CHAPTER – ONE

INTRODUCTION

1.1 Background of the Study

Financial institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and deployment of resources. Development of trade, commerce and industry are the prime requisite for the attainment of the economic political and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions. “There is always lack of finance in underdeveloped economy because natural resources are either underutilized or utilized in non-productive sectors. Likewise, underdeveloped countries are not efficient in mobilization of financial resources.

So in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Hoarding could be one of the reasons for this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoardings by mobilizing the resources and removing the habit of hoarding. They pursue rapid economic growth, developing the banking habit among the people, collecting the small-scattered resources in one bulk and utilizing them in further productive purposes and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against future income, which may improve the economic well being of the borrower.

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

The growth of banking in Nepal is not so long in comparison with other developed or developing countries. Nepal had to wait for a long time to come to the present banking system. The development of any country cannot be imagined without economic activities. The development of the banking system is one of the grounds for economic development. So we should take a bank as strong means for the economic development. The development of a bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without bank whether it is inside the nation or in foreign country whether it is individual development or business and whether it is the people or the government. So to solve the problems relating to economic development, development of banking system is necessary.

Like goldsmith, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of the prime minister Randodipp Singh (B.S. 1933) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but gave loans to employees and public against the bullion.

Banking in modern sense started with the inception of Nepal bank limited (NBL) on B.S. 1994-07-30. NBL had a Herculean responsibility of attracting people toward banking sector from predominant money-lenders net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branch at urban centers.

Government however had onus of providing banking services to the nook and corner of the country and also managing financial system in a proper way. Thus Nepal Rastra Bank (NRB) was set up on B.S. 2013-01-14 as a central bank under Nepal Rastra Bank Act 2012 B.S. Since then it has been functioning as the government's bank and has contributed to the growth of financial sector.

Integrated and speedy development of the country is possible only when competitive banking service reaches nook and corner of the country. Keeping this in mind, government set up Rastriya Banijiya Bank (RBB) in B.S 2022-10-10 as fully government owned commercial bank.

The commercial bank had to carry out the functions of all the type of financial institution such as to improve people's economic welfare and facility to provide loan to offer banking services to the people and the country. Hence, industrial development center (IDC) was set up in 2013 for industrial development in 2016. IDC was converted to Nepal Industrial development Corporation (NIDC). Similarly, agricultural development Bank (ADB) was established in B.S. 2024 – 10 – 07 to provide finance for agricultural products so that agricultural productivity could be enhance by introducing modern agricultural techniques. Moreover, security exchange center was established in 1976 to enhance capital markets activities. Securities exchange center was renamed Nepal stock exchange (NEPSE) in 1933.

With the establishment of RBB and ADB, banking services spread to both urban and rural areas to help the common people to reduce their burden of paying higher rate of interest to moneylenders and absolved them from kowtowing before moneylenders. It is natural expectations of customers keep on increasing. Once they got banking services, they were expecting improvement and efficiency. However, excess political and bureaucratic interference and absence of modern managerial concept in these institutions was hurdle in this regard. Banking services to the satisfaction of customers was a far cry. The inception of Nepal Arab Bank Limited (Renamed as Nabil Bank Limited) in B.S. 2041-03-29 as a first joint venture bank proved to be milestone in the history of banking which gave a new ray of hope to the sluggish financial sectors.

After that a number of joint venture commercial banks is established. These are Standard Chartered Bank Ltd, SBI Bank Ltd, Nepal Bangladesh Bank Ltd, Nepal Credit and Commercial Bank Ltd, Nepal Industrial and Commercial Bank Ltd.

Machhapuchchre Bank Ltd, Laxmi Bank Ltd, etc. These banks are playing a great role for the economic development of the country directly or indirectly.

These joint venture banks launched its operation with marketing concept i.e. customer is the king in the market they started knocking the doors of the customer breaking then the trend of knocking the door of a bank by a customer. A customer is the most important visitor on our premises. He does not depend on us. We are dependent on him. He is not an interruption on our business. He is purpose of it. He is not an outsider on our business. He is a part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so.

Working capital is a controlling nerve of center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary for day-to- day operations, it plays the key role in the success and failure of the organization not only in the short run, in the long run also. In the concern of the management of working capital there have been made number of studies from different management experts and students in various enterprises.

The management of working capital plays a vital role for exiting of any public enterprises successfully while studies it. It is the centers on the routine day-to-day administration of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons. Firstly, public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidly base. Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency. Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds of finance current assets.

1.2 Profile of Everest Bank Limited

Everest Bank Limited was registered on November 17, 1992 and come into operation on October 18, 1994 with an objective of extending professionalized and efficient banking services to various segments of the society. The bank had an initial paid up capital of Rs. 3 Core. Today the bank has grown to become one of the leading banks in Nepal.

Panjab National Bank (PNB) joined hands with EBL as a Joint Venture in 1997 and turned it around to a highly profitable bank. There has been no looking back since then. PNB provides top management support under the Technical Service Agreement. PNB joint venture partner of EBL one of the largest nationalized bank in India having 114 years of banking history, holds 20% equity.

Everest Bank has recognized the value of offerings a complete range of services and has pioneered in extending various customer friendly products such as home loan, education loan, EBL flexi loan, EBL property plus (future lease rental), Home equity loan, vehicles loan, Loan against share, loan against life insurance policy and loan for professional. The bank is providing customer friendly services through a network of 22 branches.

Everest Bank Limited was the first bank to introduce Any Branch Banking System (ABBS) in Nepal. All the branches of the bank are connected with ABBS which enables the customers to do all their transactions from any branches other than where they have their account. Everest Bank has introduced the Mobile Vehicle Banking System to see the segment deprives of proper banking facilities through Birtamod branch, which is the first of its kind.

The bank has committed to provide excellent professional services & improve its position as a leader in the field of financial related services, use latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments. The bank was bestowed with the "NICCI Excellence award "twice in 1999 and 2003 by Nepal India chamber of commerce for its spectacular performance under finance sector and the bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London

Table: 1.1

Present Share Capital of EBL

Share Capital	**Amount in NRS.**
Authorized Capital	2,00,00,00,000
Issued Capital	1,05,00,00,000
Paid up Capital	1,03,04,67,300
Proposed Bonus Share	24,91,40,190

Source: Annual Report of EBl 2066/067

Table: 1.2

Detail of Share Ownership of EBL

Subscription	**% Holding**
Promoters	50
General Public	30
Panjab National Bank	20
Total	100

Source: Annual Report of EBL 2066/67

1.3 Profile of Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited (earlier known as Nepal Grindlays Bank ltd.) came into existence in 2043(1987) as a joint venture between ANZ Grindlays and Nepal Bank Ltd. After acquiring of the Grindlays operation in the region by standard chartered in July 2001, it has become a subsidiary of Standard Chartered London, which holds 75% of shareholdings in the company with remaining 25% held by the public shareholders.

The bank has successfully completed 24 years of its operation in Nepal in 2010. The global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal.

The Bank believes- “A satisfied customer is our most valuable Award”. The Bank has been the pioneer in introducing „customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti- Money Laundering policy and applied the „Know Your Customer' procedure on all customer accounts.

Table: 1.3

Present Share Capital of SCBNL

Share Capital	**Amount in NRS.**
Authorized Capital	2,00,00,00,000
Issued Capital	1,39,84,83,600
Paid up Capital	1,39,84,83,600
Proposed Bonus Share	20,97,72,540

Source: Annual Report of SCBL 2066/067

Table: 1.4

Detail of Share Ownership SCBNL

Subscription	**% Holding**
Standard chartered Gridley's bank Australia	50
Standard Chartered Gridley's bank UK	25
General Public	25
Total	100

Source: Annual Report of SCBL 2066/067

1.4 Statement of the Problem

A sound management of working capital with wide spread of branches throughout the country, investment of assets, capital and liabilities to fulfill the commerce trade and business. Industry and agriculture needs of the country are of crucial importance for Nepal. It can be visualized that the banking development in Nepal is got in its impact stage. So we have to go still a long way to make the country rich with a sound and modern banking system.

In the light of the very facts commercial banks are the backbone of the country. It is highly useful to make the present study on Everest Bank Limited and Standard Chartered Bank Limited.

Working capital refers to the resources of the firm that are used to conduct operations day to day work that makes the business successful. Without cash, bills cannot be paid, without receivables; the firm cannot allow timing difference between delivering goods or services and collecting the money to pay for them. Without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets, the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm those items that can be converted into cash within the year. Hence, working capital management is the management for the short term. It is a process of short term decision making regarding the current assets and current liabilities affecting the long term operation of an enterprise. It is a process of planning and controlling the level of mix of current assets of the firm as well as financing these assets. It concludes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall value of a firm.

Working capital management can be evaluated by how to manage the assets and capital fund, which is the best sector to invest and how to run the banking sector. The present study will try to analyze and examine the liquidity, profitability, debt management with financial performance in these banks. Without proper working capital management of any business cannot run in right way. They cannot achieve their objectives. In this study, following issues are to be dealt for the purpose of this study:-

1. How are the sources of funds created and mobilized?
2. What is the comparative (year-wise) working capital position of Selected Bank?
3. Whether the size, liquidity, efficiency and profitability of working capital in selected banks is adequate or not?
4. Whether the banks have developed and applied short term and long-term objectives?
5. Is the composition of working capital appropriate?
6. What are the sources of financing of current assets?

1.5 Objective of the Study

The basic objectives of the present study are to highlight the working capital management and its effectiveness in Nepalese Commercial Banks especially in both selected banks. The present research will try to fulfill the following specific objectives.

1. To evaluate working capital of the sample banks and analyze their assets structure and their implications.
2. To analyze of working capital trend position of selected Bank.
3. To examine the financial position of these selected banks by different tools and techniques.
4. To shed light on creation and mobilization of fund in EBL and SCBNL.

1.6 Significance of the Study

Working capital is regarded as the life blood for any enterprise because it is needed for sustaining the enterprise in day operation. If the business cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even push into bankruptcy. So the goal of working capital management is likely to become management is to manage the firm's current's assets and current liabilities in such a way that a satisfactory level of working is maintained. “Survey indicates that the largest portion of most financial managers' time is devoted to the day to day internal operations of the firm which fall under the heading of working capital management.” Very few studies have been performed on the financial performance of EBL and SCBL but no one has studied typically on its working capital management. Different researchers have written their dissertations on working capital management, however almost all of them are related to financial sectors and does not address the real situation of service sector public enterprises like EBL and SCBL. It is thus clear that no full- fledged academic research study on working capital management in selected banks i.e. Everest Bank Limited and Standard Chartered Bank Limited have been carried out. The present study, therefore, bridges this long felt gap in the field or research. This is only a beginning and it could be further developed continued research in this field.

1.7 Limitations of the Study

Although there are several commercial banks in Nepal but the study has been confined to Everest Bank Limited and Standard chartered Bank Limited only. The main limitations of the study are as follows.

1. The study concerns the analysis of only 5 years data since 2062 to 2066.
2. The study is only concentrated in working capital management and the financial performance of the selected banks.
3. The study is mainly based on secondary data. Therefore, the accuracy of the result depends on the accuracy of the data provided by the selected banks.

4. This study has been confined to only two of the commercial banks, namely SCBNL and EBL.

5. The study follows limited tools such as ratio analysis, mean and coefficient of variation, correlation and hypothesis.

1.8 Organization of the Study

In the first part of this study includes recommendation, viva voce sheet, declaration, acknowledgement, table of contents, list of table, list of figure and abbreviations. At last bibliography & appendix are also including.

The whole study is divided into five main chapters. The first chapter presents of introduction, statement of the problems, and objective of the study, scope of the study and limitation of the study.

The second chapter presents of review of literature. Review of related material like previous thesis, browser booklets, journals, articles and report, magazines etc will be done.

The third chapter presents of research design, nature and source of data, method of data collection and method of analysis under research methodology.

In fourth chapter the collected data will be tabulated and analyzed by using various financial tools, mathematical and statistical tools under data presentation and analysis.

In last chapter includes the brief summary of whole research report and conclusions. It’s also provides some useful suggestion and recommendations to concerned parties.

CHAPTER – TWO

REVIEW OF LITEATURE

This chapter is basically concerned with review of literature relevant to the topic working capital management. The purpose of reviewing of literature is to develop some expertise in one's area, to see what new contribution has made and to receive some ideas for developing a research design. Thus, previous studies cannot be ignored as they provide the foundation of the present study. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

2.1 Conceptual Framework

Conceptual framework deals with the theoretical aspects of working capital, working capital management, working capital investment and financing policies, financing of working capital, need for working capital, determinants of working capital etc.

2.1.1 Concept of Working Capital

Every commercial bank needs various types of assets in order to carry out its function without any interruption. They are fixed and current assets. Some fixed assets have physical existences and are required to producing goods and services over long period. This type of fixed assets is called tangible fixed assets. It includes land, building, plant, machinery, furniture, and so on. But some other fixed assets cannot generate goods and services directly. However, it reflects the right of the firm. It is called intangible fixed assets. It represents patents, copyrights, trademarks, and goodwill. Both fixed assets are written off over a period of time. Current assets are those resources of the firm, which are either held in the form of case or expect to be converted into cash with in an operating cycle of the business. It includes, cash, marketable securities, account receivable, stock of raw materials, work-in-progress, and finished goods. Among these, some assets are required to meet the need of regular production and some for day-to-day expenses and short-term obligations. Current liabilities are those claims of outsiders, which are expecting to be matured with in an accounting year. It includes; creditors, bill payable and outstanding expenses.

Working capital refers to the resources of the firm that are used to conduct operations day to day work that makes the business successful. Without cash, bills cannot be paid, without receivables; the firm cannot allow timing difference between delivering goods or services and collecting the money to pay for them. Without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets, the management of working capital is one of the most important areas in determining whether a firm will be successful. The term working capital refers to the current assets of the firm those items that can be converted into cash within the year. Hence, working capital management is the management for the short term. It is a process of short term decision making regarding the current assets and current liabilities affecting the long term operation of an enterprise. It is a process of planning and controlling the level of mix of current assets of the firm as well as financing these assets. It concludes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall value of a firm.

According to Agrawal (1981:70) “working capital consists broadly at the portion of the assets of business used in, or related to ,current operational and represented at the any one time of the operating cycle by such items an account receivable, inventories of raw material, stores work in progress, finished goods bills receivable and cash. Asses of this type are relatively temporary nature, since the invested names are normally capable of being reconverted or of being change in form with in the short period of time, and the time ultimate recovery depends on the manufacturing cycle as well as sales and collection cycles”.

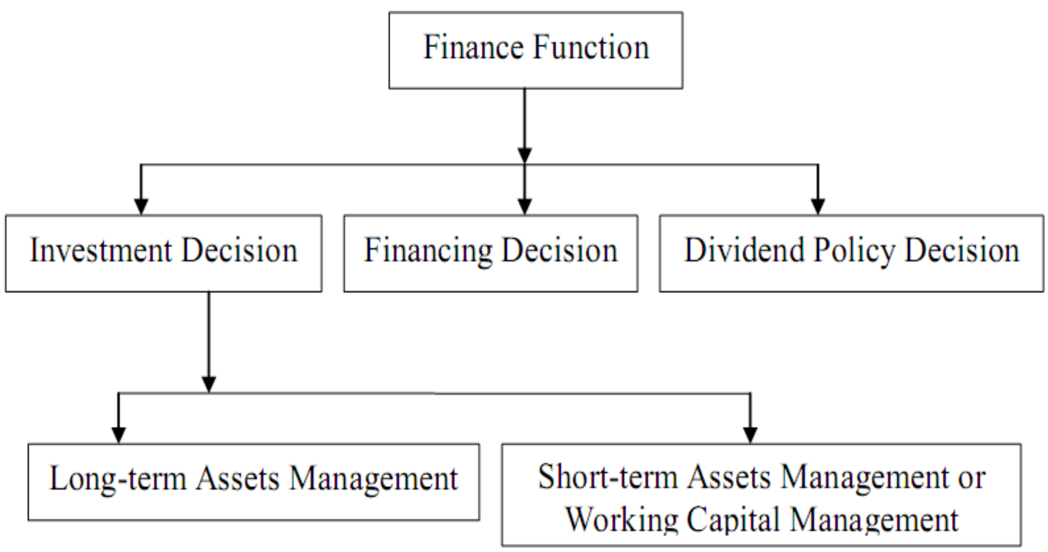
Working capital is a controlling nerve of center of every business organization because no business can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the organization. As the management of current assets and current liabilities of the business organization is necessary for day-to- day operations, it plays the key role in the success and failure of the organization not only in the short run, in the long run also. In the concern of the management of working capital there have been made number of studies from different management experts and students in various enterprises

2.1.2 Working Capital Management

Finance is the lifeblood for any organization, without which the operation of any business concern is not possible. But only the availability fund is not enough, it requires the proper management of those funds to drive a firm on the road to success. The management of the funds of a business can be described as financial management. Financial management is mainly concerned with two aspects. They are fixed assets and liabilities and current assets and liabilities. Fixed assets and liabilities are long term investment and sources of funds, current assets and liabilities means current or the short-term uses and sources of funds. Both of such funds play an important role in the financial aspects of a business concern.

Figure: 2.1

Working capital management as a financial function



In the words of Smith, the term working management is closely related with short term financing and it is concerned with collection and allocation of resources. Working Capital management is related to the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationships that exist between them. (Smith, 1974:5)

According to Pandey there are two concepts of working capital gross concept and net concept. The gross working capital, simply called as working capital refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within accounting year (or operating cycle) and include cash, short-term securities, debtors, bill receivable and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital occurs when current liabilities are in excess of current assets. He also added that net working capital concept also covers the question of judicious mix of long-term and short term funds for financing current assets. (Pandey, 1991: 796-797)

Net working Capital = Current Assets – Current Liabilities

Gross Working Capital:-It is simply called as working capital and refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, marketable securities, inventory, accounts receivable and debtors.

Net Working Capital:-This is of critical importance to a firm. Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (account payable) bills payable and outstanding expenses (Pandey; 1992:807-808).

Another way of defining working capital is that portion of firm's current assets financed with long term fund. Both liquid assets and liabilities are important in working capital management.

The goal of working capital management is to support the long-term operation and financial goals of the business. In effect, this involves recognizing the relationship between risk and return. Three elements must have included in analyzing the tradeoff between risk and return when managing working capital.

1. **Insolvency:** This condition occurs when a firm can no longer pay its bills and must default on obligations and possibility declares bankruptcy.

2. **Profitability of assets:** Different level of current assets will have varied effects on profits. A high level of inventory will require high carrying cost. At the same time, the firm will have a wide range of goods to sell and may be able to generate higher sales and profit. Each decision on the level of cash, receivables and inventory should consider the effects to different level.

3. **Cost of financing:** When interest rate is high, its costs more to carry inventory then when rates are low. Large cash balance may not earn the return that is possible if he cash is converted into operating assets. The cost of debt and the opportunity costs of alternative investments are items to consider when evaluating working capital level.

