

**CASH FLOW MANAGEMENT
OF
COMMERCIAL BANKS**
(With reference to SCBNL, NABIL and EBL)

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

In Partial fulfillment for the requirement for the Degree of
Master in Business Studies (MBS)

Kathmandu, Nepal

2010

RECOMMENDATION

This is to certify that the thesis

Submitted by

PURUSHOTTAM SUBEDI

Entitled

CASH FLOW MANAGEMENT OF COMMERCIAL BANKS

(With reference to SCBL, NABIL and EBL)

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

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VIVA-VOCE SHEET

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

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DECLARATION

I hereby declare that the work reported in this thesis entitled **CASH FLOW MANAGEMNET OF COMMERCIAL BANKS”** with reference **SCBNL, NABIL and EBL** submitted to the office of the Dean, Faculty of Management, Tribhuvan University is my own work which is prepared as the partial fulfillment of the requirement for Master’s degree in Business Studies (M.B.S.) under the guidance and supervision of **Shree Bhadra Neupane and Bhojraj Ojha, lecturers of Shankar Dev Campus, Tribhuvan University.**

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ACKNOWLEDGEMENT

This Thesis is for Master's Degree in business Studies (MBS) undertaken at Tribhuvan University of Nepal. For this I gained much of guidance and suggestions from my Thesis Supervisor, friends, officials and my family members. In relation to this, first of all, I would like to express my gratitude to my supervisors **Shree Bhadra Neupane and Bhojraj Ojha**, Lecturers, Faculty of Management, Shankar Dev Campus without, whose guidance this study would not have come into the present shape.

I acknowledge the staffs of banks, for their kind cooperation to collect data and other information for this study.

I would like to thank all my family members and friends for their suggestion and inspiring cooperation in this regards.

I also acknowledge the contribution of Mr. Suman Bagale for his help in setting layout, printing and binding the reports. I would also like to thank my spouse Mrs.Sarmila Subedi in identifying required information through primary sources (i.e. conducting surveys).

Finally, I would like to express my sincere gratitude to the staffs of Shankar Dev Campus Library.

Purushottam Subedi

Researcher

Shankar Dev Campus

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ABBREVIATIONS

BOD	= Board of Directors
CB	= Commercial Bank
CIP	= Commercially Important Person
EBL	= Everest Bank Ltd.
FY	= Fiscal Year
JVBs	= Joint Venture Banks
NABIL	= Nabil Bank Ltd.
NO	= Number
NRB	= Nepal Rastra bank
ROA	= Return on Assets
RS	= Rupees
SCBNL	= Standard Chartered Bank Nepal Ltd.
TU	= Tribhuwan University

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CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Financial institutions are the mediators of the economy which provide financial mediation to different groups, individuals and sectors. Financial institutions construct a kind of financial structure in the economy and become a pool in between suppliers and people who seek money. An important part of any modern economy is its financial structure, the combination of its financial markets and institution. These two parts of any financial system allow a highly complex, specialized economy to function in a decentralized manner. The financial structure brings borrowers and lenders together and fosters economic efficiency and a better use of society's resource, which, in general results in a higher capital stock for the economy as a whole and a better standard of living for its inhabitants.

Without a developed financial system, institutions, firms, and households would be forced to operate as self-contained economies. As a result, they could not save without deploying their resources somewhere, and they could not invest without saving from their own current output. A financial system allows trade between individuals to accomplish both of these ends. It allows savers to defer consumption and obtain a return for waiting. Likewise, it permits investors to deploy resources in excess of those that they have available from their own wealth in order to gain the productivity that such investment yields. The economy also gains from the financial system, as both households and firms advance the economy, total output, and economic growth.

However, the complexities of a developed financial system often obscure its function. Observers frequently became lost in the details of the system's markets and institutions and miss the purpose and function of those elements. Yet, it is important to understand the role that a financial institutions play in any economy. It is equally important to understand the details of various financial institutions and financial tools, which has been set as our objective herewith to analyze and explain.

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual money lenders has acted as fence to institutional credit in presence of unorganized money market.

After establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In the year 1934 AD, the establishment of Nepal Bank Ltd. came into operation under “Nepal bank Act” 1937 as the first commercial bank of Nepal. Then after another land escape of banking in Nepalese economy is establishment of Rastriya Banijya bank, second commercial bank was established in the year 1965. RBB being the largest commercial bank plays a major role in the economy. The financial shapes of these two old banks have a wonderful impact on the economy and popularity among the people. That’s why these banks still have strong existence in-spite of their bad position.

Another revolution on banking of Nepal is was establishment of Nepal Rastra Bank as central bank in 1956. Since then the development of banking raised to present boiling point. In 1995, it established under Nepal Rastra Bank Act, 1995. It has been playing the vital role in the aspects of insuring proper management to issue of Nepalese currency notes to make proper arrangements for the circulation of Nepalese currency throughout the kingdom and to stabilize the exchange rates of the Nepalese currency in order to ensure the convenience and economic interests of the general public.

Firstly, commercial banks were operated under ‘Commercial Bank Act’ introduced in 1974. This Act helped to emerge numbers of commercial banks. Now commercial banks are operated under the directive of NRB act 2058. There is also Bank and Financial Act to operate commercial bank and FIs. In the decade of 2040 different joint venture banks started to operate in Nepalese money market, gradually the number is increased in the decade of 2050 and now the number is increasing enormously.

Financial sector has evolved as the biggest sector in the economy. There are altogether 128 financial institutions (excluding NRB, micro financial institutions, and cooperatives) in the country and currently more than 20,000 people employed in these FIs. This human resource is responsible for managing approximately NPR 221 billion worth of assets (primarily loans and advances), out of which 50 percent comprises of two large banks Rastriya Banijya Bank and Nepal Bank Ltd. Annual net profit NPR 5.89 billion generated by creating asset worth of NPR 221 billion last year means a very low return on assets i.e. 2.21 percent, this is, even below the average savings deposit rate in the country.

In this regard this research will concentrate into the cash mobilization or cash position of some highly rated, highly performing and have huge profit banks and tends to identify cash position and cash mobilization(both inflow and out flow) of Nepalese economy. It is said that the banking sector mirrors the larger economy. It's linkage to all sectors make it a proxy for what is happening in the economy as a whole. Indeed, the Nepal banking sector today is at boiling point or doing the best in these circumstances. Further, it can't be said that all the banks and financial institutions are doing well. The objective of this study is to analyze and distinguish some of the best performing commercial banks' performance through their financial statement specially cash flow of last five fiscal years. Again, this means that, this research is concentrate in the cash position and the flow of cash of high performing commercial banks in different time, fiscal years and situation, so that the actual cash position of the economy could be identified.

1.2 Historical Background of Banking in Nepal

In Nepal, modern banking transaction started in country just before the Second World War but the transaction of money and banking was not sure and where it was established due to lack of information. At first people did their transaction as "Barter and Monetary System". Before 1936, in Nepal there were no banks at all. A few money lenders carried out all the monetary transaction. The need of the masses are met by indigenous money lenders and as a matter of fact; very large portion of productive activity of country still remains completely outside preview of the organized banking system.

Truly speaking, for the first time, merchant and gold smiths were doing the banking activities. Merchants, who deal not only in goods but also in bill of exchange, which provide for the remittance of money and payments of accounts at a distance without shipping actual wins. The gold smiths were doing the banking activities that received deposits and lend money to their client or customers. The ancient or primitive people were excited keeping their valuable thing like, ornaments and money in their houses. They kept those things at gold smith because of safety motive. The gold smith accepted the deposit from others and began to issue receipts promising to pay the value of demand and utilize the deposit from others and began to issue receipts promising to pay the value of demand and utilized the deposits in the various profitable ways. Besides they lent it out at interest and discounted the trade bills of the merchants.

Towards the end of 11th century Jayashiti Malla classified the people in 64 classes on the basis of their occupation. This list includes a class called tankadhari. 'Tank' means money or price and 'Dhari' means the owners of monetary transaction who accept the money. In this way tankadhari gave money to people who had suffered or needed money but they charged fixed interest rates and other extra dues on loans advanced. They kept land and goods at pledge and provide money for personnel or business work at certain interest rates. But later, it showed lot of inconvenience because they cheated, betrayed and did fraud to earn money. In this way the time at Thankadhari came to end.

After Thankadhari, Prime Minister Rano Deep Singh established 'Tejarath' in 1933 as an institution. Tejarath was a government financial institution supply credit at 5% rate of interest against security of gold, silver, and ornaments. Prime Minister Chandra Shamsher (1901-1 929) credited facilities of Tejarath were extended to some other part of the country by opening its branches. In order to control the high rate of interest ranging from 35 to 75% legislative measures were taken. Those measures made the moneylenders powerless to file suit against their debtors even in case of default. Thus Tejarath was replaced by a commercial bank known as the Nepal Bank Limited during the time of Juddha Shamsher.

After Tejarath Adada (Institution) there was no other institution in Nepal. That's why Nepal

Bank Limited was set up in 1936 and had been assisting in the involvement and institutionalization of trade and commerce. Before it there was no bank that accepted deposit and provide facilities. In a country like Nepal, only such institution couldn't fulfill the need of the people. In the history of Nepal, to solve the problem for the first time, Nepal Bank Limited was established in B.S. 1994 karkit 30th day of Laxmipuja. That time Nepal Bank Limited started authorized capital of Rs 1 crore, issued capital Rs 25 lakhs and paid up capital of Rs 8.42 Lakhs. It was established by government and public shares. Which was 51% and 49%? At first 12 employees were working under Nepal Bank Limited, out of 12, 4 were foreigners from abroad and remaining 8 employees were from our country.

After this, to develop banking sector and to help the government formulate monetary policies, NRB was set up in 2013 B.S. (26th April 1956) special act. Then the second commercial bank of Nepal was "Rastriya Bank" established in 2022 B.S. (1959 A.D.). Then establishment of NIDC in 2016 B.S. helped to develop industrial sectors. The Agriculture Development Bank established in the year 2024 B.S., Nepal Government adopted liberal economic policies and allowed for the establishment of private as well as joint venture banks under collection with different foreign banks. Since then the banking sector of Nepal has developed a lot. (KFA PBC Manual, 2008, 6)

The introduction of modern banking practices among the general public after the incorporation of Nepal Arab Bank (renamed as Nabil Bank since 2002) and Nepal Grindlays Bank Ltd (renamed as Standard Chartered Bank Ltd). Nepal Arab Bank was the first joint venture bank incorporated in the country. It was incorporated in 2041. Presently 23 commercial banks are in existence.

Thus, banks are those institutions whose functions are related to:

- Creation of money
- Credit acceptance
- Deposits from the people
- Forwarding of loans
- Transfer of money
- Agency functions to customer, etc

1.3 Banks and Economic Development

The primary goal of any country, like Nepal, is rapid economic development to promote the welfare of the people and the nation as well. Nepal is trying to embark upon the path of economic development by economic growth rate and developing the sector of economy. So, the process of economic development depends upon capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate, if capital formulation has been the principal variable in setting the overall pace of economy. In this regard, the network of well-organized financial system of the country has great bearing. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In this regard bank plays a vital role in accelerating the economic development of a country. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries, however, the role of it in economic as well as industrial development and promotion of agriculture industry trade and commerce is immense. Bank is also playing a social role by providing loans in priority sectors, cottage and small-scale industries, production, credit for rural women, deprived sector credit program, micro credit program, etc. besides this; it has been providing necessary financial and technical support to develop national economy.

1.4 Cash Flow Management:

Cash flow management is a vital activity in commercial banks as their major job is to generate earning by cash business or money business. Commercial banks take money from the people and again lend to the people in higher cost and generate excess cash flow to meet the competitive profitability. Hence the management of cash in the business of commercial bank is considered as the key financial activity. Outflow and inflow of cash and its adequate management to achieve the short as well as long term targets and objectives, are focused concerns of cash flow management. Cash itself doesn't generate profit but the skilled use of cash certainly generates lots of profit which is the most important aim of cash flow management. Cash flow management seeks certain tools, techniques and skills for excellent management of cash within the bank. It can be said that cash flow management covers most of the major activities and success of a commercial bank. In this research comparative cash flow management of listed high performing

banks are taken for analysis and annual financial reports of various fiscal years are the basis of research. As well as present liquidity crisis seen in the financial market also is taken as the basis for this research.

1.5 Introduction of Sample Organizations under Study:

For this study the researcher has been taken three highly performing Nepalese Commercial Banks as sample organization. The researcher tends to study about the cash flow management capacity of the banks and the causes of the liquidity problem rose in Nepalese financial market. For the purpose of introduction of the selected banks the researcher tends to introduce the sample banks as follows.

1.5.1 Standard Chartered Bank Nepal Ltd. (SCBNL)

Standard Chartered Bank Nepal Ltd. (SCBNL) is one of the joint venture banks, which was established in 1987 as the second joint venture bank in Nepal under the Company Act 1964. After standard chartered group acquire world wide operation of Grindlays, it changed its name to Standard Chartered on 16th July 2001, group acquired world wide operation of Gridlays. This bank is registered in UK and operates globally as multinational companies.

Currently Standard Chartered has 75% of and public has 25% of share in SCBNL. The head office of standard chartered bank is situated at new Baneshwor, Katmandu. It has maintained 15points representation 9 branch and 4 extension counters similarly it has 13 ATMs. Presently around 350 staffs are working at SCBNL.

The main objective in the near term would be protecting revenue lines by providing solutions to the customer through value added and structured products at competitive pricing. The bank focus on the following plans.

- The bank has a vision —“Seeing is Believing”
- It focuses on ensuring that their corporate responsibility aspiration is aligned with their business strategy.
- SCBNL introduced project “know you customers” and following it strictly’

- It is maintaining good credit quality portfolio for tourism related industries.
- It focuses on the corporate social responsibility by participating at different camps, donation at orphanage, Red Cross Societies and HIV.
- It focuses on the consumer banking.

Branches:

Naya Baneshwar, Lazimpat, Lalitpur, Biratnagar, Pokhara, Hetauda, Bhairahawa, Dharan, Butwal, Nepalgunj and New Road-Pokhara.

Extension Counters:

UN Counter Lalitpur, BP Koirala Medical College - Dharan, British Gurkhas PPO- Pokhara and Manipal Counter - Pokhara. The banks has I6ATMs (12 in Kathmandu & Lalitpur, 3 in Pokhara and I in Dharan).

Products and services of the bank are:

Letters of Credit Import/Export, Working Capital Loans, Medium Term facilities, Loan Syndications, Consumer Finance, Money transfer/Remittance, Deposit services, Credit Card services, ATM services, in the whole sale services the has Foreign Exchange Services, Trade Finance, Letters of credit: Issuance and acceptance, Guarantees: Issuance and acceptance, Commercial Lending (Working Capital), Term Lending, Loan Syndication, Forward Exchange Rates, Electronic Banking, Cash Management, Operating Accounts, Quick Collection Services, Quick Payment Services, Cheque writer.

