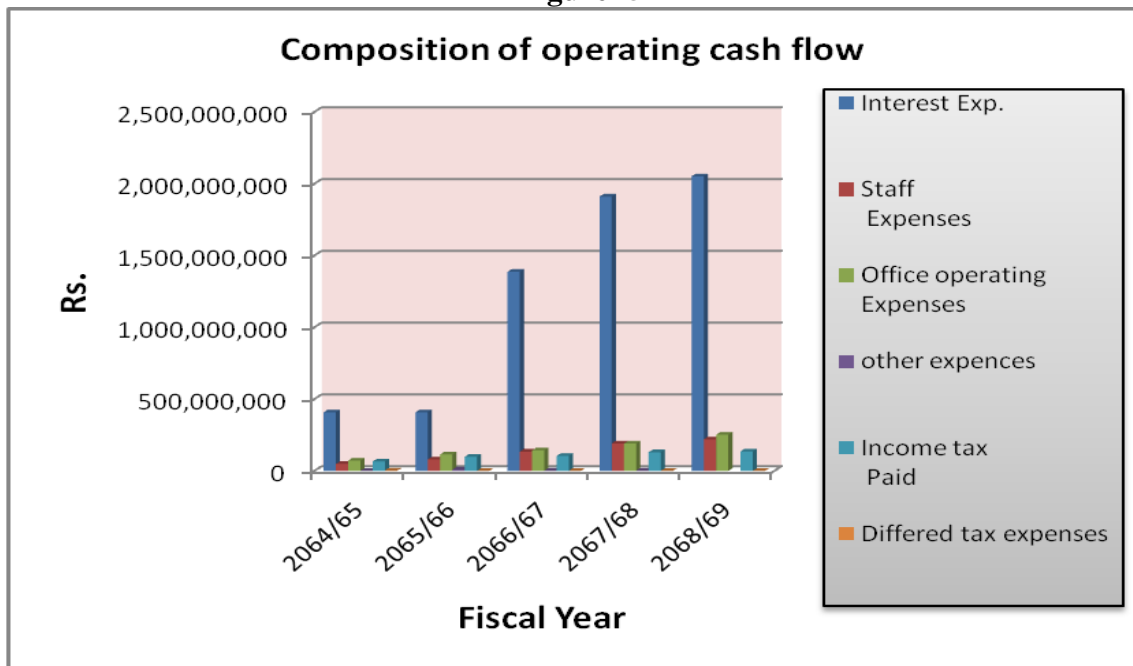
**Table-6**

Fiscal Years	Interest Exp.	Staff Expenses	Office operating Expenses	Other	Income tax Paid	Differed tax Expenses
				Expenses		
2064/65	(408,188,955)	(48,247,208)	(71,480,863)	-	(65,769,319)	(2,087,834)
2065/66	(813,619,042)	(79,384,785)	(114,816,885)	(8,857,466)	(98,651,396)	-
2066/67	(1,386,818,348)	(134,180,467)	(142,769,756)	(1,546,947)	(103,688,012)	-
2067/68	(1,910,297,401)	(190,671,004)	(189,789,561)	(1,924,703)	(129,959,990)	-
2068/69	(2,051,561,248)	(219,621,208)	(251,322,003)		(135,656,213)	-

Interest payments are in highly increasing trends. It shows that payments of interest as compare to receipt are increasing. Staff expenses are also in increasing trend, which shows that the bank is giving priority in human resource acquisition. Office operating expenses are also in increasing trends. There is large payment for operating expenses in recent year same as previous year. Exchange losses are bearing by the bank. There is payment for other expenses are in three years second, third and fourth year. Income tax paid throughout these fiscal years is also in increasing trend, which indicates the increased profits of bank in each succeeding year. Differed tax expenses occurred in fiscal year 2064/65 only.

The composition of cash payment of the bank in various sections could be presented in simple bar diagram as follows:

**Figure- 5**



The way the Operating receipts are in increasing trends operating payments are also in increasing trend. The increment in interest expenses indicates the increasing trend of deposit in each successive year and so as increment in staff expenses shows the recruitment of new and capable human resources as per bank 's need and for their trainings and development. Now a day's interest income has increasing trend because the bank is increasing its investment. The bank is earning higher which is showed by the increasing income tax every year.

#### 4.1.2 Cash flow from Investing Activity

Positive cash flow from investing activities represents sale of investment and fixed assets. Similarly negative cash flow means the Bank made investment for internal or external fixed assets, securities and loans and advance. Banks are the trader of cash so investing activities of the bank differs from the other trading and manufacturing company.

The total cash from investing activities could be figured out through tabulation method as

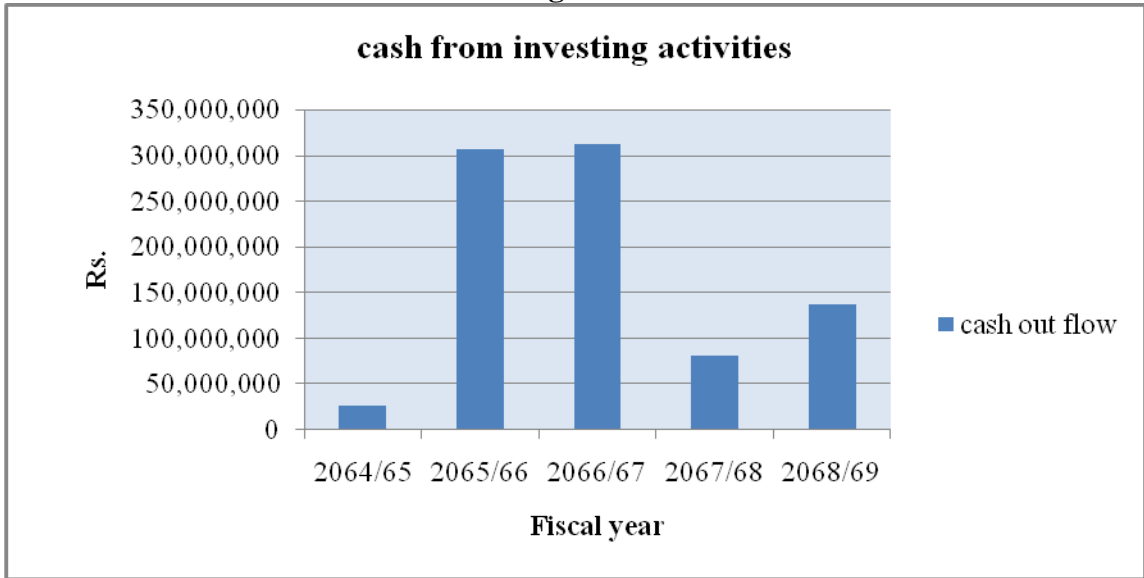
**Table-7**

<b>FISCAL YEARS</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Cash out flow	26,610,942	306,210,088	312,662,330	81,185,253	137,221,335
s% Change	-	1050.69% ↑	2.11% ↑	74.03% ↓	69.02% ↑

The table says that the bank has negative cash flow form investing activities in its fiscal years under studies that may be because of the extension of infrastructures in the contest of economic globalization, technological change and market competition except in the fiscal year 2067/68 where cash out flow decreased by 74.03%.

The trend of cash from investing activities for different five fiscal years are figured out in the following bar diagram;

**Figure-6**



The evaluation of investment activities includes changes in balance with bank, long term investments, money at call and short notice, interest income on long term investments, loans advance and bill purchased and changes in fixed assets and other assets. There is a fluctuation in investment made by bank under long term investment but the changes in fixed assets is highly negative which shows the bank has increased its area of fixed assets in each fiscal year.

#### **4.1.3 Cash flow from Financing Activity**

Financing means rising of capital from different sources in order to operate the company effectively. Generally financing sources refers debenture, share and retained earning plugging back. But the bank has other sources of financing rather than mentioned above. They are collection of deposit through different account like current, saving and fixed deposit as well as margin deposit and others.

Cash flow from financing activities of different fiscal years under studies has been tabulated as follows;

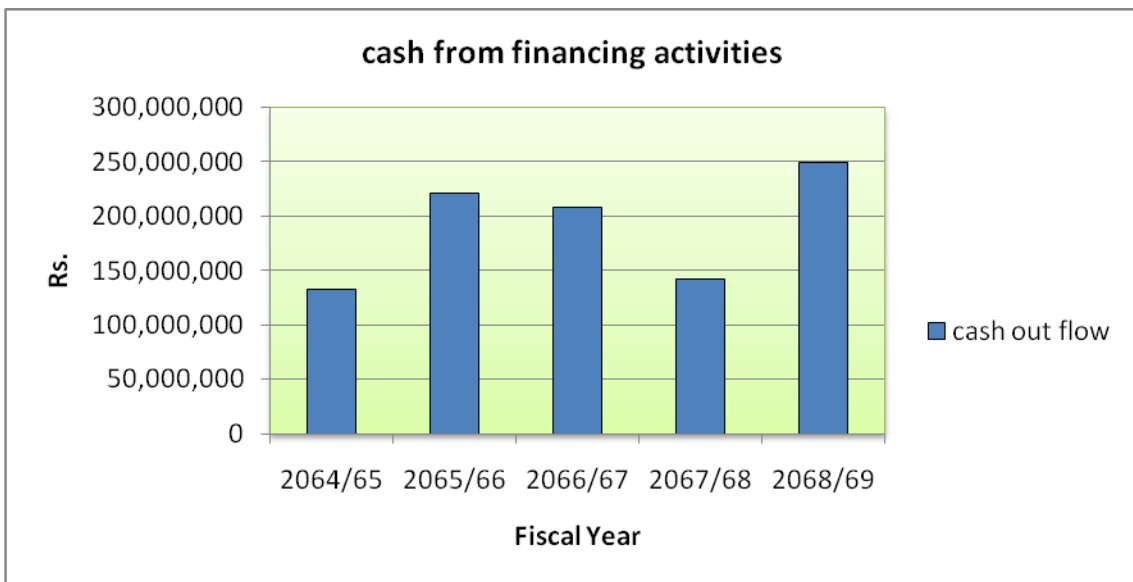
**Table -8**

#### **Cash from financing activities**

<b>FISCAL YEARS</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Cash out flow	133,263,158	221,233,158	207,889,077	142,930,063	248,829,439
% Change	-	66.01% ↑	6.03% ↓	31.25% ↓	74.09% ↑

Cash flow from financing activities for SBL bank has been fluctuating in the different fiscal years under study. In the fiscal year 2064/65 the cash out flow was positive and in fiscal year 2065/66 it showed positive cash flow due the issuance of debenture and bonds and its 66.01% than former fiscal year. Fiscal year 2066/67 is decreased by 6.03% due to the changes in proposed dividend and also it is affected in 2067/68 is 31.25%. And in last fiscal year under study, it again reaches to affirmative increment due to the issuance of debenture and bonds and its 74.09% than former fiscal year. To visualize this reality simple bar diagram has been presented as follows;

**Figure-7**



From the bar diagram presented above, we can see that the cash flow from financing activities has been increased in higher amount in the fiscal year 2062/63 where as in other fiscal years 2063/64 and 2064/65 the cash flow has been decreased in compare with the fiscal year 2062/63 but have been increased in compare with the base fiscal year i.e. fiscal year 2061/62 and again there is high increment of positive cash flow in fiscal year 2065/66. So, from the above graph we can conclude that the Siddhartha bank has a very fluctuating cash flow from financing.