By analyzing the above concept about working capital, we concluded that, all the corporations, whether public or private, manufacturing or non-manufacturing have just adequate working capital to serve in competitive market. It is because excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment on working capital affects a firm’s profitability just as idle investment, yields nothing. In the same way, inadequate investment on working capital affects the liquidity position of the company and leads to financial embarrassment and failure of the company.

2.1.3 Types of Working Capital

Working capital can be classified into two parts; permanent working capital and variable working capital. These working capitals are necessary for any organization for continuous production and sales without any interruption.

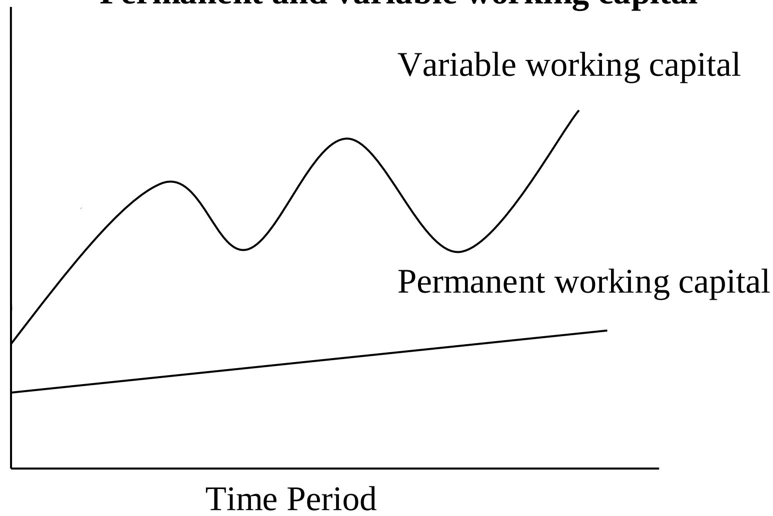
1. **Permanent (Fixed) working capital:** Permanent working capital refers to that level of current assets, which is required on continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. Therefore, a manufacturing concern holds certain minimum amount of working capital ensure uninterrupted production and sales functions. This portion of working capital is directly related to the firm's expansion of operation capacity.

2. **Variable working capital:** variable working capital represents that portion of working capital, which required over permanent working capital. Therefore, this portion of working capital depends up on the nature of firm’s production, relation between labor and management. The firms which are seasonal in character in their business need a large amount of working capital for holding inventory during the peak period. But as soon as the peak period is over, the working capital becomes idle. Therefore, firm having seasonality in their business find it convenient to meet their working capital requirement by restoring to short term sources such as

- Bank loan
- Public deposit
- Trade credit and other payables
- Provision for taxation
- Depreciation provision etc.

Figure: 2.2

Permanent and variable working capital



2.1.4 Determinants of Working Capital

All the firms, whether public or private, manufacturing or non-manufacturing, must have adequate working capital to survive in competitive market. It should have neither too excess nor too inadequate working capital. But, there are no sets of rules or formulae to determine the working capital requirement of the firm. It is because of a large number of factors that influence the working capital requirement of the firm. A number of factors affect different firm in different ways. Internal policies and changes in environment also affect the working capital. Generally, the following factors affect the working capital requirement of the firm (Pandey; 1999: 816).

1. **Nature & Size of the Business:** working capital requirements of a firm are basically influenced by the nature of its business. Greater the size of the business, greater will be the need of working capital similarly, the trading business needs more working capital then that of service type business.

2. **Manufacturing Cycle:** Working capital requirement of an enterprise is also influenced by the manufacturing or production cycle. It refers to the time involved to make the finished goods from the raw materials. During the process of manufacturing cycle, the larger will be working capital requirement and vice-versa.

3. **Production Policy:** Working capital requirements is also determined by its production policy. The firm producing seasonal goods may locate it sales in different season. This type of fluctuating production policy affects the working capital policy of the firm.

4. **Availability of Credit:** Availability of credit facility is another factor that affects the working capital requirement. If the firm can get credit facility easily on favorable conditions, it requires less working capital to run the firm smoothly otherwise more working capital is required to operate the firm smoothly.

5. **Profit Margin:** The level of profit margin differs from firm to firm. It depends upon the nature and quality of product, marketing management and monopoly power in the market. If the firm deals with the high quality product, has a sound marketing management and has enjoyed monopoly power in the market then it earns quite high profit and vice-versa. Profit is sources of working capital pool by generating more internal funds.

6. **Growth and expansion:** A growing firm needs more working capital than those static ones. However, it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital needs.

7. **Credit Policy:** Working capital requirement depends on terms of sales. Different terms may be followed to different customers according to their credit worthiness. If the firm follows the liberal credit policy then it requires more working capital. Conversely, if firm follows the stringent credit policy, it requires less working capital.

8. **Level of Tax**: The level of taxes also influences working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulations. But the firm's profit is not constant or can't be predetermined. Tax liability in a sense of short term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspects

of working capital planning. If tax liability increases, it needs to increase the working capital and vice versa.

9. **Price Level Change**: Generally, a firm is required to maintain the higher amount of working capital if the price level rises, because the same level of current assets needs more funds due to the increasing price. In conclusion, the implications of changing price level on working capital position will vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

2.1.5 Need for Working Capital

Working capital is the lifeblood and controlling nerve center of every business organization because without the proper control upon it, no business organization can run smoothly. Thus, it plays a crucial role in the success and failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. We know that firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among the other things. For constant operation of business, every firm needs to hold the working capital components, cash, receivable, inventory etc. therefore, every firm needs working capital to meet the following motives (Pandey; 1999: 809).

1. **Transaction Motive:** Transaction motive require a firm to hold cash and inventories to facilities smooth production and sales operations in regular. Thus, the firm needs working capital to meet the transaction motive.

2. **Precautionary Motive:** Precautionary motive is the need to hold cash and inventories to guard against the risk of the unpredictable change in demand and supply forces and other factors such as strike, failure of important customers, unexpected slowdown in collection of account receivable,

cancellation of some other order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet contingencies in future**.**

3. **Speculative Motive**: It refers to the desire of a firm to take advantages of the opportunities like opportunities of profit making investment, an opportunity of purchasing raw material at a reduced price on payment of immediate cash, to speculate on interest rate, and to make purchase at favorable price etc. Thus, the firm needs the working capital to meet the speculative motive (Van Horne & Wachowicz; 1999: 220).

2.1.6 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. When the growing firm wants to generate sustained normally require fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of the firm. So the most important function of finance manager is to determine the level of working capital and to decide how it is to be financed. Financing of any assets is concerned with two major factors-cost and risk. Therefore, the financial manager must determine an appropriate financing mix or decide how current liabilities should be used to finance current assets. However, a number of financing mixes area available to the financial manager. He can present generally three kinds of financing.

1. **Long Term Financing:** Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long term debts from financial institution are the major sources of long term financing. Even it includes retained earnings and long term loan from Nepal Industrial Development Corporation and long term other commercial banks.

2. **Short Term Financing**: Firm must arrange short term credit in advance. The sources of short term financing of working capital are trade credit and bank borrowing.

a. **Trade Credit:** It refers to the credit that a customer gets from supplies of goods in the normal course of business. The buying firms does not have to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit.
b. **Bank Credit**: Bank credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimated by the borrowers and banks are approached with the necessary supporting data. Bank determines the maximum credit based on the margin requirements of the security. Loan arrangement, overdraft arrangement and commercial paper are the types of loan provided by commercial bank.
c. **Spontaneous Financing**: Spontaneous financing arises from the normal operation of the firms. The two major sources of such financing are trade credit (i.e., credit and bills payable) and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short term or long term sources. Thus, the financial manger concentrates his power in short term versus long term financing. Hence, the financing of working capital depends upon the working capital policy, which is perfectly dominated by the management attitude towards the risk return (Pandey; 1999: 827).

2.1.7 Working Capital Policy

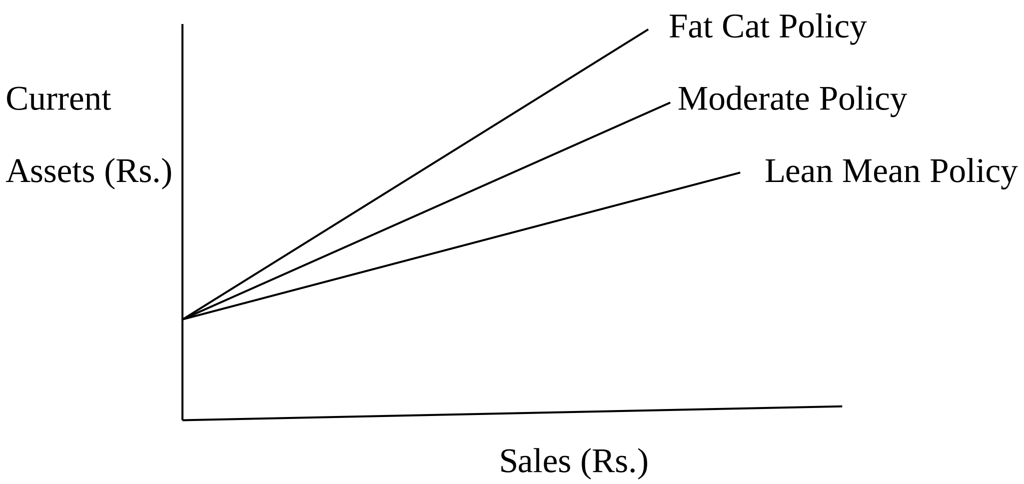
Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. So first of all, in working capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions is financing current assets. Any firm has working capital policies regarding to the level of each category of current assets and their financing are discussed in the ensuing part of this section**.**

1. **Current Assets Investment Policy:** Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies.

a. **Fat Cat Policy:** This is also known as relaxed current assets investment policy. It is the policy under which relatively large amounts of cash and marketable securities and inventories are carried, and sales are stimulated by a liberal credit policy which results in a high level of receivables. This also creates the longer receivable collection period. Thus this policy provides the lowest expected return in investment with lower risk (Weston & Brigham; 1996: 344).
b. **Lean and Mean Policy:** This is also known as restricted current assets investment policy. This is the policy under which holdings of cash and marketable securities, inventories and receivables are minimized (Weston & Brigham; 1996:344).This policy tends to reduce the policy conversion and receivable conversion cycle. Under this policy firm follows a tight credit policy and bears the risk of losing sales.
c. **Moderate Policy:** It is the policy that is between the relaxed and restrictive policies. In Moderate policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and returns are moderate in this policy.

Figure: 2.3

Alternative Current Assets Policies



2. **Current Assets Financing Policy:** Under this policy, permanent and temporary current assets are financed with the funds raised from different sources but as cost and risk affect the financing of any assets, it should clearly outline the source of financing.

a. **Aggressive Policy**: In aggressive Policy, all the fixed assets of a firm are financed with long-term capital, but some of the firm's permanent current assets are financed with short-term, non-spontaneous sources of fund.In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short- term financing.
b. **Conservative Policy:** In conservative policy, the firm uses long term financing to finance not only fixed assets and permanent current assets, but also part of temporary current assets i.e., with short term financing. It means that the firm depends upon the long term sources for financing needs. This policy leads to high level of current assets, with long conversion cycle, low level of current liabilities higher interest cost.
c. **Maturity Matching Policy:** It is self-liquidity approach. In this policy, the firm finances the permanent current assets with long term financing and temporary with short term financing. It means that the firm matches the maturity of financing source with an assets useful life. It lies in between the

aggressive and conservative policies.It leads to neither high nor low level of current assets and current liabilities.It lies in between a low profitability.

2.2 Concept of Commercial Bank

A bank is an institution, which deals in money, receiving it on deposit from customers, honoring customer's drawing against such deposit on demand, collecting for repayment.

Simply, commercial bank means the bank, which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions. According to Black's Law Dictionary "Commercial bank means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time deposit boxes, and to provide similar services."

According to commercial bank Act 2031 B.S.; "Commercial bank means a bank which operates currency exchange transactions, accepts deposits, provides loan: performs, dealing, relating to commerce except are banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives".

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development.

Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing and overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation maturity transformation, facilitating payments, flows, credit allocation and maintaining financial discipline among borrowers.

A bank is a business organization that receives and holds deposits of funds from others make loan or extents credits and transfer funds by written order of deposits. (The Encyclopedia America; 1984)

Commercial bank is a financial institution which transfers monetary sources to users. In the process of such intermediation, commercial bank deploys funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance.

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people.”(Grywinski, Ronald, 1991:87)

These banks are established to improve people's economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. It provides internal resources for developing countries economy. It collects diversified capital from different parts of country through its own branches.

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services. (American Institute of Banking, 1972)

Hence, we can conclude from the above that the commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are established for the mobilization of the saved fund, central bank makes certain rules so that the public or the customer of the bank may not under go on loss of their hardly collected money by the disinvestment procedure of the bank.

2.3 Activities of Commercial Bank

Commercial Banks are that financial institutions which deals in accepting deposits of persons and institutions and in giving loans against securities. They provide working capital, which needs of trade, industry and even to agricultural sectors. Moreover, Commercial Banks also provide technical and administrative assistance to industries, trade and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sectors of economy.

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1. Accepting various types of deposits from people, institution or company.
2. Providing loan to various productive sectors to earn a lot of profit from it.
3. Acting as agency functions.
4. Providing general utility functions.
5. Overseas trending services.
6. Providing information and other services about financial sector.

2.4 Commercial Bank in Nepal

Although bank can be categorized into different types on the basis of the function, objective etc, the word "Bank" will always be synonymous with the commercial bank and its functions. Basically, the functions of commercial bank all over the world are the same. Basic functions are various types of deposit facilities namely, current, saving and fixed, safety of public money, remittance of money, guarantee, locker facility loans serving as agent of client, foreign exchange, travel cheque etc. the commercial banks of Nepal also so all these functions.

Mainstream function of commercial banks remains the mobilization of otherwise rigid and scattered saving of public for providing credit to needy firms, industries or people to get productive use. All other function can be said as ancillary function.

Commercial bank is a profit oriented financial service institution. Certain rate interest is given to the depositors. Therefore the bank charges certain rate or interest in the loan facility.

From the view point of function, the Commercial Bank Act 2031 B.S. defines it as a "A commercial bank is that bank which exchange money, accepts deposits, grants loans and performs banking functions."

Basic sources funds for commercial banks are capital (Funds from shareholders), servers (retained profit) and various types of deposits. Basic uses of funds are loans, advance and investments.

Obviously now in Nepal, banks and financial institutions have started to grow considerably and getting concentrating on both off-balance sheet and on-balance sheet activities. The history of modern banking starts after the establishment of Nepal bank limited in 1994 B.S. up to 2067 Chaitra all together 31 commercial banks are in operation in Nepal and some other commercial banks are coming in to operation in near future besides these, 38 development banks including regional development banks, 73 finance companies, 11 micro finance institutions, 17 NRB licensed cooperatives (undertaking limited banking transactions) and 47 NRB licensed non government organizations undertaking micro finance transactions) are actively participating in the financial markets of Nepal.

2.5 Review of Major Empirical Studies

There are various studies concerned with Working Capital Management documented in internal arena. The books written by different author entitled to review as under;

2.5.1 Conceptual Review

Working capital management is concerned with the problem that arises in attempting to manage the current assets, the current liabilities and interrelationship that exist between them. The term current assets refers to those assets which in the ordinary course of business can be or will be turned into cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, accounts receivable and inventory. Current liabilities are those liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business within a year, out of the current assets or earning of the concern. The basic current liabilities are account payable, bills payable, bank overdraft and outstanding expenses. The goal of working capital management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. This is so because if the firm cannot maintain to satisfactory level of working capital, it is likely to become insolvent and may be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must manage efficiently in order to maintain the liquidity of the firm while not keeping a too high level of any one of them. Each of the short term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. The interaction between current assets and current liabilities is therefore, the main theme of the theory of working capital management.

Agrawal (1998) "Working capital management is the effective life blood of any business. Hence the management of working capital plays vital role for exiting of any public enterprises successfully while studies it.It is the centers on the routine day-to-day administration of current assets and current liabilities. Therefore working capital management in public enterprises is very important mainly for four reasons .Firstly, public enterprises must need to determine the adequacy of investment in current assets otherwise itcould seriously erodetheir liquidly base.

Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency.Thirdly they are required to ascertain the turnover of current assets, which determine profitability of the concerns. Lastly, they must find out the appropriate source of funds of finance current assets."

Pandey (1999) "There are specially two concepts of working capital: Gross concept and net concept.The gross working capital simply called as working capital refers to the firm's investment on current assets.Current assets are those assets which can be converted in to cash with in an according year and included cash, short term securities, debtors, bill receivable, stock, inventories and pre-paid expenses. The term net working capital refers to the differences between current assets and current liabilities.Current liabilities are those claims of outsiders which can expected to mature for payment with in an accounting year and includes creditors, bills payable, Bank overdraft and outstanding expenses or accrued income. Net working capital can be negative or positive. A negative net working capital occurs when current liabilities are in excess of current assets."

Smith (2001) "Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivable and inventories and the administration of current liabilities. It means the working capital management is concerned with the problems that arise in attempting to manage the assets, current liabilities and the inter-relationship that exist between them."

Manandhar(2008) One of the important areas of day-to-day management of a firm's operation is the management of working capital.This is defined as the management of all the short term assets used in daily operaations.The proper management of o firm's working capital is very much crucial to the financial manager in this competitive scenario. The effective management of working capital is the primary means of achieving the firm's goal of adequate liquidity.

Poudel(2010) Current assets in the form of cash, receivables and inventories are needed to carry out the operating activities of a firm. Working capital is the amount of fund used to finance these current assets.Working capitakil keeps revolving in different forms of current assets.Working capital management is an important function of the financial manager. It involves determining the form investment in current assets and the way to finance them.

2.5.2 Review of Journal & Articles

An article relating to working capital by **Pradhan (1987),** studied on “The Demand for Working Capital by Nepalese Corporations.” For the analysis nine manufacturing public corporations were selected with the 12 years data from 1973-1984 for the analysis the regression equation has been adopted. From the study he concluded that: The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exits with respect to the presence of economics of scale, rate of capital cost, and capacity utilization rates, and the speed with which actual cash and inventories are adjusted ratesto describe cash and inventories respectively. The pooled regression result show the presence of economics of scale with respect to the demand for working capital and its various components.Theregression results, suggests strongly that the demand for working capital and its components is a function of both sales and their capital costs. The estimated results shows that the inclusion of capacity utilization variable in the modern seems to have contributed to the demand functions of cash and net working capital only. Theeffects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful.

Shrestha (1995) in her article "Portfolio Behavior of Commercial Banks in Nepal", selecting two local commercial banks, three joint-venture banks and one development bank as a sample for the study. Some major findings of her study are given below.

Mahat (2004) in article, "Spontaneous Sources of Working Capital Management" has defined the three major sources of working capital i.e., equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing include short term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provision and accrued expenses.

In the second part, he has listed the organizational problems in the public enterprises. In most of the public enterprises, there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly very few public enterprises have been able to present their capital requirement,functioning of finance department is not satisfactory and some public enterprises are even facing the under utilization of capacity.

