CHAPTER – I

INTRODUCTION

1.1 Background of the Study:

The growth of banking in Nepal is not so long in comparison with other developed or developing country. Nepal had to wait for a long time to come to the present banking system. The development of any country can't be imagined without economic activities. The development of the banking system is one of the grounds of economic development. Therefore, 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. Therefore, to solve the problems relating to economic development, development of banking system is necessary.

Like other countries goldsmith, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of the prime minister Ranoddip 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 stated 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 moneylenders 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 stretching banking services to the nook and corner of the country and 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 Banijya Bank (RBB) in B.S.2022-10-10 under Banijya Bank act 1965 AD 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 for industrial development in 2016 Ashad. IDC was converted to Nepal Industrial Development Corporation Ltd. (NIDC). Similarly, Agricultural Development Bank (ADB) was established in B.S. 2024-10-7 to provide finance for agricultural products so that agricultural productivity could be enhancing 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 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 service, 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 very different. 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 sector.

After that number of joint venture commercial banks is established, these are Standard Chartered Bank Ltd, Nepal State Bank Of India Ltd, Nepal Bangladesh Bank Ltd, Nepal Credit and Commercial Bank Ltd, Nepal Industrial and Commercial Bank Ltd, Everest 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. They have always put emphasis on this concept. They think a customer is the most important visitor on our premises. He/she 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 favour by serving him. He is doing us a favour by giving us and opportunity to do so.

Working capital is a controlling nerve of center of every bank because no bank can run smoothly without the proper control upon it. Thus, it plays the crucial role in the success and failure of the bank. As the management of current assets and current liabilities of the bank 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 bank is very important mainly for four reasons. Firstly, bank 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.

1.1.1 High Light of Bank:

Bank is a commercial institution, licensed to accept deposits and acts as a safe custodian of the spendable funds of its customers. Banks are concerned mainly with functions of banking i.e. receiving, collecting, transferring, buying lending, investing, dealing, exchanging and servicing (safe deposit, custodianship, agency, trusteeship) money and claims to money both domestically and internationally. The principal activities of a bank are operating current accounts, receiving deposits, taking in a paying out notes and coins and making loans.

Bank is a financial institute where the money is deposited and supplied to the needy person for their different transaction who comes in

the bank to fulfill their requirement of cash. So, we can say the main game of the play is to play with money and through it generates profit. Actually, the bank collects money from general public by attracting them with sound interest rate in their deposit. Through the money they have collected from the public they provide loans to the business house, industry and needy people etc. Now a day Bank also provides education and property loans. The bank charges the different interest rate, highly for loan and low for depositors. So, the difference gives actual profit. Just by collecting cash from saver and providing loans to the investor, we can say that actually the bank acts as an agent between the saver and the investor.

Banking activities undertaken by banks include personal banking (non-business customers), commercial banking (small and medium sized business customers) and corporate banking (large international and national corporations).

According to Charles J. Woelfel: a complete banking service would comprehend a variety of functions include any of the followings:

i) Receive demand deposits and pay customer's cheque drawn against them and operate Automated Teller Machine (ATM).

ii) Receive times and saving deposits, issue negotiable orders of withdraw and pay interest thereon, as well as provide Automatic Transfer Service (ATS) for funds from serving accounts to cover cheques.

iii) Discounts notes, acceptances and bills of exchange.

iv) Supply credit to business firms with or without security, issue letter of credit and accept bills drawn there under.

v) Transfer money at home and aboard.

vi) Make collections and facilitate exchanges.

vii) Issue drafts, cashier's cheque, and money order and certify cheques.

viii) Function safe deposit vault services.

ix) Provide custodianship for securities and other valuables.

x) Provide personal loans, credit and services to individuals and lend on discount customer installment receivables of vendors.

xi) Act in a fiduciary capacity for individuals, as well as establish trust funds.

xii) Provide corporate trust services (stock transfer agent register, paying agents, and escrow agent and indenture trustee)

xiii) Act in factors and engage in equipment lasing.

xiv) Deal in government securities and underwrite general obligations of state and municipal securities.

xv) Invest in government and other debt securities.

xvi) Act as fiscal agent or depository for the central government, state and subsidiary of states.

Without bank it would be quite impossible for the industrialist and entrepreneurs to go directly to general public for getting they're saving for investment. So, the simplest definition is that, bank takes the saving of the public by providing them with certain rate of interest & loans it to needy customers charging them certain rate of interest an earns some profit by doing this inter-mediation. This is the broadest form of banking but in this age, banking is such a vague term. It does a lot more than deposits and credits. Remitting of money, issues of the money, guarantee, letter of credit, controlling monetary activities of country etc, are also major function of the bank. Bank as an institution originated from Italy. The bank of Venice, establish in 1157 AD, was the fist bank in the world. Therefore, the word bank also from Italian word 'bank' which means accumulative of money or stock.

The history of modern banking business in Nepal is very short, less than half century. If we try to see the history of banking transaction in depth, evidence of money lending function are found in practice before 8^{th} century. In 732 AD, Gunakama Dev the ruler of Kathmandu constructed Kathmandu town by collecting fund from people. Towards the ends of 14^{th} century "Tankadhari" the moneylender, was the owner of the monetary transaction. Due to the lots of convenience brought by money lender, during the period of Prime Minister Random (1877-1885) established "Tezarath Adda" a financial institute which supply credit at 5% rate of interest against security of gold, silver and ornaments. The main objective of this institution was to free the people from moneylender exploration Nepal in developing country. In the history of Nepal to solve this problem, for the first time commercial bank was established in 1983 AD. Nepal Rastra Bank came into existence as a central bank. The commercial bank "Rastriya Banijya Bank" was established in July 23^{rd} 1966 A.D. The purpose of this bank is also to provide facilities for the economic welfare of the general public.

In our country, apart from local commercial banks, a board of joint venture bank entered with the view to accelerate the race of development of nation. At present there are many joint venture banks, which are running successfully in a competitive environment. Nepal Government deliberate policy of allowing foreign joint venture banks to operate in Nepal targeted to encourage local tradition ruin commercially bank to entrance their capacity through competition efficiency, mechanization and modernization is of computerization and promote customer services.