Net cash flow of the bank in different fiscal year is the combination of net cash from operating activities, net cash from financing activities and net cash from investing activities. The net cash flows of the bank under different fiscal year are presented in the following table;

**Table-9**

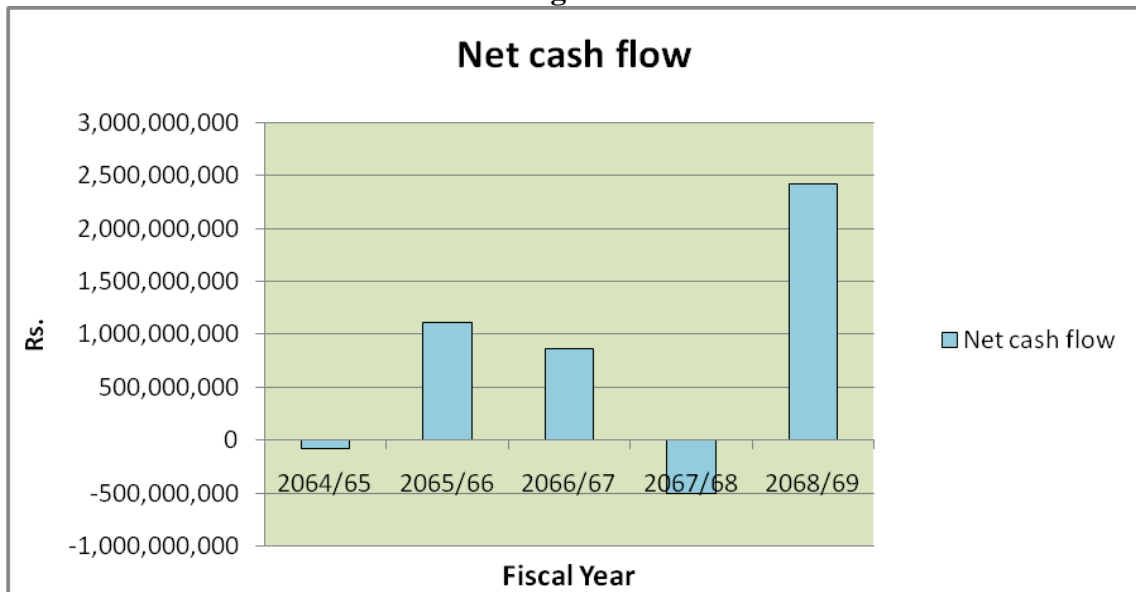
**4.1.4 Net cash flow of the bank**

<b>FISCAL YEARS</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Net cash flow	(79,801,085)	1,110,258,831	858,926,104	(500,925,226)	2,425,222,198
% change		1491.28%	-22.64%	-158.32%	584.15%

The net cash flow of the bank in the preceding fiscal year 2062/63 under study is in descending percentage by 74.89% than 2061/62. where as net cash flow for last fiscal year under studies i.e. 2063/64, 2065/66 is in positive percentage. In the fiscal year 2063/64 the net cash flow is being pushed up by share capital. In that fiscal year the bank has issued share of 100 million. In fiscal year 2064/65 also the bank has issued share capital of 138 million. In that year the deposit has also remarkably increased under current liabilities. So, despite the issuance of share capital the net cash flow is in negative figure in comparison to fiscal year 2063/64 and it's -119.89%. In fiscal year 2064/65 the increment in long term investment, long term debentures, other assets and cash from operating activities led the net cash flow in towards positive values and its 1491.28 higher than previous year that is 2064/65.

Hence, the net cash flow of the bank is in volatile position in each year under study. It is not either growing up or going negative in a particular trend. This reality could be made more clearly form the following simple bar diagram;

**Figure-8**



The bank invested much amount in the investing activities in comparison to former fiscal year 2061/62. So, as its current liabilities and cash payment also exceeded as a result total cash flow for the year 2062/63 is lesser. Cash flow from financing activities is negative in the second year. But operating and investing cash flow are positive. The year 2059/60 is the significant year for positive cash flow in total. Cash from investing activities in this year is negative. But due to the higher positive cash flow from operating and financing activities total cash flow come to Rs 103037524. Similarly overall cash flow is Negative in the year 2060/61 and 2061/62 due to the highest amount of negative cash flow received from investing activities.

#### 4.1.5 Cash position

The cash position refers to the total cash available in the bank itself, balance maintained in Nepal Rastra Bank and also the balance maintained in other financial institutions. Cash includes all kinds of currencies i.e. Nepalese currency, Rupees, Foreign currencies i.e. INR, USD, EURO, GBP, AUD etc.

The Cash maintained by Siddhartha Bank through out the fiscal year under study is tabulated as below;

**Table-10**

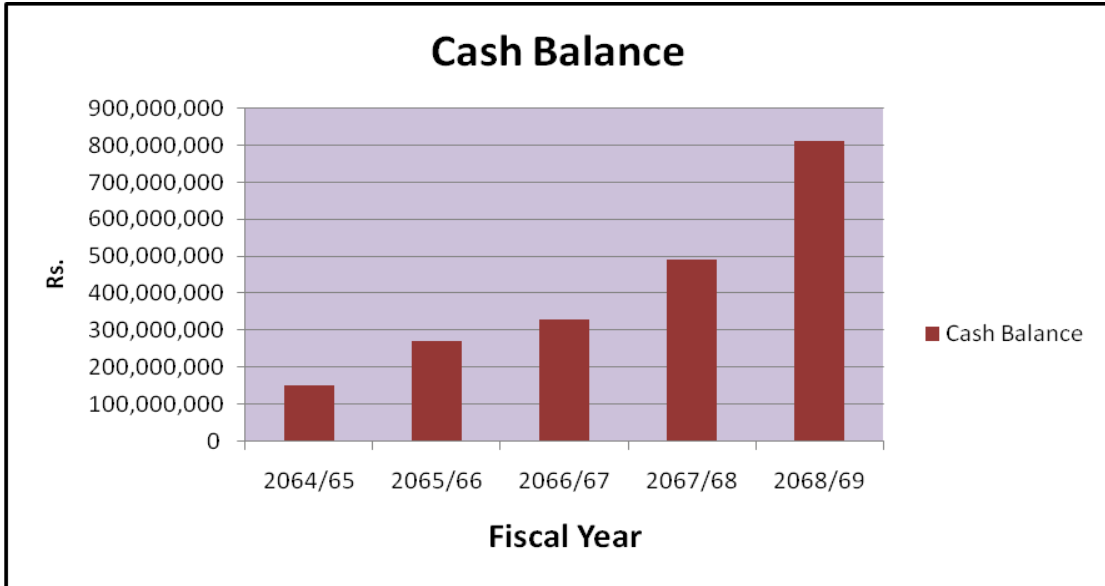
<b>CASH BALANCE</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Local Currency (including coins)	145,657,267	265,733,771	320,910,607	479,785,277	790,537,972
Foreign Currency	3,349,683	5,212,016	5,957,596	11,464,065	22,642,059
<b>TOTAL</b>	<b>149,006,950</b>	<b>270,945,787</b>	<b>326,868,203</b>	<b>491,249,342</b>	<b>813,180,031</b>
<b>% Change</b>		81.83%	20.64%	50.29%	65.53%

From above table we can see the clear figure of the balance of cash being maintained by the Bank in its vaults of all branches. The balance is being in increasing trend from each former year under the study, which shows the positive behavior of the transactions in the bank and so as the increased no of transaction by the enlarged customer also helped the cash balance of the bank each year. Mostly the customers of savings accounts, currents accounts and call accounts leads the volume the cash balance and daily transactions of bank.

In fiscal year, 2065/66 the cash balance increased by 81.83% followed by 20.64% and 50.29% in 2066/67 and 2067/68. Its been increment in fiscal year 2068/69 by 65.53%.

The trend of cash balance in different five fiscal years are figured out in the following bar diagram;

**Figure-9**



The above bar diagram also clearly represented the improved cash balance of Siddhartha Bank. It has greatly increased its Nepalese cash balance as well as foreign cash balance each year.