1. Total deposits have been the major sources of fund for all the banks.
2. Capital sand reserve funds do not seem to have changed much over the year.
3. The user of fund analysis shows that the resources of commercial banks are llocated in the liquid funds, investment on securities, loans and advances. Bill purchased and discounted.
4. mong the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discounted the least over the year.
5. The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

Managing Global Transitions (2008) Working Capital is the flow of ready funds necessary for the working of a concern. It comprises funds invested in Current Assets,which in the ordinary course of business can be turned intocash within a short period without undergoing diminishing in valueand without disruption of the organization. Current Liabilities are those which are intended to be paid in the ordinary course of businesswithin a short time. Every company has to make arrangements for ade-quate funds to meet the day-to-day expenditure apart from investment in Fixed Assets. The internal resources of a business organization often are insucient for meeting all its needs. Also it is not always possible for the owners, promoters or the entrepreneurs to mobilize finance from their personal resources.

International Management Review(2009) working capital management as the regulation, adjustment, and control of the balance of current assets and current liabilities of a firm such that maturing obligations are met, and the fixed assets are properly serviced. In order to manage working capital efficiently, there must exist two elements as necessary components and desirable quantities. Good working capital management must ensure an acceptable relationship between the different components of a firm's working capital so as to make an efficient mix, which will guarantee capital adequacy. Thus, working capital management should make sure that the desirable quantities of each component of the working capital are available for management.

2.5.3 Review of Theses

Lamsl (2004) has conduct research study on "A comparative study of working capital management of NABIL and Standard Chartered Bank Nepal Limited". The main objectives are;

1. To study the current assets and current liabilities and their impact on liquidity and profitability.
2. To analyze the liquidity, assets utilization, long term solvency and profitability position of both banks.
3. To analyze the comparative study of working capital management between NABIL and SCBNL.

Based on his findings, the Standard Chartered should seriouslyadjust its policy of investmenton loan and advances with collectedfunds and increase theirproportion of loan and advances in totalcurrentassets.Fixeddepositsandsavingdepositsturnover position are also not satisfactory on both banks.Therefore, NABIL as well as SCBNL should give proper attention on collection of over dated loan and advances and utilization of idle fund as well as loan and advances. Interest earned to total assets ratio is higher on NABIL but net profit ratios are less than SCBNL. It is due to higher cost on NABIL. By adopting the matching working capitalmanagementpolicy instead of adopting conservative working capital policy NABILas well as SCBNL couldimprovein its profitability in the short run as well as long run.

The major findings of his study were;

1. The major components of current assets in NABIL and SCBNL are cash and bank balance, loan and advance and government securities.
2. The liquidity position of SCBNL is better than NABIL.
3. The turnover position of NABIL has better than SCBNL.The NABIL has betteer utilization of deposits in income generating activity than SCBNL.
4. Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.

Net profit to total assets ratio and net profit to total deposit ratios are always higher on SCBNL than NABIL.Cost of services to total assets ratio of NABILis always higher than the same of SCBNLon the study period.The average value of interest earned tototal assets ratio of NABIL is higher than SCBNL.

Amatya (2007) has carried out a research work on the topic *"A Comparative Study of Working Capital Mnnagement of Manufacturing Companies".*The main objectives are;

1. To analyze the composation of working capital of Nepal Lever Ltd. & Dabur Nepal Ltd.
2. To examine the liqudity and profitability position of Nepal Lever Ltd.& Dabur Nepal Ltd.
3. To examine cash conversion cycle of Nepal Lever Ltd. & /dabur Nepal Ltd.

4. To comparatively eveluate and analyzed the working capital management efficiency of Nepal Lever Ltd. & Dabur Nepal Ltd.

Based on her findings,both the enterprises excess investment on inventoey.DN Ltd has high level of stock due to low circulation of inventory.NL Ltd has high prepaid and advanced,which shows that it is not able to collect its receivable at time .NL ltd has high cash and bank balance,which shows that it has ploor cash management.

NL Ltd has highly invested in the current assets.NL Ltd can not meet current obligation in compare to DL Ltd.NL Ltd may not be able to pay current liabilities.

The liquidity position of DN Ltd is higher then NL Ltd.Profitability position of DN Ltd is poor in comparision to NL Ltd, as it failed to utilize its assets.

From the above conclusion,DN Ltd has unsuitable investing and financing of current assets.Very low utiliation of current assets is the main weakness aspect comparision to NL Ltd.In overal,inefficient working capital management is the main caused for DN Ltd for operating less profit in comparision to NL Ltd.

Shrestha(2008) has conducted research on *"Working Capital Management of Nepalese Commercial Banks in Nepal"* The main objectives were;

1. To evaluate working capital of the banks and analyze their assets structure and their implications.
2. To analyze of working capital trend position of selected Bank.
3. To analyze the financial position of these selected banks by using different tools and techniques.
4. To shed light on creation and mobilization of fund in EBL and SCBNL.

Based on her findings,The liquidity positions of commercial banks aren't very poor though the rule of thumb the standard ratio should be 2:1. The banks are unable to maintain the current ratio in accordance with standard.EBL has the highest level of current assets of Rs.19892.90 million in the year 2063/64 and the lowest level of current assets of Rs.7887.40 million in the year 2059/60. On average it holds the level of current assets of Rs.12585.64 million. SCBNL has the highest level of current assets of Rs.23494.63 million in the year 2060/61 and the lowest level of current assets of Rs.19322.67 million in the year 2061/62. On average it holds the level of current assets of Rs.21420.80 million. The level of net working capital of SCBNL is fluctuated over the period of time. During the study period of 5 years from 2059/60 to 2063/64, the highest amount of net working capital is Rs.3176.82 million in 2059/60 and that of lowest amount is -Rs.4454.55 million in 2063/64.

The level of net working capital of EBL is fluctuated over the period of time. During the study period of 5 years from 2059/60 to 2063/64, the highest amount of net working capital is Rs.459.60 million in 2061/62 and that of lowest amount is -Rs.38.20 million in 2063/64. The current ratio of the banks are in fluctuating order with lower than the standard ratio. The SCBNL has maintained the ratio is not lesser than 1.06 but EBL has not meet that ratio in the overall five fiscal years.

Dhungana (2009) has conducted research on “Working Capital Management of Unilever Nepal Limited”. The main objectives were;

1. To assess the liquidity and profitability position of UNNL.
2. To determine the structure and utilization of working capital of ULNL.
3. To know the working capital policy of ULNL.
4. To provide appropriate recommendation.

The major findings of this study are;

1. Current structure levels of ULNL arenot stable.
2. Current assets turnover ratio has found increasing trend.
3. The company has not been able to convert current assets quickly in cash in order to meet current liabilities. The current ratio and quick ratio revealed

and unsatisfactory liquidity position of ULNL and thereafter to increase the financial position for working capital.

4. ULNL is following moderate working capital financing mix policy.

Koirala (2010) has carried out a research work on the topic *“A Comparative Study of Working Capital Management With Reference to Standard Chartered Bank Nepal Limited and Himalayan Bank Limited”.*The main objectives are;

1. To study the position of current assets and current liabilities.
2. To analyze the comparative study of working capital management between sample firms.
3. To analyze the composition of working capital,assets utilization and profitability of sample firms.

Based on her finding, the major components of current assets in SCBNL and HBL are cash and bank balance, loan and advance and government securities. In the study period, the proportion of cash and bank balance, loan and advances and government securities to total current assets on an average are 14.47%, 35.57% and 30.02% in SCBNL and 8.83%, 50.33% and 18.51% in HBL, respectively. So it is found that the average cash and bank balance and government securities are higher on SCBNL than on HBL and average loan and advances percentage is higher in HBL than in SCBNL. The trend value of cash and bank balance is negative in both banks so as the trend value of loan and advance is positive in SCBNL as well as in HBL. The trend value of government securities is negative in both SCBNL and HBL.

The net working capital of both SCBNL and HBL are positive in the study period which shows sufficient amount of working capital for operational requirement in the banks. The average net working capital of SCBNL is Rs. 4094.39 million and that of HBL is Rs. 7743.58 million. The net working capital of SCBNL ranges from Rs. 2836.81 million to Rs. 5623.59 million whereas in HBL, it ranges from

Rs. 61.07.4 million to Rs. 10060.14 million. The CV of SCBNL is 0.28 and that of HBL is 0.17 which shows that there is very high variability of net working capital maintained by SCBNL compared to HBL.

The liquidity positions of banks are analyzed with the current ratio, quick ratio and cash balance to deposit ratio. The current ratios of SCBNL and HBL ranges from 1.137 to 1.22 and 1.33 to 1.44 respectively. Measuring the risk factor, it shows that there is more variation in current ratio maintained by HBL compared to SCBNL. The average current ratio of SCBNL and HBL are 1.179 and 1.376 respectively. This shows that the liquidity position or short term solvency of HBL is better than SCBNL in the study period. The liquidity ratio, or current ratio, quick ratio and cash and bank balance to deposit ratio of SCBNL and HBL are fluctuating. Higher liquidity means lower risk as well as lower profit in general; it does not necessarily mean lower profit in case of commercial banks.

2.6 Research Gap

Based on the review of related studies, it can be concluded that financial ratio and accounting ratio analysis is very important tool, perhaps the most important one in examining the financial ratio of any enterprises. Similar is the case with banks, income generating assets possessed by a bank, the components of the current assets, the deposit collected by it and the soundness with which it extends its credits and investments are the most important aspects of the banks. Liquidity maintained by the banks to meet its daily operation is another important aspect.

The quest to extend knowledge of banking operations led to the undertaking of the current research work. The current research work will definitely extend the hitherto available knowledge on the implications of working capital management of commercial banks in Nepal with measuring the financial constitution of banks. It will explain the trends of current assets, ratio analysis, and relation between two variables more explicitly than the previous studies. Furthermore, previous studies were based on the NRB directives to commercial bank during those studies periods. NRB directives have changed since then.

CHAPTER - THREE

RESEARCH METHODOLOGY

Research in common parlance refers to a search for knowledge is composed by 're' and 'search' where 're' means repeatedly or again and again and 'search' means to investigate or find. Research methodology is a way to systematically solve the research problem.

Research methodology may be defined as "a systematic process that is adopted by the researcher in studying problem with certain objective and view". In other word, research methodology describes the methods and process applied in the entire aspect of the study focus of data, data gathering instrument and procedure, data tabulating and processing and methods of analysis. It is really a method of critical thinking by defined and redefining the problems, formulating hypothesis or suggested solution and collecting and organizing and evaluating data, making deduction and making conclusions.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design in the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used.

It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analyzing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected banks are also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

3.2 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, total of 31 commercial banks operating in Nepal constitute the population of the data and the bank under study constitutes the sample for the study. Among them only two banks are selected as the sample banks to carry out the study. Because these two banks are leading banks in financial sector of Nepal and time & resource are constraints for the study. The sample size represents almost 6% of the total population.

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

3.3 Nature and Source of Data

For the purpose of this study, data are collected mainly from the secondary source. The secondary data are based on the second hand information. Secondary data were gathered much more quickly than primary. Secondary source are bulletins and newspapers of selected banks, annual reports, official document, reference material collected from library.

3.4 Method of Data Collection:- It indicates the sources of data and how they collected. In this study data are collected through published sources. They are collected from the correspondent offices and their respective websites.

The annual reports of EBL for the period of five years were obtained from the field visit of its Human Resources Department at its head office located at Lazimpat and the annual reports of SCBNL for the period of five years were obtained from the field visit of its head office at New Baneshwor. NRB publications have been collected by the personal visit of concerned Departments of NRB at Baluwatar.

The data regarding the profile of SCBL and EBL and other related documents were collected from internet websites. Unpublished master's thesis, books, research papers, articles, journals have been collected mainly form Centre Library of Tribhuvan University, library of Shanker Dev Campus and NRB Magazines and newspapers were from concerned authorities.

After collecting data, as necessarily required, they were separated and analyzed presentation and analysis of the collected data is the main theme of the research work. Collected raw data were first presented in systematic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph, charts and tables have been presented to analyze and interpret the finding of the study. Hypothesis is also made and tested.

3.5 Method of Data Analysis

Method of data analysis is the raw data processing technique to find out the result for making decision.Financial as well as statistical tools are used to analyais of data.

3.5.1 Financial Tools

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the profit and loss account.

Ratio analysis is a powerful tool of financial analysis. A ration is designed as the indicated quotient of two mathematical expressions and as the relationship between two or more variables. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm.The financial tools used in this study are as follows.

1. **Liquidity Ratio:-** Liquidity ratios are used to judge the ability of banks to meet its short term liabilities those are likely to mature in the short period. The current ratio and quick ratio measure the liquidity position of the

company. Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that organization. One of the main objectives of working capital management is to maintain good liquidity position.

a. **Current Ratio:-** Current Ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year.This ratio indicates the current short term solvency position of the bank.The current ratios are the ratios of total current assets to current liabilities.Higher current ratio indicates better liquidity position.

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

b. **Quick Ratio:-** Quick ratio is used to measure the ability of concerned firms to pay current obligation (Short term) without depending on other liquid assets of current ratio.It provides relationship between quick assets with current liabilities.This quick ratio can be found out by dividing the total quick assets by total liabilities.

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

2. **Debt Management Ratios:-** The debt management ratios,also known as leverage ratios,indicate the extent to which debt financing is being used by a firm.It is a measure of long term solvenvy of firm.In relation to financial ratio analysis,it is important to analyze leverage position from two aspects:first,how firm is using the borrowed funds to financed its assets;second,how far the firm is able to serve it debts in term of satisfying regular fixed charges.On the light of these facts we analyzed following financial ratios:

a. Debt-Assets Ratio:- The debt assets ratio,shows the proportion of total debts used in financing total assets of a firm.Low debt ratio indicate that afirn has greater anoumt of equity in comparison to debt.It is calculated as:

$$\text{Debt assets ratio} = \frac{Total\ Debt}{Total\ Asstts}$$

b. Debt-Equity Ratio:- This ratio is express the relationship between debt capital and equity capital,and reflects their relative claim on the assets of a fitm.Debt-equity ratio is used as a tool for analyzing financial risk both by creditors as well as by the firm.A high debt-equity ratio indicates greater contribution by creditors then shareholders in a firm's financing.Low debt-equity ratio provides a cushion of protection to the creditors against losses.It is calculated by dividing total debt by total equity.

$$\text{Debt-Equity Ratio} = \frac{Long-Term\ Debt}{Total\ Equity}$$

c. Long-Term Debt to Total Assets Ratio:- Long-term debt to total assets ratio represents the relationship between long term debt to total assets of a firm.This ratio shows the proportion of total assets that is financed by long-term capital of the firm. It is calculated as:

$$\text{Long-Term Debt to Total Assets Ratio} = \frac{Long-Term\ Debt}{Total\ Assets}$$

3. Assets Management Ratio:- Assets management ratio also known as turnover ratios or activity ratios or efficiency ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels.They provides the measure for how efficiency the firm's assets are being managed.If too many funds are tide up in certain types of assets that could otherwise be employed more productively elsewhere,the firm is not a profitable as it should be.Following ratios are calculated to measure how efficiency a firm employs its assets.

a. Loan & Advances to Total Deposit Ratio:- The ratio assess to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans and advances.High ratio shows the better position of the firm.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{Loan\ \&\ Advance}{Total\ deposit}$$

b. **Total Assets Turnover Ratio:-** The total assets turnover ratio reflects the efficiency of management for investments in Total Assets each of the individual assets items. It shows the effective utilization of assets in the generation of income. It can be calculated as**:**

$$\text{Total Assets Turnover Ratio} = \frac{Total\ Income}{Total\ Assets}$$

c. **Fixed Assets Turnover Ratio:-**The rate of utilization of fixed assets is significant because investments in plant and equipment, machinery, furniture are large and of long duration. This ratio measures the extent to which banks are able to invest in fixed assets and how effectively and efficiently the fixed assets are used.It can be calculated as:

$$\text{Fixed Assets Turnover Ratio} = \frac{Total\ Income}{Fixed\ Assets}$$

d. **Net Working Capital to Total Assets Ratio :-** Working capital management is the management of all short term assets used in daily operations. Investing in raw materials, inventories, work-in-progress, account receivables are all known as working capital investment. The proper management of a firm's working capital is very much crucial to the financial manager in the competitive scenario. Furthermore, the total investment in the current assets that can be converted into cash within one year is called gross working capital but the difference between current assets and current liabilities is known as net working capital.This ratio is useful to calculated the percentage of net working capital to total assets.

$$\text{Net Working Capital to Total Assets Ratio} = \frac{Net\ Working\ Capital}{Total\ Assets}$$

4. **Profitability Ratios:-** Profitability is the end result of a number of corporate policies and decisions.It measures how effictively the firm is being operated and managed.Besides owner and managers,creditors are also interested to know the financial soundness of the firm.Owners are eager to know their returns where as manager are interested in their operating efficiency.

a. **Return on Loans & Advances:-** This ratio shows the return on loans and advances during the year. Higher ratio of net income to loans & advance is better.

$$\text{Return on Loans \& Advances} = \frac{Net\ Profit\ After\ Tax}{Loans\ \&\ Advance}$$

b. **Return on Total Deposit:-** The ratio of return on Total deposit measures the capacity of bank to generate profit from its investment on total deposit.In other words, return on total deposit is the contribution of total deposit to net profit after tax. So this ratio is the proportion of return from total deposit and it is calculated as follows.

$$\text{Return on Total Deposit} = \frac{Net\ Profit\ After\ Tax}{Total\ deposit}$$

c. Return on Total Assets:- The return on total assets measure the overal effectiveness of management in generating profit with its avaliable assets.The higher the firm's return on assets the better it is doing in operation and vice versa.It is calculated as follows:

$$\text{Return on Total Assets} = \frac{Net\ Income}{Total\ Assets}$$

d. Return on Equity:- The return on equity measure the return on the owner's investment in the firm.Higher ratio on return on equity is better for woner.

$$\text{Return on Equity} = \frac{Net\ Income}{Total\ Equity}$$

3.5.2 Statistical Tools

Statistical tools are used to analyzed the relationship between two or more variables and to find how these variables are related.In this study,following statistical tools are used.

a. **Arithmetic Mean or Average**:-The mean or average value is a single value within the range of the data that is used to represent all the values in the series.Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by;

$$\text{Mean } (\overline{X}) = \frac{\sum X}{N}$$

Where,

$\overline{X}$	=	Arithmetic Mean
$\sum X$	=	Sum of values of all items, and,
N	=	Number of items

b. Standerd Deviation:- The standard deviation is the measure that is most often used to describe variability in data distributions.It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean.Denoted by Greek letter's (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

$$\text{Standerd deviation}(\sigma) = \sqrt{\frac{\sum(\mathbf{X}-\bar{\mathbf{x}})^2}{N}}$$

Where,

$\boldsymbol{\sigma}$	=	Standerd deviation
$\sum(\mathbf{X}-\bar{\mathbf{x}})^2$	=	Sum of squares of the deviations measured from arithmetic average.
N	=	Number of items

c. **Coefficient of Variation(cv)**:- The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk.The larger the coefficient of variation, the greater the risk relative to the average.Mathematically,

$$\text{Cv} = \frac{\sigma}{\overline{X}}$$

Where,

Cv	=	Cofficient of Variation

σ = Standerd Deviation

$\overline{X}$ = Arithmetic Mean

d. **Coefficient of Correlation**:- Correlation is a statistical tool design to measure the degree of association between two or more variables.In other word if the changes in one variable affects the changes in other variable,then the variable are said to be co-related when it is used to measure the relationship between two variables, then it is called simple correlation.The coefficient of correlation measures the degree of relationship between to sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the tudy.The result of coefficient of correlation is always lie between +1 and -1.The formula for the calculation of coefficient of correlation between X and Y is given below.