1.1.2 Commercial Banks in Nepal:

Although bank can be categorized into different types based on 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 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 also.

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 mid-July 2009 all together 26 commercial banks are in operation in

Nepal and some other commercial banks are coming in to operation in near future (there are 29 commercial banks on 5th Ashwin 2067) besides these, 63 development banks including regional development banks, 77 finance companies, 15 micro finance institutions, 16 NRB licensed cooperatives (undertaking limited banking transactions), 45 NRB licensed non government organizations (undertaking limited banking transactions) are actively participating in the financial markets of Nepal.

At the present, there are 26 commercial banks in Nepal on end of Ashad 2067. They are listed below:

S. No.	Name of Banks	Central Office	Date of Operation	Paid up Capital (in NRs. lakhs)
1	Nepal Bank Limited	Dharmapath, Ktm	1994/07/30	3804
2	Rastriya Banijya Bank	Singh Durbar, Ktm	2022/10/10	11723
3	Agricultural Development Bank Nepal	Ramshahapath, Ktm	2024/10/07	107775
4	Nabil Bank Ltd.	Kantipath, Ktm	2041/03/29	9657
5	Nepal Investment Bank Ltd.	Durbarmarg, Ktm	2042/11/26	24071
6	Standard Chartered Bank Nepal Limited	Newbaneshwore Ktm	2043/10/16	9320
7	Himalayan Bank Limited	Thamel, Ktm	2049/10/05	12162
8	Nepal SBI Bank Limited	Hattisar, Ktm	2050/03/23	8745
9	Nepal Bangladesh Bank Ltd.	Newbaneshwore Ktm	2051/02/23	18227
10	Everest Bank Limited	Laximpat, Ktm	2051/07/01	8388
11	Bank Of Kathmandu Ltd.	Kamaladi, Ktm	2051/11/28	8444
12	NCC Bank Ltd.	Siddharthanagar Rupandehi	2053/06/28	13996
13	Lumbini Bank Ltd.	Narayangadh, Chitwan	2055/04/01	10961
14	NIC Bank Ltd.	Biratnagar, Morang	2055/04/05	11405

15	Machhapuchchhre Bank Ltd.	Prithivichowk, Pokhara	2057/06/17	14791
16	Kumari Bank Ltd.	Putalisadak, Ktm	2057/12/21	11860
17	Laxmi Bank Ltd.	Adarshanagar, Birjung	2058/12/21	10981
18	Siddhartha Bank Ltd.	Kamaladi, Ktm	2059/09/09	9522
19	Global Bank Ltd.	Parsa, Birjung	2063/09/18	10000
20	Citizens Bank International Ltd.	Kamaladi, Ktm	2064/01/07	10000
21	Prime Commercial Bank Ltd.	New road Ktm	2064/06/07	7000
22	Sunrise Bank Ltd.	Gairidhara, Ktm	2064/06/25	13375
23	Bank Of Asia Nepal Ltd.	Tripureshowar, Ktm	2064/06/25	10000
24	Development Credit Bank Ltd.	Kamaladi, Ktm	2057/10/10	16553
25	Nepal Merchant Bank Ltd.	Babarmahal, Ktm	2053/09/11	14246
26	Kist Bank Ltd.	Anamnagar, Ktm	2059/11/9	20000

Source: Nepal Rastra Bank, Annual Report 2008-2009

1.1.3 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 bank of U.K. and Nepal Bank Ltd. After acquiring of the Grindlays operation in the region by standard chartered in 16th 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 22yrs of its operation in Nepal in January 2009. The global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal with 17 points of representation and 21 ATMs across the kingdom and with around 392 local staffs, SCBNL is in a position to serve its customers through a large domestic network.

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.

Present Capital Structure and Promoters/ Shareholders of SCBNL

Present Capital Structure of SCBNL

Share Capital & Reserves	Amount in NRs.
Authorized Capital	1,000,000,000
Issued Equity Capital	1,000,000,000
Paid up Equity Capital	931,966,400

Share Holding Pattern (In Percent)

Subscription	% Holding
Standard Chartered Grindlays Ltd, Sydney, Australia	50%
Standard Chartered Bank, UK	25%
General Public	25%
Total	**100%**

Source: Annual Report 2008-2009 of SCBNL

1.1.4 Profile of Everest Bank Limited:

Everest Bank Limited was established in 1994 AD, under the company Act. It is also a foreign joint venture bank and the foreign partner was United Bank of India Ltd. and was managed from the very beginning until Nov. 1996.

Everest Bank Limited started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 35 branches. This bank was established as a joint venture bank with Punjab National Bank with 20% share holding. The Punjab National Bank is one of the largest nationalized banks in India. Punjab National Bank is a technology driven bank serving over 56 million satisfied customers through a network of over 5002 branches spread all over the country with a total business of INR 364463 crore. Everest bank has recognized the value of offerings a complete rage 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.

Source: http://www.pnbindia.in/english_web/profile.htm

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. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society. EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

Present Capital Structure and Promoters/Shareholders of EBL

Present Capital Structure of Everest Bank Limited

Share Capital & Reserves	Amount in NRS.
Authorized Capital	1,000,000,000
Issued Capital	840,620,000
Paid up Capital	838,821,000

Share Holding Pattern (In Percent)

Subscription	% Holding
Promoter Shareholders	50%
Punjab National Bank	20%
General Public	30%
Total	**100%**

Source: Annual Report 2008-2009 of Everest Bank Ltd.

1.2 Statement of the Problems:

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 as commercial bank is 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 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:

i. How the sources of funds created and mobilized in share capital, assets, loan and marketable securities?
ii. What is the comparative working capital position of selected banks?
iii. Whether the size, liquidity, efficiency and profitability of working capital in selected banks are sufficient?