#### **4.1.5.1. Cash at Rastra Bank and other financial institution and foreign Banks**

Liquidity is bank's ability to generate cash quickly to meet its short obligations at a reasonable cost. It reflects the short-term financial strength of a bank. Liquidity of the bank shows the ability to solve one's payment. It shows the overall financial capacity of bank. The bank is considered to be liquid if it has access to immediate spend-able fund at reasonable cost at precisely the time those funds are needed. The liquidity in term can be used as an ability to invest in a sensitive sector like government securities, money at call and CRR provision etc. The certain amount of the deposit received by depositors should get maintain so that it can be easily converted into cash. Liquidity helps to reduce the cash risk, which directly leads to bankruptcy. Banks are required to maintain a certain percent of the total deposit as CRR provision as per the NRB rules. Therefore, Nepal Rastra Bank has set a fixed CRR provision for all the Commercial Banks which bank has to comply. According to the directives of NRB all Commercial bank should maintain 5% of amount of total deposit as CRR in their NRB account. This provision helps commercial banks to preserve the liquidity capacity to meet their short-term obligations by themselves. The bank also maintain balances in other different financial institutions like other commercial banks, development banks, finance companies, cooperatives, and in foreign banks as well to meet its various objectives and to make new relationships and also for maintaining existing relationships.

We can see the cash balance maintain by SBL in fiscal year under the study as follows:

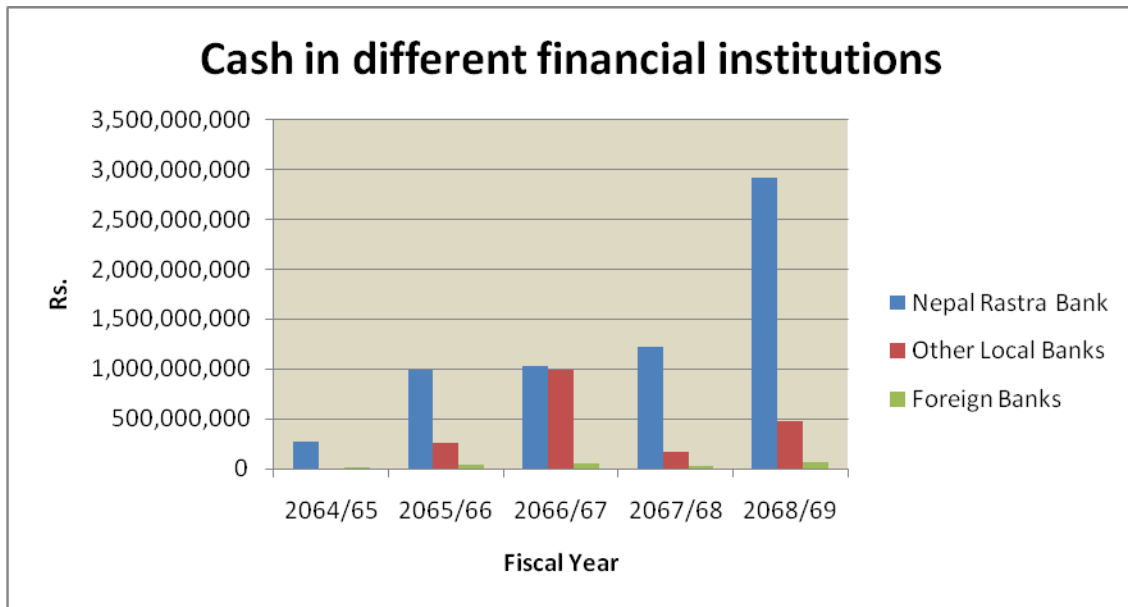
**Table-11**

<b>Particulars</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Nepal Rastra Bank	270,219,328	984,981,288	1,027,465,065	1,222,411,894	2,925,084,336
		264.51% ↑	4.31% ↑	18.97% ↑	139.28% ↑
Other Local Banks	5,310,506	257,924,695	995,976,882	172,574,167	484,440,164
Foreign Banks	12,888,485	33,832,331	56,300,055	19,449,575	69,186,236

The above figures can also be more presented in bar diagram as;

The chart also showed the volatile cash balance of SBL in different financial institutions. The CRR maintained in NRB increased by 264.51% in fiscal year 2065/66 whereas by 4.31% in 2066/67. So, in the year 2067/68 the balance is increased by 18.97% but in 2064/65 it reach to 139.28%. It shows during the fiscal year under study the in some year the bank has met the NRB rules and in some year it didn't.

**Figure-10**



## 4.2 CASH FLOW STATEMENTS OF STANDARD CHARTERED BANK

Table-12

	Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
<b>A</b>	Cash flow from operation	<b>(45,233,838)</b>	<b>6,948,938,465</b>	(2,249,622,421)	(2,118,440,077)	(1,832,090,598)
	<b>1. Cash receipt</b>	<b>1,862,221,002</b>	<b>2,128,177,260</b>	2,359,799,519	2,809,385,246	2,947,394,807
	Interest Income	1,295,672,504	1,480,241,128	1,605,148,047	2,110,180,547	2,317,393,636
	Commission and discount income	272,068,274	238,616,592	338,094,639	321,520,742	270,471,498
	Recovery of loan written off	5,867,246	352,358,259	9,038,441	26,212,237	43,382,769
	Exchange gain	255,436,198	23,770,030	373,038,919	314,718,463	277,792,250
	Non operating income	—	—			
	Other income	33,176,780	33,191,251	34,479,473	36,753,257	38,354,654
	<b>2. Cash Payment</b>	<b>1,621,292,559</b>	<b>1,963,910,721</b>	2,074,693,279	2,850,463,738	3,218,331,097
	Interest expenses	474,628,760	521,840,234	535,333,144	922,294,379	1,090,292,362
	Staff expenses	223,667,612	254,218,116	306,659,170	359,773,068	381,732,280
	Office operating expenses	206,769,247	250,890,193	286,794,401	309,876,330	430,470,635
	Exchange loss					
	Income tax paid	385,040,406	440,908,086	481,702,672	494,133,878	519,653,601
	Differed tax expenses					
	Non operating expense	—				
	Other expenses	331,186,534	496,054,092	464,203,892	764,386,083	796,182,219
	<b>Cash Flow before changes in working capital</b>	<b>240,928,443</b>	<b>164,266,539</b>	285,106,240	(41,078,492)	(270,936,290)
	<b>Decrease/(Increase) of Current Assets</b>	<b>(4,364,232,028)</b>	<b>233,676,234</b>	(1,896,058,135)	(5,106,247,505)	925,605,691
	1. Decrease/(Increase) in money at call and short notice	(436,386,100)	141,988,600	386,089,000	(2,611,428,000)	2,154,853,000
	2. Decrease/(Increase) in short term investment	—			-	
	3. Decrease/(Increase) in loan and bills purchase	(3,255,242,077)	44,154,587	(2,321,942,516)	(2,534,871,907)	(1,251,990,945)
	4. Decrease/(Increase) in other assets	(672,603,851)	47,533,047	39,795,381	40,052,402	22,743,636
	<b>Decrease/(Increase) of Current Liabilities</b>	<b>4,078,069,747</b>	<b>6,550,995,692</b>	(638,670,526)	3,028,885,920	(2,486,759,999)
	1. (Decrease)/Increase in	5,096,978,038	6,127,722,333	(168,102,257)	2,816,520,856	(2,033,611,566)

	deposits					
	2. (Decrease)/ Increase in certificate of deposits	—			-	
	3. (Decrease)/ Increase in short term borrowing	(348,771,311)	285,544,727	(300,000,000)	350,000,000	(350,000,000)
	4. (Decrease)/ Increase in other liabilities	(670,136,980)	137,728,632	(170,568,269)	(137,634,936)	(103,148,433)
<b>B</b>	<b>Cash flow from investing activities</b>	<b>(16,662,637)</b>	<b>(5,990,481,198)</b>	955,706,293	3,090,601,664	5,031,763,919
	Changes in balance with bank	—				
	Changes in long term investments	(323,460,547)	(6,333,302,071)	388,610,057	2,588,828,553	4,320,466,698
	Changes in money at call and short notice	—				
	Changes in Investments	—				
	Interest income on long term investments	319,814,530	365,061,547	541,722,472	509,289,984	717,991,400
	Changes in loans advance and bill purchased	—				
	Changes in fixed assets	(14,116,435)	(24,719,699)	19,845,714	(13,962,338)	(7,177,083)
	Changes in other assets	—				
	Dividend income	1,099,815	2,479,025	5,528,050	6,445,465	482,904
<b>C</b>	<b>Cash flow from financing activities</b>	<b>901,799</b>	<b>790,400</b>	534,000	1,911,860	-
	Changes in borrowing	—			-	
	Changes in deposits	—				
	Changes in bills payable	—				
	Changes in proposed dividends and dividend payables	—				
	Changes in share capital fund	901,799	790,400	534,000	1,911,860	
	Changes in other liabilities	—				
<b>D</b>	Income/Expense form change in exchange rate in cash and bank balance	90,216,822	127,672,654	85,525,113	72,415,311	190,764,470
<b>E</b>	Net cash flow of the year <b>A+B+C</b>	29,222,146	1,086,920,321	(1,207,857,015)	1,046,488,758	3,390,437,791
<b>F</b>	Opening cash balance	2,021,021,068	2,050,243,214	3,137,163,535	1,929,306,520	2,975,795,278
<b>G</b>	Closing cash balance	2,050,243,214	3,137,163,535	1,929,306,520	2,975,795,278	6,366,233,069

Sources: Annual reports of Siddhartha bank and standard chartered bank from 2064 to 2068

#### 4.2.1 Cash Flow from Operating Activity

Total cash flow from operating activities of the bank under the different fiscal years is in fluctuating order. To make this reality more apparent, the cash flow is tabulated as follows;