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

Where,

r = Correlation coefficient

$\sum x_1$ = $X_1 - \overline{X}_1$

$\sum x_2$ = $X_2 - \overline{X}_2$

Under this topic,Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

1. Coefficient of correlation between Current Ratio and Quick Ratio.
2. Coefficient of correlation between Total Deposit and Net Profit.
3. Coefficient of correlation between Total Deposit and Loan & Advances.

The interpretation of calculated valve of correlation cofficient by following way.

- If r = 0, then there is no correlation between variables.
- If r > 0, then there is positive correlation between variables.
- If r < 0, then there is negative relation between variables.
- If r = +1,then there is perfect positive correlation.
- If r = -1, then there is perfect negative correlation.

e. **Trend Analysis:-** Trend analysis is used to show decrease or increase in variables over the period of time. With the help of trend analysis the tendency of variables over the period can be seen clearly.

f. **Test of Hypothesis:-** Hypothesis means the pre assumptions or quantitative statement of the population parameter which may be true or false.In order to make proper decision about the quantitative statement of the population,testing of hypothesis technique is used.There are two criteria for good hypothesis .One ,hypothetical statement is about the relations between variables. Second, hypothesis carries a clear implication for testing the stated relation.

   For this study,test of significance of difference between two mean is used to analysis.In case of testing the significance of difference between two means of small sample,t-values are used to the t-distribution.The t-test for difference between two means is used to test wheather two independent samples have been drawn from two normal population having the same mean and equal population variances or there is significance difference between population mean from which the sample are drawn as follows.

Null hypothesis (H$_0$); $\mu_1=\mu_2$ i.e. there is no significance difference between two sample mean $\bar{X}_1$ & $\bar{X}_2$

Alternative Hypothesis (H$_1$); $\mu_1\neq\mu_2$ i.e. there is significance difference between two sample mean $\bar{X}_1$ & $\bar{X}_2$

Test statistic under H$_0$;

$$t = \frac{(\bar{X}_1 - \bar{X}_2)}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

Where,

$\bar{X}_1$ = Mean value of X_1 series

$\bar{X}_2$ = Mean value of X_2 series

n_1 = No of X_1series

n_2 = No. of X_2 series

$S^2 = \frac{n_1 s_1^2 + n_2 s_2^2}{n_1 + n_2 - 2}$

S_1^2 = Variance of X_1 series $(\boldsymbol{\sigma}_1)^2$

S_2^2 = Variance of X_2 series $(\boldsymbol{\sigma}_2)^2$

Level of significance: Fix level of significance $\propto$ = 5%

Critical Value: Tabulated or critical value of t at $\propto$ % level of significance for (n_1 + n_2 - 2) degree of freedom obtain from t tables.

Decision: If calculated t is less then or equal to tabulated value of t it falls in the accept region and the null hypothesis is accepted and if calculated t is greater then tabulated t, null hypothesis is rejected.

For this study some set of null hypothesis have been formulated and tested.

$\mathbf{H_0}$**:** There is no significance difference between working capital of EBL & SCBNL.

$\mathbf{H_1}$**:** There is significance difference between working capital of EBL & SCBNL.

$\mathbf{H_0}$**:** There is no significance difference between Current ratio of EBL & SCBNL.

$\mathbf{H_1}$**:** There is significance difference between Current ratio of EBL & SCBNL.

$\mathbf{H_0}$**:** There is no significance difference between Total Deposit of EBL & SCBNL.

$\mathbf{H_1}$**:** There is significance difference between Total Deposit of EBL & SCBNL.

$\mathbf{H_0}$**:** There is no significance difference between total assets turnover of EBL & SCBNL.

$\mathbf{H_1}$**:** There is significance difference between total assets turnover of EBL & SCBNL.

CHAPTER - FOUR

PRESENTATION & ANALYSIS OF DATA

To find the answer of research problem, the collected data are necessary to present and analyze by processing. This chapter will present the data on table & figure.The main objective of the study is to present data and analyze them with the helps of various financial and statistical tools.This chapter consists of analysis and presentation of empirical data.The important variables are very sensitive and taken into consideration,so this chapter will present the analysis of components of working capital. The major ratios for the study are liquidity ratios, assets management ratio,debt management ratios,profitability ratios and composition of working capital.The variables of the ratios indicated above are also tried to study in details. Firstly it is attempted to deal about the working capital policies followed by bank and then financial position of success/failure companies has been analyzed applying various methods.

4.1 Working Capital Policy & Trend Analysis

Working capital policy can be categorized into three categories aggressive, moderate and conservative policy. Nepalese commercial banks listed in NEPSE have also followed the above mentioned types of working capital policies.The firms use to adopt different working capital policies according to the financial managers' attitude towards the risk return trade off. One of the most important decisions of financial manager is how much current liabilities should be used to finance current assets. Hence, it is tried to analyze on the basis various variables and ratios, taking five years data. The analysis is done period wise.

4.1.1 Analysis of Composition of Current Assets

Business needs different types of assets to operate its activities some assets are needed for the long term fulfillment of the business activities while others are needed to carry out the day to day operation of the business.The assets that are used to carry out the day to day operation of business are known as current asstts.

Every bank has to maintain the appropriate level of current assets to run the business smoothly because the success/failure of any bank depends upon the proper management of current assets. The level of current assets is analyzed as year-wise.

Table: 4.1

Comoponents of Current Assets of EBL

(Rs. In Million)

Year	Cash & Bank Balance	Loan, Advance & Bill Purchased	Investment in Government securities	Money at call & short notice	Misc. Current assets	Total Current Assets
062/63	1552.96	9801.31	3322.44	66.96	178.01	14921.68
063/64	2391.42	13664.08	3614.54	-	222.66	19892.71
064/65	2667.97	18339.08	3237.98	346.00	76.22	24967.25
065/66	6164.38	23884.67	3371.42	-	92.17	33912.63
066/67	7818.82	27556.36	2745.28	-	536.19	38656.64

Sources: Annual report of EBL 2062 to 2066

Above table 4.1 shows that EBL has the highest level of current assets of Rs. 38656.64 million in the year 2066/67and the lowest level of current assets of Rs.14921.68 million in the year 2062/63. The components of current assets of the bank are Cash & Bank Balance, Loan&Advances, Government Securities.Money at Call & Short notice and Miscelleneous Current Assets.Out of these componants loan and advance has the highest amount in each year and all items are increasing in each year without miscelleneous current assets so,the volume of current asset are increasing trend in each year.The proportion of each components are shows in the following tables and figure.

Table: 4.2

Componants of Current Assets of EBL

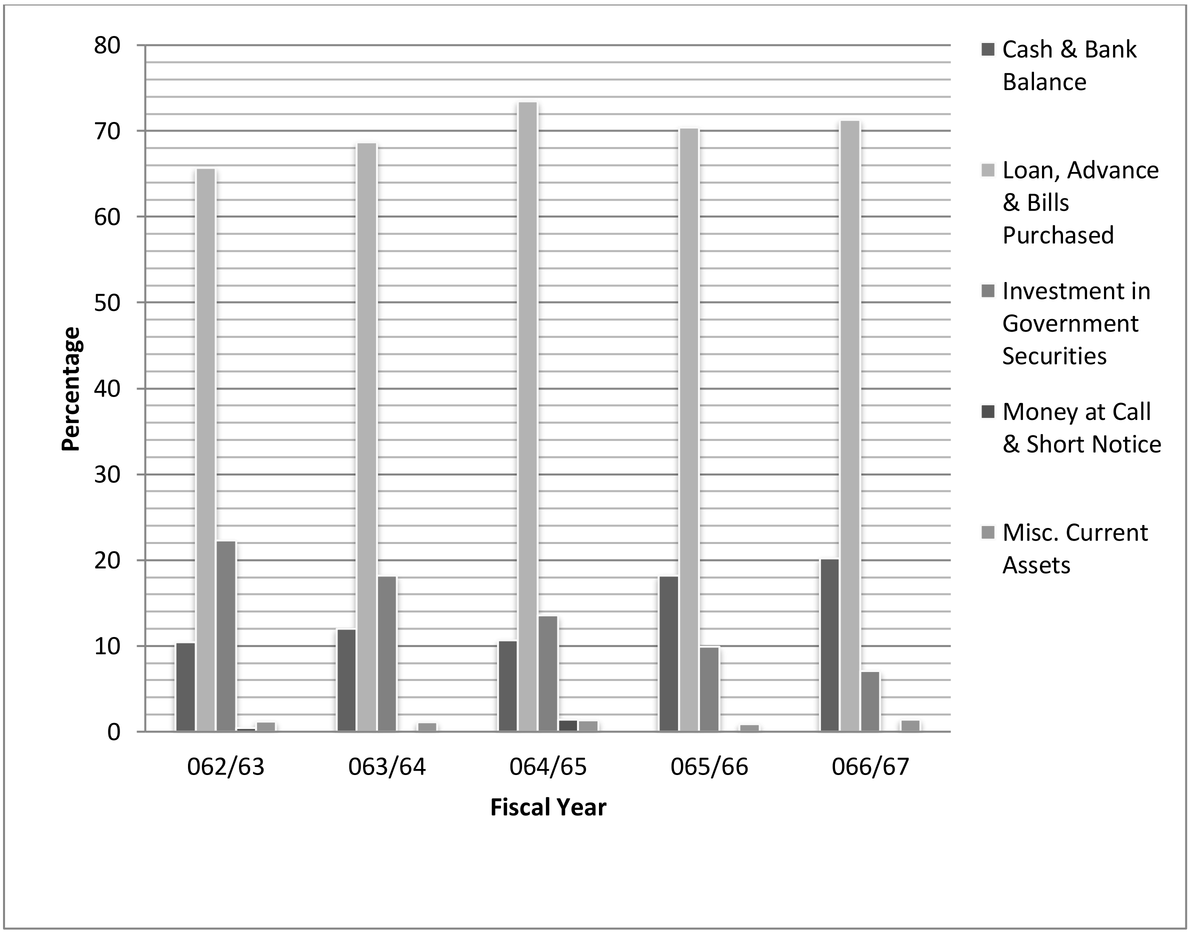
(In Percentage)

Year	Cash & Bank Balance	Loan, Advance & Bill Purchased	Investment in Government securities	Money at call & short notice	Misc. Current assets	Total
062/63	10.41	65.69	22.27	0.45	1.19	100
063/64	12.02	68.69	18.17	0.00	1.12	100
064/65	10.69	73.45	13.56	1.39	1.31	100
065/66	18.18	70.43	9.94	0.00	0.86	100
066/67	20.23	71.28	7.10	0.00	1.39	100

Sources: Annual report of EBL 2062 to 2066

Figure: 4.1

Componants of Current Assets of EBL



Taable 4.2 and figure 4.1 shows that EBL has the highest level of Cash & Bank Balance in current assets of 20.23 percentages in the year 2066/67 and the lowest level of it in current assets of 10.41 percentages in the year 2062/63. The level of Loan & Advances is highest in 2064/65 and that of lowest in 2062/63. The level of Government Securities is highest in 2062/63 and that of lowest in 2066/67.Similarly the level of Misc. Current Assets is highest in 2064/65 and that of lowest in 2063/64.Out of these components major proportion holds by loan &advance in each year and all componants are in fluctuating trend in this five year time period.

Table: 4.3

Comoponents of Current Assets of SCBNL

(Rs. In Million)

Year	Cash & Bank Balance	Loan, Advance & Bill Purchased	Investment in Government securities	Money at call & short notice	Misc. Current assets	Total Current Assets
062/63	1276.24	8935.42	7210.50	1977.27	638.56	20037.99
063/64	2021.02	10502.64	5995.10	1761.15	633.05	20912.96
064/65	2050.24	13718.60	7157.73	2197.54	1349.32	26473.43
065/66	3137.16	13679.76	9050.99	2055.55	820.69	28744.15
066/67	1929.31	15956.95	7878.56	1669.46	691.55	28125.83

Sources: Annual report of SCBNL 2062 to 2066

In the table 4.3 SCBNL has the highest level of current assets of Rs. 28744.15 million in the year 2065/66 and the lowest level of current assets of Rs. 20037.99 million in the year 2062/63. The components of current assets of the bank are Cash & Bank Balance, Loan&Advances, Government Securities.Money at Call & Short notice and Miscelleneous Current Assets.Out of these componants loan and advance has the highest amount in each year.The proportion of each components are shows in the following tables and figure.

Table: 4.4

Componants of Current Assets of SCBNL

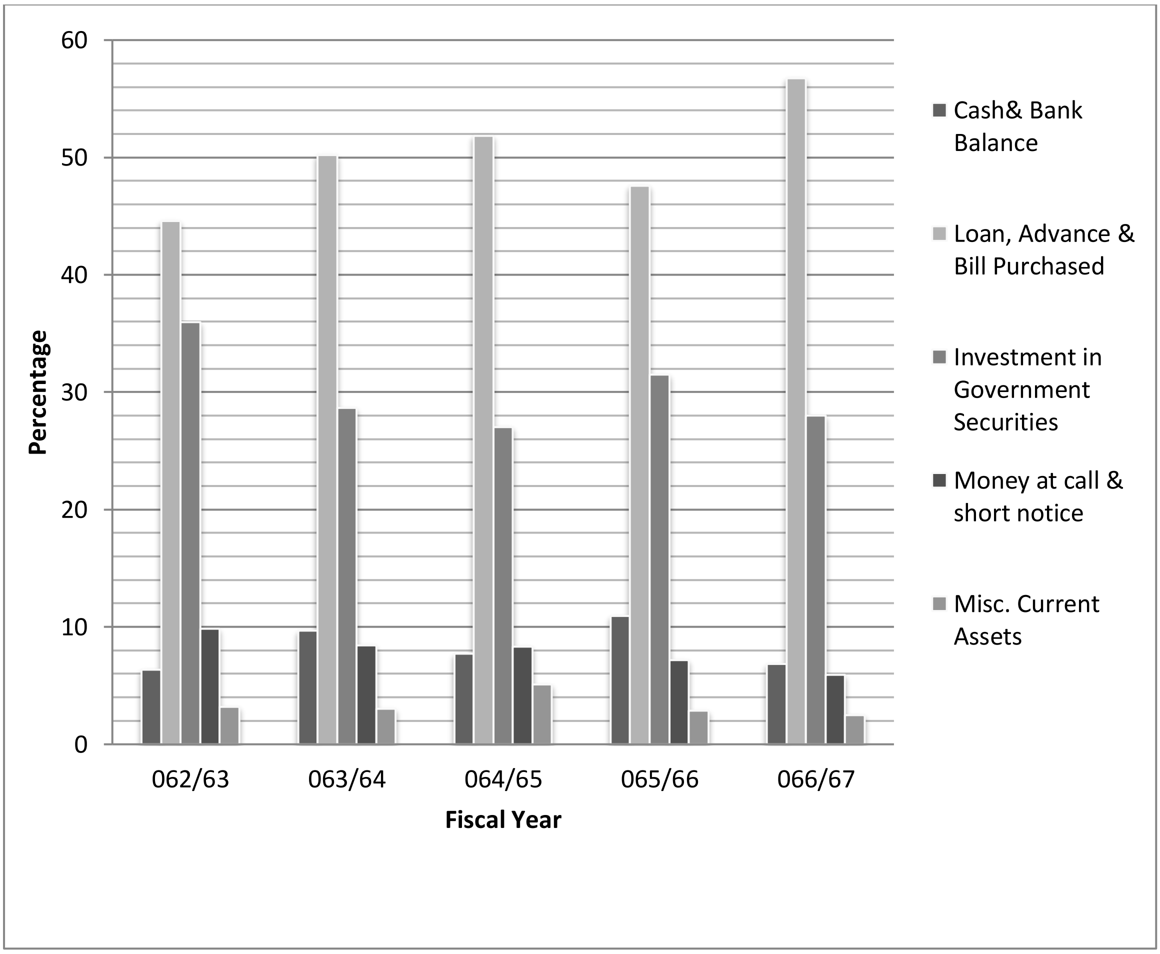
(In Percentage)

Year	Cash & Bank Balance	Loan, Advance & Bill Purchased	Investment in Government securities	Money at call & short notice	Misc. Current assets	Total
062/63	6.37	44.59	35.98	9.87	3.19	100
063/64	9.66	50.22	28.67	8.42	3.03	100
064/65	7.74	51.82	27.04	8.30	5.10	100
065/66	10.91	47.59	31.49	7.15	2.86	100
066/67	6.86	56.73	28.01	5.94	2.46	100

Sources: Annual report of SCBNL 2062 to 2066

Figure: 4.2

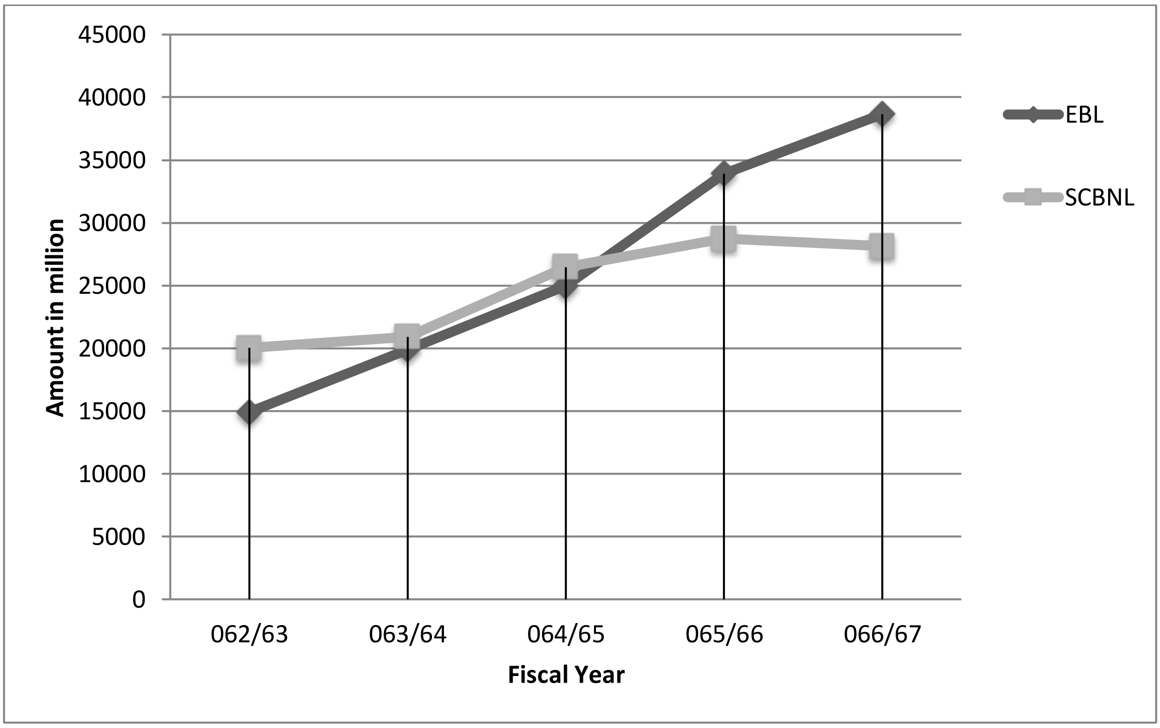
Componants of Current Assets of SCBL



Above table 4.4 and figure 4.2 shows that SCBNL has the highest level of Cash & Bank Balance in current assets of 10.91 percentages in the year 2065/66 and the lowest level of it in current assets of 6.37 percentages in the year 2062/63. The level of Loan & Advances is highest in 2066/67 and that of lowest in 2062/63. The level of Government Securities is highest in 2062/63 and that of lowest in 2064/66.Similarly the level of Misc. Current Assets is highest in 2064/65 and that of lowest in 2063/64.Out of these components major proportion holds by loan & advance in each year and all componants are in fluctuating trend in this five year time period.