1.3 Objective of the Study:

The basic objectives of the preset 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:

i. To evaluate working capital of SCBNL and EBL and to analyze their assets structure and their implications.
ii. To analyze of working capital trend position of selected Bank
iii. To analyze the financial position of the SCBNL and EBL.
iv. To find out suggestions and recommendations on the basis of their applied system and financial position.

1.4 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 SCBNL and EBL 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 SCBNL and EBL. 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.

1.5 Limitation of the Study:

Although there are several joint venture commercial banks in Nepal but the study has been confined to Standard chartered bank Nepal ltd. and Everest bank ltd. Only the main limitation of the study is as follows:

i. The study concerns the analysis of only 5 years data.

ii. The study is only concentrated in working capital management and their financial performance of SCBNL and EBL.

iii. The study is based on primary and secondary data. Therefore, the accuracy of the result depends on the accuracy of the data provided by SCBNL and EBL.

iv. Time and resource constrains may limit the areas covered by the study.

v. The limit time available to submit the thesis for the partial fulfillment of MBS in the main constraints of the study. So the study cannot cover all the dimensions of the subject matter.

1.6 Organization of the Study:

The whole study is divided into five main chapters.

Chapter 1 Introduction presents background of the study, statement of the problems, objective of the study, significance of the study and limitation of the study.

Chapter 2 Review of Literature present review of related material like previous thesis, browser booklets, journals, articles and report, magazines etc will be done.

Chapter 3 Research Methodology present research design, nature and source of data, method of data collection and method of analysis under research methodology.

Chapter 4 Presentation and Data Analysis present the collected data will be tabulated and analyzed by using various financial tools, mathematical and statistical tools under data presentation and analysis.

Chapters 5 Summary, Conclusion and Recommendations present the brief summary of whole research report and conclusions. Its also provides some useful suggestion and recommendations to concerned parties.

Bibliography and Appendices are incorporated at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic "Working Capital Management of Commercial Banks in Nepal." Every study is very much based on past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the preset study with past research studies. 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 Concept of Commercial Banks:

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 cheque for customers and lending or investing surplus deposit until they are required 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 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, 1984:302)

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, 1972:345)

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.

2.1.1 Activities of Commercial Banks:

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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The main activities of commercial bank are as follows:

i) Accepting various types of deposits from people, institution or company.
ii) Providing loan to various productive sectors to earn a lot of profit from it.
iii) Acting as agency functions.
iv) Providing general utility functions.
v) Providing overseas trending services.
vi) Providing information and other services.

2.2 Concept of Working Capital:

Working capital is refers to the banks, short-term current assets and liabilities. Working capital is defined as all short-term asset used in daily operation. They consist primarily of cash, marketable securities, account receivable and inventories. Working capital is characterized by asset with

a life span that is less than one year. Cash, marketable securities, account receivables and inventory have a life span of less than one year. It is also characterized by its nearness to cash or liquidity the finished good, inventory when sold is converted in to account receivable. Receivable on collection are transferred into cash the level of investment in working capital is affected by sales volume, production policies and collection polices. According to I.M. Pandey, there are two concepts of working capital gross concept and net concept. The gross working capital, called as working capital, refers to the bank's investment in current assets and net working capital refers to the difference between current assets and current liabilities.

Working capital is a controlling nerve of center of every bank 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 bank. As the management of current assets and current liabilities of the bank 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.

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 do not generate goods and services directly. However, it reflects the right of the bank. It is called intangible fixed assets. It represents patents, copyrights, trademarks, and goodwill. Both fixed assets are written off over a period off time. Current assets are those resources of the bank, 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.

2.2.1 Objectives of Working Capital in Banks

A bank undertakes many transactions daily. Sometimes, customers deposit large quantity and sometimes customers withdraw from their deposits in high quantity. Investment fund of bank is covered by deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw. for daily operation of office and to meet the administrative expenses, a bank should have certain level of working capital. Working capital is required to run the business smoothly and efficiently in the context of the set objectives. It is not doubt that no company can achieve its goal without proper use of working capital. Therefore, it can compare as lifeblood or controlling nerve of center of the banks.

The main objectives of working capital management are:

- To pay depositors,
- To maintain cash reserve ratio (CRR)
- To maintain statutory liquidity ratio (SLR)
- To increase the attraction of business
- To achieve goal and smoothly run business.
- To take risk and economic fluctuation in the future.

2.2.2 Importance of Working Capital

Most of firms aim at maximizing the wealth of shareholders. The 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 their motives.

Business sector is very competitive these days. Marketing sector of business is also very complex. In this condition, working capital is also very complex and it plays a vital role of sustainable developed of business sector. It is life-blood of the business organization. Just as

calculation of blood is essential in the human body for maintain life likewise. Working capital is very essential to maintain the smooth running of a business. No business can run successful without an adequate amount of working capital. It is an important aspect of financial management. It is important due to.

1. To maintain day-to-day expenses and overhead cost
2. Adequacy of working capital creates a feeling of securities and Confidence.
3. Adequacy of working capital is a must for maintain solvency and continuing production.
4. Creation of sound goodwill.
5. Easy loan
6. Easy availability of cash discount.
7. Quick and steady return to the investor
8. Facility of off-season purchasing
9. Regular supplies off-season purchasing
10. Utilization of opportunities

2.2.3 Determinants of Working Capital in Banks

Many factors are affects to determine the capital structure of banks. They are categorized in two ways.

i. External Factor:

a. Prevailing interest rate:

If interest rate is high cash demand is low & liquidity need is low.

b. Saving and Investment rate:

If income & saving scale of people is high then liquidity is low. If investment in commercial field is high then liquidity is high.

c. Growth & slacking position of financial market:

If financial market of bank is in growth and prosperity, then low liquidity and if opposite, high liquidity.

ii. Internal Factor:

a. Lending Policy of bank:

Largest quantity for long term investment needs high liquidity and if short term loan policy, low liquidity.

b. Management capacity:

If management of the bank is efficient & ready to bear risk then low liquidity.

c. Strategic Planning & funds flow situation:

Liquidity depends upon planning & strategic. Current A/C needs high liquidity and fixed deposit needs low liquidity.