**Table -13**

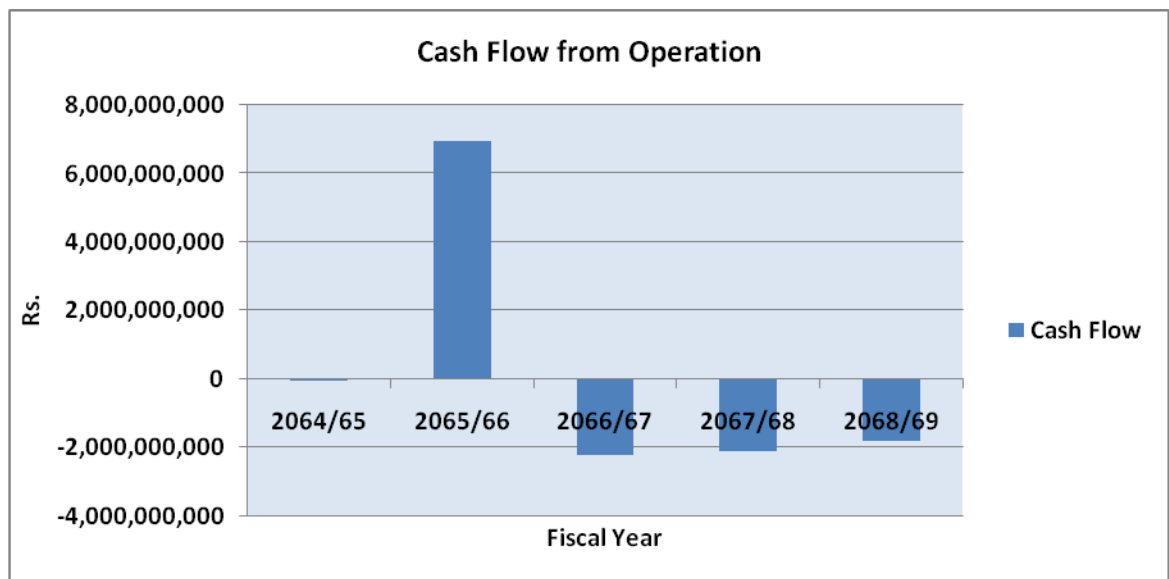
##### 4.2.1.1 Comparative study of cash from operating activities

FISCAL YEARS	2064/65	2065/66	2066/67	2067/68	2068/69
Cash flow	(45,233,838)	6,948,938,465	(2,249,622,421)	(2,118,440,077)	(1,832,090,598)
% Change	—	15262.26% ↑	676.26% ↓	5.8313% ↓	13.517% ↓

As the table showed the operating cash flow was in volatile trend. It wasn't in ascending order or in descending order. In fiscal year 2065/66 it went up by 15262.26% where as in 2066/67 and 2067/68 it went down by 676.26%, 5.8313% respectively. Again it took up low remarks in fiscal year 2068/69 by 13.517% due to the highly increment in current liabilities. From the table we can conclude that the cash flow from operating activities is volatile in nature.

To beautify this reality, the following simple bar diagram is presented for;

**Figure-11**



Hence the cash flow from operation of the bank is in wave; one-year increase in 2065/66 but after 2066 the following year is in decreasing order.

As per the component of cash in flow of the SBL bank, Standard chartered bank's cash flow also includes the very headings. The following section of this study deals the same matter for the bank;

#### 4.2.1.1 cash to operating section (inflow)

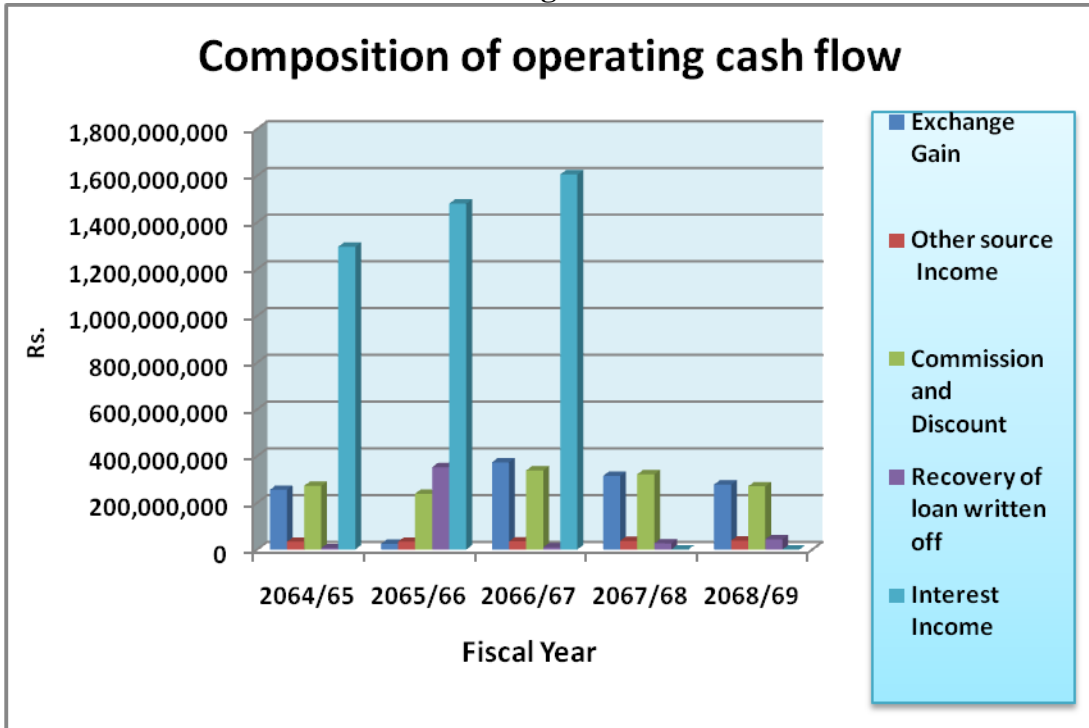
**Table-14**  
**Composition of cash from (i.e. cash receipt) operating section**

<b>Fiscal Years</b>	<b>Interest Income</b>	<b>Exchange Gain</b>	<b>Other source Income</b>	<b>Commission And discount</b>	<b>Recovery of loan Written off</b>	<b>Non operating Income</b>
2064/65	1,295,672,504	255,436,198	33,176,780	272,068,274	5,867,246	—
2065/66	1,480,241,128	23,770,030	33,191,251	238,616,592	352,358,259	—
2066/67	1,605,148,047	373,038,919	34,479,473	338,094,639	9,038,441	—
2067/68	2,110,180,547	314,718,463	36,753,257	321,520,742	26,212,237	—
2068/69	2,317,393,636	277,792,250	38,354,654	270,471,498	43,382,769	—

The main source of cash receipt in operating activity is interest income. Interest income is in increasing trend in each succeeding years. So their second large receipt source under operating activities is exchange gain then its commission and discount income.

The figure in the above table could be beautifying in the following simple bar diagram as;

Figure-12



Similarly, cash to operating section deals with the cash payment to the various business activities of the bank. It includes cash payment for employees, the payment to the various stakeholders that are directly related with the operating section of the bank.

The following section deals with the cash to operating section (outflow);

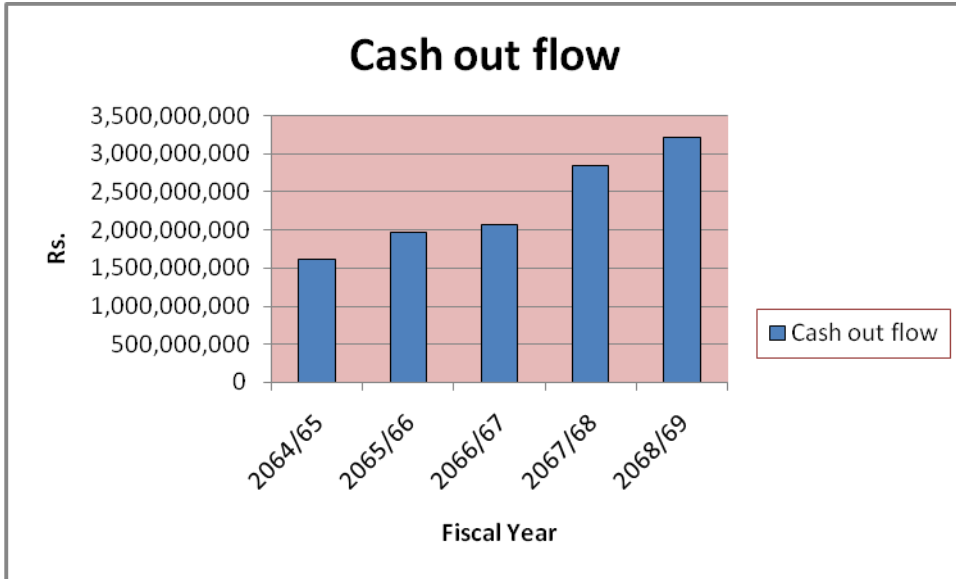
**4.2.1.2 cash to operating section (outflow)**

Table-15

FISCAL YEARS	2064/65	2065/66	2066/67	2067/68	2068/69
Cash out flow	1,621,292,559	1,963,910,721	2,074,693,279	2,850,463,738	3,218,331,097
% Change	--	21.12% ↑	5.64% ↑	37.39% ↑	12.91% ↑

From the above data and the bar diagram, we can easily figure out the increasing trend of operating cash outflow in each fiscal year under the study.