Board of Directors (BOD)

- Chairman — Mr. Jaspal Bindra, SCB
- Director — Mr. Neeraj Swaroop, SCB
- Director-Mr. Shantanu Mitra, SCB
- Director - Mr. Sujit Mundul, CEO, SCBNL
- Public Director — Mr. Arjun Bandhu Regmi
- Independent Director — Mr. Ram Bahadur Aryal

Awards and Achievements won by SCBNL are:

- March 2006- **'Best Commercial Bank 2004-05'**
- Awarded by the Boss Magazine- Speciality Media Private Limited
March 2006 - **Manager of the Year Award**
- Awarded by Management Association of Nepal (MAN) on the occasion of their Silver Jubilee Program
April 2005 - **A Citation for Outstanding Performance amongst all the Commercial Banks**
- Awarded by Nepal Rastra Bank on the occasion of its Golden Jubilee celebration
April 2005 - **FNCCI National Excellence Award 2003-2004**
- Awarded by The Federation of Nepalese Chambers of Commerce & Industry (FNCCI)
March 2005 - **Best Commercial Bank for the year 2003-2004**
- Awarded by The Boss Magazine- Speciality Media Private Limited.
July 2004 - **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).
December 2003 - **The Best Company, Financial Institutions from Top 10 awards for Business Excellence**
- Awarded by The BOSS'
- September 2002 **"Bank of the Year 2002 Nepal"**
- Awarded by The Banker' of the Financial Times.
April 2002 - **Commercially Important Person (CIP)**
- Awarded by His Majesty's Government the Ministry of Finance
April 2002- **National Excellence Award 2002" for significant achievement in customers satisfaction and relationship"**
Awarded by Federation of Nepalese Chamber of Commerce & Industry (FNCCI)

Share Holding Pattern (In percent)

Parties	percentage
Standard Chartered Grindlays Ltd., AustSalia	50%
Standard Chartered Bank, UK	25%
General Public	25%
Total	100%

1.5.2 Nabil Bank Ltd. (NABIL)

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984 under a technical service agreement with Dubai Bank Limited, which later merged with Emirates Bank International Limited, Dubai. Today, 50% of Nabil shares are owned by N. B. (International) Limited, 9.67% by Rastriya Beema Sansthan, 0.33% by Nepal Stock Exchange Limited and the remaining 40% by Nepalese public.

NABIL was incorporated with the objective of extending international standard modern banking services to various sectors. Pursuing its objective today Nabil provides a full range of commercial banking services through its 18 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. The Bank has Branches outside Kathmandu *i.e.* Nepalgunj, Butwal, Bhairahawa, Bhalwadi, Pokhara, Birgunj, Alau, Biratnagar, Itahari and Dharan. In the Kathmandu Valley, the Bank has its Head Office in Kamaladi and branches at Kantipath, New Road, Jorpati and Lalitpur and a counter at Thamel. In addition to the above, Nabil is the first bank with a presence at the international and domestic terminals of Tribhuvan Airport, Kathmandu.

NABIL has been a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector - computerized banking environment, issuance of credit cards and advanced financial products like consortium financing. NABIL represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. The success story of NABIL soon paved the way for the establishment of many other commercial banks and financial institutions.

Mission: Their mission is to be the Bank of 1st Choice. Bank of the first choice is a clear reflection that of success is the strong mutually beneficial partnerships built with all their stakeholders. To achieve this mission they live by a set of core Values, C.R.I.S.P.; Customer Focused, Result Oriented, Innovative, Synergistic and Professional.

Vision: NABIL is moving ahead with a vision to be the bank of the first choice. The bank of first choice of deposit and lending customers in meeting all their financial requirements of shareholders whenever they look for investment opportunities, of regulators as a shining example of a model bank and the Bank of 1st choice of banking professionals, as the preferred employer in the industry.

Objective: The objective of NAB IL BANK is to be a bank of the first choice. NABIL bank has focused on customer satisfaction by providing highly acclaimed services. It is concerned to be “The Bank of the first choice” through its values of always being customer focused, result oriented, innovative, synergetic and professional

NABIL bank is focusing on Communities with their three pillar approach to great corporate citizenship firmly in place. Health — Education — Sport is the three pillars in which they have forged partnerships to add value to our community. NABIL has been constantly focusing to invest in the priority sectors prescribed by the regulators and they plan to extend their reach to customers of all strata of society, in urban, semi-urban and rural areas through network expansion and ‘creative’ product delivery, both on the deposit and lending side. At a time when competition in the industry is more intense than ever, and local as well as foreign banks are competing for greater market penetration, risk management and revenue generation, NABIL bank is focusing to Surge Ahead to remain the “Bank of 1st Choice”.

Branches of Nabil are:

Kantipath Branch, Tripureshwore Branch, New Road Branch, Jorpati Branch, Birgunj Branch, AIau Branch, Biratnagar Branch, Lalitpur Branch, Itahari Branch, Butwal Branch, Pokhara Branch, Bhairahawa Branch, Nepalgunj Branch, Lakeside Pokhara, Exchange counter- (Tribhuvan Int'l Airport, Ktm), Dharan Branch, Bhalwadi Branch, Maharajgunj Branch, Birtamod Branch, Hetauda Branch, Narayangadh Branch, Baglung Branch, Tulsipur Branch, Ghorahi Branch, Dhangadi Branch and Mahendranagar Branch.

Board of Directors (BOD)

Mr. Satyendra Pyara Shrestha, Chairman
Mr. Mohiuddin Ahmud, Director
Ms. Supriya Gupta, Director
Mr. Shanbhu Prasad Poudya, Director
Mr. Dayaram Gopal Agrawal, Director
Mr. Milan Bikram Shah, Director
Mr. Abdul Awal Mintoo, Director
Mr. Suraj Lal Mehta, Director
Mr. A.P Bazgain (Professional), Director

Products and services under “Loan services” of Nabil Bank are:

Working capital, Fixed capital import, Bills discounting facility under supplier credit, Export loan, Hire purchase, Project finance, Consortium/Syndication loan, Mortgage loan, Loan against deposit and government securities, Housing finance, Auto finance, Nabil property and Personal finance.

Services under “Trade finance service” are:

Import LC, Export LC, Forward contract, Bid bond, Performance bond, Counter G'tee, Advance Payment G'tee and Shipping indemnity.

Deposit services of Nabil Bank are:

Current, Call, Time, Normal savings, Provident fund, Retirement fund, Cards and ATMs, Master card local, Master card int'l, VISA local, Diners card, For Travel (against passport facility), VISA electron/ATM card, Nabil Prepaid card and Acquiring Business.

Clean bills services of Nabil Bank are:

Clearing, Bills purchase and Bills collection.

Remittance services of Nabil Bank are:

SWIFT transfer, Western Union, ERemittance (Qatar, Doha), Travelers' Cheque, Bank draft, Mail transfer, Managers' Check and Anywhere Branch Banking.

E-Banking services of Nabil Bank are:

Nabil Net and Nabil Tele Other services of Nabil Bank are: U.S Visa fee, Safe Deposit locker and Balance Certificate and Advance payment certificate

Awards and Achievements:

The Banker', the publication of the Financial Times, London has honored the NABIL Bank as "Bank of the Year 2004" and it is a matter of prestige to be a leading bank of the country.

Share Holding Pattern (In percent)

Parties	percentage
Rastry Beema Sansthan	9.67%
NB (International) Ltd	50%
General Public	40.33%
Total	100%

1.5.3 Everest Bank Ltd. (EBL)

Banking Sector has always been complete. To succeed they must perform well and to perform well their management should be as smooth as silk. EBL highly concerns on its smooth management. They know how to respond to a continuously changing consumer needs. They have been practicing the art of market oriented strategic planning. They are heavily

commented to marketing management and strongly consumer focused. They are dedicated to identify and satisfy consumer's needs and expectations.

EBL is keeping on providing fabulous services and facilities to its consumer. They have settled all their branch offices in easily accessible locations. They have tried their best to provide sufficient parking and consumer area for the comfort of their clients. Their interior look is impressive. The frontline staff is responsive and co-operative. Their human resources are competent and well managed. They exhibit very good operation between marketing operations and human resources areas.

The EBL management always seeks offering new services to fulfill the needs of the customers from different segments of the society. They are quite innovative and have recently introduced different types of loans like Home equity loan, Loan Against Mortgage of Immovable property, Loan Against Life Insurance Policy etc. Even in past years they introduced different types of customer friendly schemes, which became very popular and effective. They have always been consumer oriented.

EBL has opened its representative in New Delhi, India to facilitate with easy banking transactions to all those Nepalese working or residing there and also for effective remittance and trade operations between Nepal and India. It has maintained the largest network among the private sector banks in Nepal Concerning the need and convenience of the customers; EBL is committed to stay up to date with the latest technologies. It has been providing ATM services and in addition has made an agreement with Smart Choice Technology (SCT) hence enabling its customers to withdraw money from more than 64 different ATM counters and also accessing its valued customer to many SCT points of sales. It is offering 365 days banking facilities. It believes that the success and failure of any organization depend upon the knowledge, skills competency and motivation of its human resources. Thus the bank has considered on providing necessary trainings to their staffs. It has tried its best to keep high level of human resource motivation and taken consideration on certain the feeling of ownership amongst its staffs. EBL organized management development program for its manager and officers to develop positive

attitude. EBL have been announcing 'Best Branch awarding Program' which has shown positive signs on well performance amongst its branches.

Corporate Vision:

Evolve and position the bank as a progressive, cost effective and customer friendly institution providing comprehensive financial and related services, Integrating frontiers of technology and servicing various segments of society, Committed to excellence in serving the public & also excelling in corporate values.

Corporate Mission:

Provide excellent professional services & improve its position as a leader in the field of financial related services; Build & maintain a team motivated & committed workforce with high work ethos; Use latest technology aided at customer satisfaction & act as an effective catalyst for socio-economic development.

Branches of EBL are:

Baneshwor Main Branch, New Road Branch, Teku Branch, Lazimpat Branch, Head Office, Chabahil Branch, Satungal Branch, Biratnagar Branch, Duhabi Branch, Janakpur Branch, Birunj Branch, ICD (Dry Port), Simara Branch, Pokhara Branch, Pulchowk Branch, Butwal Branch, Bhairawa Branch, Dhangadhi Branch, Itahari Branch, Nepalgunj Branch, Naya Bazaar KTM, Birtamod Branch, Baglung Branch and Damauli Branch.

Board of Directors (BOD)

Mr. Bishnu K. Shrestha Chairman

Mr. Jaspal Singh Jus Director (PNB Bank, India)

Mr. Indra Dev Singh Director (PNB Bank, India)

Mr. Bed Krishna Shrestha Director

Mr. Arun Man Sherchan Director

Mr. Dr. Bal Gopal Vaidhya Director

Mr. Ratna Sansar Shrestha Director

Mr. Nabin Bhakta Shrestha Director

Mr. Shivasharan K.C. Director

Products and services Everest Bank Ltd are: EBL provides to their customers to open different account for their deposit like Saving Account, Saving Premium Account, Deposit Fixed Account, Cumulative Deposit Scheme, Sunaulo Bhavishya Yojana, Saral Samriddhi Bachat, EBL NRN Deposit, Unified Deposit Scheme.

Equally EBL has provides the loan to their customer for their need. They provide different loan as; Direct Housing Loan, Home Equity Loan, Vehicle Loan, EBL Property Plus, Professional Loan Scheme, Loan Against Mortgage and Loan Against Shares.

Services and facilities provided by the Bank are: Debit Card/ATM, Safe Deposit Locker, Remittance, Letter of Credit, Bank Guarantee, Transfer of money through draft, TT and SWIFT.

The bank has focused to collect small amount by which a large valuable capital can be formed. The bank focused to its Saral Sambridhi Bachat and Saunaulo Bhavishya Yojana and has launched Everest Remit. The bank has been providing different overdraft to its customer against their deposits.

Awards and Achievement:

The EBL has been awarded the Bankers award 2006 by The Financial Times, UK.

Share Holding Pattern (In percent)

Parties	percentage
Nepalese Promoters	50%
Punjab National Bank, India	20%
General Public	30%
Total	100%

1.6 Statement of the Problems

On the subject of the present situation of Nepalese economy, major banking problems have been caused by lack of adequate cash and liquidity management. Banks should now have a keen awareness of the need to management of cash and liquidity problems might be raised in different stages and situations. Identify measure, monitor and control the cash and liquidity position as well as to determine that they hold sufficient and enough liquidity to full fill the short term obligations. As we know that the economic environment is affected by different uneconomical and un-healthy activities in the business environment. In flows of remittance is increasing rapidly day by day but the crisis of liquidity still exists in the financial market. Investment opportunities are gradually seems to be steamed but unluckily economy is facing cash crisis. In one side there is excess entrance of remittance in the economy; but other side there raising the crisis of liquidity in the financial market which, the financial institution and whole economy, is facing. In this context what it can be observed is the situation that the financial institutions are not able to attract the amount from the people. There is enough cash within the people but banks are facing liquidity crisis. Banks and financial institution are being failure in managing cash and liquidity. Moreover, banks are failing to attract deposits from people and are also failing to cover the most of the people in the banking. That's why people are expending their savings in purchase of goods in the market rather than deposit in their bank account, so what so ever the financial institution are in shortage of cash but inflation has been increasing. This is very critical situation for an economy. So it is very challenging job of commercial banks to manage the cash of banks

themselves as well as to manage the liquidity of overall economy to maintain the economy healthier.

In this situation, there has been arisen a lots of problems in the economy causing cash and liquidity problems in commercial banks. The problems of cash flow management and liquidity crisis can be identified by the approach of financial evaluation and analysis based on the internal information of them and by conducting a short research. Financial institutions, which have been undertaken for study, are found to be associated with some specific financial and liquidity weakness.

Accordingly, on explanation of above financial shortcomings within the selected financial institutions, the researcher effort to find out the answers of the following questionnaires which are as follows.

- What is their cash position? How the cash is being managed? What are the problems regarding to cash flow management?
- Market is same customers are same services also are similar even technology, investment opportunities and capital is also not varied, Why the banks have diverged amount of cash flows?
- These banks are highly performing banks, what kind of cash flow management policy has been adopted by these banks?
- What are the causes that affect the investments and lending of the bank?
- What is the role of interest rate to generate surplus cash flow?
- What are the factors that affect bank's liquidity and profitability?
- What should be the position of cash flow for higher amount of annual profit?
- Do the banks receive reasonable and sufficient return from their employed resources?
- There excess liquidity in the market but, why the banks are having liquidity crisis?
- Annual entrance of remittance is around 150 billion but this liquidity crisis is only by 10 billion, why this amount is now enough to create liquidity problem in the banks?

1.7 Objective of the Study

Basic objective of the present study is to explore and analysis of the cash flow and liquidity management efficiency of listed high performing commercial banks of Nepal. It is also aimed to find out the relationship between cash flow management and liquidity crisis raised in the financial market. Furthermore, the study has specified the following objectives.

- To analyse the cash flow position of commercial banks of Nepal.
- To conduct comparative study of the annual cash flow statements of the banks.
- To examine the cash flows periodically due to change in net assets, financial structure, and different activities like operating, financing, investing and marketing.
- To recommend the findings of the study to concern bodies and authorities, after analysing cash flow position and liquidity position of the banks.

1.8 Focus of the Study

This research study has focused on the following specific research questions/problems.

- What capacity do commercial banks have in terms of cash flow management?
- What are the factors hindering the efficiency of commercial banks?
- What are the major problems of the banks to maintain a better cash flow management?
- How far the activities of NRB have encouraged/contributed to the cash flow efficiency and capacity of the banks?
- What is the role of interest rates to reduce capital flight?
- Role of remittance in maintaining liquidity and cash flow management of the banks.
- Causes of present liquidity problem in the financial market/institutions.
- What initiatives/implements are needed for well functioning of the banks in terms of cash and for adequate liquidity?

1.9 Significance of the Study

Commercial banking sector is considered as successful area in financial sector of Nepal. In today's context, commercial banks have to be more organic and sincere to establish better creditability position due to vast competition among them. The present concept deals with how commercial banks are managing cash flow and liquidity position and how do it affect to the banks' effectiveness.