Figure: 4.3

Trend Line of Current Assets of EBL & SCBNL



Above figure shows that the trend of current assets of EBL is increasing each year but SCBNL increasing up to year 2065/66 & decrease in 2066/67. A total current asset of EBL is less than the SCBNL up to 2064/65, after that current assets of EBL is more than the SCBNL. In 2066/67 the difference of current assets between EBL & SCBNL is Rs. 10530.81million.

4.1.2 Analysis of Components of Net Working Capital

Net Working Capital is the difference between current assets and current liabilities.Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities is excess of current assets.

Net Working Capital = Current Assets – Current Liabilities

All the organization should have just adequate working capital to serve in competitive market. Excessive or inadequate working capital is dangerous from the firm's point of view. Excessive investment working capital affects a firm's profitability just as idle investment yields nothing. In the same way inadequate or negative working capital may be harmful to the organization. So, net working capital can be more useful for the analysis of trade-off between profitability and risk. It enables a firm to determine how much amount is left for operational requirement.

Table: 4.5

Components of Net Working Capital of EBL

(Rs. In Million)

Year	Current Assets (CA)	Current Liabilities (CL)	Net Working Capital(CA-CL)
062/63	14921.68	10454.12	4467.56
063/64	19892.71	14304.41	5588.3
064/65	24967.25	18481.92	6485.33
065/66	33912.63	27051.25	6861.38
066/67	38656.64	27478.74	11177.9

Sources: Annual report of EBL 2062 to 2066

Table: 4.6

Components of Net Working Capital of SCBNL

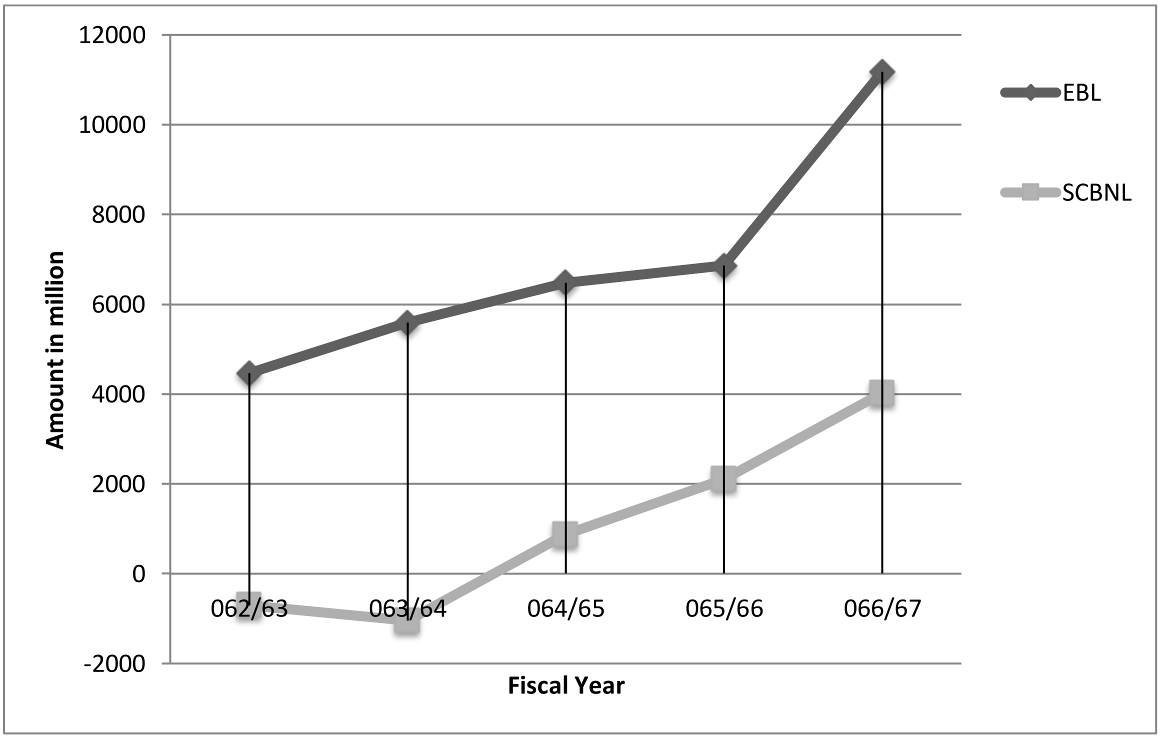
(Rs. In Million)

Year	Current Assets (CA)	Current Liabilities (CL)	Net Working Capital(CA-CL)
062/63	20037.99	20741.21	-703.22
063/64	20912.96	21957.6	-1044.64
064/65	26473.43	25603.93	869.50
065/66	28744.15	26639.33	2104.82
066/67	28125.83	24105.29	4020.54

Sources: Annual report of SCBNL 2062 to 2066

Figure: 4.4

Trend Line of Net Working Capital of EBL & SCBNL



The above table 4.5, 4.6 & figure 4.3 shows that the level of net working capital,current assets and current liabilities of EBL & SCBNL. During the study period of 5 years from 2062/63 to 2066/67, the highest amount of net working capital of EBL is Rs. 11177.9 million,current assets is Rs. 38656.64

million,current liabilities is Rs. 27478.74 million in 2066/67 and that of lowest amount aer Rs. 4467.56 million, 14921.68 million and 10454.12 respectively in 2062/63**.** Over the study period EBL has positive working capital,it means the firm has higher level of current assets then current liabilities.Trend of wrrking capital is increasing each year.

During the study Period, the highest amount of net working capital of SCBNL is Rs. 4020.54 million in 2066.67,current assets is Rs. 28744.15 million,current liabilities is Rs. 26639.33 million in 2065/66 and that of lowest amount aer Rs. -1044.64 million in 063/64, 20037.99 million and 20741.21respectively in 2062/63**.** The working capital of SCBNL is negative in 2062/63 & 2063/64, it means the level of current liabilities is higher than current assets.

4.2 Financial Ratio and Trend Analysis

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationship between the items of the balance sheet and the profit and loss account. Ratio analysis is a powerful financial tool to measure the financial performance of banks. As mentioned in research methodology, liquidity,debt management, Assets management and profitability ratios are calculated.

4.2.1 Liquidity Ratio:- Liquidity of any business organization is directly related with the working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Bank is different organization which is engaged in mobilization of funds. Therefore, without sound liquidity position, bank is not able to operate its function. In this study,to measure the bank's solvency position or ability to meet its short-term obligation,current ratio and quick ratio are calculated to know the trend of liquidity.

Current ratio indicates the current short term solvency position of bank. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a „cushion' of protection for creditors and the highest the current ratio, greater the margin of safety, large the amount of current assets in relation to current liabilities, more the banks ability to meet its current obligations.

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid asset.other assets which are considered to be relatively liquid and included in quick assets are government securities and money at call & short notice.

Table: 4.7

Liquidity Ratios

(Rs. In Million)

Year	Current Ratio		Quick Ratio	
	EBL	SCBNL	EBL	SCBNL
062/63	1.43	0.97	0.47	0.44
063/64	1.39	0.95	0.42	0.35
064/65	1.35	1.03	0.34	0.37
065/66	1.25	1.08	0.35	0.42
066/67	1.41	1.17	0.38	0.40

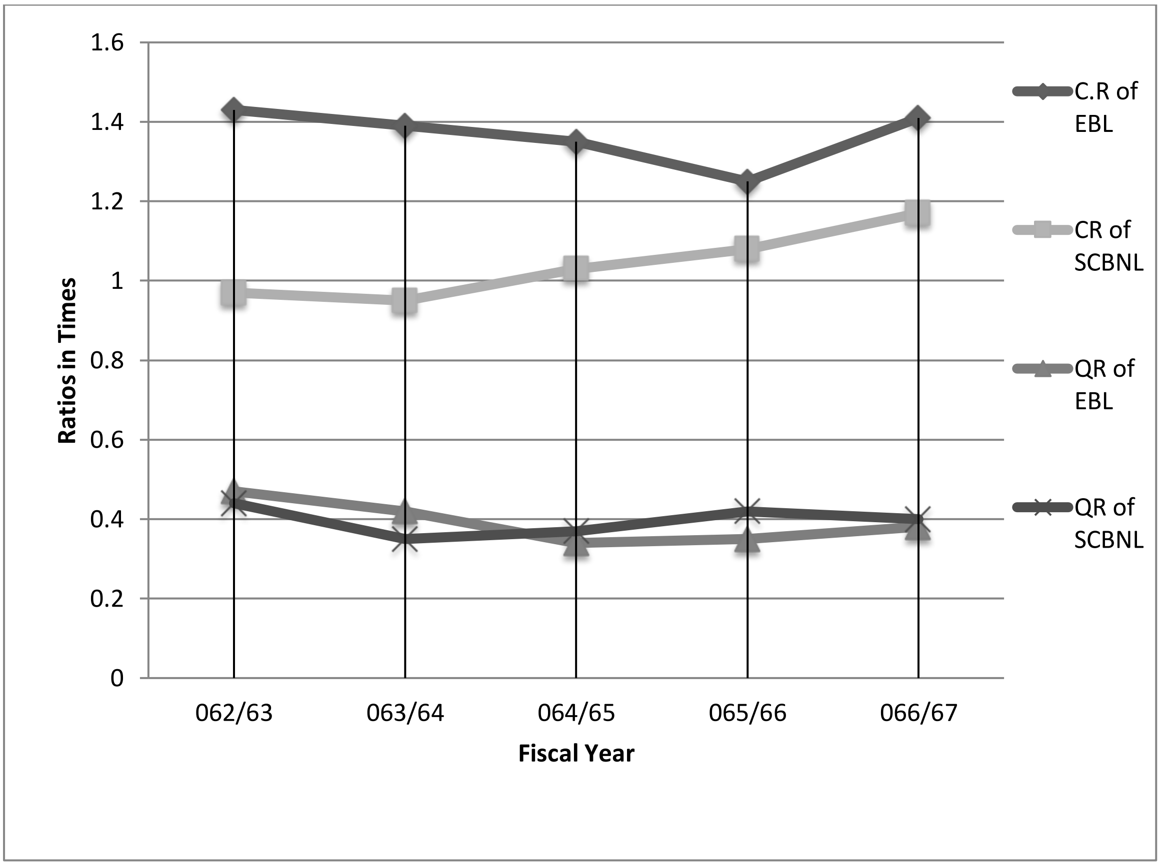
Sources: Appendix 1& 2

Table 4.5 and figure 4.4 shows that the liquidity position of EBL & SCBNLby the help of current ratio and quick ratio.During the study period of 5 years from 2062/63 to 2066/67, the highest current ratio of EBL is 1.43 times in 2062/63 and that of lowest is 1.25 times in 2065/66.Over the study period the highest quick ratio is 0.47 times in 2062/63 and that of lowest is 0.34 times in 2064/65.Over the study period the quickt ratio & current ratio of EBL is in fluctuating trend.

Similarly, the highest current ratio of SCBNL is 1.17 times in 2062/63 and that of lowest is 0.95 times in 2063/64.Over the study period the highest quick ratio is 0.44 times in 2062/63 and that of lowest is 0.34 times in 2063/64.Over the study period the quickt ratio & current ratio of SCBNL is in fluctuating trend.The banks can not maintain the standerd of these ratios so overal liquidity position of banks is good but not better.These ratios are presented in the following figures.

Figure: 4.5

Trend Line of Liquidities RAtios



4.2.2 Debt Management Ratios

Debt management ratio indicate the extent to which debt financing is being used by a firm.It is a measure of long term solvenvy of firm. In this study,to measure the bank's long term solvency position debt-assets, debt-equity, long-term debt to total assets and totsl deposit to total assets ratio are calculated to know the trend of long term solvency.

Debt-assets ratio shows the proportion of total debts used in financing total assets of a firm.Higher debt ratio is better for the firm.

Debt-Equity ratio is express the relationship between debt capital and equity capital,and reflects their relative claim on the assets of a fitm. Lower debt-equity ratio is better for the firm.

Table: 4.8

Debt management Ratios

(In Percentage)

Year	Debt Assets Ratio(DAR)		Debt Equity Ratio(DER)	
	EBL	SCBNL	EBL	SCBNL
062/63	92.38	93.19	60.09	43.75
063/64	90.07	92.60	62.54	45.64
064/65	89.49	92.52	63.34	44.68
065/66	91.49	92.38	61.52	46.44
066/67	93.93	91.62	62.57	45.21

Sources: Appendix 11

Figure: 4.6

Trend Line of Debt management Ratios

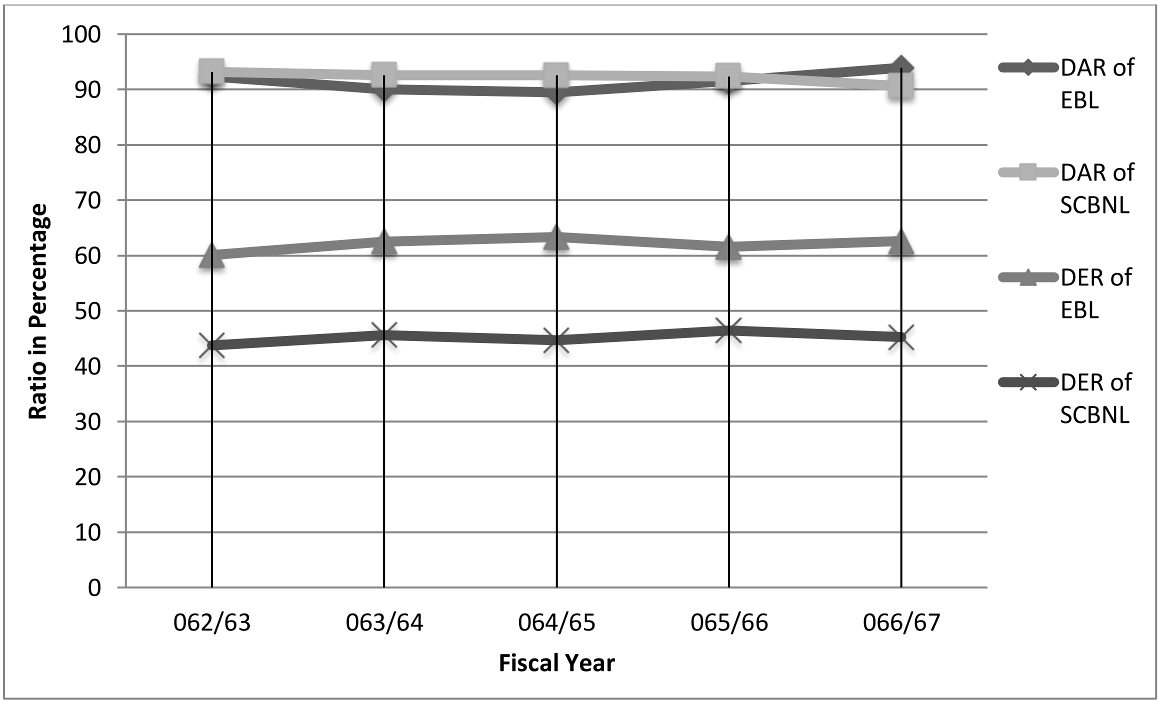


Table 4.8 and figure 4.5 shows that the long term solvency position of EBL & SCBNL by the help of debt-assets ratio & debt-equity ratio. During the study period of 5 years from 2062/63 to 2066/67, the highest debt-assets ratio of EBL is 93.93 percentage in 2066/67 and that of lowest is 90.07 percentage in 2063/64.The highest debt-equity ratio is 63.34 percentage in 2064/65 and that of lowest is 60.09 percentage in 2062/63.Over the study period the debt-assets ratio & debt-equity ratio of EBL is in fluctuating trend.

The highest debt-assets ratio of SCBNL is 93.19 percentage in 2062/63 and that of lowest is 91.62 percentage in 2066/67.The highest debt-equity ratio is 45.64 percentage in 2063/64 and that of lowest is 43.75 percentage in 2062/63.Over the study period the debt-assets ratio & debt-equity ratio of SCBNL is in fluctuating trend.

4.2.3 Assets Management Ratio

Assets Management Ratio look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels.Assets management ratios measure the effectiveness of a firm’s assets utilization. In this study,to measure the effectiveness of a firm’s assets utilization, loan & advance to total deposit, loan & advance to fixed deposit and loan & advance to saving deposit are calculated.

Loan & Advances to Total Deposit Ratio ratio assess to what extent the bankers are able to utilize the depositors' fund to earn profit by providing loans and advances.High ratio shows the better position of the firm.

Loan & advance to fixed deposit ratio indicates how much long term interest bearing deposits are utilized for income generating purpose. This ratio measures the utilization of fixed deposit in generating revenue by giving loan and advance to the client.

Loan & advance to saving deposit ratio indicates how much short term interest bearing deposits are utilized for income generating purpose.