**Figure-13**



Similarly, the total cash payment could be studied by dividing it into various sub headings. The various sub-sectors where the cash payment is required for the bank is as follows;

- Interest expenses
- Staff expenses
- Exchange loss
- Office operating expenses
- Other expenses
- Income tax paid
- Differed tax expenses

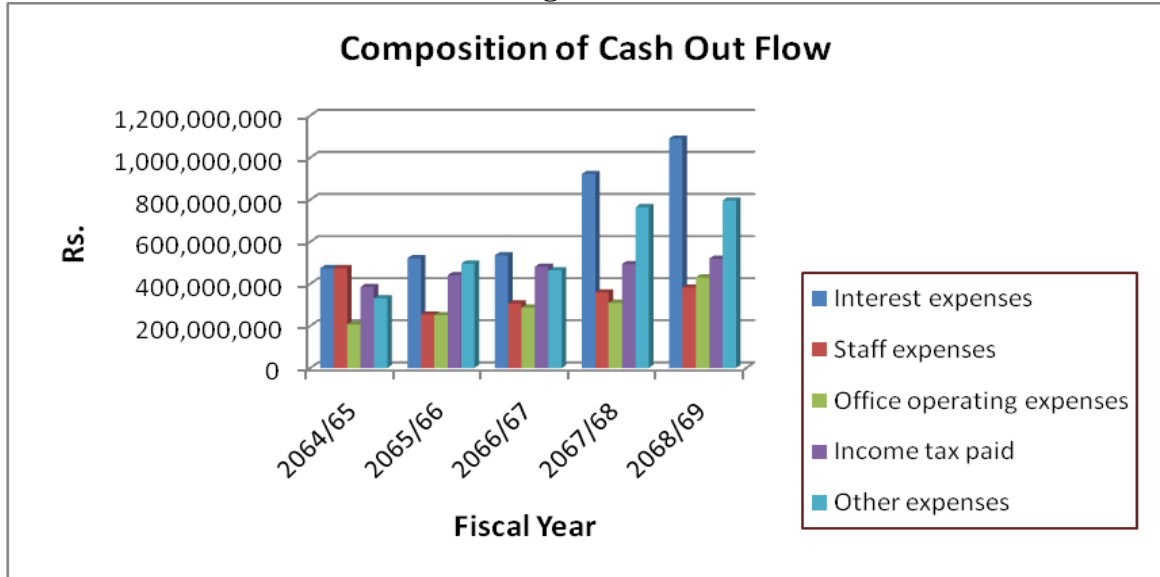
In the following section, the composition of cash payment of the bank is shown as;

**Table-16**

Fiscal Year	Interest expenses	Staff expenses	Office operating expenses	Income tax paid	Other expenses
<b>2064/65</b>	474,628,760	223,667,612	206,769,247	385,040,406	331,186,534
<b>2065/66</b>	521,840,234	254,218,116	250,890,193	440,908,086	496,054,092
<b>2066/67</b>	535,333,144	306,659,170	286,794,401	481,702,672	464,203,892
<b>2067/68</b>	922,294,379	359,773,068	309,876,330	494,133,878	764,386,083
<b>2068/69</b>	1,090,292,362	381,732,280	430,470,635	519,653,601	796,182,219

To visualize the reality, the following simple bar diagram is used;

**Figure-14**



Interest expenses, Income tax paid staff expenses, office-operating expenses are in rising trend. From the diagram, it is clear that the leading expense is interest that is supposed to be paid to various concerned party. The second highest expenses is other expenses and then income tax paid. There is less volatility in other expense where as there is more volatility in the interest expenses. The staff expense is seen as under management control efficiently.

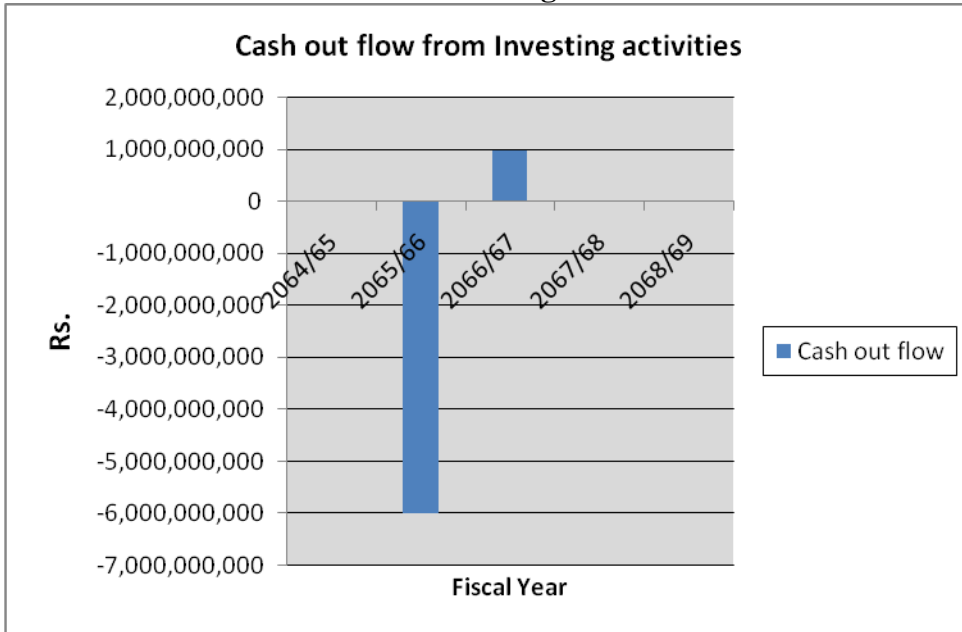
#### 4.2.2 Cash from investing activities

**Table-17**

FISCAL YEARS	2064/52	2065/66	2066/67	2067/68	2068/69
Cash out flow	(16,662,637)	(5,990,481,198)	955,706,293	3,090,601,664	5,031,763,919
% Change	-	-35851.58% ↓	115.95% ↑	223.38% ↑	62.81% ↑

To make this reality more clear we need to plot it into simple bar diagram in the following diagram as;

**Figure-15**



From the diagram, it is clear itself that the bank has made considerably no amount of investment in the fiscal year 2064/65 and it has only interest income and there is huge decrement in long term investment. In 2065/66 also investment decreases. But in the fiscal year 2066/67 the investment is high and again it lowered in 2067/68 and in 2068/69. In final year under it again picked up summit due to increment in investment. So, as a result we can conclude the cash flow from investing is guided by the volume of long-term investment and it's in fluctuating situation.

### 4.2.3 Cash flow From Financing Activity

Financing means way of capitalization in general case. It may be on the form of share and debenture issue, retained earning and preference capital. But financial institution is the trader of money. They purchase money as a deposit liability with paying interest and invested them into public as a loan.

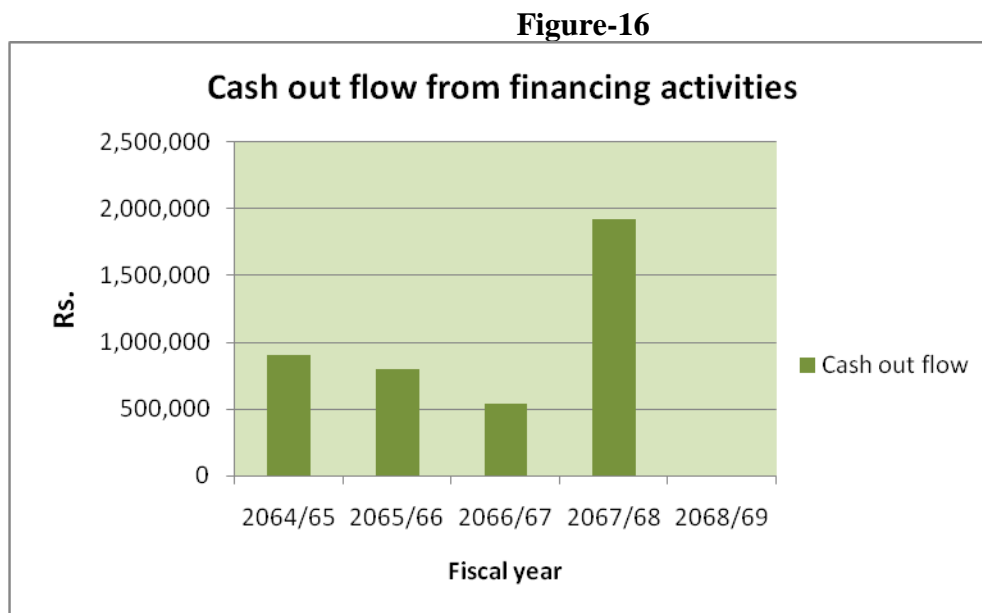
Cash flow from financing activities for Standard Chartered Bank has been tabulate for different fiscal year as follows;

**Table-18**

FISCAL YEARS	2064/65	2065/66	2066/67	2067/68	2068/69
Cash out flow	901,799	790,400	534,000	1,911,860	-
% change	-21.61%	-12.35%	- 32.44%	258.03%	

It's declining in each year from 2064/65 to 2066/67. In the fiscal year 2067/68 the cash flow is positive and in 2068/69 no cash flow. The positive yet lessening cash flow each year is the cash from the issuance of shares in the form of right shares and bonus shares. There is no remarkable business deal on refinances and facilities received from Nepal Rastra Bank so as related with the other liabilities.

This reality could be made clearer from the following activities as;



The lowering bar chart also makes it clear about the positive but declining cash inflow from financing activities.

#### 4.2.4 Net Cash Flow for the Year

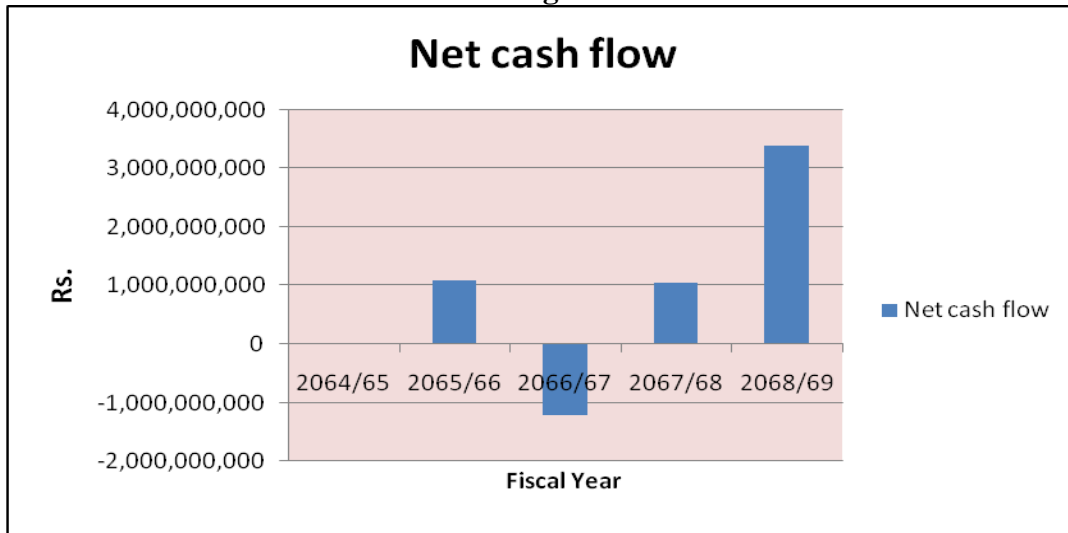
Net cash flow of the bank in different fiscal year is the combination of net cash from operating activities, net cash from financing activities and net cash from investing activities. The net cash flows of the bank under different fiscal year are presented in the following table;

Net cash flow of the bank

**Table-19**

<b>FISCAL YEARS</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
Net cash flow	29,222,146	1,086,920,321	(1,207,857,015)	1,046,488,758	3,390,437,791
% change		3619.51% ↑	211.12% ↓	186.64% ↑	223.98% ↑

Figure-17



The bank seems to have negative cash flow in the fiscal year 2066/67. But in all other fiscal years the bank has positive cash flow. The cash flow is optimistic but the ratio of positivity isn't in increasing trend in all fiscal year under study. It increases by 3619.51% in fiscal year 2065/66 whereas in it goes up by 186.64% in 2067/68 and in 2068/69 it increase by 223.98%. In comparison to other fiscal year the cash flow went down by 211.12% in 2066/67. In fiscal year due to high positive cash flow from operation the total cash flow went higher than in other fiscal year. And it went up by high percentage due to the increment in cash flow from operating activities and due to high investments.