Present study is very important from the point of view of bank management. The main strategy of every commercial bank is to establish the better cash flow position, which has directly impact on the financial performance. Besides, it helps to build positive attitude and perception on customer that helps to make the organizational success in terms of better transaction, better turnover, and better profitability most of the earlier researches were focused on financial performance of bank but few researches were focused on cash flow management and liquidity management. From view point of bank flow of cash is the most important and sincere area. Thus, the present study is very important in viewing a bank's performance or position in terms of cash and liquidity management.

Although the presentation situation of the economy is not satisfactory, but the hopeful upcoming favorable environment is motivating and pushing the financial institutions towards better operational improvement as seen in this time. Especially commercial banks have to be more specific in mobilizing and managing of cash in the economy at all. From 2010 branches of international banks will also be operating in the home ground, in this context Nepalese commercial banks seems to be lacking to strengthening their capacity themselves in terms of cash, capital, operation, management, technology, resource etc. And the most necessary factor to be considered is operating activities, which are taken as the major source of generating of cash. But in this time cash flow, cash management and liquidity management of the banks is not sufficient and adequate to meet the necessary targets of undiversed harmonized stronger economy. Hence, the study of commercial banks regarding cash flow management becomes a necessary subject in present situation.

In this situation of the economy there is not properly managing of cash. Still most of the financial institutions lack satisfactory management to generate enough cash flow. They are not maintaining the trend of modern cash flow management in effective way. Due to the crisis of liquidity the investment opportunities are being absent again. Hence the researcher tries to elaborate how far these banks are able to sustain in such a crisis problem. It is true that this study is essential to check the feasibility of these banks in terms of cash management. The study tries

to detect efficiencies of the banks and helps to high light the appropriate and effective measures for the improvement of weaknesses of the banks' cash flow and liquidity management.

According to the above explanation, the researcher has pointed out following consequences of the study.

- To analyze and evaluate the cash flow management system of the listed banks.
- To find out the variation of cash flows among the banks.
- To elaborate the causes of liquidity crisis problem within the financial institution especial reference to commercial banks.
- To highlight how long these banks are able to sustain in such a negative liquidity situation.
- And to identify the tools which might to be adopted to manage this liquidity crisis.

1.10 Limitation of the Study

The scope of the study is limited only in commercial banks because of time and resource constraints. Most of the analyses are descriptive as well as specific in present study. This study is very basic attempt to address the research issues; therefore, it might not be able to show casual linkage or effect. Instruments used for data collection are not standardized. Present study could not address all the aspects of cash flows. The study is based on employees' views; self repeated response about their perception on primary analysis. It is, therefore, the response collected from the employees might not be effective and accurate measure.

Secondary analysis is based on published annual financial reports and data on collected from the share department of the concerned banks. And the secondary analysis covers time span of current five years. Various financial tools are used to know financial condition of the bank. However, the study tries to find out cash flow as well as liquidity position and its effective and adequate management in the selected commercial banks.

1.11 Organizational of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the research will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the research. The study report

is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study and need or significance of the study. It is oriented to readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of Data

This chapter analyses the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendations

On the basis of the results from data analysis, the researcher will be concluding about the performance of the concerned banks in terms of cash flow management. It also gives important suggestions to the concerned banks and authorities for better improvement.

CHAPTER- II

REVIEW OF LITERATURE

2.1 Conceptual Framework

This chapter deals with the literature, concerned and relevant to this study. This part of thesis is essential to know about the findings of other researchers which have conducted before, and are appropriate to the study. Review of literature can be taken as means of the base to study. It provides guidelines, ideas, and many-more important information for every research. Normally a researcher can identify to which end the similar research has been conducted before and from which point should he conduct rest of it.

The tool which has being used to manage and analyze cash is cash flow statement. This accounting system is latest and result oriented tool in accountancy which shows the cash in and out flow as well as the position of cash, also plays vital role to take decisions in managing cash in the following period. The first part consists of conceptual framework and the remaining parts consists the review of reports, articles, journals and dissertation.

2.1.1 Theoretical Review of Cash Flow Management

Cash flow management is the process of monitoring, analyzing, and adjusting of any business' cash flows. It won't be able to stay in business if the bills can't be paid for any extended length of time.

Therefore, it is needed to perform a cash flow analysis on a regular basis, and use cash flow forecasting so we can take the steps necessary to head off cash flow problems. Many software accounting programs have built-in reporting features that make cash flow analysis easy. This is the first step of cash flow management.

The second step of cash flow management is to develop and use strategies that will maintain an adequate cash flow for any business. One of the most useful strategies for banking businesses is to shorten the cash flow conversion period so that the business can bring in money faster.

Today, cash flow is still the lifeblood of every business. Like it or not, cash is how business keeps score. If a business doesn't have enough cash on hand, it can't pay its suppliers, employees, or financiers. Without sufficient cash, it will go out of business soon enough.

Cash flow is the flow of spend able money into a business and back out again. Managing the cash flow can be a tricky business, and business policies regarding, for example, to extend credit to the customers, number of customers, and how quickly they pay, all can combine to make it too complex to track. When it gets this complicated, smart business managers turn to computerized tools to help them get a handle on the process, the risks and the opportunities.

Important things to be considered in cash flow management:

- Optimize the cash flow management for both receipts and payments.
- Accelerate the collection of remittances and improve control of disbursements.
- Successfully invest excess funds in short-term instruments.
- Understand the account analysis statement.

2.1.2 Cash Flow Statements

In financial accounting, a cash flow statement or statement of cash flows is a financial statement that shows a company's incoming and outgoing money (sources and uses of cash) during a time period (often monthly or quarterly or yearly). The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents, and breaks the analysis down according to operating, investing, and financing activities. As an analytical tool the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7), is the International Accounting Standard that deals with cash flow statements.

Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses. Potential lenders or creditors, who want a clear picture of a company's ability to repay. Potential investors, who need to judge whether the company is financially sound. Potential employees or contractors, who need to know whether the company will be able to afford compensation.

The cash flow statement was previously known as the statement of changes in financial position or flow of funds statement. The cash flow statement reflects a firm's liquidity or solvency.

The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non cash transactions include depreciation and write-offs on bad debts. The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Non-cash activities are usually reported in footnotes.

2.1.3 Objectives and Importance of Cash Flow Statement

The cash flow statement is intended to:

- Provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances. Extracted from
- www.cashmanagement.com
- Provide additional information for evaluating changes in assets, liabilities and equity.
- Improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods.
- Indicate the amount, timing and probability of future cash flows.
- To evaluate the state or performance of a business or project.

- To determine problems with liquidity. Being profitable does not necessarily mean being liquid. A company can fail because of a shortage of cash, even while profitable.
- To generate project rate of returns. The time of cash flows into and out of projects are used as inputs to financial models such as internal rate of return, and net present value.
- To examine income or growth of a business when it is believed that accrual accounting concepts do not represent economic realities. Alternately, cash flow can be used to ‘validate’ the net income generated by accrual accounting.

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.

2.1.4 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).

2.1.5 Cash Flow Activities

The cash flow statement is partitioned into cash flow resulting from operating activities, cash flow resulting from investing activities, and cash flow resulting from financing activities.

Operating Activities: Operating activities include the production, sales and delivery of the company's product as well as collecting payment from its customers. This could include purchasing raw materials, building inventory, advertising and shipping the product.

In general operating cash flows include:

- Receipts from the sale of goods or services.
- Receipts for the sale of loans, debt or equity instruments in a trading portfolio.
- Interest received on loans.
- Dividends received on equity securities.
- Payments to suppliers for goods and services.
- Payments to employees or on behalf of employees.
- Tax payments.
- Interest payments (alternatively, this can be reported under financing activities).
- Payments for the sale of loans, debt or equity instruments in a trading portfolio.
- Items which are added back to the net income figure (which is found on the Income Statement) to arrive at cash flows from operations generally include:
 - Depreciation (loss of tangible asset value over time)
 - Deferred tax
 - Amortization (loss of intangible asset value over time)
 - Any gains or losses associated with an asset sale (unrealized gains / losses are also added back from the income statement)

Investing Activities: Investing activities focus on the purchase of the long-term assets a company needs in order to make and sell its products, and the selling of any long-term assets.

Generally investing cash flows include:

- Collections on loan principal and sales of other firms' debt instruments.
- Investment returns from other firms' equity instruments, including sale of those instruments.
- Receipts from sale of plant and equipment.
- Expenditure for purchase of plant and equipment.
- Loans made and acquisition of other firms' debt instruments.
- Expenditure for purchase of other firms' equity instruments (unless held for trading or considered cash equivalents)

Items under investing activities include:

- Capital expenditures, which include purchases (and sales) of property, plant and equipment
- Investments

Financing Activities: Financing activities include the inflow of cash from investors such as banks and shareholders, as well as the outflow of cash to shareholders as dividends as the company generates income. Other activities which impact the long-term liabilities and equity of the company are also listed in the financing activities section of the cash flow statement.

Generally financing cash flows include:

- Proceeds from issuing shares
- Proceeds from issuing short-term or long-term debt
- Payments of dividends
- Payments for repurchase of company shares
- Repayment of debt principal, including capital leases
- For non-profit organizations, receipts of donor-restricted cash that is limited to long-term purposes

Items under the financing activities section include:

- Dividends paid
- Sale or repurchase of the company's stock
- Net borrowings

Disclosure of Non cash Activities

Non-cash investing and financing activities are disclosed in footnotes to the financial statements. Noncash activities may be disclosed in a footnote or within the cash flow statement itself.

Noncash financing activities may include:

- Leasing to purchase an asset converting debt to equity.
- Exchanging noncash assets or liabilities for other noncash assets or liabilities.
- Issuing shares in exchange for assets.

2.1.6. Preparation of Cash Flow Statement

The direct method of preparing a cash flow statement results in a more easily understood report. The indirect method is almost universally used.

Cash Flow Statement: Direct Method

The direct method for creating cash flow statement reports major classes of gross cash receipts and payments. Dividends received may be reported under operating activities or under investing activities. If taxes paid are directly linked to operating activities, they are reported under operating activities; if the taxes are directly linked to investing activities or financing activities, they are reported under investing or financing activities.

Sample of Cash Flow Statement under Direct Method

Cash Flow Under Direct Method		
Particulars	Amount	Amount
Cash Inflows:		
A. sales		xxx
Add: Decrease in sundry debtors	xxx	
Decrease in bill receivables	xxx	
Increase in provision for bad debt	xxx	
Increase in provision for discount	xxx	
Bad debt recovered	xxx	xxx
Less: Increase in sundry debtor	xxx	
Increase in bill receivables	xxx	
Bad debts	xxx	
Discount allowed	xxx	
Decrease in provision for bad debt	xxx	
Decrease in provision for discount	xxx	<u>xxx</u>
Collection from customer (A)		<u>xxx</u>
B. Interest Income		xxx
Add: Decrease in accrued interest		xxx
less: increase in accrued interest		xxx
Collection from interest (B)		xxx
C. Dividend		xxx
Add: decrease in dividend receivables		xxx
less: increase in dividend receivable		xxx
Collection from dividend income (C)		xxx
Cash outflows:		
D. cost of goods sold		xxx
Add: Increase in inventory	xxx	

Decrease in sundry creditor	xxx	
Decrease in bills payable	xxx	xxx
Less: Decrease in inventory	xxx	
Increase in bills in bills payable	xxx	
Increase in sundry creditor	xxx	
Discount received	xxx	xxx
Payment to supplier (D)		xxx
E. salary and waged expenses	xxx	
Add: Decrease in salary or wages payable	xxx	
Increase in prepaid salary and wages	xxx	
less: Increase in salary and wages payable	xxx	
Decrease in prepaid salary and wages	xxx	
Payment to employees (E)		xxx
F. Income tax expenses	xxx	
Add: Decrease in tax payable	xxx	
Increase in advance tax	xxx	
Less: Increase in tax payable	xxx	
Decrease in advance taxes	xxx	
Payment of govt. for taxes (F)		xxx
G. Interest expenses	xxx	
Add: Decrease in interest payable	xxx	
Less: Increase in interest payable	xxx	
payment to creditor for interest (G)		xxx
H. Insurance expenses	xxx	
Add: decrease in insurance payable	xxx	
Increase in advance insurance	xxx	
Less: Increase in insurance payable	xxx	
Decrease in advance insurance	xxx	
payment for warranty services (H)		xxx

I. Other expenses	xxx	
Add: Decrease in expense payable	xxx	
Increase in advance expenses	xxx	
Less: Increase in expenses payable	xxx	
Decrease in advance expenses	xxx	
Payment for expenses (I)		xxx
Cash from operating activities before extra ordinary items (A+B+C-D-E-F-G-H-I)		xxx
Add: Increase in bank overdraft		xxx
Increase in short term loan		xxx
Less: Decrease in bank overdraft		xxx
Decrease in short term loan		xxx
Net cash from operating activities (C1)		xxx
C2. Cash from investing activities		
Cash inflows:		
sale of fixed assets		xxx
Add: Cash from sale of equity or debt of other enterprises		xxx
Cash from repayment of advance and loan made to other parties		xxx
Less: Cash payment to acquired property		xxx
Cash payment to acquired equity or debt of the companies		xxx
Cash payment for advance and loans made to other parties		xxx
Net cash flows from investing activities (C2)		xxx
C3 Cash flow from financing activities		
Issue of shares		xxx
Issue of debenture and bond		xxx
Cash collection form loan and mortgage		xxx
Less: Redemption of shares		xxx

Redemption of debenture and bonds		xxx
Repayment of loans and mortgage		xxx
Dividend payment		xxx
Net cash flow from financial activities (C3)		xxx
Total cash flows (C1+C2+C3)		xxx
Add: Cash or cash equivalent at beginning		xxx
cash or cash equivalent at end of the periods		<u>xxx</u>

Cash Flow Statement: Indirect Method

The indirect method uses net income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts for all cash-based transactions. An increase in an asset account is subtracted from net income, and an increase in a liability account is added back to net income. This method converts accrual-basis net income (loss) into cash flow by using a series of additions and deductions.

Cash flow statement under Indirect method

Particulars	Amount
Net profit for the period	xxx
Add: Non cash & non operating expenses & losses(item wise)	xxx
Less: Non cash & non operating income & gains(item wise)	xxx
Funds from operation	xxx
Add: Decrease in current assets, other than cash(item wise)	xxx
Increase in current liabilities (item wise)	xxx
Less: Increase in current assets, other than cash(item wise)	xxx
Decrease in current liabilities	xxx
Cash from operation	xxx
C2. Cash from investing activities	
Cash inflows:	
sale of fixed assets	xxx
Add: Cash from sale of equity or debt of other enterprises	xxx

Cash from repayment of advance and loan made to other parties	xxx
Less: Cash payment to acquired property	xxx
Cash payment to acquired equity or debt of the companies	xxx
Cash payment for advance and loans made to other parties	xxx
Net cash flows from investing activities (C2)	xxx
C3 Cash flow from financing activities	
Issue of shares	xxx
Issue of debenture and bond	xxx
Cash collection form loan and mortgage	xxx
Less: Redemption of shares	xxx
Redemption of debenture and bonds	xxx
Repayment of loans and mortgage	xxx
Dividend payment	xxx
Net cash flow from financial activities (C3)	xxx
Total cash flows (C1+C2+C3)	xxx
Add: Cash or cash equivalent at beginning	xxx
cash or cash equivalent at end of the periods	<u>xxx</u>

2.1.7 Cash Flow Statement under NRB Directives for Bank & Financial Institution:

There is not any right way to prepare cash flow statement beside direct and indirect method but business organization attempt to show the actual out and inflow of cash or the position of cash in the specified time period according to the rules and regulations. Banks and financial institutions have to prepare their financial report including cash flow statement, according to the directives, rules and regulations by NRB (Nepal Rastra Bank) in the format prescribed by accounting standard board. The format of cash flow which is required to prepare by banks and financial institution according to the directives of NRB is as follows.