2.3 Review of Books:

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

"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." (Pandey, 1996:794)

As per the theoretical concepts of the working capital from James C Van Horne: “Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivables, inventory and the administration with the problem that arises in attempting to manage the current assets. The current liabilities and the inter-relationship that exist between them.” (Van Horne, 2000:337)

“Working capital management is the effective life blood of any business. Hence 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.” (Agrawal; 1998:246)

Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. The bond conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management working capital in any enterprises and naturally to this study as well. They explain in the beginning, the important of working capital, the use of short term versus long-term debt, relationship between current assets to fixed assets. The components of working capital they have deal with current assets, which are, cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management model. They have also explained the major sources and form of short-term financing. Such as trade credit, loan from commercial banks and commercial paper. (Weston and Brigham, 1997:572)

“Proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiency circulated. To have adequate healthy and efficient circulation of working capital it is necessary that working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed.” (Agrawal; 1998:248)

There are two concepts of thoughts working capital. One school of thought out says that working capital is meant for the current assets only. Another school thought argued that working capital is the excess of current assets over current liabilities.

The first school of thought under the sponsorship of mead, baker, malts and field, relates with gross working capital and the second school of thought under the leadership of Lincoln, Doris, Stevens and Sailors, relates with net working capital. The gross working capital refers to the firms' investment in current assets which includes to the management of cash, inventories and account receivable of the firm while, net working capital refers to difference between current assets and current liabilities.

From the management point of view, gross working capital deals with the problem of managing individual current assets in the day-to-day operation. But having along run view of working capital, we have to concentrate on the net value of current assets, i.e. the operation of current assets, which is constant in short run analysis and decision making but variable and manageable in long run operation. The net concepts of working capital helps the management to look for permanent source for it's financing since working capital under this approach does not increase with increase in short term borrowing. (Kuchal, 1996:187)

"Working capital consists broadly at the portion of the assets of the business used in, or related to, current operational and represented at any one time of the operating cycle by such items as account receivables, inventories of raw materials, stores, work-in-progress and finished goods, bill receivables and cash. Assets of this type are relatively temporary nature, since the invested names are normally capable of being recovered or of being change in form with in a short period of time, and the time element of ultimate recovery depends on the manufacturing cycle as well as sales and collection cycle." (Agrawal; 1998:249)

According to KV Smith: "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 mange the assets, current liabilities and the inter-relationship that exist between them." (Smith, 1974:16)

Working capital management is the process of planning and controlling the level and mix of the current assets of the firm as well as

financing these assets. Specially, working capital management requires financial manager to decide what quantities of cash, other liquid assets account receivables and inventory the firm will hold at any point in time. In additional, financial managers must decide now there current assets are to be financed.

2.3.1 Review of Journals/ Articles:

In this section the review of journal/ articles, various published articles by different management expert relating to working capital management.

In this regards, Manohar K. Shrestha, in an articles has considered ten selected PEs and studied the working capital management in those PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis he found that four PEs had maintained adequate liquidity position. Two has excessive and the remaining four had failed to maintain desirable liquidity position. On the turnover side, two PEs had negative working capital, four adequate turnovers, one had high turnover and remaining three had not satisfactory turnover on net working capital. He had also found that out of ten PEs six Public Enterprises were operating at losses while only four were getting some percentage of profits. With reference to those finding he had bought certain policy issues such a lack of suitable financial planning negligence of working capital management, deviation between liquidity and turnover and return on net working capital. To end he had made some suggestive measures to overcome from the above policy issues, identification of needs funds, regular checks of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long term sources of funds to finance working capital needs.[1]

Another observation of twelve selected PEs have been conducted by Manohar K. Shrestha. In this article he has described the conceptual setting sources of working capital and types of working capital and types of working capital. From the analysis he found that the liquidity position of the selected PEs differ widely in view of the differences is their nature of business. These were also above normal acid-test ratio. While analyzing, the turnover of those selected PEs showed wide deviation.

[1] Dr. Manohar Krishna Shrestha, "Working Capital Management in selected Public Enterprises." A Pad Mgmt. Journal, 1992

Based on the sales value four out of seven PEs had normal inventory turnover, the other three had not been satisfactorily maintained and in some of them inventory had exceeded sales. The collection period relating to the selected PEs exhibited market difference ranging from 32 days to 755 days, the profitability position was analyzed through return on net working capital was positive for eight PEs, negative for two PEs, and rest two had not any return, since they were in establishment phase.[2]

During the analysis the observed some problem like the lack of far sighted liquidity adjustment strategy in most of the PEs no guiding criteria to as certain the satisfactory malignances of acid-test ratio and working capital needs. Large blocking of capital in inventories and low capacity utilization. All these were due to efficient management of working capital in those PEs.

The next article relating to working capital management published by K.Acharya (1985). He has described the two major problems operational problems and organizational problems regard the working capital management in Nepalese PEs. the operational problem he found listed in the first part are: increase of current liabilities than current assets, not allowing the current ratio relation 2:1 and slow turnover of inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales, absent to apathetic management information system, break even analysis, funds flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally monitoring of the proper functioning of working capital management had never been considered a managerial job.[3]

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

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[2] Dr. Manohar K. Shrestha, "Working Capital Management in selected Public Enterprises". A study on financial result and constraints ISDSO Vol.3, No. 1-4, July 82-June 83.

[3] Professor (Dr.) K. Acharya, "Problem and impediment in the management of working capital in Nepalese Public Enterprises", ISDOC Vol.10, No.3 Jan-Mar.

To make an efficient use of funds for minimizing the risk of the loss to attain profit objectives, he has made some suggestion. The PEs should avoid the system of crisis decision which prevailed frequently in their operation, avoid fictitious holding of assets, the finance staff should be acquainted with the modern scientific tools for the presentation analysis of data and lastly. He has suggested optimizing its level of investment as a point of time. The management of bank desires neither over nor under investment in working capital because both of these situation will erode the efficiency of the concern.