#### 4.2.5 Cash position:

The cash position refers to the total cash available in the bank itself, balance maintained in Nepal Rastra Bank and also the balance maintained in other financial institutions. Cash includes all kinds of currencies i.e. Nepalese currency, Rupees, Foreign currencies i.e. INR, USD, EURO.GBP, AUD etc.

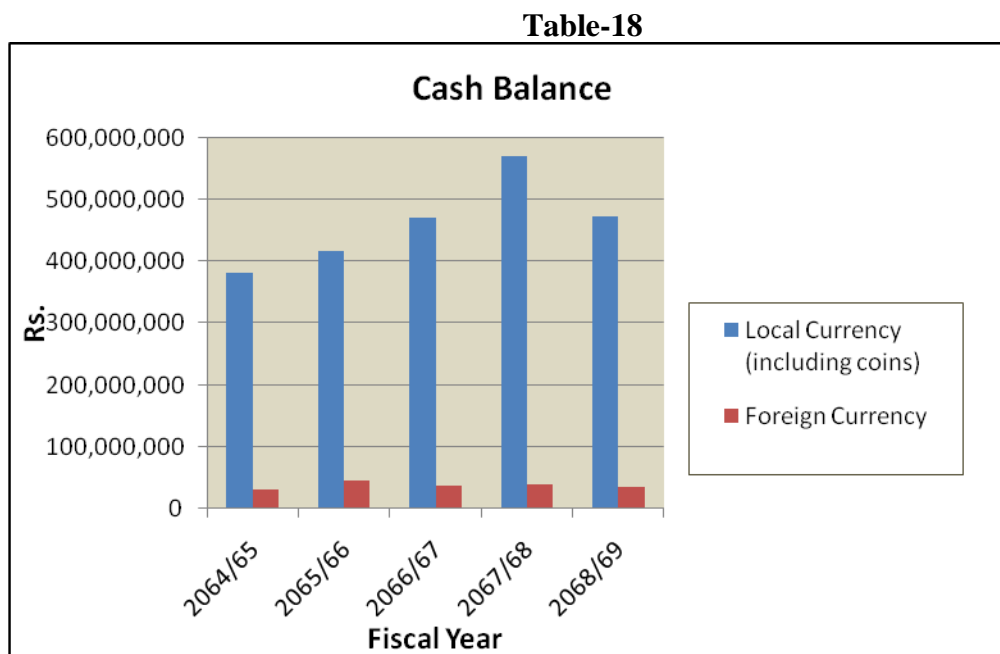
The Cash maintained by Standard Chartered Bank through out the fiscal year under study is tabulated as below;

Table-20

CASH BALANCE	2064/65	2065/66	2066/67	2067/68	2068/69	TOTAL
Local Currency (including coins)	382,753,590	416,767,782	471,554,724	570,902,052	473,481,059	2,315,459,207
Foreign Currency	32,121,877	46,578,214	37,476,450	39,788,843	36,196,858	192,162,242
<b>TOTAL</b>	414,875,467	463,345,996	509,031,174	610,690,895	509,677,917	2,507,621,449
% Change	9.63%	11.68% ↑	9.86% ↑	19.97% ↑	16.54% ↓	

The above figures clearly show that the cash balance being maintained by is in increasing trend in both local currency and foreign currency each year. But, the percentage of increment is in decreasing trend. Here, we can clearly see that the cash balance is going up by 11.68%, 9.86%, and 19.97% in each succeeding year. But in fiscal year 2068/69 it is decrease by 11.68%

The above can also be made clear through bar diagram as shown below;



The up warding bar diagram also made us clear about the balance of the cash being maintained by the bank. It shows the transaction of the bank is increasing in every fiscal year than preceding year.

#### 4.2.5.1 Cash at Rastra Bank and other financial institution and foreign Banks:

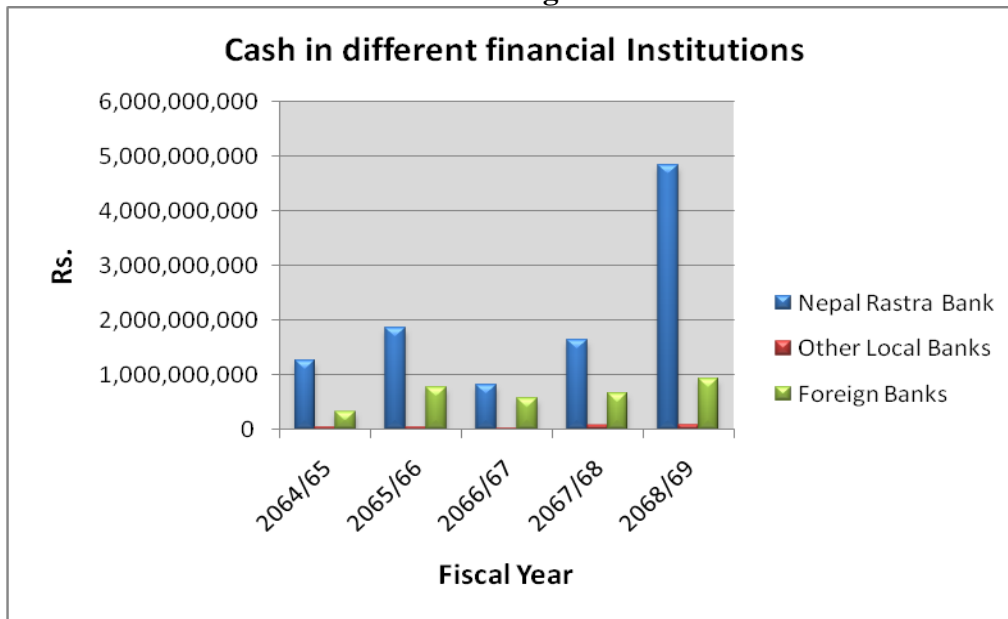
All the banks exist through the laws of Central Bank of Nepal i.e. Nepal Rastra Bank. All bank should obey the rules and regulations circulated by the central bank.. Among which the head bank has also issued the circulation relating to the cash balance to be maintained by all financial institutions in it. All financial institutions maintain account at central bank. For, commercial banks, the central bank have made a rule of maintaining the cash balance of 5% of its total deposit so as to meet its liquidity needs in the market.

The cash balance being maintained by Standard Chartered Bank is shown in table and chart below;

**Table-21**

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Nepal Rastra Bank	1,266,273,524	1,851,132,637	819,508,706	1,638,276,594	4,833,920,464
Other Local Banks	49,615,608	51,292,893	28,647,994	75,505,027	90,043,264
Foreign Banks	319,478,615	771,392,009	572,118,646	651,322,762	932,591,424

The cash balance maintained by the bank in NRB seems to be up going in each year except in the fiscal year 2066/67 in comparison to other fiscal year. In other local banks also it is going up each year except in 2066/67. The bank has maintained good volume of foreign currencies in different foreign banks.

**Figure-19**

### 4.3 Comparative study of cash flow statement between the banks under study

**Table-22**

Particulars	2064/65		2065/66	
	SBL	SCB	SBL	SCB
Cash from operating activities	(186,453,300)	(45,233,838)	1,195,235,761	6,948,938,465
Cash from investing activities	(26,610,942)	(16,662,637)	(306,210,088)	(5,990,481,198)
Cash from financing activities	133,263,158	901,799	221,233,158	790,400
Net cash flow	(79,801,085)	29,222,146	1,110,258,831	1,086,920,321
Cash position (local and foreign currency)	149,006,950	414,875,467	270,945,787	463,345,996
Cash at NRB and others	288,418,319	1,635,367,747	1,276,738,314	2,673,817,539

Particulars	2066/67		2067/68		2068/69	
	SBL	SCB	SBL	SCB	SBL	SCB
Cash from operating activities	963,699,358	(2,249,622,421)	(562,670,036)	(2,118,440,077)	2,313,614,114	(1,832,090,598)
Cash from investing activities	(312,662,330)	955,706,293	(81,185,253)	3,090,601,664	(137,221,335)	5,031,763,919
Cash from financing activities	207,889,077	534,000	142,930,063	1,911,860	248,829,439	-
Net cash flow	858,926,104	(1,207,857,015)	(500,925,226)	1,046,488,758	2,425,222,198	3,390,437,791
Cash position (local and foreign currency)	326,868,203	509,031,174	491,249,342	610,690,895	813,180,031	509,677,917
Cash at NRB and others	2,079,742,002	1,420,275,346	1,414,435,636	2,365,104,383	3,478,710,736	5,856,555,152

Above is the yearly comparative analysis of cash flow of Siddhartha Bank and Standard Chartered Bank from different activities and the balance of cash, both local currencies and foreign currencies, being maintained by the banks in different financial institutions in each fiscal year under study are presented.

And below is the comparison of cash flow on the basis of different activities of two banks.