Cash Flow Statement

For the period Shrawan 1, 2063 to Ashad 32, 2064 (July 16, 2006 to July 16, 2007)

Previous Year Rs.	Particulars	This Year Rs.
	(a). Cash Flow from Operating Activities	
	1. Cash Received (A)	
	1.1 Interest Income	
	1.2 Commission and Discount Income	
	1.3 Income from Foreign Exchange transaction	
	1.4 Recovery of loan written off	
	1.5 Other Incomes	
	2. Cash Payment (B)	
	2.1 Interest Expenses	
	2.2 Staff Expenses	
	2.3 Office Overhead Expenses	
	2.4 Income Tax Paid	
	2.5 Income Tax Paid	
	2.6 Other Expenses	
	Net Cash Flow (A-B)	

(a) Cash Flow before changes in Working Capital

Increase (*Decrease*) of Current Assets

- (increase) / Decrease in Money at Call and Short Notice
- (increase) / Decrease in short term Investment
- (increase) / Decrease in Loans, Advances and Bills Purchase
- (increase) / Decrease in Other Assets

Increase (Decrease) of Current Liabilities

- Increase (Decrease) in Deposits
- Increase (Decrease) in Certificates of Deposits
- Increase (Dec.) in Short Term Borrowings

- Increase (Decrease) in Other Liabilities

(b) Cash Flow from Investment Activities

- (Increase)Decrease in Long-term Investment
- (Increase)Decrease in Fixed Assets
- Interest income from Long term Investment
- Dividend Income

(c) Cash Flow from Financing Activities

- Increase(Decrease) in Long term Borrowings Bonds, Debentures etc)
- Increase(Decrease) in Share Capital
- Increase (Decrease) in Other Liabilities
- increase (Decrease) in Refinance facilities received from NRB

(d) Income/Loss from change in exchange rate in Cash & bank balances

(e) Current Year's Cash Flow from All Activities

(f) Opening Balance of Cash and Bank Balances

(g) Closing Balance of Cash and Bank Balances

2.1.8 Review of Related Studies:

This section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

Review of Books

The statement of cash flows is an important complement to the other major financial statements. It summarizes the operating, investing and financing activities of a business over a period of time. The balance sheet summarizes the cash on hand and the balances in other assets, liabilities and owners' equity accounts, providing a snapshot at a specific point in time. The statement of cash flows reports the changes in cash over a period of time and, most important explains these changes.

The income statement summarizes performance on an accrual basis. Income on this basis is considered a better indicator of future cash inflows and outflows than is a statement limited to current cash flows. The statement of cash flows complements the accrual-based income statement by allowing users to assess a company's performance on a cash basis. Cash Flow simply refers to the flow of cash into and out of a business over a period of time. Watching the cash inflow and out flow is one the major management task. The out flow of cash is measured by those cheques issued every month to pay salaries, suppliers, creditors, and to others. The inflows are the cash received from customers, lenders and investors.

The analysis of events and transactions that affect the cash position of a company is termed as cash flow analysis. Cash flow analysis is done through statement of cash flows. A cash flow statement is a statement if company's ability to generate cash from various activities such as operating, investing, financing and their need of cash. It is a statement, which shows the inflows and outflows of cash and cash equivalents during the year. (*Porter & Norton, 3rd Edition, .585*)

The cash flow statement if an enterprise is useful in providing information to the users of financial statements about ability of the enterprise to generate cash and cash equivalents and the need of the enterprise to utilize those cash flows.

Cash is the life blood of a business enterprise. It is the fuel that keeps a business alive. Without cash not 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/cause cash position to change. The analysis of the events and transaction that affect the cash position of the company is termed as cash flow analysis.

Information about cash flow is useful in many ways. It cash also influence the decision maker in many ways. Decision makers may be: investors, creditors and management

Investors have to decide whether to invest or not on a given company. Investors will value higher to the company whose regular operating cash flow is 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 (*Wagle and Dahal, 2006, . 11.1*) 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 advantages of new business opportunities that may arise. And for this, the management has to use cash flow analysis.

Due to increase importance of cash flow analysis to the decision makers, the Financial Accounting Standard Board (FASB) stated that the financial statement of the company should include information about:

- How a business obtains and spends cash?
- Its borrowing and repayment activities
- The sales and repurchase of its ownership securities
- Dividend payments and other distributions to its owners, and
- Other factors those affect a company's liquidity and solvency.

How much cash is generated by business operation? How much cash is spent for current and non current assets? Where did the company get cash for expenditure? How did the company become able to pay dividends? All these questions are some examples raised by the financial statements users. The balance sheet, income statement and statement of shareholder's equity do not answer all these questions raised by the users of financial statement. (*Munankarmi, 2003, .13.1*). For such, cash flow statement answers these questions.

Cash flow statement describes the sources and uses of cash of an organization. It provides information about the inflow and outflow of cash of a firm in an accounting period. It can thus be defined as a statement which explains the change in cash position from one balance sheet date to the next balance sheet date.

The statement which reports cash flows during the period classified by operating, investing and

financing activities is known as cash flow statement. Cash flows are inflows and outflows of cash and cash equivalents. Cash equivalents are short term highly liquid investment, such as money market funds, commercial papers and treasury bills.

Review of Articles:

The effort has been made in this present section to examine and review the some related articles published in different economic journals, Bulletins, magazines and newspapers.

Mr. S.P. Munankarmi in his article called cash flow analysis: It is an integra part of “Financial Planning”, stated the importance of cash in organization by calling it the lifeblood of business enterprise. According to him it is the fuel that keeps a business alive. So a business must have an 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 position of cash. Analysis of events and transaction that affect the position of cash (*Dangol and Dangol 2064, .654*). Analysis of events and transaction that affect the cash position of the company is termed cash flow analysis.

Due to the increasing importance of cash flow analysis accounting standard board 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 other factors that affect a company’s liquidity and solvency.

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

As the article stated further that recognizing the importance of the cash flow analysis, Financial Accounting Standard Board issued financial statements standards no.95 and statements of cash

flows in November 1987. This standard requires the business to include a statement of cash flows in all financial reports that contains balance sheets and income statements. The IAS has also replaced FASB and asked its entire member to present cash flow statement along with the balance sheet and income statement since 1992. As the article suggested following are the importance of cash flow statements.

Investment activities as the article stated include the lending money (investment) and collecting on loans buying and selling of productive assets that are expected to generate revenue in the future and buying and selling securities not classified as cash equivalent are defined as short term, highly liquid investment that are readily convertible to know amount of cash and must be sufficient close to its maturity date. Determinations of cash flow from investing activities requires the analysis of non-current items of comparative balance sheets, additional information and non cash expenses non-operating incomes and expenses, statement relating to assets, investment in shares and debentures, short term investment other than cash equivalent.

Net cash from financing activities are determined by the flow of short term loans and overdrafts. There may be some non cash investing and financing payments and such payments are not reported in the statement of cash flow. The FASB concluded that non cash portions of investing and financing activities should not reported on the statement of cash flow. However, the board recognized 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 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 plan helps to avoid cash flow problems and also helps to keep borrowing costs as low as possible.

Review of Journals

Chartered Institute of Management Accounts (CIMA), London, in its Journal, “A Practical Guide to Cash-Flow Management” Cash flow is generally acknowledged as the single most pressing concern of a company. In its simplest form cash flow is the movement of money in and out of a business. Cash flow is the life-blood of all growing businesses and is the primary indicator of business health. The effect of cash flow is real, immediate and, if mismanaged, totally unforgiving. Cash needs to be monitored, protected, controlled and put to work.

There are four principles regarding cash management:

First, cash is not given. It is not the passive, inevitable outcome of business activities. It does not arrive in bank account willingly. Rather it has to be tracked, chased and captured. It is needed to control the process and there is always scope for improvement.

Second, cash management is as much an integral part of a business cycle as, for example, making and shipping widgets or preparing and providing detailed consultancy services.

Third, immediate access to information on:

- Customers’ credit worthiness
- Customers’ current track record on payments
- Outstanding receipts
- Suppliers’ payment terms
- Short-term cash demands
- Short-term surpluses
- Investment options
- Current debt capacity
- Longer-term projections

Fourth, be masterful, professional cash management in business is not, unfortunately, always the norm. In a poll conducted on the Better Practice Payment Group website during November 2003, nearly a quarter of the respondents declared that they never confirm their credit terms in writing with customers. It can be found, therefore, that the cash management process has a double benefit:

it can help any business organizations. To avoid the debilitating downside of cash crises and, in addition, grant a commercial edge in all the transactions. (*Munankarmi, 2004 . 55*)

Review of Thesis

Shrestha (2006), Thesis, “*Performance Measurement of Joint Venture Banks in Nepal*”

The objectives of the thesis are:

- To find out the profitability of joint venture banks in Nepal.
- To study about risk management of different joint venture banks in Nepal.
- To evaluate liquidity position of banks in Nepal.
- To analyze the fund mobilization efficiency of joint venture banks in Nepal

According to this research the findings are:

- The banks should increase and attract deposit which affects the profitability of the banks.
- The banks should invest more in Government Securities to minimize the risk of solvency.
- The banks should extend their branches to generate more cash which enable to maintain liquidity.
- The banks should utilize their funds in less risky and profitable area so as to increase funds mobilization efficiency.

Kafle, (2007) Thesis, “*Analysis and Comparative Study on Cash Flow of Commercial Banks*”

The objectives of the thesis are:

- To find out the Cash flow position of the different commercial banks.
- To conduct comparative study of different leading commercial banks in Nepal.
- To recommend the findings of the study to concern bodies and authorities, after analyzing cash flow position and liquidity problem of the banks

According to this research the findings are

- The Commercial Banks should increase the loan and advance .
- They should increase their share capital.

Shrestha, (2008), Thesis, “*An Analytical and Comparative Study on Cash Flow of Joint Venture Banks in Nepal*”

The objectives of the thesis are:

- To find out the cash flow due to change in different activities like operating, financing investing and marketing.
- To find out average cash inflow & outflow of cash in the market.

According to this research the findings are:

- Commercial Banks should increase their CFOA.
- The banks should not cartel in deposit or should not collect excess deposit than they can invest or use it to increase the surplus in cash flow.
- The banks should extend their market and branches.

Bhattarai (2009), Thesis, “Comparative Analysis of Cash Flow” (with special reference to joint venture and Nepalese Commercial Banks).

The objectives of the thesis are:

- To analyze about level of cash flow.
- To generalize different tools to attracts the deposit from the market.
- To analyze about different activities which effect in net cash flow.
- To know about the position of different banks capital position.

According to this Research the findings are:

- The commercial banks have lower level of cash flow from operation based on their reputation and network.
- The banks should attract deposit and should mobilize the savings to generate higher cash flow.
- Investing activities of the bank should be increased.
- The banks should increase their capital.

Dahal, (2009), Thesis “An Analysis of Fund Mobilization of Commercial Banks in Nepal”.

The objectives of the thesis are:

- To analyze about rural savings & their market.
- To generalize about the policies of lending system.

- To study method of increasing savings of local people.

According to this Research the findings are:

- Bank should extend their branches to rural areas in order to provide banking services to the more people and mobilize the rural savings.
- Banks should adopt liberal lending policy or flow of credit percentage should be more in the relation with total deposit
- Banks should attract the savings of the people widely all over the country.

2.1.9 Research Gap

Former researcher tends to be more informal to find out the actual cash management and cash flow position and performances of commercial banks. As we see in their research we can see that they have only mentioned the increasing and decreasing trend of headings in cash flow statement. The flow of financial information was not analyzed properly. Analysis of cash flow is not sufficient by only analyzing the information in the cash flow statement, it would be better to be more wide visional to find out the actual performance of banks in terms of cash flow. Findings, conclusions and recommendations were not based on specific study they had conducted. We can easily know that the studies were conducted without using any financial or analytical tools which obviously help the researcher to reach the significant conclusion and recommendation. Another vital thing is that the previous researcher had not collected primary data to analyze the cash position in the banks and financial institutions.

But in this research, the researcher tends to use several financial tools to specific analyze the cash flow performance of the listed high performing commercial banks. In this research we can get credit, investment, deposit, liquidity, expenditure, income and capital related cash position of the Banks, and most of the tools cover the cash flow statement and all the financial cash information of the Banks each year. The researcher also tends to conduct primary data collection activities to find out liquidity position or problem in banks and financial institutions in Nepalese financial market. The Findings, conclusion, and recommendation are based on the actual result found out from the study.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It is necessary for the researcher to know not only the research methods but also the methodology. When we talk about the research methodology we not only talk of research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others. The study of research methodology gives the student the necessary training in gathering materials and arranging them, participating in the field work which required, and also training in techniques for collection of data appropriate to particular problems, in the use of statistics, questionnaires and controlled experimentation and in recording evidence, sorting it out and interpreting it. (C.R.Kothari,1984: 10-13).

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods processes applied in the entire aspect of the study. This chapter describes research design, population, sampling procedure, and sources of data and analysis of data.

3.1 Research Design

Present study follows the descriptive as well as analytical statistics of the analysis to meet the stated objectives of the study. 'Descriptive studies were primarily concerned to find out 'What is'. The secondary data are analyzed from the data collected from the annual financial reports of the related banks. Few financial statements of selected commercial banks were tabulated using spreadsheet.

3.2 Sources of Data

The research is based on primary as well as secondary source of data. For research purpose, published financial statements (i.e. Annual report) of concerned banks were collected. Similarly, financial statement of selected commercial banks and various markets related information were collected and tabulated in spreadsheet. Such secondary information was gathered from the concerned banks.

Carefully designed research instrument (questionnaire) used for primary data analysis. The researcher has carefully designed questionnaire by considering various influencing factor of industry environment, cash management quality as well as financial activities. The factors derived from previous research findings on related area are to support cash management. Basic sources of primary information were employees of concerned banks, related students and experts. In addition, an answer on certain queries made to staffs of concerned organization personal requires and discussions were also being conducted for clarification and verification of collected data and for recommendation.

3.3 Population and Sample of Survey Design

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The method of selecting for study, a small portion of the population to draw conclusion about characteristics of the population is known as sampling. Sampling may be defined as the selection of part of the population on the basis of which a judgment or inference about the universe is made. (*Sharma and Chaudhary, 2058; 171-1 73*)

Here only three sample commercial banks are taken out of twenty three commercial banks. For selecting the samples, non-random sampling method is used here among different methods. The samples are taken only from commercial banks. Organization under study is as follows, whose general introduction and major objectives are presented in chapter one. The sample organizations are as follows:

1. Standard Chartered Bank Nepal Ltd.
2. NABIL Bank Ltd.
3. Everest Bank Ltd.

Likewise, financial statements of five years (beginning from 2061/62 to 2065/66) are selected as samples for the purpose of it.

3.4 Secondary Data Collection Techniques

Most of the secondary data and information has been collected from the financial reports published by the banks in their annual reports each year. Cash flow statements, balance sheets, income statements, credit statements, investment statements, deposit statements and capital statements are the statements which have been used broadly in this study. Some of the statements published in the financial reports as annual reports of the banks are attached back side of this thesis in the appendix column. The data and information from the financial report of the banks have been analyzed by using different tools of ratio analysis to find out the actual cash flow condition and capacity of the banks.