An article relating to working capital is by R.S. Pradhan (1988). He 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 rates to describe cash and inventories respectively. The pooled regression result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression 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. The effects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful.

The basic goal of working capital management is to manage the bank's current assets and current liabilities in such in away that a satisfactory level of working capital is maintained. Neither over nor under investment in working capital is desire by the management of on enterprise because of these situations on will erode the efficiency of the concern.

2.3.2 Review of Research Paper and Previous Thesis

Bhandari, Anir Raj (1990) in his thesis entitled "Working Capital Management (A Case Study of Nepal Bank Limited)" has done research work for the ten years period, 2034 to 2043 B.S. He has drawn some

major findings from his study were as follows: the bank has heavy liquid assets that reflect the improper utilization of the banks fund due to heavy growth in deposit and other borrowed capital; the volume of share capital became insufficient. Rate of return on shareholders investment is considered insufficient; the bank could not fully utilize its fund and not paid attention to the portfolio management in investment.

Shrestha, Saileshman (1991) has carried out his study on "A study on Working Capital Management of Dairy Development Corporation (DDC) Nepal." His main objective is to analyze the relationship between sales and different variables of working capital. The major findings of his study are as follows:

There is a high level of current assets in DDC.

a. Inventory holds the major share of current assets followed by cash, receivable respectively.
b. There is a high liquidity position and low level of working capital turnover in DDC.
c. DDC has followed conservative working capital policy. Analysis found that there is no significance improvement in working capital over the 5 years of study period.

Shrestha, Sunity (1993) has conducted in her research study on "Investment Planning of Commercial Bank in Nepal".

The research findings of the study are summarized as:

- The general trend of commercial banks assets holdings ids growing. Deposits have been a major of fund. The excess reserve level of the banks allows ideal money and loss of opportunity. Debt equality ratios are high, greater than 100%.

- The return ratios are on the average higher for foreign JVBS that for Nepalese bank but return are on the statistically some. Risk taking attitude is higher in foreign JBVS. The total management achievement index is higher in case of foreign banks in comparison the Nepalese bank.

- The hypothesis that the commercial banks have nonprofessional style of decision making in investment has been acted. The investment of commercial banks in shares and securities are normal and not found to have strategic decision towards investment in shares and securities. Yield from the securities has been found to be satisfactory.

- Investment in various economic sectors shows industrial and commercial sector taking higher share of loan till 1990.
- Investment in various sectors has a positive impact on the national from their respective sectors.

- Lending in priority sector showed cottage and small industry sector sharing higher loans.

The major findings of her study were as follows:

All the selected firms have not successfully been mobilization their deposits but the finance companies have mobilize their deposits smoothly in comparison with JVBS.

- The profitability position of all finance companies was better than of JVBS.

- The liquidity position of JVBS is comparatively better than that of finance companies.

- There is significant relationship between deposit and loan and advances of BOKL. Similarly, there is significant relationship between deposit and total investment, total assets and net profit of Kathmandu finance company.

- The trend value of total deposit, loan and advances, net profit and total investment were in increasing trend.

- The JVBS have less interest risk and capital risk in comparison to finance companies.

Shrestha, Prem Kumar (1994) in his study on "Working Capital Management in Bhrikuti Paper Mills Ltd.", considered the financial statement of this organization for the five fiscal years from 2044/45 to

2048/49 B.S. He has drawn some conclusion from the study. The major components of currents are cash and bank balance, inventories and receivables. Among them cash and bank balance holds the largest portion and has fluctuating trend. Due to the lack of definite credit and collection policy the receivables are increasing year after year. Various turnovers are decreasing which indicate that current assets are not property utilized in the mill. The liquidity position of mill is not bad; it is due to decrease trend of current liabilities. Although, mill is earning profits, its profitability position is not encouraging one because it return on total assets is not high enough.

K.C., Niraj (2000) in his thesis entitled "Comparative Study of Working Capital Management of NBL and NABIL Ltd." He has examined the management of working capital in NBL and NABIL. The specific objectives undertaken in his study are:

- To study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL.
- To analyze the comparative study of working capital management of NBL and NABIL.
- Recommendation and suggestions for the improvement of working capital management NBL & NABIL in the future.

Study has mentioned the following findings:

- The average cash and bank balance and loans and advances are higher on NABIL than NBL. Management of loans and advances is more problematic in NBL than NABIL.
- Interest income of NBL is better than NABIL.
- Liquidity management policies of these two banks are significantly different.
- NABIL has the better utilization of deposits in income generating activity than NBL. It also shows that NABIL has better investment efficiency in loan and advances.
- Due to more conservative working capital policy risk of insolvency is lesser but cost of fund is higher on NBL than NABIL.

- Profitability position of NABIL is far better although NBL earned higher interest than NABIL.

Chaudhary, D (2003) conducted a study on working capital management of Royal Drugs Limited. The objectives of this study were to examine risk– return analysis of working capital, determine the return on working capital, assess the financial liquidity position, to test whether return on net working capital depends upon liquidity (CA/CL), turnover of working capital (S/CA) and profitability of total assets (S/TA). Data used in the study were secondary and primary (Questionnaire). Tools used in the study were financial ratio and multiple regression model-

RONWC= f(CA/CL, S/CA, and NPAT/TA)……(2.6)

Major findings of study were that Royal Drugs Limited was following moderate working capital policy during the study period. Inventories were the largest portion of current assets and cash the last. Investment in current assets was 2.5 times more than that of fixed assets, current ratio is satisfactory but quick ratio is poor, RONWC and liquidity are insignificantly related to each other. Positive relationship has been fond between RONWC and profitability of TA indicates that if RDL could be able to control the operating, it can enhance it profitability in coming days.

Rana, Sajana (2004) has conducted thesis research on "An Investment Policy of Joint Venture Banks in Nepal"

The major findings are as follows:

- The mean ratio of investment of government securities to current assets of NB has been found lower than that of the other banks. Whereas, SCBNL has highest mean ratio in comparison with other banks. Likewise, NB's ratios are less homogenous.