#### 4.3.1 Cash from Operating Activities

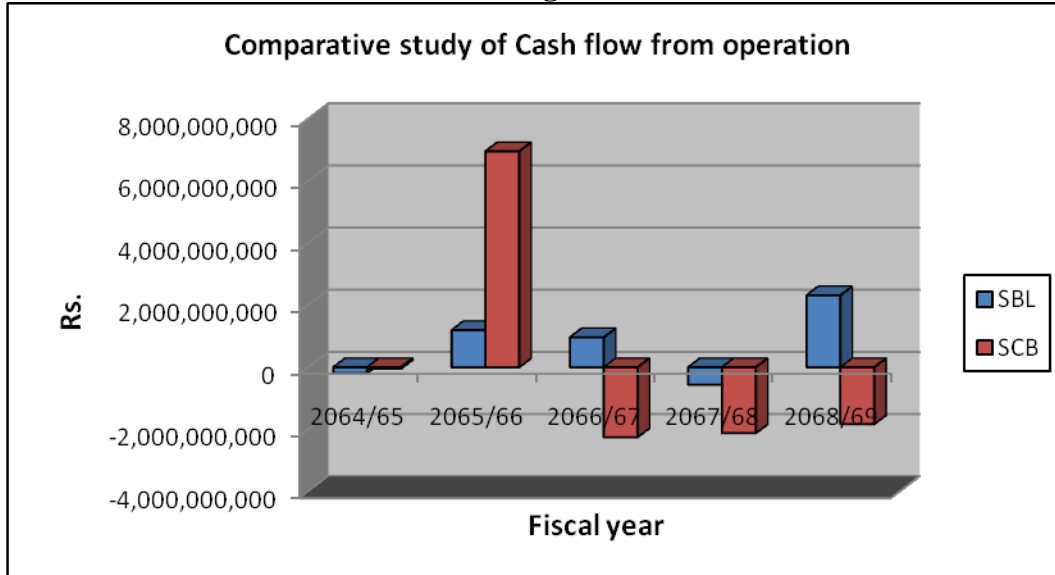
As computed cash flow from operating activities we have tried our best to have successful comparison between the banks under study through operating section. Following section show the Comparative picture of cash flow from operation under different fiscal years under study.

**Table 23**

Fiscal Years/Banks	2064/65	2065/66	2066/67	2067/68	2068/69
<b>SBL</b>	(186,453,300)	1,195,235,761	963,699,358	(562,670,036)	2,313,614,114
<b>SCB</b>	(45,233,838)	6,948,938,465	(2,249,622,421)	(2,118,440,077)	(1,832,090,598)

To visualize the summarization, it is better to show this fact in the simple bar diagram. Following is the graphic diagram;

**Figure-20**



From the diagram shown in the above section, SCB show the strength position in cash from operating section. It may due to the sound operation management in compare with the banks under study. One can find the same reality in the market share of the bank.. By this the Nabil bank seen to have close look upon this operating activities.

#### **4.3.2 Cash from Investing Activities**

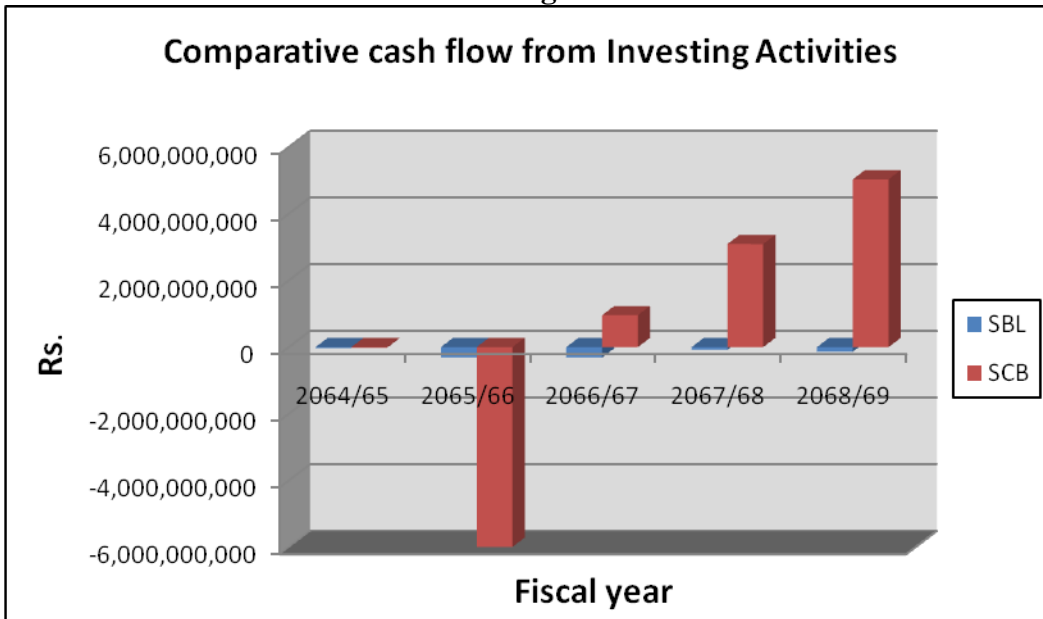
How far the banks have utilized funds in their fixed income yielding securities. Following section is all about the cash from investing activities in comparative form;

**Table 24**

<b>Fiscal Years/Banks</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
SBL	(26,610,942)	(306,210,088)	(312,662,330)	(81,185,253)	(137,221,335)
SCB	(16,662,637)	(5,990,481,198)	955,706,293	3,090,601,664	5,031,763,919

SBL have made negative cash flow in the all the fiscal year where as Standard Chartered Bank has positive cash flow except in two fiscals year 2064/65 and 2065/66. However the there is no proper trend in cash flow. This reality could be made clearer from the following figure;

**Figure-21**



In the fiscal year 2065/66 there is highest negative cash flow for Standard Chartered Bank. The negative cash flow show more investment and less recovered investment where as positive cash flow show less amount of investment and more repaid amount of investments and fixed assets. So, the figure clearly showed that the Standard Chartered Bank has the huge amount of long term investment in comparison to Siddhartha Bank.

#### **4.3.3 Cash from Financing Activities**

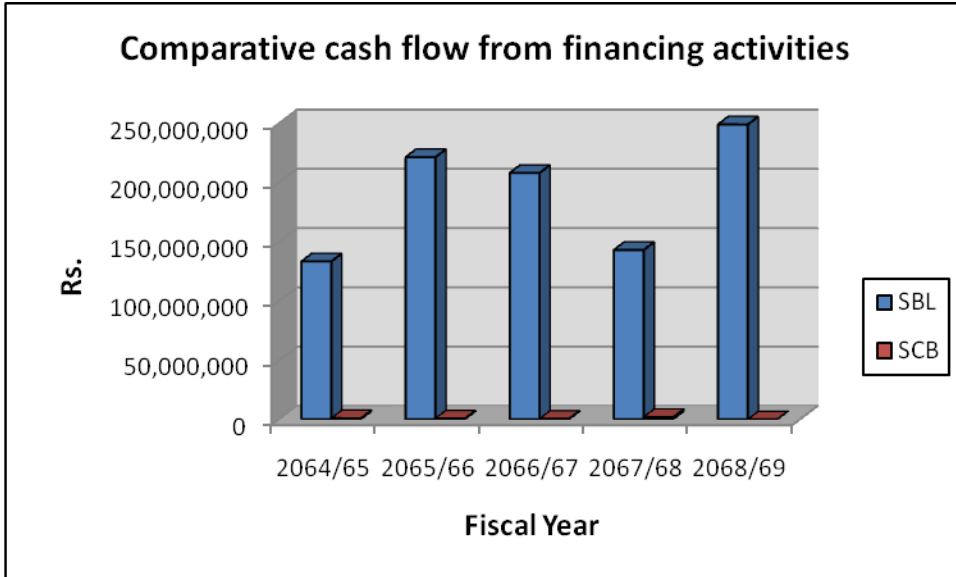
Cash from financing activities of the bank includes raising and repayment of funds of banks under study. Then how sufficiently the banks under study have performed this function has presented in the following table;

**Table 25**

<b>Fiscal Years/Banks</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
<b>SBL</b>	133,263,158	221,233,158	207,889,077	142,930,063	248,829,439
<b>SCB</b>	901,799	790,400	534,000	1,911,860	-

To illustrate this reality, we simply present the figure in the diagram followed by this section;

**Figure-22**



The Siddhartha bank has the highest web or fluctuation in the cash from financing activities where as SCB has minimum amount of fluctuation in compare to the Siddhartha Bank. There is no negative cash flow from these activities of the SBL. But in the case of SCB it has cash flow from financing in decreasing range. These all result may be the same and single reason i.e. rising and repayment of funds.

**4.3.4 Comparative study of Net cash flow of the banks under study**

Net cash flow is the summation of cash form operating, cash from investing and cash form financing section. It shows the cash surplus or cash deficit of the banks under study in different fiscal years.

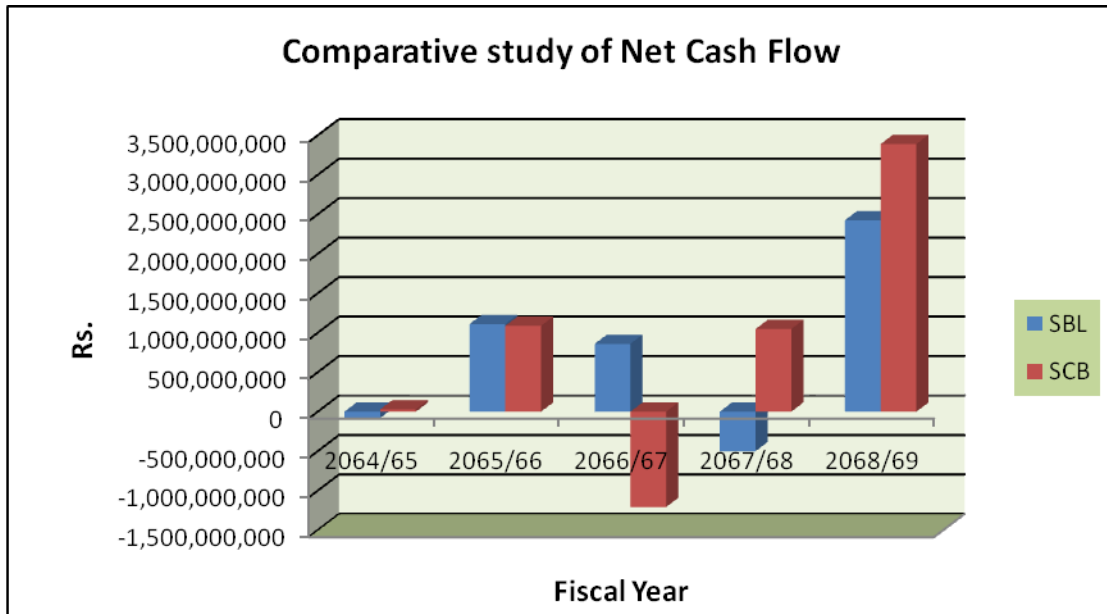
The following table shows more detail about the net cash flow of the banks under study.