3.5 Primary Data Collection Procedure

Convenient sampling technique was followed to gather the opinion or characteristics of employees of the concerned bank. Questionnaire were administered and returned in four-five days. In many situations, the researcher asked the respondents to give opinions of the questions and ticked on replied answers to administer the questionnaire. Researcher personally visited head office of the related banks. The last hour of the fifth day was used to request the respondents to fill up the questionnaire. In most of the cases, meaning of the items and instruments were described to the respondents, which helped them to give fair opinion.

3.6 Method, Tools and Techniques Employed

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as Ratio analysis. All the scores of individual data sheet (represented by primary data) were analyzed separately. The ratio analysis involves comparison

for a useful interpretation of financial statements. The quantities judgment regarding Cash Flow Management of the banks can be done with the help of ratio analysis. The following ratios are calculated for the study purpose:

1. Investment Deposit Ratio
2. Investment in Government Securities Ratio
3. Credit Deposit Ratio (activity ratio)
4. Debt Service Coverage Ratio
5. CFOA to Capital Expenditure Ratio
6. Cash Flow Adequacy Ratio
7. CFOA Per Share Ratio
8. Cash Reserve Ratio
9. Cash and Bank Balance Ratio
10. Capital Adequacy Ratio

3.7 Practice of Cash Flow Statement

Cash Flow Statement:

Financial document detailing the exchange of cash between a business and the outside world.

The flow is categorized as:

- Flow “in” from Operations
(cash made by selling goods and services by the company)
- Flow “in” from Financing
(cash raised by selling stocks and bonds by the company)
- Flow “out” to Investing
(cash spent investing in its future growth by the company)

Each of these flows can actually flow both ways. Investors like to see that the company can cover its spending with cash from operations, without having to turn to financing. The cash flow statement also has to reconcile the net effect of these flows with the difference in its cash holdings at the beginning and end dates of the reporting period.

3.8 Cash Flow Statement as Per International Accounting Standard

Cash basis financial statements were common before accrual basis financial statements. The “flow of funds” statements of the past were cash flow statements. In the United States in 1971, the Financial Accounting Standards Board (FASB) defined rules that made it mandatory under Generally Accepted Accounting Principles (US GAAP) to report sources and uses of funds, but the definition of “funds” was not clear. “Net working capital” might be cash or might be the difference between current liabilities and current assets. From the late 1970 to the mid-1980s, the FASB discussed the usefulness of predicting future cash flows. In 1987, FASB Statement No. 95 (FAS 95) mandated that firms provide cash flow statements. In 1992, the International Accounting Standards Board issued International Accounting Standard 7 (IAS 7), Cash Flow Statements, which became effective in 1994, mandating that firms provide cash flow statements. (www. wikipedia.com) US GAAP and IAS 7 rules for cash flow statements are similar. Differences include:

1. IAS 7 requires that the cash flow statement include changes in both cash and cash equivalents. US GAAP permits using cash alone or cash and cash equivalents.
2. IAS 7 permits bank borrowings (overdraft) in certain countries to be included in cash equivalents rather than being considered a part of financing activities.
3. IAS 7 allows interest paid to be included in operating activities or financing activities. US GAAP requires that interest paid be included in operating activities.
4. US GAAP (FAS 95) requires that when the direct method is used to present the operating activities of the cash flow statement, a supplemental schedule must also present a cash flow statement using the indirect method. The IASC strongly recommends the direct method but allows either method. The IASC considers the indirect method less clear to users of financial statements. Cash flow statements are most commonly prepared using the indirect method, which is not especially useful in projecting future cash flows. (www.wikipedia.com)

3.9 Financial Statement

Financial statements are organized summaries of certain time period detailed financial transaction, position and performance of an organization. Beside cash flow statement, financial statements analyzed in this study are:

Balance Sheet: is an accounting report which shows the actual figure of quality of assets and share holders fund/capital, and total liabilities within certain accounting time of period of an organization. Comparative Balance Sheets of the selected commercial banks within the study period are presented in differently to observe the comparative changes in the figures of their balance sheet.

Income Statement: is an accounting report which shows the total revenue and expenditures with total profit or loss of certain accounting time of period of an organization.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and sources.

Cash flow management is one of the most important factors that have been developed to facilitate effective performance of bank management. Cash flow is the flow of spendable money into a business and back out again. Managing the cash flow can be a tricky business, and business policies regarding, for example, to extend credit to the customers, number of customers, and how quickly they pay, all can combine to make it too complex to track. Therefore, it is needed to perform a cash flow analysis on a regular basis, and use cash flow forecasting so we can take the steps necessary to head off cash flow problems.

The main purpose of the objective is to study and assess the comparative cash flow management in selected commercial banks. Present chapter will discuss the aspects of cash management and liquidity management with their actual accomplishment. Actually, cash management and liquidity management is the fundamental managerial tool, which is applied in every organization as well as commercial banks. For this respect, it will analyze the data by using various financial and statistical tools to meet the stated objectives of the study. It also compares the data between selected banks. Besides, it also presents the various support and backing generated from data analysis.

4.1 Comparative Financial Condition of Selected Commercial Banks

Financial analysis assists in identifying the major strengths and weaknesses of an organization. It indicates whether a bank has enough cash or liquidity to meet its obligations and ability to utilize their available resources properly. Financial analysis can also be used to assess the bank's

liability as ongoing enterprise and determine whether a satisfactory return is being earned as cash flow generation. Thus, comparative financial condition of the banks in terms of cash flow management is necessary to find out the comparative cash flow management practices in those banks.

For research purpose, financial conditions of the banks in terms of cash management and liquidity management practices, cash management and adequate liquidity management efficiency has been undertaken to analyze the comparative cash flow position of selected commercial banks.

4.2 Comparative Cash Flow Management Practices

Comparative cash flows show the comparative cash and liquidity management policies and practices adopted by the selected commercial banks during the study period. It measures the ability of the organization in terms of cash management practices by using historical data.

Five years data of high performing commercial banks has been analyzed in this chapter. As we have defined that cash flow is the statement of reconciliation of opening and closing cash balance. It tempts to provide information which can not be got from other financial statements like balance sheet, income statement and P/L account. The main objects in cash flow which continuously provide information about financial performance are shortly defined as follows, which are obviously supporting for analyzing cash management in the different period of the undertaken banks.

4.3 Cash and Cash Equivalent

The purpose of the statement of cash flows is to provide information about a bank's inflows and outflows. Thus, it is essential to have a clear understanding of what the definition of cash includes. According to accounting standards, certain items are recognized as being equivalent to cash and are combined with cash on the balance sheet and the statement of cash flows. Commercial Paper, money market funds and Treasury bills are examples of cash equivalents. To be classified as a cash equivalent, an item must be easily convertible to a known amount of cash and have a maturity to the investor of three months or less. For record keeping purposes, it is

important to recognize this transaction as a transfer between cash in the bank and an investment in a government security. In the strictest sense, the investment represents an outflow of cash. The purpose of a security with such a short maturity does not, however, involve any significant degree of risk in terms of price changes and thus is not reported on the statement of cash flows as an outflow. Instead, for purposes of classification on the balance sheet and the statement of cash flows, this is merely a transfer within the cash and cash equivalents category. This purchase involves a certain amount of risk for the company making the investment. Thus, for balance sheet purposes, the investment is not considered a cash equivalent and is not therefore combined with cash but is classified as either a trading security or an available for sale security, depending on the company's intent in holding the stock. In the preparation of a statement of cash flows, the investment in stock of another company is considered a significant activity and thus is reported on the statement of cash flows.

4.4 The Use of Cash Flow Information

The statement of cash flows is a critical disclosure to a 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.

4.4.1 Investment Deposit Ratio

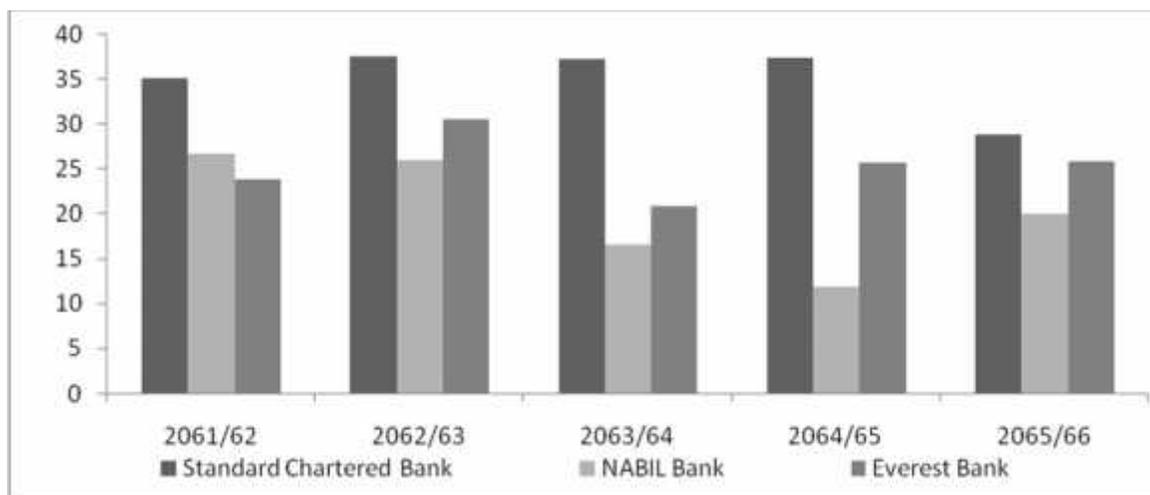
This is the tool which provides numerical relation between the level of investment of a bank and its total deposit. To know the level of cash flow management capacity of a bank, this tool provides the fact that, how much profit or cash inflow is going to be generated through investment in different. 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.

Table 4.1
Investment Deposit Ratio (%)

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	56.76	53.16	52.01	53.16	55.33
NABIL Bank	49.15	43.05	35.20	30.82	35.46
Everest Bank	27.52	28.39	25.68	26.49	28.72

Source: Annual Report of banks

Figure 4.1
Investment Deposit



The figures of above table show the performance of Standard Chartered Bank Nepal Pvt. Ltd. As we see the investment level of the bank was 56.76% in the FY 2061/62 in relation to its total

accepted deposit. Like this the trend of investment was gradually decreasing and again seems to be increasing and was 55.33% in the FY.2065/66.

This table explains the cash flow management of NABIL Bank Ltd. The bank's investment deposit ratio was 49.15% in the FY 2061/62 and fluctuated in the following years and has remained to 35.46% in the FY 2065/66.

The above table shows the cash flow study figures of Everest Bank Ltd. As we see investment deposit ratio of the bank was 27.52% in the FY 2061/62 has fluctuated in the following years and was 28.72% in the FY 2065/66.

4.4.2 Investment in Government Securities Ratio

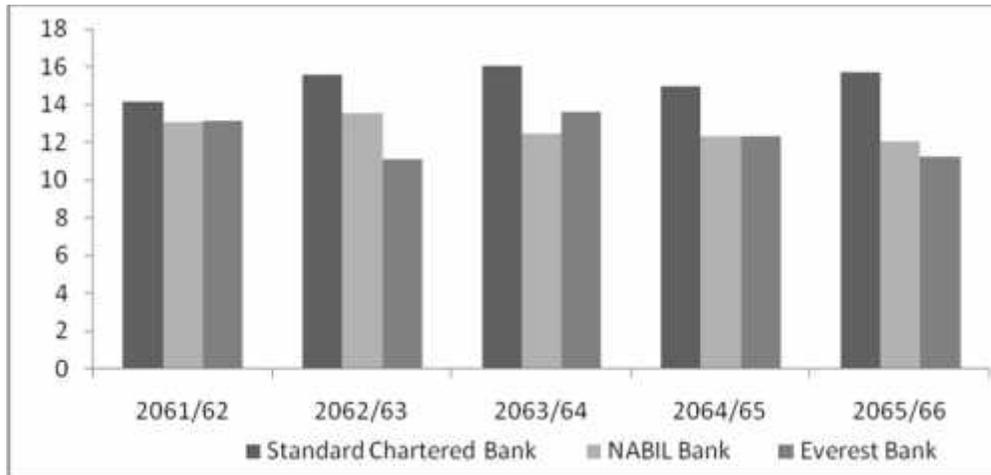
Banks are also using to invest in Govt. Securities to be more liquid to fulfill the short term obligations. The banks instead of keeping their cash unused, invest in various government securities which are liquid in nature as they can be traded in any time. Banks also use to be getting certain interest 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.

Table 4.2
Investment in Government Securities ratio (%)

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	35.09	37.56	37.25	37.49	28.83
NABIL Bank	26.69	26.01	16.58	11.90	20.06
Everest Bank	23.89	30.59	20.80	25.71	25.87

Source: Annual Report of banks

Figure 4.2
Investment in Government Securities



In the investment in Government Securities of Standard Chartered Bank, we can see the bank has invested 35.09% in the GS in FY2061/62 and with some fluctuations it was at 28.83 in 2065/66. There is big variation in FY 2064/65 and 2065/66.

Investment in Government Securities ratio of NABIL Bank was 26.69% in FY 2061/62 and gradually by decreasing in the following years to the point of 20.6% in the FY 2065/66.

Investment in Government securities ratio of Everest Bank was 23.89% in the FY 2061/62 and was fluctuated in the following years in the increasing trend and was 25.87% in the FY 2065/66.

4.4.3 Credit Deposit Ratio (Activity Ratio)

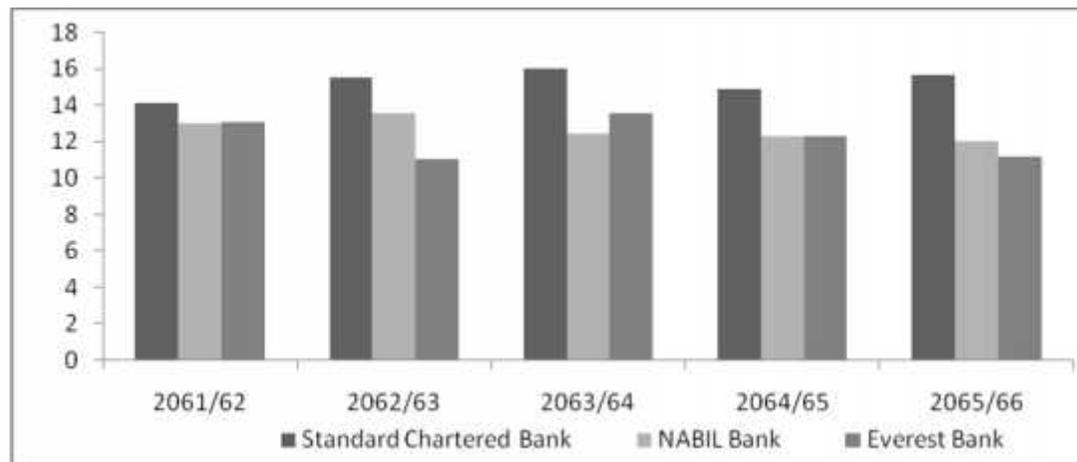
Credit deposit ratio is a tool which shows relation between deposit accepted and credit granted to the lenders by a bank. It is the proportion of loan-assets created by banks from the deposits received. The higher the ratio, the higher the loan-assets created from deposits. A high credit-deposit ratio 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.

Table 4.3
Credit Deposit Ratio (Activity Ratio) (%)

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	31.97	30.33	35.94	40.26	40.70
NABIL Bank	52.48	57.84	65.41	69.28	66.70
Everest Bank	72.82	73.13	74.35	72.89	73.36

Source: Annual Report of banks

Figure 4.3
Credit Deposit



Credit deposit ratio of Standard Chartered Bank was 31.97% in FY 2061/62 and gradually has increased to 40.70% in FY 2065/66. It shows that bank is getting success to increase its market by granting loans.