Table: 4.9

Assets Management Ratios

Year	LA-TDR (%)		NWC-TAR (%)		TAT(In Times)		FAT(In Times)	
	EBL	SCBNL	EBL	SCBNL	EBL	SCBNL	EBL	SCBNL
062/63	71.01	38.75	27.99	-2.73	0.07	0.06	7.01	14.00
063/64	75.13	42.61	26.07	-3.65	0.06	0.05	8.06	12.41
064/65	76.49	46.12	23.89	2.61	0.07	0.05	5.13	15.13
065/66	71.68	38.70	18.59	5.25	0.07	0.05	6.01	15.24
066/67	74.61	45.35	27.01	10.00	0.08	0.06	7.56	19.38

Source: Appendix 3,4,5 & 6

Figure: 4.7

Trend Line of Loan & Advance to Total Deposit Ratio and

Net Working Capital to Total Assets Ratio

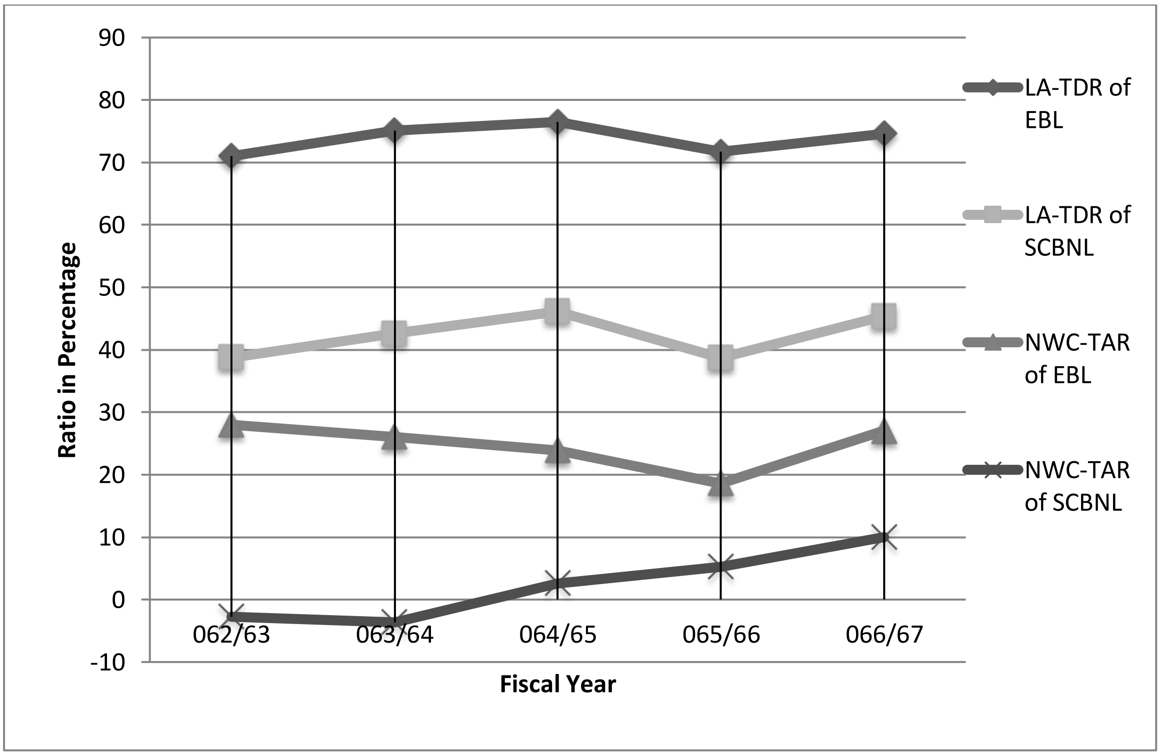


Table 4.9 and figure 4.6 shows that the percentage amount of loan & advance utilize from total deposit and percentage amount of net working capital utilize from total assets of EBL & SCBNL. During the study period of 5 years from 2062/63 to 2066/67, the highest loan & advance to total deposit ratio of EBL is 76.49 percentage in 2064/65 and that of lowest is 71.01 percentage in 2062/63.The highest net working capital to total assets Ratio is 27.99 percentage in 2062/63 and that of lowest is 18.59 percentage in 2065/66. Over the study period the Loan & advance to total deposit Ratio & working capital to total assets ratio of EBL is in fluctuating trend.

Similarly, the highest loan & advance to total deposit ratio of SCBNL is 45.35 percentage in 2066/67 and that of lowest is 38.70 percentage in 2065/66. The highest net working capital to total assets Ratio is 10.00 percentage in 2066/67 and that of lowest is -3.65 percentage in 2063/64. Over the study period the Loan & advance to total deposit Ratio & working capital to total assets ratio of EBL is in fluctuating trend.

Figure: 4.8

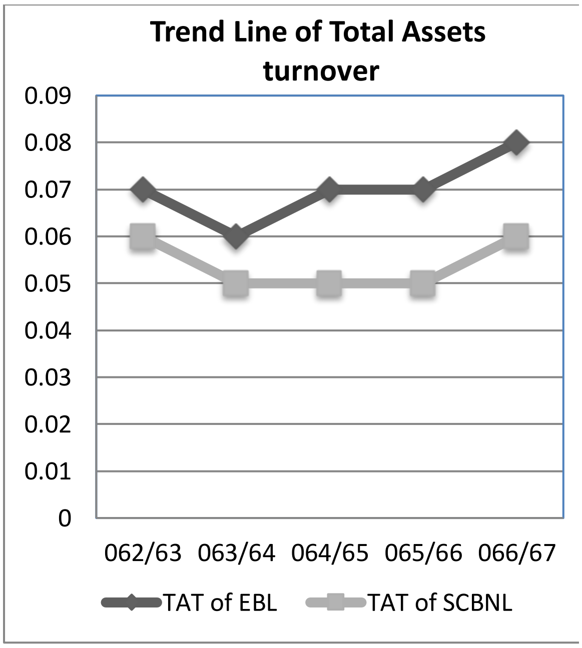


Figure: 4.9

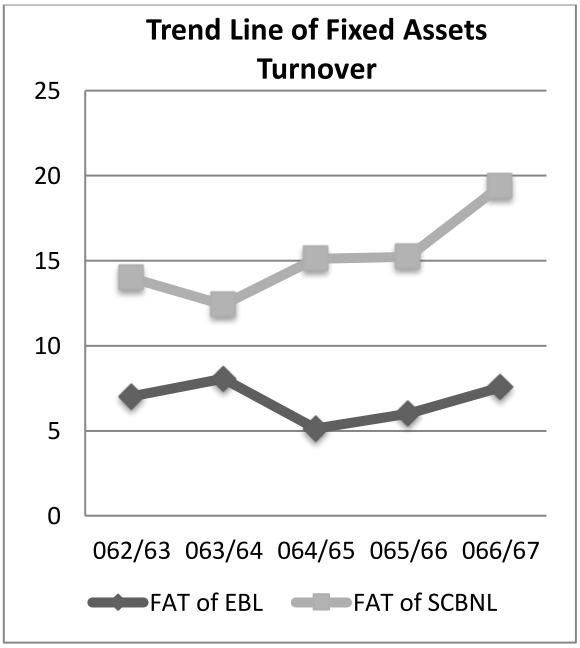


Figure 4.7 & 4.8 shows that the assets utalization of EBL & SCBNL by the help of total assets turnover and fixed assets turnover ratio. During the study period of 5 years from 2062/63 to 2066/67, the highest total assets turnover ratio of EBL is

0.08 times in 2066/67 and that of lowest is 0.06 times in 2063/64 .Over the study period the total asstes turnover ratio of EBL is in fluctuating trend. The highest fixed assets turnover rattio is 8.06 times in 2063/64 and that of lowest is 5.13 times in 2064/65. Over the study period the fixed assets turnover ratio of EBL is in fluctuating trend.

The highest total assets turnover ratio of SCBNL is 0.06 times in 2062/63& 2066/67 and equal 0.05 in other remaining three years.Over the study period the total asstes turnover ratio of SCBNL is in fluctuating trend. The highest fixed assets turnover rattio is 19.38 times in 2066/67 and that of lowest is 12.41 times in 2063/64. Over the study period the fixed assets turnover ratio of SCBNL is in fluctuating trend.

4.2.4 Profitability Ratio

Profitability ratios measure the overall performance of the bank by determining the effectiveness of the bank in generating profit and establishing relationship between profit and assets.Profitability ratio indicates the degree of success in achieving desired profit.Various profitability ratios are calculated to measure the efficiency of the bank. Success and failure of the bank depends upon its profitability showing how efficiently it is utilizing its deposit, assets, equity etc. In this study to measure how effectively the firm is being operated and managed, return on loan & advance, return on total deplosit, return on total assets and return on equity ratio are calculated.

Return on loan & advance measures the earning capacity of commercial banks on its deposits mobilized on loan and advances. Mostly loan and advances include loan, cash credit, overdrafts bills purchased and discounted.

Return on total deplosit ratio reflects the extent to which the banks have been successful in mobilizing its total deposit.total deposit of the bank is its creditorship. The prior objective of the bank is collected more deposit and utilization in various sectors i.e. to earn high profit there by maximizing return on its total deposits.

Return on total assets ratio is calculated to reveal the profitability of the banks with respect to total assets. It measures the profitability of all financial resources invested in the banks assets.

Table: 4.10

ProfitabilityRatios

Year	ROLA(%)		ROTD (%)		ROTA (%)		ROTE(%)	
	EBL	SCBNL	EBL	SCBNL	EBL	SCBNL	EBL	SCBNL
062/63	2.42	7.37	1.72	2.86	1.49	2.56	24.64	37.55
063/64	2.17	6.59	1.63	2.81	1.38	2.42	24.67	32.68
064/65	2.46	5.97	1.88	2.75	1.66	2.46	23.48	32.85
065/66	2.67	7.49	1.92	2.90	1.73	2.56	28.98	33.58
066/67	3.02	6.80	2.25	3.09	2.01	2.70	30.15	32.22

Source: Appendix 7, 8, 9, & 10

Above table 4.10 and below figure 4.9 shows that the profitability earned by the bank from utilization of total deposit and giving loan. During the study period of 5 years from 2062/63 to 2066/67, the highest return on loan & advance ratio of EBL is 3.02 percentage in 2066/67 and that of lowest is 2.17percentage in 2063/64 . It means the bank earned 3.02 percentage in 2066/67 and 2.17 percentage in2063/64 by giving loan.Over the study period the loan & advance ratio of EBL is in fluctuating trend.

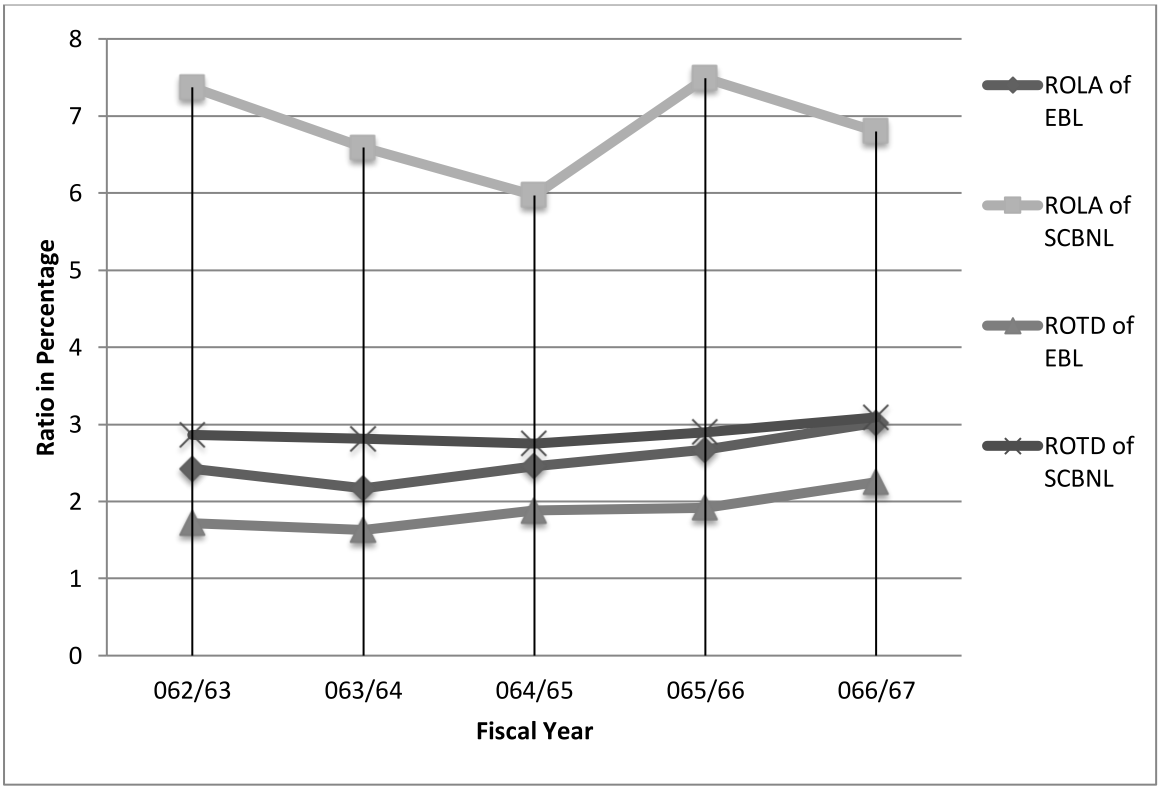
The highest return on total deposit rattio of EBL is 2.25 percentage in 2066/67 and that of lowest is 1.63 percentage in 2063/64. It means the bank earned 2.25 percentage in 2066/67 and 1.63 percentage in 2063/64 by utilizing deposit. Over the study period the return on total deposit ratio of EBL is in fluctuating trend.

During the study period of 5 years from 2062/63 to 2066/67, the highest return on loan & advance ratio of SCBNL is 7.49 percentage in 2065/66 and that of lowest is 5.97 percentage in 2064/65 . It means the bank earned 7.49 percentage in 2065/66 and 5.97percentage in 2064/65 by giving loan.Over the study period the loan & advance ratio of SCBNL is in fluctuating trend.

The highest return on total deposit rattio of SCBNL is 3.09 percentage in 2066/67 and that of lowest is 2.81 percentage in 2063/64. It means the bank earned 3.09 percentage in 2066/67 and 2.81percentage in 2063/64 by utilizing deposit. Over the study period the return on total deposit ratio of SCBNL is in fluctuating trend.

Figure: 4.10

Trend Line of Return on Loan & Advance and Return on Total deposit of SCBNL & SCBNL



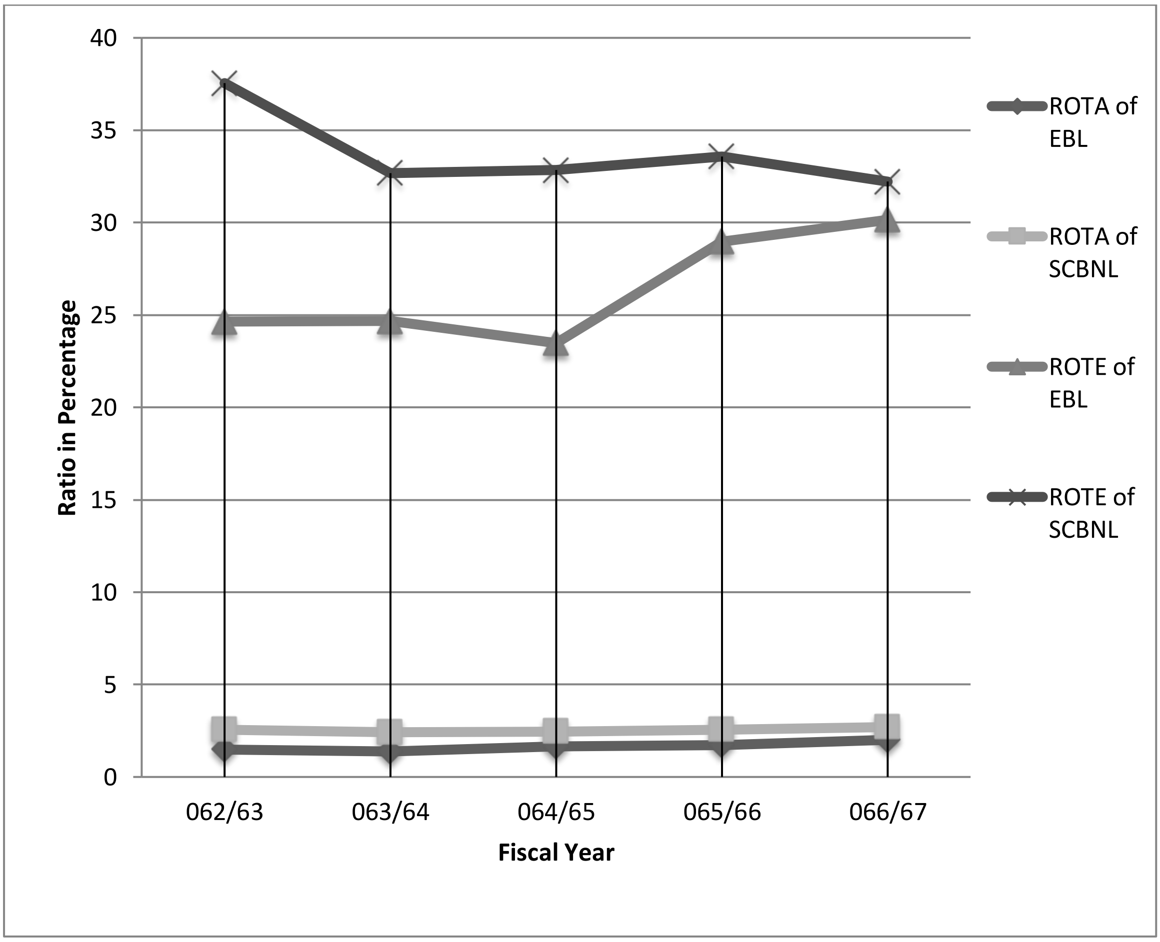
The profitability earned by the bank from utilization of total assets and total equity of EBl is 1.49 percentage in 062/63,1.38 percentage in 063/64 and then increasing up to 2.01 percentage in 066/67.it shows that the bank effectiveness in utilization of total assets is encreasing each year. The highest return on total equity ratio of

EBL is 30.15 percentage in 2066/67 and that of lowest is 23.48 percentage in 2064/65.The bank effectiveness in utilization of total equity is in fluctuating trend over the study period each year.

The profitability earned by the bank from utilization of total assets and total equity of SCBNL is 2.56 percentage in 062/63,2.42 percentage in 063/64 and then increasing up to 2.70 percentage in 066/67.it shows that the bank effectiveness in utilization of total assets is encreasing each year. The highest return on total equity ratio of SCBNL is 37.55 percentage in 2062/63 and that of lowest is 32.22 percentage in 2066/67.The bank effectiveness in utilization of total equity is in fluctuating trend over the study period each year. Which is presented by the following graph.

Figure: 4.11

Trend Line of Return on Total Assets and Return on Total Equity of EBL & SCBNL



4.3 Statistical Analysis

Statistical analysis is necessary to establish relationship between two or more variables and to find how these variables are related.In this study arithmetic mean, standerd deviation, cofficient of variation, correlation and hypothesis test are use to analysis data.

4.3.1 Mean and Standard Deviation

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value.

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Standard deviation is extremely useful for judging the representatives of the mean.