- The mean ratio of total investment to total deposit/ ratio of SBI have lowest than other on the other hand SCBNL has the highest mean ration. Moreover Everest bank ratios are more consistent.

- Investment on government securities to total financial investment ratios of NB has lowest mean ratio and SBNL has highest meant ration. SBI's ratios are homogenous and NB has less homogenous.

- The mean ratio of investment on shares/debentures to total investment ratios of SCBNL has quite lowest ratio and NB highest. NB less homogenous ratio and NABIL has more homogenous ratio.

- The trend value of all JVBs has an increasing trend. It means if other things remaining same, JVBs will increase their investment in future.

Sthapit, Sushma (2005) has conducted the study on "Financial Performance of Nepalese Commercial Banks in Nepal."

The research findings of the study are as follows:

- The liquidity position of SCBL has better than other five banks NABIL, BOK, Nepal SBI Bank, NIBL and HBL in respect of current ratio standard should be 2:1. Although, this standard can not be maintained by all commercial banks. HBL has lower current ratio than other five banks.

- Nepal SBI Banks has better position that other five banks in the case of cash and bank balance with respect to total deposits. In contrast, a high ratio of cash and bank balance may indicate the bank's inability. Thus, in case of NABIL, HBL, NSBI, NIBL and BOK have invested their deposits fund in more productive sector like short-term investment, marketable securities etc. for improving their profitability.

- Cash and bank balance position with respect to deposits (excluding fixed deposit) in the case of NSBI has better performance against the readiness to serve its customer deposits than other five banks.

- NSBI has a high ratio of cash and bank balance percentage in respect of current assets. But other remaining five banks have low ratio than NSBI. NSBI's yearly average (19.445) is higher than composite average (11.11%). Although, yearly average of BOK and NIBL have also covered more than composite average. In contrast, it is clearly seen that cash and bank balance percentage is lowest in case of SCBNL in comparison with other banks.

- Investment on government securities percentage in respect to current assets, in the case of SCBNL has certainly registered better

than other fives banks. In the case of NBIL, it has very low ratio with respect of current assets among the six banks.

- Net profit to total assets ratio in the case of SCBNL has registered better performance by utilizing its overall resources than other five banks. NSBI has low percentage ratio than the other five banks.

- In the case of SCBNL, it has registered more percentage in respect of net profit to total deposits ratio than other banks i.e. NABIL, BOK, NIBL, NSBI and HBL. Comparatively, SCBNL could earn more profit over the deposit amount than other fives banks.

- SCBNL has appeared better achievement by mobilizing on resources of shareholders' equity than other five banks. This ratio reflects the profitability of the owner's investment of commercial bank. NSBI is not able to mobilizing shareholders equity than other five banks.

- Return on loan and advances in the case of SCBNL have appeared better achievement by mobilizing their loan and advances.

- Market price per share of SCBNL has occupied better performance in the competitive open market of investor expectation than other five banks, i.e. NABIL, HBL, NSBI, NIBL and BOK.

- In case of EPS, SCBNL has earned more profit to its shareholders last fifth year than other five banks. It has registered increasing trend of EPS during the study period.

- Price-earning ratio of commercial banks is generally fluctuating trend over the different fiscal years. NSBI has occupied better position with the respect to higher P/E ratio over the study period than other five banks. Therefore, NSBI reflects to the investors for confidence to their investment.

- Market prices to book value ratio of commercial banks are fluctuating trend over the last five different fiscal years. In the case of SCBNL has recorded highest position by securing high yearly average in the comparison of other five banks.

- Market rate of return of BOK is better than other five banks i.e. NABIL, SCBNL, HBL, NSBI and NIBL.

- The degree of relationship between deposits and loan and advances of the commercial banks are positive. Moreover, the coefficient of determination of BOK has registered higher value than other five banks.

- The degree of relationship between loan and advances and net profit of the all commercial banks are positive. Moreover, by considering the coefficient of determination of SCBNL has registered higher value than other five banks.

Yadav, Sheela (2006) has conducted the research on "A study on Working Capital Management of listed Hotels in Nepal Stock Exchange". She has used financial as well as statistical tools to analyze the financial data of 2000 to 2005.She has also used primary and secondary sources of data. The main objective of this study is to appraise the working capital management of listed hotels and to find out the relationship between the different variables of working capital .The major findings of her study are:

- Yak & Yeti, Oriental and Soaltee Crown Plaza are suffering from excess of current assets over the current liabilities.

- Oriental has good inventory management in comparison to both hotels.

- Yak & Yeti has followed conservative financing policy where as Soaltee and Oriental has followed aggressive financing policy.

- The liquidity and profitability position of all selected hotels is satisfactory.

- Oriental has able to collect debt on time rest two has difficulty to collect their debt on time.

- Receivable and inventory conversion period are relatively short than the payable deferral period it indicates they have got long credit period from its creditors.

- The relationship between current assets and current liability, current assets and net working capital, net profit and net working

capital are found negative and receivables and net sales are positive of all selected hotels.

- From the primary information, it has also found that Oriental and Yak &Yeti are not implying any credit standard policy and credit payable policy.

- In the view of Oriental and Yak & Yeti good financing planning is important to make better working capital management system.

The researcher has taken only three hotels out of four hotels listed in Nepal Stock Exchange. Although she has used questionnaire method to collect the primary information about related field, which one is not able to collect more information from listed hotels because it is only distributed in only two hotels, Yak &Yeti and Oriental. If she has directly collect primary information from the related respondent not from the Human Resources Department then her study would be far better than others.

Pandey, Bhupendra (2007) has done the research on the title "A study on Working Capital Management in Hotel Industry with reference to Hotel Radisson, Hotel Soaltee and Hotel Hyatt". His main objectives of this study are to analyze composition of working capital, liquidity and profitability position of Hotel Radisson, Hotel Soaltee and Hotel Hyatt as well as to examine the relationship between sales and different variables of working capital position. He analyzed five year published data of selected hotels from the fiscal year 2057/58 to 2061/62 and used statistical and financial tools to analyze the secondary data to achieve set objectives.