Similarly, credit deposit ratio was 52.48% in the FY 2061/62 and by increasing in the following years it has reached to the point of 66.70% in the FY 2065/66.

Like this credit deposit ratio was 72.82% in the FY 2061/62 and has increased in the following years and was 73.36% in the FY 2065/66.

4.4.4 Debt Service Coverage Ratio (DSCR):

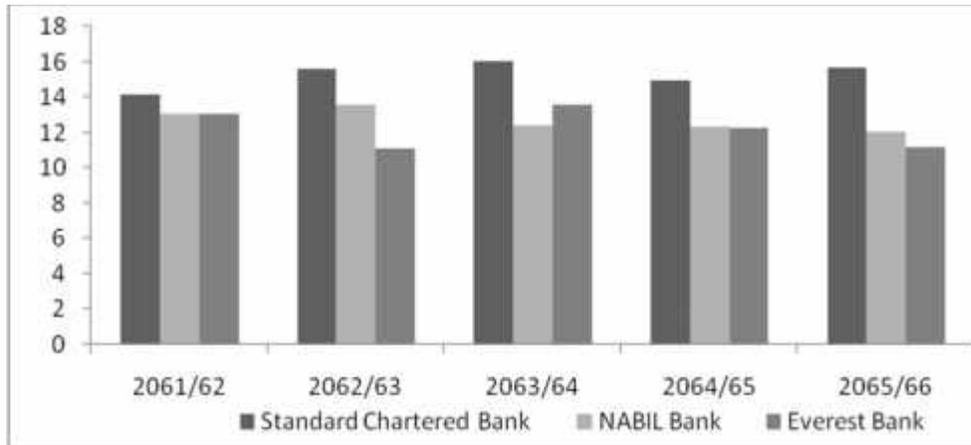
The debt service coverage ratio or debt service ratio is the ratio of net operating income to debt payments on a piece of investment real estate. It is a popular benchmark used in the measurement of an income-producing property’s ability to produce enough revenue to cover its monthly mortgage payments. 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.

Table 4.4
Debt Service Coverage Ratio (DSCR)

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	1.31	0.96	1.20	9.7	2.65
NABIL Bank	0.59	0.72	0.57	-	0.98
Everest Bank	0.45	0.86	1.04	1.21	1.81

Source: Annual Report of banks

Figure 4.4
Debt Service Coverage



Debt service coverage ratio of SCBL was 1.31 in the FY 2061/62 and there is fluctuation in the following years and is 2.65 in the FY 2065/66. Debt service coverage ratio shows the times payment of interest and principal in relation to CFOA.

Debt service coverage ratio of NABIL bank was 0.59 in the FY 2061/62 and is fluctuated in the following years and has remained in the point of 0.98, however this ratio is in increasing trend.

Debt service coverage ratio of EBL was 0.45 in the FY 2059/60 and has increased in the following years and has reached to 1.81 in the FY 2065/66.

4.4.5 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 it and make upgrades to its buildings, equipments and processes. This ratio is one of a

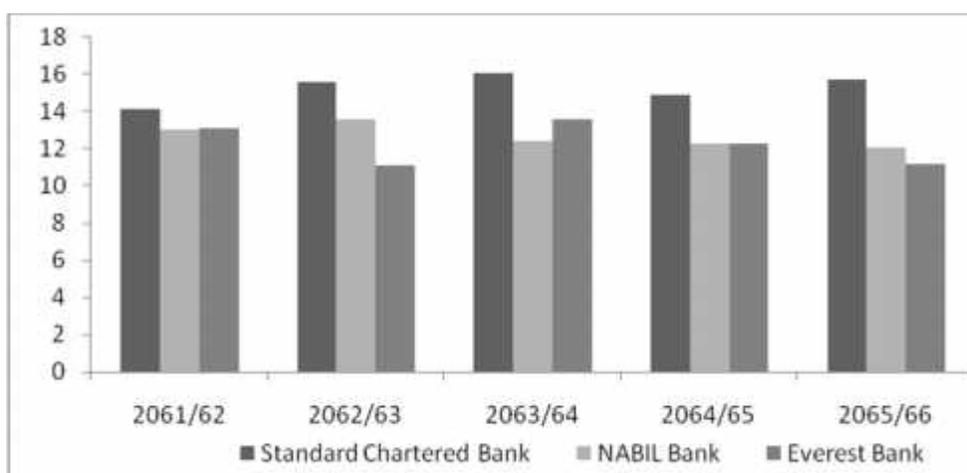
measure tool useful in assessing the solvency of a business. The cash flow from operations to capital expenditure ratio measures a bank's ability to use cash flow from operations to finance its acquisitions of productive assets. To the extent that a company is able to do this, it should rely less on 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.

Table 4.5
CFOA to Capital Expenditure Ratio:

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	2.12	27.82	-	-	22.60
NABIL Bank	11.75	1.94	7.61	-	1.28
Everest Bank	1.64	9.66	7.70	8.26	17.58

Source: Annual Report of banks

Figure 4.5
CFOA to Capital Expenditure



CFOA to capital expenditure ratio of SCBL was 2.12 in the FY 2061/62, 27.82 in FY2062/63, and negative ratio in 2063/64 and 2064/65 and was 22.60 in the FY 2065/66. CFOA to capital

expenditure ratio is the tool to analyze the required capital expenditure by cash provided from operating activities.

CFOA to capital expenditure ratio of NABIL Bank was 11.75 in the FY 2061/62 and is also fluctuated in the following years and is 1.28 in the FY 2065/66.

If we see in the row of CFOA to capital expenditure ratio of EBL was 1.64 in the FY 2061/62 and has increased in the following years and has reached to the ratio of 17.58 in the FY 2065/66.

4.4.6 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 which 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

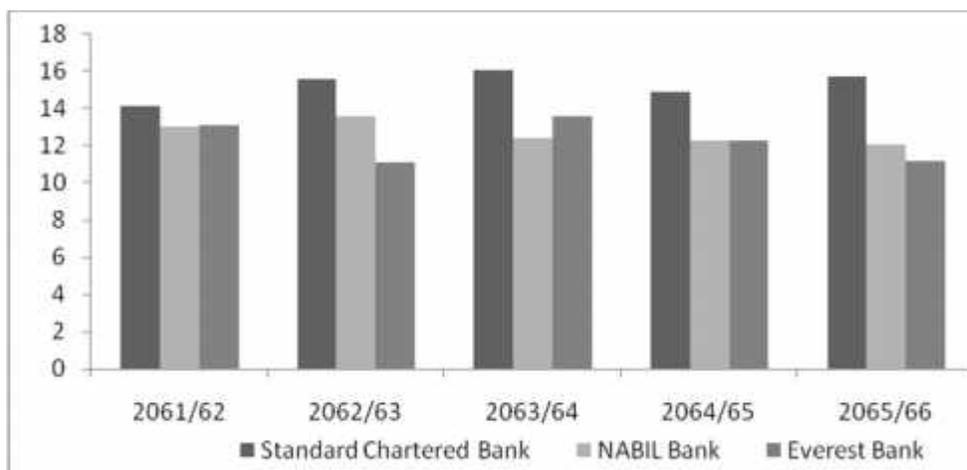
calculate the denominator of the ratio. It is important to report the annual amount of long-term debt maturing over each of the next five years.

Table 4.6
Cash Flow Adequacy Ratio:

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	2.24	3.26	5.49	-	2.65
NABIL Bank	0.16	0.35	8.96	-	0.59
Everest Bank	-	-	0.91	-	-

Source: Annual Report of banks

Figure 4.6
Cash Flow Adequacy



Cash flow adequacy ratio of SCBL was 2.24 in the FY 2061/62 and has increased to the following two years, was negative in the FY2064/65 and was 2.65 in the FY2065/66. Cash flow adequacy ratio of NABIL Bank was 0.16 in the FY 2061/62 and has increased in the following two years, negative in the FY 2064/65 and is 0.59 in the FY 2065/66.

EBL has not any debt in the FY of 2061/62, 2062/63, 2064/65 and 2065/66 so the cash flow adequacy ratio can be seen only in the FY 2063/64.

4.4.7 CFOA per Share Ratio:

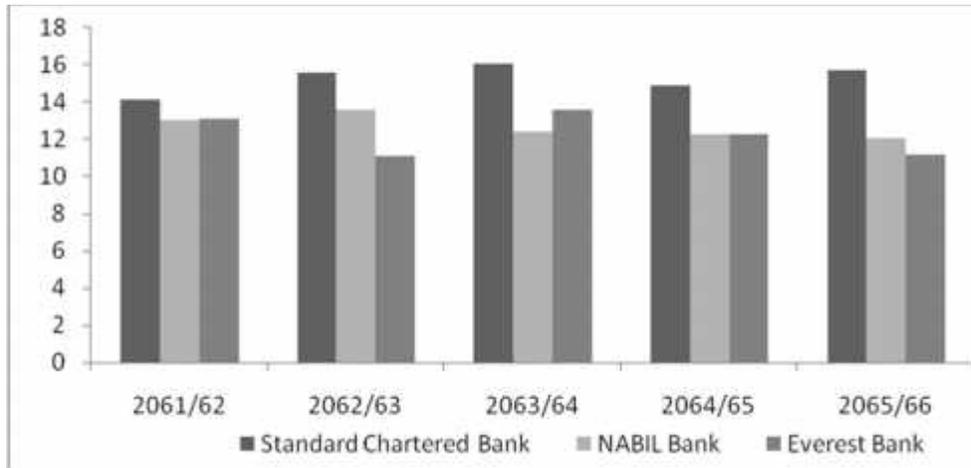
One measure of the relative worth of an investment in a company or in a bank is the ratio of the stock's market price per share to the bank's earnings per share (that is, the price earning ratio). But many stockholders and even analysts are even more interested in the price of the stock in relation to the company's cash flow per share. Cash flow for purpose of this ratio is normally limited to cash flow from operating activities. This ratio has been used by 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. The accounting profession's belief is that this type of information is not an acceptable alternative to earnings per share as 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.

Table 4.7
CFOA per Share Ratio

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	1.52	0.49	0.57	-	1.58
NABIL Bank	0.40	0.37	0.27	-	0.81
Everest Bank	1.72	1.90	1.58	2.37	3.16

Source: Annual Report of banks

Figure 4.7
CFOA per Share



It shows the debt recovering capacity of the SCBL in relation to the cash from operations. CFOA per ratio was 1.52 in the FY2061/62 and is fluctuated in the following years and was 1.85 in the FY 2065/66. This shows the per share cash flow form operation in relation to the total earning per share.

CFOA per share ratio of NABIL Bank was 0.40 in the FY 2061/62 is also fluctuated in the following two years and has remained in the point of 0.81 in the FY 2065/66. CFOA per share ratio of Everest Bank was 1.72 in the FY 2061/62 and has fluctuated in the following years in increasing trend and was 3.16 in the FY 2065/66.

4.4.8 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 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 be maintained as to be easily converted into cash. Liquidity helps to reduce the cash risk, which directly leads to bankruptcy. Banks are required to

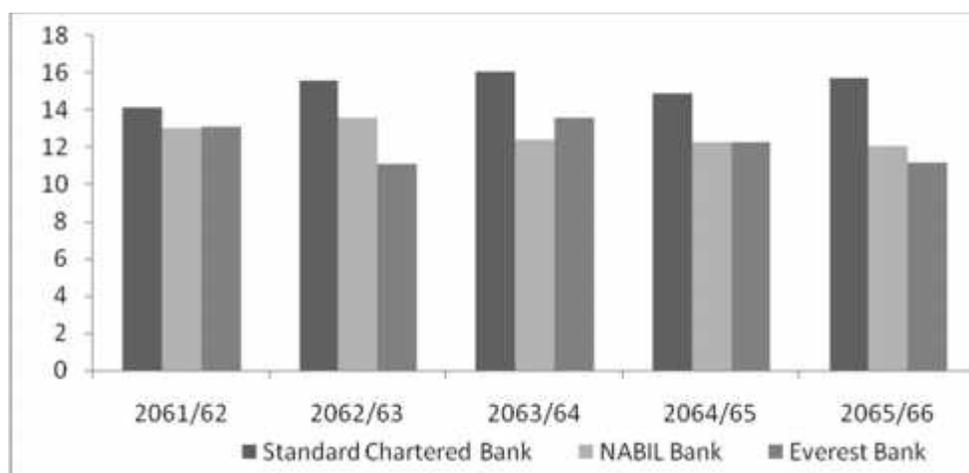
maintain a certain percent of the total deposit as CRR provision as per the NRB rules. Therefore, Nepal Rastra Bank has set a fixed CRR provision for all the Commercial Banks which bank has to comply. According to the directives of NRB all Commercial bank should maintain 5% of amount of total deposit as CRR in their NRB account. This provision helps commercial banks to preserve the liquidity capacity to meet their short term obligations by themselves.

Table 4.8
Cash Reserve Ratio (%)

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	9.07	9.46	8.77	6.86	5.46
NABIL Bank	8.51	6.87	3.83	3.26	6.00
Everest Bank	-	5.59	7.80	8.75	6.70

Source: Annual Report of banks

Figure 4.8
Cash Reserve



Cash reserve ratio of SCBL was 9.07% in the FY 2061/62 and was also fluctuated in the following years and was 5.46 in the FY 2065/66. It is the provision according to the rule of NRB that should be any how fulfilled by the banks to maintain liquidity.

Cash reserve ratio of NABIL Bank was 8.51% in the FY 2061/62 and has decreased in following year but has not been maintained the requirement of NRB provision of 5% and was 3.26% in the FY5 of 2062/63 and 2063/64 and was 6% in the FY 2065/66.

Cash reserve ratio of Everest Bank is % in the FY 2061/62 and has fluctuated in the following years and is remained in 6.70% in the FY 2065/66.

4.4.9 Cash and Bank Balance Ratio:

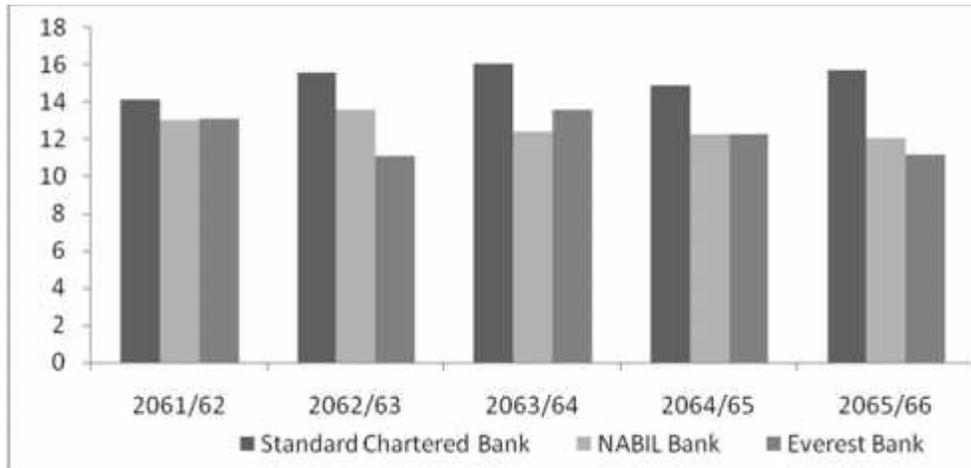
As we know from above that liquidity is the capacity to meet the short term cash obligation by the banks. In this regard banks are used to be maintaining some additional amount in their bank account or with themselves. This amount is used to be fulfilling day to day payments to their customers. This 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.