Table: 4.11

Mean value And Standerd Deviation of EBL & SCBNL

Componants	EBL		SCBNL	
	Mean Value	Standard Deviation	Mean Value	Standard Deviation
Current Assets	26470.18 million	9782.51 million	24858.87 million	4098.36 million
Working Capital	6916.09 million	2554.89 million	1049.4 million	2087.5 million
Current Ratio	1.37 times	0.069 times	1.04 times	0.088 times
Quick Ratio	0.39 times	0.054 times	0.39 times	0.037 times
Debt-Assets ratio	91.47%	1.79%	92.46%	0.56%
Debt-Equity Ratio	92.46%	0.56%	45.14%	1.01%
Loan & Advance to Total deposit Ratio	73.78%	0.02%	42.31%	0.035%

Total Assets Turnover Ratio	0.07 times	0.01 times	0.05 times	0.002 times
Fixed Assets Turnover Ratio	6.75 times	1.19 times	15.23%	2.586%
Net Working Capital to Total Assets Ratio	24.71%	0.04%	2.30%	0.057%
Return On Loan & Advance Ratio	2.55%	0.28%	6.85%	0.006%
Return On Total Deposit Ratio	1.88%	0.24%	2.88%	0.001%
Return On Total Assets Ratio	1.65%	0.002%	2.54%	0.001%
Return On Equity Ratio	26.38%	0.03%	33.78%	0.022%

Source: Annual reports of EBL and Appendix 12, 13, 14, 15

4.3.2 Co-efficient of Correlation

The coefficient of correlation measures the degree of relationship between to sets of figures.The result of coefficient of correlation is always lie between +1 and -1. It shows the effect of changes in one variable on another variable

Table: 4.12

Co-efficient Of Correlation

Componants	**Correlation**	
	EBL	**SCBNL**
Current Ratio And Quick Ratio	0.709	0.10
Total Deposit And Net Profit Afetr Tax	0.986	0.984
Total Deposit And Loan And Advance	0.997	0.924

Source: Appendix 12, 13, 14, 15

The above table 4.12 shows that the degree of relationship between current ratio and quick ratio, total deposit and net profit after tax and total deposit & loan and advance under five year study period from 062/63 to 066/67. In this study,current ratio & total deposit are independent variable (X) and quick ratio, net profit after tax and loan & advance are dependent variable (X_1).

From the above table, it is found that the coefficient of correlation between current ratio and quick ratio of EBL is 0.709 i.e. there is high degree of positive correlation between two variables. It means correlation co-efficient between current ratio and quick ratio of EBL is perfect correlation.

Co-efficient of correlation between current ratio and quick ratio of SCBNL is 0.10 i.e. there is positive correlation between two variables. It means correlation co-efficient between current ratio and quick ratio of EBL is positive.

Co-efficient of correlation between total deposit and net profit after tax of EBL is 0.986 and SCBNL is 0.984 i.e. there is high degree of positive correlation between two variables. It means if one variables increase or decrease another variables also increase or decrease in the same direction.Correlation of coefficient between total deposit and net profit after of EBL and SCBNL is perfect correlation.

Co-efficient of correlation between total deposit and loan & advance of EBL is 0.977 and SCBNL is 0.924 i.e. there is high degree of positive correlation between two variables. It means if one variables increase or decrease another variables also increase or decrease in the same direction by the same amount. Correlation of coefficient between total deposit and loan & advance of EBL & SCBNL is perfect correlation.

4.3.3 Hypothesis Test

A hypothesis is a conjectural statement of the relation between two or more variables. Hypothesis is always in declarative sentence form and they relate either generally or specifically, variables to variables.In this study, test of significance of difference between two mean is used to analysis.In case of testing the significance of difference between two means of small sample,t-values are used to the t-distribution.

In this study, following sets of hypothesis have been formulated and tasted.

H_0: There is no significance difference between working capital of EBL & SCBNL.

H_1: There is significance difference between working capital of EBL & SCBNL.

H_0: There is no significance difference between Current ratio of EBL & SCBNL.

H_1: There is significance difference between Current ratio of EBL & SCBNL.

H_0: There is no significance difference between Total Deposit of EBL & SCBNL.

H_1: There is significance difference between Total Deposit of EBL & SCBNL.

H_0: There is no significance difference between total assets turnover of EBL & SCBNL.

H_1: There is significance difference between total assets turnover of EBL & SCBNL.

Table: 4.13

Testing of Hypothesis (T-Distribution)

Tested Variable	Degree Of Freedom	Level Of Significance	Calculated T-Value	Tabulated T- Value	Result
Net Working Capital	(5+5-2)=8	α=5%	0.0002	2.306	H_0 Accepted
Current Ratio	(5+5-2)=8	α=5%	0.004	2.306	H_0 Accepted
Total Deposit	(5+5-2)=8	α=5%	0.085	2.306	H_0 Accepted
Total Assets Turnover	(5+5-2)=8	α=5%	0.005	2.306	H_0 Accepted

Source: Appendix 12, 13, 14 & 15

From the above table 4.13, It is found that the tabulated value of t-distribution is greater then calculated value in each case by considering the test statistic. So, null hypothesis H_0 is accepted and alternative hypothesis H_1 is rejected, it means there is no significance difference between net working capital,current ratio ratio, total deposit and debt assets ratio & total assets turnover of EBL & SCBNL. In other words, there is significant relationship between net working capital, current ratio, total deposit and total assets turnover.

4.4 Major Findings of the Study

Basically in this research work, all the data has been obtained from secondary sources. Data has been analyzed by using financial as well as statistical tools. This topic focuses on the major findings of the study, which are derived from the analysis of working capital management of the selected banks with comparatively applying five years data from 2062/63 to 2066/67.

The major findings of the study derived from the analysis of financial tools of the selected banks are given below:

i. The major components of current assets of EBL & SCBNL are cash and bank balance, loan& advance , government securities and miscelleneous current assets and current liabilities are deposit liabilities, bills payble,income tax liabilities, divident liabilities & other current liabilities.The level of current assets and current liabilities are in increasing trend over the study period.

ii. The liquidity positions of EBL & SCBNL is not very poor but the rule of thumb the standard ratio should be 2:1.The banks are unable to maintain the current ratio in accordance with standard.

iii. The trend of current assets of EBL is increasing each year but SCBNL increasing up to year 2065/66 & decrease in 2066/67. A total current asset of EBL is less than the SCBNL up to 2064/65, after that current assets of EBL is more than the SCBNL. In 2066/67 the difference of current assets between EBL & SCBNL is Rs. 10530.81million.

iv. The level of net working capital of EBL is in increasing trend over the period of time. During the study period of 5 years from 2063/63 to 2066/67, the highest amount of net working capital is Rs.11177.9 million in 2066/67 and that of lowest amount is Rs.4467.56 million in 2062/63. The working capital position of SCBNL is negative in first two years and then increasing.

v. During the study period of 5 years from 2062/63 to 2066/67, the highest debt-assets ratio of EBL is 93.93 percentage in 2066/67 and that of lowest is 90.07 percentage in 2063/64.The highest debt-equity ratio is 63.34 percentage in 2064/65 and that of lowest is 60.09 percentage in 2062/63.Over the study period the debt-assets ratio & debt-equity ratio of EBL is in fluctuating trend.

vi. The highest debt-assets ratio of SCBNL is 93.19 percentage in 2062/63 and that of lowest is 91.62 percentage in 2066/67.The highest debt-equity ratio is 45.64 percentage in 2063/64 and that of lowest is 43.75 percentage in 2062/63.Over the study period the debt-assets ratio & debt-equity ratio of SCBNL is in fluctuating trend.

vii. During the study period of 5 years from 2062/63 to 2066/67, the highest loan & advance to total deposit ratio of EBL is 76.49 percentage in 2064/65 and that of lowest is 71.01 percentage in 2062/63.The highest net working capital to total assets Ratio is 27.99 percentage in 2062/63 and that of lowest is 18.59 percentage in 2065/66. Over the study period the Loan & advance to total deposit Ratio & working capital to total assets ratio of EBL is in fluctuating trend.

viii. The highest loan & advance to total deposit ratio of SCBNL is 45.35 percentage in 2066/67 and that of lowest is 38.70 percentage in 2065/66. The highest net working capital to total assets Ratio is 10.00 percentage in 2066/67 and that of lowest is -3.65 percentage in 2063/64. Over the study period the Loan & advance to total deposit Ratio & working capital to total assets ratio of EBL is in fluctuating trend.

ix. During the study period of 5 years from 2062/63 to 2066/67, the highest total assets turnover ratio of EBL is 0.08 times in 2066/67 and that of lowest is 0.06 times in 2063/64 .Over the study period the total asstes turnover ratio of EBL is in fluctuating trend. The highest fixed assets turnover rattio is 8.06 times in 2063/64 and that of lowest is 5.13 times in

2064/65. Over the study period the fixed assets turnover ratio of EBL is in fluctuating trend.

x. The highest total assets turnover ratio of SCBNL is 0.06 times in 2062/63& 2066/67 and equal 0.05 in other remaining three years.Over the study period the total asstes turnover ratio of SCBNL is in fluctuating trend. The highest fixed assets turnover rattio is 19.38 times in 2066/67 and that of lowest is 12.41 times in 2063/64. Over the study period the fixed assets turnover ratio of SCBNL is in fluctuating trend.

xi. The highest return on loan & advance ratio of EBL is 3.02 percentage in 2066/67 and that of lowest is 2.17percentage in 2063/64 . It means the bank earned 3.02 percentage in 2066/67 and 2.17 percentage in2063/64 by giving loan.Over the study period the loan & advance ratio of EBL is in fluctuating trend.

xii. The highest return on total deposit rattio of EBL is 2.25 percentage in 2066/67 and that of lowest is 1.63 percentage in 2063/64. It means the bank earned 2.25 percentage in 2066/67 and 1.63 percentage in 2063/64 by utilizing deposit. Over the study period the return on total deposit ratio of EBL is in fluctuating trend.

xiii. During the study period of 5 years from 2062/63 to 2066/67, the highest return on loan & advance ratio of SCBNL is 7.49 percentage in 2065/66 and that of lowest is 5.97 percentage in 2064/65 . It means the bank earned 7.49 percentage in 2065/66 and 5.97percentage in 2064/65 by giving loan.Over the study period the loan & advance ratio of SCBNL is in fluctuating trend.

xiv. The highest return on total deposit rattio of SCBNL is 3.09 percentage in 2066/67 and that of lowest is 2.81 percentage in 2063/64. It means the bank earned 3.09 percentage in 2066/67 and 2.81percentage in 2063/64 by utilizing deposit. Over the study period the return on total deposit ratio of SCBNL is in fluctuating trend.

xv. The coefficient of correlation between current ratio and quick ratio of EBL is 0.709 i.e. there is high degree of positive correlation between two variables. It means correlation co-efficient between current ratio and quick ratio of EBL is perfect correlation.

xvi. Co-efficient of correlation between current ratio and quick ratio of SCBNL is 0.10 i.e. there is positive correlation between two variables. It means correlation co-efficient between current ratio and quick ratio of EBL is positive.

xvii. Co-efficient of correlation between total deposit and net profit after tax of EBL is 0.986 and SCBNL is 0.984 i.e. there is high degree of positive correlation between two variables. It means if one variables increase or decrease another variables also increase or decrease in the same direction.Correlation of coefficient between total deposit and net profit after of EBL and SCBNL is perfect correlation.

xviii. Co-efficient of correlation between total deposit and loan & advance of EBL is 0.977 and SCBNL is 0.924 i.e. there is high degree of positive correlation between two variables. It means if one variables increase or decrease another variables also increase or decrease in the same direction by the same amount. Correlation of coefficient between total deposit and loan & advance of EBL & SCBNL is perfect correlation.

xix. The tabulated value of t-distribution is greater then calculated value in each case by considering the test statistic. So, null hypothesis H_0 is accepted and alternative hypothesis H_1 is rejected, it means there is no significance difference between net working capital,current ratio ratio, total deposit and debt assets ratio & total assets turnover of EBL & SCBNL.

CHAPTER - FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter includes summary conclusion & recommendation of the study. The final and most important task of the researchers is to enlist fact findings of the study and give suggestion for further improvement. The analysis is performed with the help of financial tools and statistical tools. The analysis is associated with comparison and interpretation. Under financial analysis, various financial ratios related to the working capital management are used and under statistical analysis some relevant statistical tools are used.

5.1 Summary

The development of any country largely depends upon its economic development. Economic development demands transformation of savings or resources into the actual investment. Capital formation is the prerequisite in setting the overall pace of the economic development of a country. It is the financial institution that transfers funds from surplus spending units to deficit units.

Banking sector plays a vital role for the country's economic development. Bank is a resource mobilizing institution, which aspect deposits from various sources, and invests such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc. Banks help to mobilize the small saving collectively to huge capital markets. Commercial banks basically help to promote the money market by providing expert managerial skills and by using advanced and often state of the art technologies to serve the customers in an efficient and effective manner.

In financial sector, there are various commercial banks established as joint venture. After implementation of the open market policy, joint venture commercial banks are opened as private banks. In competitive financial market performance of joint venture banks are very good. The main objective of the study was to study the comparative analysis of the working capital as well as ratio analysis of commercial banks, i.e. Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd. To fulfill this objective and other specific objective as described in chapter one, an appropriate research methodology has development, which include the ratio analysis as a financial tools and statistical tools with t-test (hypothesis) tools. The major ratio analysis consists of the composition of working capital position, liquidity ratio, debt management ratio, assets management ratio and profitability ratio. Under these, main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient ‘r' is calculated and analyzed.

Now-a-days, many commercial banks are rapidly opened in Nepal as commercial banks with higher technology and efficient methods in banking sector especially after the political reform of the country. At present, 25 commercial banks are operating in Nepal. But in this study, only two commercial banks has been undertaken i.e. Everest Bank Ltd. and Standard Chartered Bank Nepal Ltd. This study has been completed on the basis of secondary data. Periodical review and analysis of financial aspects of the banks are very necessary to see the clear financial pictures; working capital's components of Nepalese commercial banks in Nepal i.e. EBL and SCBNL has been carried out to fulfill this requirement.

Studied of selected banks are introduced. Problems are stated to set the objectives of the study. The objectives are to evaluate the working capital management and financial analysis of EBL and SCBNL banks and to identity their strengths and weaknesses. Theoretical framework of ratio analysis, correlation between two variables, its importance and limitations, research methodology and limitations of the study are mentioned.

The findings of liquidity ratios, debt management ratio, asset management ratio and profitability ratios are presented on a comparative basis. Besides, statistical analysis i.e. mean, standard deviation, of all ratios and correlation coefficient of current ratio & quick ratio, the total deposit with net profit and loans & advances, and test of hypothesis made is also done of the selected banks. This analysis gives clear picture of the performance of the bank with regard to its operation. All of the information and data are collected from related banks i.e. websites, annual reports.

5.2 Conclusion

On the basis of entire research study some conclusions have been deduced. This study particularly deals about the working capital position with financial analysis of commercial banks in Nepal. The present study is mainly an attempt to give account of comparative study about commercial banks in different aspects such as liquidity position, profitability position, and market position and other related ratios and indicators of the basis of financial statement.

After conducting the working capital management of EBL and SCBNL, covering the study period of 2062/63 to 2066/67, the following conclusions can be drawn from the study:

The level of current assets of EBL is in increasing trend each year it shows that the business volume of EBL is growing up. But the level of current asstts of SCBNL is in fluctuating trend each year it shows that the business volume of SCBNL is fluctuating each year.The mean value of current ratio of EBL is 1.37:1 as well as SCBNL is 1.04:1. This is lesser than the standard current ratio 2:1. The banks are unable to maintain the current ratio in accordance with standard.

The level of working capital of EBL is positive and is in increasing trend each year but SCBNL working capital is negatine in first two year, It means SCBNL can not fulfill the short term financial obligation.The overall position of debt management ratio of both banks are not bad,over the study period debt management ratios are in fluctuating trend and very low,it means the banks have low risk due to the debt financing.

During the study period of 5 years from 2062/63 to 2066/67,the overal position of assets management ratios are in fluctuating trend.The total assets turnover ratio and return on total deposit ratio are very low, it means the firms performance to managing their assets and deposit is low. But the EBL position is better then SCBNL in the case of assets management.Profitability ratios of EBL is in increasing trend over the study period, It means the earning capicity of the bank is increasing each year. The overal efficiency and poerating result of the EBL is better on the basis of financial analysis.

Profitability ratios of SCBNL is in fluctuating trend over the study period, It means the earning capicity of the bank is not increasing each year. The overal efficiency and poerating result of the EBL is better on the basis of financial analysis. But the profttability position of EBL is better than SCBNL.The coefficient of correlation between two variables (i.e. current ratio andquick ratio, total deposit and net profit and total deposit and loans & advances) of the selected banks is nearly 1.There is high degree of positive correlation between these two variables, it also reveals that relationship between two variables of the selected banks is closer to perfect correlation. Relationship between two variables is significant.

T-test between the variables of EBL & SCBNL is less than the tabulated value of t for 8 degree of freedom at 5% level of significance for two variables so that, it is significant.

5.3 Recommendation

i. Although proportion of loan and advances out of the total current assets of EBL & SCBNL is more than other current assets but the proportion of loan & advance is fluctuating each year it is not better for the company.So, it should review its policy to increase the trend, as it is the most productive assets.

ii. Positive working capital represents the sound financial management of the bank. Similarly, negative working capital represents the poor financial management of the bank. In case of EBL, we found positive working capital and SCBNL has negative working capital.Therefore, to eradicate this situation this bank should be formulate and implement suitable working capital policy.There should be keeping optimum size of investment in current assets and current liabilities.

iii. The liquidity position in terms of current ratio and quick ratio of EBL & SCBNL are below than normal standard. Therefore,these banks suggest that to enhance liquidity position by keeping optimum current assets.

iv. The turnover of the commercial banks is the primary factor of income generating activity. Total assets turnover and fixed assets turnover position of the banks are not satisfactory. Due to the poor turnover position, the chances of bad debts and non- earning idle funds are high. Therefore, these banks should give proper attention on collection of over-dated loan and advances and utilization of idle funds as loan and advances.

v. Low return on assets of EBL suggest that it should cut down its operating cost in order to maxmized its profit.

vi. The unskilled manpower, over-staffing, unnecessary expenses, misuse of facilities, heavy expenses on overhead etc. may be the causes for high operating cost. So, these bank are recommended to pay attention to these aspects.

vii. These banks are suggested to invest in deprived sector as directed by NRB in order to contribute to the overall development of the country.

viii. Since the economy of the country has become weaker since the last decade, the studied banks are advised to concentrate more on risk free securities and low risk loans.

ix. The bank should keep in peace with the changing banking technologies, improve organizational structure, provide quality services to its customers and actively participate in social welfare programmes. Organizational culture that acquires, develops, utilizes and maintains the employees in a high morale is preferred.

x. Further studies can be conduct by using more sample size.