The researcher has found that major components of Current Assets are Inventories, Debtors, Cash & Bank Balance (CB Balance) and Loans, Advances and Deposit (LAD). Among these, Hotel Soaltee has held high portion of working capital in its daily operation of business. He has mentioned that investing in FA doesn't seem good practice due to requirement of high fund. Hotel Soaltee has maintained high portion of current assets in terms of sales the other two hotels have low ratio. Debtor turnover ratio and Cash & Bank turnover ratio of Hotel Soaltee is quite higher than the rest of the two hotels. Similarly, Hotel Radisson has followed highly aggressive financing policy and used short term fund in permanent working capital as well as fixed assets. At last, Hotel Hyatt has

given high priority in liquid assets rather than no liquid assets due to the hotel held high amount of debtors in composition of current assets. The turnover ratio and loan, advances and deposit turnover ratio of Hotel Hyatt is greater in comparison to Hotel Radisson and Hotel Soaltee. The cash conversion cycle of Hotel Soaltee seemed favorable as compared to other hotels due to its conversion period within the time period of 365days.

The researcher found that the poor liquidity position of all three hotels because they can't meet the current obligation in very short period. The gross profit margin of the Hotel Soaltee was in decreasing trend where as the Hotel Hyatt was in increasing trend. The average return on total assets and return on capital employed of Hotel Radisson was higher in comparison to other two hotels.

Since the all hotels have negative working capital, it indicates that all the hotels have higher portion of current liabilities as compare to current assets which means all the hotels kept high amount of loan in capital structure. None of the hotels have solid view on the management of working capital due to highly depend upon short term loan. Current assets ratio as well as quick assets ratio of the selected hotel was below the standard level, which show the inability position to meet the current obligation. The turnover of Hotel Soaltee was higher in comparison to other two hotels. The performance of the hotels are highly depends upon the location and political condition of the country. Among various industries, hotels sectors are mainly victimized by the Moist Insurgency and bad political situation of the country.

Marahatta, Sarita (2008) has conducted the research on "A study on Working Capital Management of Agriculture Development Bank Limited". She has used financial as well as statistical tools to analyze the financial data of2060/061 to2064/065. She has also used primary and secondary sources of data. The main objective of this study is to appraise the working capital management of agriculture development bank limited and to find out the relationship between the different variables of working capital. The major findings of this study of ADBL during the five years study period are summarized below:

- The major components of current assets of this bank are cash and bank balance, loan and advances 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

average are 7.88%, 65.85% and 8.04% respectively. The trend value of cash and bank balance is 0.3245. Similarly, the trend value of loan and advances is 26.21. But, the trend value of government securities is higher than cash and bank balance and loan and advances, which are 32.89.

- The average net working capital of this bank is 0.2865. All of the net working capital is positive in the study period. Positive net working capital indicates the sufficient amount of net working capital and negative net working capital indicates the insufficient amount of net working capital. The net working capital ranges from 9126.19 million to 30094.69 million. The CV of ADBL is 0.085.

- The liquidity position of the bank is analyzed with the current ratio, quick ratio and cash balance to deposit ratio. The current ratio of ADBL is ranges from 1.52 to 8.19. Likewise, the average current ratio is 3.99.This shows the liquidity position or short term solvency during the study period. Although higher liquidity means lower risk as well as lower profit in general, it does not necessarily mean lower profit in case of every bank.

- Fixed deposit to total deposit ratios are increasing in the study period. The average ratio of fixed deposit to total deposit ratios is 0.374.The ratio ranges from 0.366 to 0.386. Therefore, it concluded that more long term and costly sources of funds and risk depends upon the ratio.

- Saving deposit to total deposit ratios fluctuating during the study period. It is ranges from 0.534 to 0.559. The average ratio is 0.547. High ratio indicates more short –term and less costly sources of funds. Similarly, the low ratio indicates long-term and costly sources of funds.

- The turnover positions have fluctuated .The average value of loan and advance to total deposit ratio, loan and fixed deposit ratio and loan and advances to saving deposit ratio are 1.029, 2.75 and 1.883 respectively. From the analysis, every bank is better investment efficiency on loan and advances in higher turnover ratio.

- The profitability position of ADBL is analyzed from different ways. The average value of interest earned to total assets ratios and

net profit to total deposit ratios are 0.124 and -0.051 respectively. When, these ratios are high, then more efficiently using its total assets to earn interest income.

- The trend value of interest earned to total assets ratio are increasing. Although the net profit to total assets ratios and net profit to total deposit ratios are more fluctuating in the study period. It shows that the bank is not able to efficiently using its working funds of assets to earn higher rate of profit during the study period.

- Cost of services to total assets ratio is both increasing and decreasing order. The average ratio of cost of services to total assets is 0.072. Similarly, the range of cost of services to total assets is 0.053 to 0.095 in the analysis period. Therefore, it is found that profitability position of ADBL is better .It would be better to increase the cost of services of ADBL.

- While analyzing the correlation coefficient, loan and advances and total deposits of this bank are insignificantly correlated. The value of r of ADBL is 0.8109 in loan and advances and total deposits. The positive value of r shows the positive relationship between loan and advances and total deposits. It shows that the bank utilizes its total deposit on loan and advances effectively. Correlation between investment on government securities and total deposits of ADBL is significant.

- Coefficient of correlation between cash and bank balance and current liabilities of this bank shows that there is no significant relationship between these two variables. The value of r is -0.7484. It shows that the holding of cash and bank balance is not related with current liabilities. Coefficient of correlation between loan and advances and net profit is 0.7743. It shows that there is no significant relationship between loan and advances and net profit. It shows that the change on loan and advances does not change the amount of profit significantly. It may be due to the higher amount of costly funds and other higher costs.