Table 4.9
Cash and Bank Balance Ratio

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	8.06	9.56	5.75	5.53	8.20
NABIL Bank	8.51	6.86	3.83	3.26	5.99
Everest Bank	2.04	3.92	8.32	3.48	6.67

Source: Annual Report of banks

Figure 4.9
Cash and Bank Balance



Cash and bank balance ratio of SCBL in the FY 2061/62 was 8.06% and was also fluctuated in the following years and was 8.2% in the FY 2065/66. This is the liquidity provision maintained by bank it self.

Cash and bank balance ratio of NABIL Bank was 8.51% in the FY 2061/62 and was in decreasing trend in the following years but has risen to 5.99% in the FY 2065/66.

Cash and bank balance ratio of Everest Bank was 2.04% in the FY 2061/62 and is also fluctuated in the following years and remained in the point of 6.67% in the FY 2065/66.

4.4.10 Capital Adequacy Ratio:

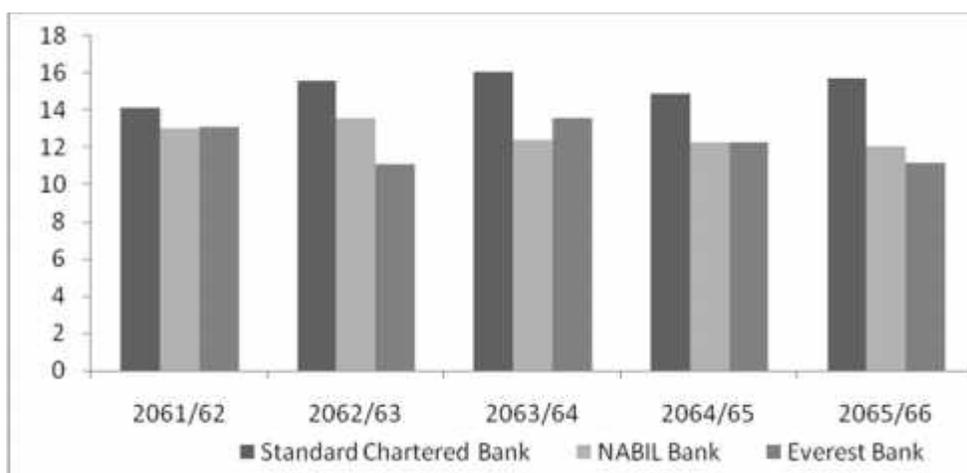
According to the directive issued by NRB, the bank capital has been categorized into two parts, core capital and supplementary capital. The total of these two capitals is considered for calculating capital adequacy ratio. The capital adequacy ratio is based on total risk-weighted assets. The sum of core 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.

Table 4.10
Capital Adequacy Ratio:

Banks	2061/62	2062/63	2063/64	2064/65	2065/66
Standard Chartered Bank	14.14	15.57	16.06	14.93	15.71
NABIL Bank	13.05	13.56	12.44	12.31	12.04
Everest Bank	13.10	11.10	13.60	12.30	11.20

Source: Annual Report of banks

Figure 4.10
Capital Adequacy



Capital adequacy is a measure of sufficiency of capital within the bank to operate. The ratio of SCBL was 14.44% in the FY 2061/62 had increased to 15% and crossed in different following years. It is more than the requirement by NRB rule. This indicates that the bank is still in pressure to use its capital fund to generate more cash flow.

Capital adequacy ratio of NABIL Bank was 13.05% in the FY 2061/62 and is remained in 12.04% in the FY 2065/66.

Capital adequacy ratio of Everest Bank was 13.10% in the FY 2061/62 and is also fluctuated in the following years and has being maintained 11% to the requirement of NRB and was 11.20% in the FY 2065/66.

From above mentioned various ratios of various commercial banks, investment deposit ratio is pleasing and is still above 50% in each year. It would be better that if the ratio would be less than 50%. Investment in Government Securities is also good but such a huge amount should not be invested GS and would be better in between 25% to 30%. Credit deposit ratio is also satisfactory but would be more commercial if the ratio is more than 45% and has been maintained in the last years. Debt service coverage ratio is appreciable and is covering level by the cash from operations. And also can be analyzed that the bank has not much debt to pay the interest and principal. Cash flow adequacy ratio is also substantial and shows that the bank has not much debt maturing in the coming five years but has above ratio borrowings in the years.

Cash reserve ratio has been maintained more than compulsory provision. This shows that the bank has excess liquidity where the cash has remained inactive and the bank is not success to use the cash to commercial areas to generate additional cash flow. Cash and bank balance also seems as more than necessary, it would be better to maintain 5% cash and bank balance to meet the day to day payments and obligations. Like this capital adequacy ratio is also more than requirement, it also indicates that the bank cash management capacity is struggling to manage it's over liquidity.

By analyzing above figures the banks has received excess deposit and also has excess capital. The situation shows that the bank still struggling for managing the cash. Cash inflow- cash management-cash outflow is getting more challenging for Standard Chartered bank. How ever it has been succeed to maintain cash management properly that we can see that CFOA per share ratio is greater than one, and has been rated as the best performing bank. Moreover the bank should use manage the cash which it has got to generate more cash flow.

Like wise, in case of NABIL Bank Ltd., it has made investment in rational manner; we can say that above 30% of investment in the relation of deposit appears as to be better. But investment in Government securities is not appreciable because it is better to be more than 25%. Credit deposit ratio is acceptable as it is in the line of sixties. Debt service coverage ratio is also getting raised and is to be better more than one; it shows that the bank is not generating cash flow from operation to pay the interest and principal. CFOA to capital expenditure ratio is better and is

more than one, this shows that the bank generating enough cash flow from operations to meet the capital expenditure. Cash flow adequacy ratio is also seems to be risen because it is less than one in most of the years; it shows the bank is generating less cash from operations than the debt maturing in the coming five years. CFOA per share ratio point out the CFOA per share to income per share; the ratio shows the bank is getting increased and seems to be better and indicates that the bank is generating cash flow from operation adequately to the relation with the total income; moreover the ratio would be better to be more than one. Cash reserve ratio should me maintained as per the rule of NRB and should at least 5% but the bank is not success to meet the criteria in the last two years and has maintained in the current year; bank seems to be well in cash management even in various critical situations. Cash and bank balance is also not satisfactory in the last two fiscal years and seems to be improving in this year. It would be better to maintain five percent of savings by depositors as cash or in the bank's account. Capital adequacy ratio is better as we see the figures the bank has maintained the requirement of eleven percent in relation the with total risk weighted assets.

Based on the figures the above description shows that NABIL Bank Ltd. seems good at managing its cash flow. The very important thing is the bank is managing its credit rationally and overall cash management seems to be improving in every aspects of cash flow management. Here we can see that the bank is facing some liquidity problems in the past few years however it has faced that challenge and had managed its cash flow successfully in those years; anyhow the bank has performed better in the following year.

Similarly, while analyzing the cash flow management of Everest Bank Ltd, the investment deposit ratio is appreciable and shows that the bank has invested some amount to generate surplus cash flow. But it would be better to make investment of thirty percent in the relation with total deposit. Investment in Government securities is also satisfactory, and is better to be more than twenty five percent in the investment of securities of Government in the relation with total deposit. Credit deposit ratio is also pleasing; the bank has maintained more than sixty percent and actually is in the range of seventies. This shows that the bank has been managing cash adequately and being success to generate excess cash flow every year. The bank seems to be well in covering its interest and principal payment by cash from operating in the last three years. Debt

service coverage ratio more than one indicates that the bank has generating excess cash flow from operations to cover its interest payments. CFOA to capital expenditure ratio indicates the capacity of bank to pay the capital expenditures by the cash from operations. Everest Bank Ltd. has maintained appreciable CFOA to capital expenditure. We can see the cash flow from operations is seventeen times more than capital expenditure in the last year. The bank has not any debt maturing in the coming five years at all in the fiscal years but we can see some debt in the middle year. This indicates that the bank has been operating by its own capital and deposits from depositors. The bank has not got overload burden of interest expenses due to the debt. CFOA per share ratio is seems to be better in the previous three years but in the last two years it is getting increased. CFOA per share ratio would be obviously better to be less than two and more than one. But in the last year it is far higher than the better range. The bank has maintained the requirement of CRR by NRB. This shows that the bank has maintained its liquidity adequately. Cash and bank balance ratio is getting better in the last years. And is better more than five percent. But in the previous five years this ratio is less than five percent; moreover the bank has managed its liquidity position. Capital adequacy ratio also has met to the requirement of NRB as it is to be necessary to maintained as at least eleven percent which the bank seems to be maintained its capital adequacy every year.

By analyzing the cash flow management of Everest Bank Ltd. we are used to be in concluding that the bank has been managing its cash flow significantly, and in the last years it is getting far better in every aspects of cash management. Any way the bank seems to be less effective in maintaining its CFOA per share ratio which directly connects to the overall cash performance of a bank.

4.5 Empirical of Study

An empirical investigation has been conducted in order to find out various aspects of cash flow management from the experience of real life situations. The major tools used for this study is an opinion questionnaire.

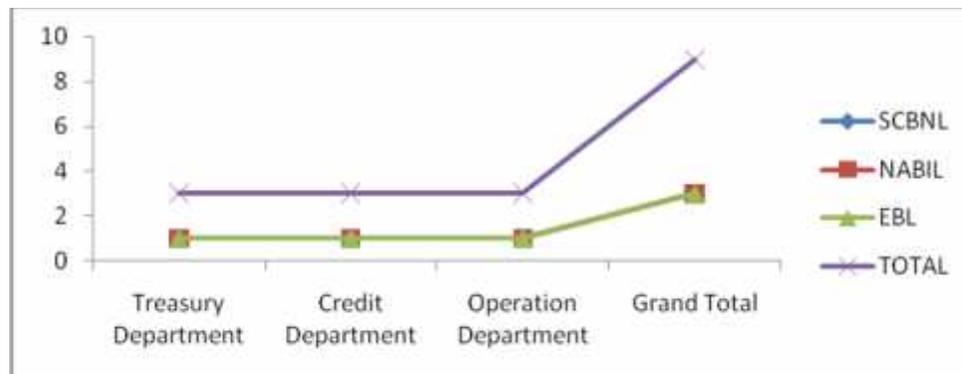
Since the as researcher has conducted a research on “Liquidity Problem in Commercial Banks” that has been raised recently in Nepalese financial market. On the relevancy of this thesis study this research has been taken within the highly performing banks in Nepal i.e. Standard Chartered Bank Nepal Ltd., Nabil Bank Ltd. and Everest bank Ltd. The questionnaire was interviewed on 2010, to the each treasury, credit and operation department officers. Detail of the research is as follows.

Table 4.11
Names of Banks, Respondents and Sample Detail of Research

Banks	Treasury Department	Credit Department	Operation Department	Grand Total
SCBNL	1	1	1	3
NABIL	1	1	1	3
EBL	1	1	1	3
TOTAL	3	3	3	9

Source: Opinion Survey

Figure 4.11
Respondents and Sample Detail of Research



By the primary data of the research conducted within the highly performing three banks, on liquidity (cash) problem in Nepalese commercial banks and financial institutions, it has been found that this problem has arisen for eight months. Most of the bankers taken as sample for the research accept that this problem has shown since before eight months but some of them argue

that of before since fifteen months. Anyway cash problem has been arisen in financial market, in various institutions from different time frame. Of course there are various reasons to arise this problem. But most of the bankers accept that the cash problem is due to the following merit reasons.

1. Due to capital flights.
2. Due to less interest rate in various services provided by the banks.
3. Due to less number of branches of commercial banks.
4. Due increase in investment opportunities.
5. Due investment and spending cash in un-productive areas by the people.
6. Due to curtailing in deposits.
7. Due to unemployment.
8. Due to political, legal and security reasons.

According to the survey conducted for the purpose of to find out the causes of liquidity problem in bank and financial institutions, the data found out, has been analyzed as follows.

4.6 Analysis of Opinion Survey on Liquidity Problem in Commercial Banks

Table 4.12
Analysis on the Views of Respondents of SCBNL, NAB IL and EBL

Present liquidity problem is by around 10 billion	33.33% Yes	66.67% No
150 billions of remittance comes annually.	78.57% Yes	21.43% No
Lower interest rates are contributing to this liquidity problem	64.29% Yes	35.71% No
Increase in interest rates can control liquidity problem.	67.86% Yes	32.14% No
Banks are not success to attract the savings of people	60% Yes	40% No
Most of the amount from remittance goes through bank accounts.	53.33% Yes	46.67% No
Banks are not providing services to the people at all, because of few	36.67% Yes	63.33% No
Capital flight is due to lower interest rates in Nepalese Banks than Indian banks	93.33% Yes	6.67% No
This problem is connected to the banks' cash flow management capacity.	36.67% Yes	63.33% No
This liquidity problem influences cash flow management of commercial banks.	73.33% Yes	26.67% No

Source: Opinion Survey

In this table we are supposed to analyze the data from primary research putting all the statements and the result together. By the above study present liquidity problem is less than 10 billion. 150 billions of remittance comes annually and most of the amount from remittance goes through bank accounts. Lower interest rates are contributing to this problem but increase only in interest rates can't control this problem. Banks are not success to attract the savings of the people but the banks have enough branches to provide services to the people and have lower interest rates. This problem is not connected to the banks' cash flow management capacity and cash flow management of Commercial banks have been influenced by present liquidity problem.

Banks have enough branches but are not success to cover up the people in banking network. People are not depositing their savings in the bank account or the banks are not success to attract the savings of people. As well as internal capital is not getting used to the banks and huge

amount of remittance is not going through formal ways or from banking way. People are attracted to Indian accounts to gain excess interest but Nepalese financial market doesn't think that this problem is due to low interest rate, how ever the result shows that increase in interest rates can control this problem. The stress full result is that according to the bankers of Nepalese bank, capital flight is due to lower interest rates in Nepalese banks than Indian but the bankers' view is this problem is not connected to the banks' cash flow management capacity, it is rather the banks didn't have had the authority to determine their interest rates; however this problem influences the cash flow management of the banks. Anyway the result accepts that increase in interest rates can obviously control this problem to some extent.

The researcher tempts to analyze the result obtained from the bankers from the banks SCBNL, NABIL and EBL which have been undertaken for this study.

Table 4.13
Analysis Based on the Views of Respondents of SCBNL

150 billions of remittance comes annually.	Yes	-
Most of the amount from remittance goes through bank accounts.	Yes	-
Banks are not providing services to the people at all, because of few branches	-	No
Banks are not success to attract the savings of people.	Yes	-
This problem is connected to the banks' cash flow management capacity.	-	No
This liquidity problem influences cash flow management of commercial banks.	Yes	-

Source: Opinion Survey

Present liquidity problem is by around 10 billion Capital flight is due to lower interest rates in Nepalese Banks than Indian Lower interest rates are contributing to this liquidity problem Increase in interest rates can control liquidity problem.

In the above table we can analyze the views of bankers of Standard Chartered Bank Ltd. The result shows that present liquidity problem is by less than 10 billion. Capital flight is due to less interest rate in Nepalese banks than Indian banks. Lower interest rates are contributing to this problem and increase in interest rates can control this problem. 150 billions of remittance comes

annually and most of the amount from remittance goes through banks accounts or formal ways. Banks have enough branches to provided services to the people but are not success to attract the savings of the people.

Present liquidity problem is not connected to the banks' cash flow management capacity but the problem influences cash flow management of the banks.