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APPENDICES

Appendix: 1

Computation Of Liquidity Ratio of EBL

Year	Current Assets(CA)	Current Liabilities(CL)	Quick Assets(QA)	Current Ratio (CR = CA/CL)	Quick Ratio (QR = QA/CL)
062/63	14921.68	10454.12	4942.37	1.43	0.47
063/64	19892.71	14304.41	6005.96	1.39	0.42
064/65	24967.25	18481.92	6251.95	1.35	0.34
065/66	33912.63	27051.25	9535.79	1.25	0.35
066/67	38656.64	27478.74	10564.093	1.41	0.38

Appendix: 2

Computation Of Liquidity Ratio of SCBNL

Year	Current Assets(CA)	Current Liabilities(CL)	Quick Assets(QA)	Current Ratio (CR = CA/CL)	Quick Ratio (QR = QA/CL)
062/63	20037.99	20741.21	9187.77	0.97	9187.77
063/64	20912.96	21957.6	7756.25	0.95	7756.25
064/65	26473.43	25603.93	9355.27	1.03	9355.27
065/66	28744.15	26639.33	11106.54	1.08	11106.54
066/67	28125.83	24105.29	9548.02	1.17	9548.02

Appendix: 3

Computation of Loan & Advance to Total Deposit Ratio And Net Working Capital to Total Assets Ratio of SCBNL

Year	Loaan & Advance (LA)	Total Deposit (TD)	Total Assets (TA)	Net Working Capital (NWC)	Loan & Advance to Total Deposit Ratio (LA-TDR = LA/TD)	Net Working Capital to Total Assets Ratio (NWC-TAR = NWC/TA)
062/63	9801.31	13802.45	15,959.29	4467.56	71.01	27.99
063/64	13664.08	18186.25	21,432.57	5588.3	75.13	26.07
064/65	18339.09	23976.30	27,149.34	6485.33	76.49	23.89
065/66	23884.67	33322.95	36,916.85	6861.38	71.68	18.59
066/67	27556.36	36932.31	41,382.76	11177.9	74.61	27.01

Appendix: 4

Computation of Loan & Advance to Total Deposit Ratio And Net Working Capital to Total Assets Ratio of SCBNL

Year	Loaan & Advance (LA)	Total Deposit (TD)	Total Assets (TA)	Net Working Capital (NWC)	Loan & Advance to Total Deposit Ratio (LA-TDR = LA/TD)	Net Working Capital to Total Assets Ratio (NWC-TAR = NWC/TA)
062/63	8935.42	23061.03	25767.35	-703.22	38.75%	-2.73%
063/64	10502.64	24647.02	28596.69	-1044.64	42.61%	-3.65%
064/65	13718.6	29743.99	33335.79	869.5	46.12%	2.61%
065/66	13679.76	35350.82	40066.57	2104.82	38.70%	5.25%
066/67	15956.95	35182.72	40213.32	4020.54	45.35%	10.00%

Appendix: 5

Computation of Total Assets Turnover Ratio And Fixed Assets Turnover ratio of EBL

Year	Total Assets (TA)	Fixed Assets (FA)	Total Income (TI)	Total Assets Turnover (TAR = TI/TA)	Fixed Assets Turnover (FAT = TI/FA)
062/63	15,959.29	152.09	1066.5	0.07	7.01
063/64	21,432.57	170.10	1370.7	0.06	8.06
064/65	27,149.34	360.51	1848.2	0.07	5.13
065/66	36,916.85	427.16	2565.3	0.07	6.01
066/67	41,382.76	463.09	3500.8	0.08	7.56

Appendix: 6

Computation of Total Assets Turnover Ratio And Fixed Assets Turnover ratio of SCBNL

Year	Total Assets (TA)	Fixed Assets (FA)	Total Income (TI)	Total Asses Turnover (TAR = TI/TA)	Fixed Assets Turnover (FAT = TI/FA)
062/63	25767.35	101.3	1418.25	0.06	14.00
063/64	28596.69	125.59	1558	0.05	12.41
064/65	33335.79	117.27	1774.14	0.05	15.13
065/66	40066.57	137.29	2092.12	0.05	15.24
066/67	40213.32	118.54	2297.7	0.06	19.38

Appendix: 7

Computation Of Return On Loan & Advance Ratio And Return On Total Deposit Ratio of EBL

Year	Total Deposit (TD)	Loan & Advance (LA)	Net Income (NI)	Return On Loan & Advance (ROLA = NI/LA)	Return On Total Deposit (ROTA = NI/TD)
062/63	13802.45	9801.31	237.2	2.42	1.72
063/64	18186.25	13664.08	296.4	2.17	1.63
064/65	23976.30	18339.09	451.2	2.46	1.88
065/66	33322.95	23884.67	638.7	2.67	1.92
066/67	36932.31	27556.36	831.8	3.02	2.25

Appendix: 8

Computation Of Return On Loan & Advance Ratio And Return On Total Deposit Ratio of SCBNL

Year	Total Deposit (TD)	Loan & Advance (LA)	Net Income (NI)	Return On Loan & Advance (ROLA = NI/LA)	Return On Total Deposit (ROTD = NI/TD)
062/63	23061.03	8935.42	658.76	7.37%	2.86%
063/64	24647.02	10502.64	691.67	6.59%	2.81%
064/65	29743.99	13718.6	818.92	5.97%	2.75%
065/66	35350.82	13679.76	1025.11	7.49%	2.90%
066/67	35182.72	15956.95	1085.87	6.80%	3.09%

Appendix: 9

Computation Of Return On Total Assets Ratio And Return On Total Equity Ratio of EBL

Year	Net Income (NI)	Total Assets (TA)	Total Equity (TE)	Return On Total Assets (ROTA = NI/TA)	Return On Total Equity (ROTE = NI/TE)
062/63	237.2	15,959.29	962.81	1.49	24.64
063/64	296.4	21,432.57	1,201.52	1.38	24.67
064/65	451.2	27,149.34	1,921.24	1.66	23.48
065/66	638.7	36,916.85	2,203.63	1.73	28.98
066/67	831.8	41,382.76	2,759.14	2.01	30.15

Appendix: 10

Computation Of Return On Total Assets Ratio And Return On Total Equity Ratio of SCBNL

Year	Net Income (NI)	Total Assets (TA)	Total Equity (TE)	Return On Total Assets (ROTA = NI/TA)	Return On Total Equity (ROTE = NI/TE)
062/63	658.76	25767.35	1754.13	2.56	37.55
063/64	691.67	28596.69	2116.35	2.42	32.68
064/65	818.92	33335.79	2492.54	2.46	32.85
065/66	1025.11	40066.57	3052.47	2.56	33.58
066/67	1085.87	40213.32	3369.71	2.70	32.22

Appendix: 11

Computation of Debt Assets Ratio & Debt Equity Ratio

Year	Total Assets (TA)	Total Debt (TD)	Total Equity (TE)	Debt Assets Ratio (DAR = TD/TA)	Debt Equity Ratio (DER = TD/TE)
062/63	25767.35	24013.22	1754.13	93.19%	43.75
063/64	28596.69	26480.35	2116.35	92.60%	45.64
064/65	33335.79	30843.32	2492.54	92.52%	44.68
065/66	40066.57	37014.1	3052.47	92.38%	46.44
066/67	40213.32	36843.49	3369.71	91.62%	45.21

Appendix - 12

Calculation for Mean value, Standard Deviation, T-test & Correlation between Current Ratio & Quick Ratio

Year	Current Ratio(X_1)	Quick Ratio(X_2)	$x_1=X_1-\bar{x}_1$	$x_2=X_2-\bar{x}_2$	$x_1 . x_2$	x_1^2	x_2^2
062/63	1.43	0.47	0.004	0.006	0.005	0.00	0.01
063/64	1.39	0.42	0.001	0.001	0.001	0.00	0.00
064/65	1.35	0.34	0.000	0.003	0.001	0.00	0.00
065/66	1.25	0.35	0.013	0.002	0.005	0.01	0.00
066/67	1.41	0.38	0.002	0.000	0.000	0.00	0.00
N_1 = 5 N_2 = 5	**$\sum X_1$ =6.83**	**$\sum X_2$ =1.97**			**$\sum x_1.x_2$ = 0.011**	**$\sum x_1^2$ = 0.019**	**$\sum x_2^2$ = 0.012**

For Current Assets,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} \qquad = \frac{6.83}{5} = 1.37$$

$$\text{S.D } (\boldsymbol{\sigma}) = \sqrt{\frac{\sum(X_1 - \bar{x}_1)^2}{N_1}} = \sqrt{\frac{0.019}{5}} = 0.069$$

For Quick Assets,

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} \qquad = \frac{1.97}{5} = 0.39$$

$$\text{S.D } (\boldsymbol{\sigma}) = \sqrt{\frac{\sum(X_2-\bar{x}_2)^2}{N_2}} = \sqrt{\frac{0.012}{5}} = 0.054$$

Correlation between Current Ratio & Quick ratio,

$$(r_{12}) = \frac{\sum x_1x_2}{\sqrt{\sum x_1{}^2 \sum x_2{}^2}}$$

$$= \frac{0.011}{\sqrt{0.091\times0.012}} = 0.709$$

For Hypothesis:

Test statistic under H_0,

$$t = \frac{(\bar{X}_1-\bar{X}_2)}{\sqrt{s^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}} \quad = \frac{(1.37-0.39)}{\sqrt{0.0048\left(\frac{1}{5}+\frac{1}{5}\right)}} = 0.001$$

$$S^2 = \frac{n_1\, s_1{}^2 + n_2\, s_2{}^2}{n_1+n_2-2}$$

$$= \frac{5\times0.069^2+5\times0.054^2}{5+5-2} = 0.0048$$

Appendix -13

Calculation for Mean value, Standard Deviation, T-test & Correlation between Total Deposit and Loan & Advance

Year	Total Deposit (X_1)	Loan & Advance (X_2)	$x_1=X_1-\bar{x}_1$	$x_2=X_2-\bar{x}_2$	$x_1 . x_2$	$x_1{}^2$	$x_2{}^2$
062/63	13802.44	9801.31	-11441.61	-8847.79	101232959.7	130910343.3	78283440.97
063/64	18,186.25	13664.08	-7,057.79	-4985.02	35183258.2	49812495.67	24850424.4
064/65	23,976.29	18339.09	-1,267.75	-310.02	393022.0743	1607194.626	96109.30023
065/66	33,322.94	23884.67	8,078.89	5235.57	42297645.58	65268547.65	27411224.64
066/67	36,932.31	27556.35	11,688.25	8907.26	104110305.2	136615403.1	79339191.64
N_1 = 5 N_2 = 5	**$\sum X_1$ = 126220.25**	**$\sum X_2$ = 93245. 51**			**$\sum x_1.x_2$ = 283217190.8**	**$\sum x_1{}^2$ = 384213984.4**	**$\sum x_2{}^2$ = 209980390.9**

For Total Deposit,

$$\text{Mean } (\bar{X}) = \frac{\sum X_1}{N_1} \qquad = \frac{126220.25}{5} = 25244.1$$

$$S.D\ (\boldsymbol{\sigma}) = \sqrt{\frac{\sum(\mathbf{X}_1-\bar{\mathbf{x}}_1)^2}{N_1}} = \sqrt{\frac{384213984.4}{5}} = 9800.69$$

For Loan & Advance'

$$\text{Mean } (\bar{X}) = \frac{\sum X_2}{N_2} \quad = \frac{93245.51}{5} = 18649.10$$

$$S.D\ (\boldsymbol{\sigma}) = \sqrt{\frac{\sum(\mathbf{X}_2-\bar{\mathbf{x}}_2)^2}{N_2}} = \sqrt{\frac{209980390.9}{5}} = 7245.35$$

Correlation between Total Deposit and Loan & Advance,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum {x_1}^2 \sum {x_2}^2}}$$

$$= \frac{283217190.8}{\sqrt{384213984.4 \times 209980390.9}} = 0.997$$

For Hypothesis,

Test statistic under H_0,

$$t = \frac{(\bar{X}_1-\bar{X}_2)}{\sqrt{s^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}} \quad = \frac{(25244.1-18649.101)}{\sqrt{92842888.19\left(\frac{1}{5}+\frac{1}{5}\right)}} = 0.005$$

$$S^2 = \frac{n_1\,s_1^2 + n_2\,s_2^2}{n_1+n_2-2} \quad = \frac{5\times9800.69^2+5\times7245.35^2}{5+5-2} = 92842888.19$$

Appendix - 14

Calculation for Mean value, Standard Deviation & Correlation between Total Deposit & Net Profit After Tax

Year	Total Deposit (X_1)	Net Profit After Tax (X_2)	$x_1=X_1-\bar{x}_1$	$x_2=X_2-\bar{x}_2$	$x_1 . x_2$	x_1^2	x_2^2
062/63	13802.44	237.2	-11441.61	-253.86	2904567.11	130910343.3	64444.90
063/64	18,186.25	296.4	-7,057.79	-194.66	1373869.40	49812495.67	37892.52
064/65	23,976.29	451.2	-1,267.75	-39.86	50532.52	1607194.626	1588.82
065/66	33,322.94	638.7	8,078.89	147.64	1192767.32	65268547.65	21797.57
066/67	36,932.31	831.8	11,688.25	340.74	3982654.31	136615403.1	116103.75
N_1 = 5 N_2 = 5	**$\sum X_1$ = 126220.25**	**$\sum X_2$ = 2455.30**			**$\sum x_1.x_2$ = 9504390.66**	**$\sum x_1^2$ = 384213984.4**	**$\sum x_2^2$ = 241827.55**

For Total Deposit,

$$\text{Mean }(\bar{X}) = \frac{\sum X_1}{N} = \frac{126220.25}{5} = 25244.1$$

$$\text{S.D }(\boldsymbol{\sigma}) = \sqrt{\frac{\sum(\mathbf{X}_1 - \bar{\mathbf{x}}_1)^2}{N_1}} = \sqrt{\frac{384213984.4}{5}} = 9800.69$$

For Net Profit After Tax,

$$\text{Mean }(\bar{X}) = \frac{\sum X_2}{N_2} = \frac{2455.30}{5} = 491.06$$

$$\text{S.D }(\boldsymbol{\sigma}) = \sqrt{\frac{\sum(\mathbf{X}_2 - \bar{\mathbf{x}}_2)^2}{N_2}} = \sqrt{\frac{241827.55}{5}} = 245.88$$

Correlation between Total Deposit & Net Profit After Tax,

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum {x_1}^2 \sum {x_2}^2}} = \frac{9504390.66}{\sqrt{384213984.4 \times 241827.55}} = 0.986$$

Appendix – 15

Calculation for Mean value, Standard Deviation & T-teat of Debt-Assets Ratio & Debt-Equity Ratio

Year	Debt-Assets Ratio (X_1)	Debt-Equity Ratio (X_2)	$x_1=X_1-\bar{x}_1$	$x_2=X_2-\bar{x}_2$	$x_1 . x_2$	x_1^2	x_2^2
062/63	8.37	31.16	2.40	6.15	14.76	5.77	37.80
063/64	9.54	24.97	3.57	-0.04	-0.15	12.74	0.00
064/65	4.09	15.61	-1.88	-9.40	17.66	3.53	88.27
065/66	3.77	27.77	-2.21	2.76	-6.09	4.87	7.63
066/67	4.09	25.54	-1.88	0.53	-0.99	3.55	0.28
N_1 = 5 N_2 = 5	**$\sum X_1$ = 29.86**	**$\sum X_2$ = 125.05**			**$\sum x_1.x_2$ = 25.19**	**$\sum x_1^2$ = 30.45**	**$\sum x_2^2$ = 133.99**

For-Debt Assets Ratio,

$$\text{Mean }(\bar{X}) = \frac{\sum X_1}{N} = \frac{29.86}{5} = 5.97$$

$$\text{S.D }(\boldsymbol{\sigma}) = \sqrt{\frac{\sum(\mathbf{X}_1 - \bar{\mathbf{x}}_1)^2}{N_1}} = \sqrt{\frac{30.45}{5}} = 2.76$$

For Debt-Equity ratio,

$$\text{Mean } (\overline{X}) = \frac{\sum X_2}{N_2} \quad = \frac{125.05}{5} = 25.01$$

$$\text{S.D } (\boldsymbol{\sigma}) = \sqrt{\frac{\sum(\boldsymbol{X}_2 - \overline{\boldsymbol{x}}_2)^2}{N_2}} = \sqrt{\frac{133.99}{5}} = 5.79$$

For Hypothesis,

Test statistic under H_0,

$$t = \frac{(\overline{X}_1 - \overline{X}_2)}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}} \quad = \frac{(5.97-25.01)}{\sqrt{25.72\left(\frac{1}{5}+\frac{1}{5}\right)}} = 0.002$$

$$S^2 = \frac{n_1 s_1^2 + n_2 s_2^2}{n_1+n_2-2} = \frac{5\times2.76^2+5\times5.79^2}{5+5-2} = 25.72$$

Appendix-16

Commercial Banks in Nepal

S.N	Name of Banks	Date of Operation	Central Office
1	Nepal Bank Limited	1994-07-30	Dharmapath, Ktm
2	Ristriya Banijya Bank	2022-10-10	Singha Darbar,Ktm
3	Agriculture Development Bank	2024-11-17	Ramshahpath,Ktm
4	Nepal Arab Bank Limited	2041-03-29	Kantipanh,Ktm
5	Nepal Investment Bank Limited	2042-11-26	Darbarmarg,Ktm
6	Standard Chartered Bank Nepal Limited	2043-10-16	Newbaneshor,Ktm
7	Himalayan Bank Limited	2049-10-05	Themal,Ktm
8	Nepal Bangladesh Bank Limited	2050-02-23	Newbaneshor,Ktm
9	Nepal SBI Bank Limited	2050-03-23	Hattisar,Ktm
10	Everest Bank Limited	2051-07-01	Lajimpat,Ktm
11	Bank Of Kathmandu Limited	2051/11/28	Kamaladi,Ktm
12	Nepal Credit & Commerce Bank Limited	2053-06-28	Siddharthanagar, Rupandehi
13	Lumbini Bank Limited	2055-04-01	Narayangadh, Chitawan
14	NIC Bank Limited	2055-04-05	Biratnagar,Morang
15	Machhapuchchhre Bank Limited	2057-06-07	Prithivichowk, Pokhard
16	Kumari Bank Limited	2057-12-21	Putakisadak,Ktm
17	Laxmi Bank Limited	2058-12-21	Adarsanagar,Birjung
18	Siddhartha Bank Limited	2059-09-09	Kamaladi,Ktm
19	Global Bank Limited	2063-09-18	Parsa,Birjung
20	Citizens Bank International Limited	2064-01-07	Kamaladi,Ktm
21	Prime Commercial Bank Limited	2064-06-07	New Road,Ktm

22	Bank of Nepal Limited	2064-06-25	Tripureshowar,Ktm
23	Sunrise Bank Limited	2064-06-25	Gairidhara,Ktm
24	Nepal Merchant Bank Limited	2o53-08-11	Babarmahal,Ktm
25	Development Credit Bank Limited.	2057-09-07	Newbaneshor,Ktm
26	Kist Bank Limited	2066-01-24	Kamaladi,Ktm
27	Janta Bank Nepal Limited	2066-12-23	Anamnagar,Ktm
28	Mega Bank Limited	2067-04-07	Kantipath, Kathmandu
29	Commerce & Trust BankLimited	2067-06-04	Kamaladi, Kathmandu
30	Civil Bank Limited	2067-08-10	Kamaladi, Kathmandu
31	Century Commercial Bank	2067-09-07	Putalisadak, Kathmandu