**Table 26**

<b>Fiscal Years/Banks</b>	<b>2064/65</b>	<b>2065/66</b>	<b>2066/67</b>	<b>2067/68</b>	<b>2068/69</b>
SBL	(79,801,085)	1,110,258,831	858,926,104	(500,925,226)	2,425,222,198
SCB	29,222,146	1,086,920,321	(1,207,857,015)	1,046,488,758	3,390,437,791

To make this reality more clear, it is better to plot it into simple bar diagram as follows;

**Figure-23**



The net cash flow of the banks seems to be more volatile. In comparison, SBL has positive net cash flow in fiscal year 2064/65 where as SCB has totally negative net cash flow due to the high current liabilities in the form of high deposits and high investment in long term. Both banks has good positive values in fiscal year 2065/66. But, it took negative figure in fiscal year 2066/67 of SCB but in the same year SBL has positive value. In the fiscal year of 2067/68 SCB has positive value and SBL has negative. High jumps has been made by both the bank in last fiscal year under study i.e. 2068/69. So, we can conclude that both the banks have gone through unstable cash flow i.e. up warding and down warding in different fiscal year under study and it may be due to operating, investing and financing efficiency and inefficiency.

## **4.4 Major Findings**

### **4.4.1 Siddhartha Bank**

#### **4.4.1.1 Cash flow from operating activities**

- Total cash flow from operating activities is in fluctuating trend positive in three fiscal year and negative in two fiscal year.
- Total cash receipt is in increasing trend from operating activities.
- Interest incomes are the greatest source of operating income which is upgrading in nature but payments are in volatile trend.
- Commission and discount income and exchange gain income both are the next source of cash receipt which contributes superbly in the operating cash flow. Total income is in increasing trend.

- The bank has no non/operating income as well as expenses.
- The bank has other income and it is also in increasing trend.
- Staff, interest expenses and operating expenses are the major parts of the cash payment and they are in increasing trend.
- Tax income occurred only in fiscal year 2065/66 under study.
- Differed tax expenses are only in fiscal year 2064/65.
- There is high increment in loans and bills purchased by the bank each year.
- Deposit seems to be in increasing trend.
- Short term investments are irregular
- The bank's non banking asset is in only in fiscal year 2064/65.

#### **4.4.1.2 Cash flow from investing activities**

- Cash flow from investing activities is negative.
- It seems the Bank have no strong investment scheme.
- Fixed assets have been purchased each year.
- Long term investment has been in fluctuating nature.
- Interest income is only in fiscal year 2068/69.

#### **4.4.1.3 Financing activities**

- Cash flow from financing activities is also changeable.
- The bank has only issued bond and debenture in fiscal year 2065/66 and 2068/69.
- Dividend payable and proposed dividend is in increasing trend.
- Bank has issued share capital in form of right share and bonus share in all fiscal year except in the fiscal year under study i.e. 2065/66.
- No Other liabilities existed.

#### **4.4.1.4 Net cash flow for the year**

- Net cash flow in the year 2064/65 and 2067/68 are in negative.
- In fiscal year 2065/66, there is extreme change in net cash flow in comparison to fiscal year 2064/65. It leded net cash flow by 1491.28%
- Net Cash flow in fiscal year 2066/68 and 2068/69 are in positive.

### **4.2.2 SCB bank**

#### **4.2.2.1 Cash flow from operating activities**

- Total cash flow from operating activities is both in increasing and decreasing trend.
- Total cash receipt is in increasing trend from operating activities.
- Exchange gains are volatile in nature.

- Interest incomes, Commission and discount income are the major source of cash receipt which contributes superbly in the operating cash flow and they are also in increasing trend.
- Exchange gains reduce heavily in the year 2065/66.
- The bank has no non/operating income and no non operating expenses.
- The bank's other income is also in increasing trend but not much more differences in amount and other expenses are in volatile nature.
- Staff, operating expenses, interest expenses and tax paid seems the major parts of the cash payment and they are in increasing trend.
- Bank has no exchange loss and so as differed tax expenses.
- Bank has no short term investments
- Bank's deposits are also unstable.
- Overall performance of the bank is satisfactory from the view point of operating activities.

#### **4.2.2.2 Cash flow from investing activities**

- Total cash flow from investing activities in the year 2064/65 and 2065/66 are negative and in succeeding years, it's positive.
- Purchase of fixed assets is highest in the year 2065/66.
- Bank has on other assets.
- Dividend income is in increasing trend except in 2068/69.
- Long term investments are in negative and in succeeding years, it's positive.

#### **4.2.2.3 Cash flow from financing activities**

- It is playing vital role to generate overall cash flow.
- Only changes in share capital is playing role under cash flow from financing activities.
- Cash flow from financing activities are in decreasing trend.

#### **4.2.2.4 Net cash flow for the year**

Overall cash flow is in positive except in 2066/67 but fluctuating trend.

## Chapter-5

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The trend of cash flow has been used to study with analytical and comparative of the cash flow position of the selected Commercial Banks. For this purpose I have taken into analysis of the following Commercial Banks. They are:

Siddhartha Bank Limited,  
Standard Chartered Bank Limited,

For studying and preparing this thesis I have used cash flow statement, annual report of the all sampled commercial banks and their annex are studied. Basically profit and loss A/C, Balance sheet and cash flow statement presented by the banks are viewed for the analysis purpose. Directives of Nepal Rastra Bank, Nepal Accounting Standard, Company Act and N.R.B. Act are studied through out the period of research. Articles and Reports related with cash flow written and produced by Nepalese as well as foreign writers are also the major sources to prepare this thesis. Several websites ([www.cashflow.com](http://www.cashflow.com)) related with cash flow are visited. Five fiscal years cash flow position of all sampled commercial banks are analyzed and compared 2064/65 to 2068/69. Previous thesis and articles related to the subject matter are also studied for the research purpose. Based on the chart and trend analysis, summary of the study are as follows:

#### 5.1.1 Cash flow from operating activities:

- Total cash flow from operating activities of both the banks is in volatile nature. They are in decrease/increase trend.
- These banks don't have much surplus fund to invest as loans and advance, fixed assets as well as investment on government securities from operating cash flow.
- Standard Chartered have strong international network to do agency work and to earn commission and discount income.
- Siddhartha bank has highest interest income but more volatile total operating cash flow.
- Total cash payment for SBL and SCB under operating activities is in increasing trend.
- Total interest expenses, staff expenses and operating expenses of both the banks are in increasing trend.
- Significant amount of cash receipt from exchange gain for all two banks. But standard Chartered have highest amount of exchange gain due to the highest amount of foreign currency transaction.

In a comprehensive analysis cash flow from operating activities is the main source to operate banks. Open market policy of the bank to charge interest rate is being reason to reduce spread rate. Interest income is the main sources of revenue. But due to the various factors like peace and security, unstable government and armed conflict is being determinant factor to reduce interest income so heavy amount of cash is receiving from agency work like commission and discount income.

#### **5.1.2 Investing activities:**

- Cash flow from investing activities is not in increasing or decreasing trend, these are volatile in nature in case of Standard Chartered Bank but in case of Siddhartha Bank it's totally negative.
- In the year 2066/67, 2067/68 and 2068/69 SCB has positive cash flow from investing activities due to the lowest amount of investment.
- Only fixed assets are not major parts of the investing activities because they are very small with compare to the total investing cash flow.
- Major part is being played by the changes in long-term investment and interest income on long-term investment.
- Dividend income has lesser effect on cash flow from investing activities at SBL and it has no effect in case of SCB.
- Both the banks have no any cash flow from money at call and short notice.
- Due to the safety of deposits and lack of improper credit product, SBL invested significant amount on government Treasury bill and development bond. SCB also invested on this sector heavily.
- There is no effect of money at call and short notice, loan advance and bills purchased on cash flow from investing.
- SCBNL has highest amount of investment on long-term investment whereas SBL has comparatively highest amount of fixed assets than SCB in the fiscal years under study.
- Both the banks have no other assets.
- Only operating cash flow is not sufficient to make investment so cash should be taken from financing activities.

#### **5.1.3 Financing activities:**

- Total cash flows from financing activities are in decreasing trend for SCB whereas it's in volatile nature in case of SBL.
- Siddhartha Bank is in improving trend for cash flow from financing activities.
- Bill is the sources of cash that is receipt from remittance money. SCB has no such incomes during the fiscal years of 2068/69 under study.

#### **5.1.4 Net cash flow of the year:**

- Overall cash flow for SBL is positive except than year 2064/65 and 2067/68. All cash flow is positive except in fiscal year 2066/67 in case of SCB.

- Overall cash flow of SCB is in unstable nature. It went up in fiscal year 2065/66 then again went down in 2066/67. In fiscal year 2067/68 the value increased. In the fiscal year 2068/69 the bank has the highest net cash flow comparing preceding years.
- Similarly, SBL has the highest net cash flow in fiscal year 2068/69. It has negative figure in fiscal year 2064/65 and 2067/68.

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