Analysis of the result obtained from the bankers of SCBNL. We can conclude that Nepalese banks are not success to attract the savings of the people, however even by increasing the interest rates they should attract the people for banking with them. This liquidity problem is by less than 10 billion and could be controlled if the remittance goes through all the banks equally all over the country.

Table 4.14
Analysis Based on the Views of Respondents of NAB IL

Present liquidity problem is by around 10 billion	-	No
Capital flight is due to lower interest rates in Nepalese Banks than Indian	Yes	-
Lower interest rates are contributing to this liquidity problem	Yes	-
Increase in interest rates can control liquidity problem.	Yes	-
150 billions of remittance comes annually.	Yes	-

Source: Opinion Survey

This table indicates the views of bankers of NABIL Bank Ltd. According to the table liquidity problem is by less than 10 billion. Capital flight is due to lower interest rates in Nepalese banks than Indian banks. Lower interest rates are contributing to this problem and increase in interest rates can control the problem. 150 billions of remittance comes annually and most of the amount from remittance goes through bank accounts. Banks have enough branches to provide services to the people and the banks are success to attract savings of the people. This problem is not connected to the banks' cash flow management capacity but the problem influences cash flow management of commercial banks.

By analyzing the above result, increase in interest rates can control liquidity problem. This

liquidity problem is by less than 10 billion and could be controlled if the remittance goes through all the banks equally all over the country.

Table 4.15
Analysis Based on the views of Respondents of EBL.

Present liquidity problem is by around 10 billion	Yes	-
Capital flight is due to lower interest rates in Nepalese Banks than Indian	Yes	-
Lower interest rates are contributing to this liquidity problem	Yes	-
Increase in interest rates can control liquidity problem.	Yes	-
150 billions of remittance comes annually.	Yes	-
Branch is not success to attract the saving of people	Yes	-

Source: Opinion Survey

This table represents the views of Everest Bank Ltd. Here we can see that, present liquidity problem is by around 10 billion and the capital flight is due to lower interest rates of Nepalese commercial banks than Indian banks. Lower interest rates are contributing to this problem and increase in interest of course can control the present liquidity problem. 150 billions of remittance comes annually and most of the amount doesn't go through the bank accounts. Banks have enough branches but the banks are not success to attract the savings of the people. Banks' cash flow management capacity is directly connected to this problem and this problem influences cash flow management of the banks.

By the above study what we can analyze is banks are facing high liquidity problem capital flight is increasing and is due to less interest rates in Nepalese banks than Indian banks, lower interest rates are contributing to this problem and increase in interest rates definitely can control this problem. Remittance should be equally distributed by the banks all over the country by banking way or formal way. This liquidity problem is connected to the capacity of banks of cash flow management capacity.

By the above analysis we are use to be concluding that present liquidity problem is due capital

flight, rising of interest rates can control this problem. Use of internal capital through banking way and receiving and distribution of remittance through formal way can provide excess Liquidity to cope with such kinds of problems.

4.7 The major findings are:

1. According to Standard Chartered Bank Ltd. Present liquidity problem is less than by around 10 billion. Banks have lower interest rates and are not success to attract the savings of the people or depositors, so present liquidity problem influences cash flow management of the banks.
2. According to NABIL Bank Ltd. Present liquidity problem is by around less than 10 billion. Banks have lower interest rates but banks are success to attract the savings of the people anyway present liquidity problem influences cash flow management of the banks.
3. According to Everest Bank Ltd. Present liquidity problem is by around 10 billion. Banks have lower interest rates and the banks are not success to attract the remittance and savings of the people. This problem is directly connected to the cash flow management capacity and also influences cash flow management of the banks.

Findings of the Study from Primary Data

From the stand point of overall liquidity condition and practices

1. Present liquidity problem is by less than 10 billion and has been arising gradually before since 12 months. Some of the financial institutions are facing shortage of cash and some of them have excess liquidity.
2. The major reason of the problem is capital flight. Particularly capital flight has increased because the depositors are attracted to the Indian banks which are providing more interest in deposit than Nepalese financial institution.
3. Lower interest rates are contributing to the present liquidity problem. Obviously lower interest rates reflect the savings of depositors and the depositors are getting surplus gain from Indian bank accounts.
4. Increase in interest rates can control this problem. It is the fact that depositors will be attracting to those banks who gives more interest. If the rates will be increase in Nepalese

banks they will definitely deposit their savings in Nepalese banks unless will deposit in the Indian banks.

5. Banks are not success to attract the remittance and savings of the people. Huge amount of remittance comes through informal way or non banking way and the people are not depositing the amount in the banks. If only the remittance goes through banking way equally all over the country it can of course control liquidity problem in the long term.
6. This problem influences the cash flow management of commercial banks. Banking is itself an industry of money business so every kinds of liquidity problem influences the banks' cash flow management and directly affects in the profitability, credibility, reputation and performance of the bank and also increases the cost banks.
7. EBL has better per share income in the relation with cash from operation, SCBNL have fluctuated and NABIL has lower the per share income in the relation with cash from operation. Per share income in the relation with cash from operation should be generally be over one and below two in the relation with cash from operations.
8. All the banks have better cash reserve in NRB account. As it is necessary to maintain five percent of cash in the NRB account in the relation with total deposit accepted.
9. Cash and bank balance is also maintained better by all the banks. In the relation with total deposit, to be highly liquid, banks should maintain cash and bank balance generally over five percent.
10. Currently according to the rules of NRB, it is necessary to maintain eleven percent of capital adequacy by the banks and all the banks have maintained the percent.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the last chapter of the study. The analysis and explanation in the previous chapters have been summarized and from the overall study a conclusion has been made. This chapter also consists of recommendations or suggestive measures of improvement in liquidity position and cash flow management of commercial banks. The last part of this chapter includes future avenues, which would help other researcher to make further study in the topic.

5.1 Summary

Commercial banks obtain cash/funds from several sources. Perhaps the most visible sources are checking deposits and savings accounts of various forms. However, these institutions also raise funds from the issuance of various types of non-deposit securities. In addition, commercial banks issue equity capital of various forms both to sustain operations and to satisfy the regulators. The relative magnitude of each income sources like deposit, borrowings foreign investment, other liabilities, total liabilities, total equity which looks at all sources of funds for the commercial banking industry as a whole.

Banks attract funds/cash through the administration of various depository accounts that, combined, represent the majority of their funding base. These are two main types of depository accounts; transaction accounts and no transaction accounts.

In addition to depository accounts, banks issue a variety of debt obligations to attract cash. These securities can be used to raise large amounts of cash quickly and to provide cash of a particular desired maturity. At times, it is cheaper to raise funds in this way than through deposit taking. Because these instruments escape tax for deposit insurance and come with no expectation of services to be provided by the bank.

Bank has to won equity capital supporting bank activity. A bank will attract equity capital through the issuance of both common and preferred stock. In addition, the banking industry has a

large amount of retained earnings, which over time can increase the bank capital account. In other side, losses over time can reduce the capital account.

Commercial banks seek to deploy all of the funds they raise in a manner that generates income above and beyond the expenses incurred by the institution to obtain the cash flows. In this regard, the banks are actually no different from any other profit-seeking firms. What differs a bank is the manner in which it raises funds and the ways in which it deploys them. There are several categories of assets in which a commercial bank deploys its cash and cash equivalents, deposits, investment securities, loans and physical capital.

Banks cannot deploy all of their cash. Because there is always a demand for ongoing transactions that require cash and because of regulatory concern over liquidity, banks maintain some of their resources in highly liquid form. Accordingly, banks maintain vault cash for day-to-day contingencies, and they also maintain deposits in a clearing account at NRB. Both of these types of balances pay no interest. However, bank regulators require that a certain amount is reefered to as required reserves.

In light of our earlier observation that a bank raises funds in part by issuing securities, it may seem curious that a bank also invests in securities. The puzzle becomes more curious when one observes the kinds of securities predominately held in bank portfolios.

The major category of investments for many commercial banks has been loans. This makes economic sense. It is difficult for any institution to make profits consistently by issuing generic liabilities, such as deposits and other debt securities, and then turning around and investing the proceeds in other generic securities, such as commercial paper, notes or government securities.

One final category of assets that a commercial bank typically holds in real property is, such as buildings, furniture, equipments, computers and the like. These assets are usually not very liquid and constitute a small part of a bank's asset portfolio.

A bank is an institution that accepts deposits from individuals or firms and then invests the proceeds either in investments or in Government securities or loans it originates for a variety of

purposes. In fact, this process has the ability to affect the quantities of both credit and money variations in checkable deposits. That have been defined and analyzed previously in this thesis as cash flow management of commercial banks.

The term liquidity includes cash, bank balance, money at call or short notice and investments. Thus fund management is concerned with planning and managing of the liquid assets of the bank. So liquidity refers to the ability to meet immediately maturing liabilities. In the context of banking, liquidity means the capacity of paying out Cheque, loans, demand draft on demand. Liquidity is maintained for transaction purpose, speculative purpose, precautionary purpose, and statutory purpose. Banks use to keep liquid assets in the forms of cash and bank balance, money at call and investment in and readily marketable securities. Here the researcher has conducted a survey on the subject of liquidity problem which, Nepalese commercial banks and financial institution have been facing. So the specific focus of this thesis was to study and analyze the cash flow management performance of highly performing commercial banks and to find out causes of liquidity problem which has been arisen in Nepalese financial market.

In summery, the smooth functioning of banking business it is essential to effective management of cash and liquidity. Banking business in Nepal is steadily growing but some times appear some problems and weaknesses, so it requires accelerated growth of savings, investment, effective management of remittance and corporate sector activities to bring more dynamism in the industry and to make the banking really viable for economic development.

5.2 Conclusion

Banking industry plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals on the process of channelizing the available resources on the needed areas. It is the intermediary between the deficit and surplus of financial resources. Financial system contains two components; depository financial institutions and non-depository financial institutions. Commercial banks are the example of depository financial institutions. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and

hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

The highly performing commercial private/joint venture banks in Nepal are Standard Chartered Bank Ltd., Nabil Bank Ltd., Everest Bank Ltd. Cash flow management of these banks are appreciable and satisfactory but it could found some manipulations in the financial reports. Any way in-flow and out-flow of cash and the management of total cash is according to the rules and international trends.

We, here in the study found that the banks have managed liquidity adequately but some of the banks have not maintained liquidity properly and some of them have excess liquidity. The researcher has conducted a short research based on liquidity problem which has been raised in Nepalese financial market in resent time. Anyway the banking sector is gradually improving and getting better in Nepalese economy.

The trends of in-flows of cash of the banks are from deposits by the customer, earnings, capital and interest. Like this out-flow of cash of the banks are loan or credit, capital expenditure, interest and investments. The banks have performed differently in their way and have obtained acceptable result in the study period. Most vital matter of the banks is they have maintained liquidity adequately in the fiscal years of the study period. The economy is suffering from capital flight and less mobilization of capital, banks are trying to extend their branches, the huge amount from remittance is not going through banking way at all, investment opportunities are decreasing, security concerns are still as it is, economic activities including export and import are getting decreased and inflation is rising every day. Even in these circumstances banks are still getting used to the cash flow management well and seem success to operate and generate excess cash flow properly.

5.3 Recommendations

On the basis of overall analysis and findings of the study we have made the following recommendation for the further improvement and/or development of banking business and overall industry in terms of cash flow management and liquidity management.

A. Regarding Banking Industry

Banks which have greater and richer cash flow statements have lower per share income in the relation with cash from operations. This indicates that those banks are not getting better used with the cash they receive and are generating lower income in the relation with the cash they used to get from operations. What we analyze by this trend is, banks are curtailing the deposit and some of them have excess savings from the depositors but some of them are not getting enough savings. The researcher, according to this study tends to conclude that; present liquidity problem is also the cause of this curtailing trend on savings. In this regard the researcher would like to recommends as follows:

1. Curtailing in deposit could be seen among the banks, so such kinds of curtailing should be reduced and healthy competition in the financial market should be promoted. Branches and deposit should be proportionate or balanced.
2. Interest rates should be sufficient to maintain liquidity and meet inflation rate as well as to reduce inflation and capital flight.
3. Amount from remittance should be legalized to be gone through by bank accounts and informal ways shouldn't be encouraged. Every bank should get opportunity to provide remittance services all over the country equally.
4. Branches of the Banks should be extended all over the country so that most of the people could be covered in banking network. This, of course increases income and cash flow of the bank and reduces liquidity problem.
5. Cash flow related information like cash flow adequacy, cash flow from operation per share, cash flow from operation to capital expenditure and debt service coverage information should also be published in financial report or in annual report.
6. There are many fluctuations of financial and cash flow figures among the banks, to maintain equality in terms of cash flow management and to enhance the capacity of the banks for

superior management it should be better to establish research and development entity to facilitate the banks.

B. Regarding Banking Institutions

Standard Chartered Bank Ltd.

1. SCBNL has lower level of flow of credit so it should increase flow of credit in each year which of course generates surplus cash flow and reduce excess liquidity pressure.
2. The bank has the trend of maintaining more capital adequacy, more cash and bank balance and more investment in Government securities, the bank should not keep the cash inactive and should be invested which obviously generates more income.
3. The bank should extend its branches, so that it will be success to grant loan and credit and will be able to utilize excess liquidity and will generate more income.
4. The bank has lower credit flow and more liquidity but has a level of debt in every year, so the bank should stop to accept or collect debt, which of course reduces interest to pay.
5. The bank has different figures of same fiscal year in different annual report. Cash flow statement of 2062/63 is different in 2063/64 annual report and 2064/65 is different in 2065/66 annual report. Such manipulated financial statements should not be published.
6. The bank has greater interest paying capacity and better annual earnings so it should increase its interest rates to control the liquidity crisis. The bankers of SCBNL have given the view that lower interest rates are contributing present liquidity problem and the influences cash flow management of commercial banks.

NABIL Bank Ltd.

1. NABIL has greater level of debt and interest payment. For NABIL it is necessary to increase its cash in-flow as well as its annual income, in the relation with its interest burden and should reduce its debt.
2. The bank has lower cash flow from operation in the relation with annual income. The bank should increase its cash from operations at least double of the annual profit.
3. The bank has lower level of liquidity position. It is necessary to be highly liquid for the bank.
4. The bank should increase its paid up capital to overcome its cash requirements.

5. The bank has different figures of same fiscal year in different annual report. Cash flow statement of 2061/62 is different in 2062/63 annual report and 2063/64 is different in 2065/66 annual report. Such manipulated financial statements should not be published.
6. To improve the liquidity position the bank should increase its interest rates and remittances service widely. The bankers of NABIL have given the view that present liquidity problem influences cash flow management of commercial banks and capital flight is due to lower interest rates.

Everest Bank Ltd.

1. EBL should increase its annual income in the relation with its cash from operations.
2. The banks seems to be more effective in flowing the credit so the bank should increase its paid up capital and deploy the cash to generate more cash in-flow.
3. The bank should extend its branches so that it could increase its annual income and could also increase total deposit by the depositors.
4. The bank seems to be less effective to attract the savings of the depositors so the bank should attract savings of the depositors. So that the bank can deploy the cash to generate more cash in-flow.
5. The bank has different figures of same fiscal year in different annual report. Cash flow statement of 2061/62 is different in 2062/63 annual report, 2063/64 is different in 2064/65 annual report and 2063/64 is different in 2065/66 annual report. Such manipulated financial statements should not be published.
6. EBL has better interest payment capacity and better annual earnings in the relation with cash from operation so the bank should increase interest rates to cope with liquidity problem. The bankers of EBL have given the view that the bank is not success to attract the savings of the people and increase in interest rates can reduce liquidity problem or increases cash; this problem has been influencing the cash flow management of the bank.

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