2.4 Research Gap:

Many researchers have conducted in working capital management. In the previous researchers different statistical tools such as correlation analysis, ratio analysis and trend analysis has been used to identify the relationship between various components, which affect the working capital. In the present research researcher has used the statistical and financial tools such as ratio analysis, correlation analysis, and besides this statistical tools List - square method of regression has been used to find out the impact of working capital with various variables such as profit, current assets, component of current assets, component of current liabilities. A part from this, the primary data has also been used to analyze the impact of working capital management and its effect on organizational efficiency, which may be a new concept for present research.

The above mentioned studies in the context of Nepalese commercial banks were done in the last few years in respect to WCM. Many changes have taken place in and outside Nepal after these studies. Nepal also has followed the policy of monetary, fiscal and globalization. Many more banks have also come up after these studies.

Different researchers have written their dissertations on its WCM; however almost all of them are related to the commercial banks. The present study, the researcher calculated the Trend Analysis on Net Working Capital therefore, bridge this ling felt gap in the field of research.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction:

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.

In addition, "Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In this study, the various steps are generally adopted by a researcher in studying his/ her research problem along with the logic behind them". (Kothari, 1990;10)

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.

3.2 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 to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design had 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.

3.3 Population and Sample:

The population refers to the industries of the same nature and its services and product in general. Thus, total of 26 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. The sample size represents almost 8% of the total population.

i. Standard Chartered Bank Nepal Ltd.

ii. Everest Bank Ltd.

3.4 Nature and Sources of Data:

For the purpose of this study, data are collected mainly from the secondary as well as primary data. In the study two types of data are collected which are:

Primary Data

This is the first hand information bearing on any research, which has been collected by the researcher or his agents or agents or assistant. These are original observation collected for the first time. Such data facilitate original investigation and observation leading to useful and valuable result.

Secondary Information

The next method of collecting the data is secondary source. The secondary information is based on the second hand information. Secondary information is gathered much more quickly than primary. Secondary source were bulletins and newspapers of selected banks, annual reports, official document, reference material collected from library and internet.

3.5 Method of Data Collection:

It indicates the sources of data and how they collected. In this study, data were collected through published sources. They were collected from the correspondent offices and their respective websites.

The annual reports of SCBNL for the period of five years were obtained from the field visit of its head office at New Baneshwor, and the annual reports of EBL for the period of five years were obtained from the field visit of its branch office located at Thamel. NRB publications have been collected by the personal visit of concerned departments of NRB at Baluwatar. The data regarding the profile of SCBNL and EBL and other related documents were collected from internet websites. Unpublished master's thesis, books, research papers, articles, journals have been collected mainly from Central Library of Tribhuvan University, library of Public Youth Campus, library of Padma Kanya Campus, library of Shankar Dev Capmus 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 was also made and tested.

3.6 Method of Data Analysis:

Various financial and statistical tools would be used to complete the research study such as ratio analysis, standard deviation, coefficient of variance, coefficient of correlation, trend analysis etc. For presentation purpose, different types of tables, charts, figures and graphs were used as per necessary.

3.6.1 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 ratio is designed as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things". In financial analysis, ratio was used as a benchmark for evaluating the financial position and performance of a firm.

Several ratios, calculated from the accounting data, can be grouped into various classes according to the financial activity and function to be evaluated.

3.6.1.1 Liquidity Ratios:

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. With the help of liquidity ratios much insight can be obtained into present cash solvency of the banks and its ability to remain solvent in the event of adversities, it is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

The following ratios are evaluated under liquidity ratios:

i. Current Ratio:

This ratio indicates the ability of the bank to meet its current obligation. This is the main important tool to measures the liquidity position of the financial institution.

$$Current\ Ratio\ \mathrm{X} \frac{Current\ Assets}{Current\ Liabilities}$$

ii. Quick / Acid-test Ratio:

Cash and bank balance are the most liquid current assets. This ratio measures the quick assets of the bank to current liabilities. Quick assets mean current assets minus stock and prepaid expenses. It is computed as follows:

$$Quick\ Ratio\ \mathrm{X} \frac{Quick\ Assets}{Current\ Liabilities}$$

3.6.1.2 Activity Turnover Ratios:

For smooth operations, a firm needs to invest in both short-term and long-term assets. Activity ratios describe the relationship between the firm's level of operations and assets needed to sustain the activity. Activity ratios can also be used to forecast a firm's capital requirements. Activity ratios enable the analysis to forecast these requirements and to assess the firm's ability to acquire the assets needed to sustain the forecasted growth. The following ratios can be calculated as the activity ratios.

i. Current Assets to Total Assets Ratio:

This ratio shows the relationship between current assets and total assets. Total assets include the total of fixed assets and total current assets. It is the efficiency ratio of the banks in managing the need of working capital or fulfilling the requirement of daily business. It has been calculate under following formula:

$$Current\ Assets\ to\ Total\ Assets\ Ratio = \frac{Current\ Assets}{Total\ Assets}$$

ii. Net Working Capital to Total Assets Ratio:

This ratio shows the relationship between net working capital and total assets. It is the management of all short term assets used in daily operations. NWC to total assets of different bank has been analyzed as follow:

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

iii. Cash & Bank Balance to Total Assets Ratio:

This ratio shows the relationship between cash & bank balances and total assets. It is the efficiency ratio of the banks in managing and utilizing its cash and bank balances. It can be calculated as:

$$Cash\ \&\ Bank\ Balance\ to\ Total\ Assets\ Ratios\ \text{X}\frac{Cash\ \&\ Bank\ Balance}{Total\ Assets}$$

iv. Loan and Advances to Total Deposit Ratio:

Loans and advances to total deposits ratio measures the extent to which the banks are successful in utilizing the outsiders' funds for the profit generating purpose. It can be calculated as:

$$Loan\ and\ advances\ to\ total\ depost\ ratio\ \mathrm{X}\frac{Loan\ and\ advances}{Total\ Deposits}$$

v. Loan and Advances to Fixed Deposit Ratio:

This ratio measures how many times the fund is used in loan and advance against fixed deposit. It can be calculated as:

$$Loan\ and\ advances\ to\ \ fixed\ depost\ ratio\ \mathrm{X}\frac{Loan\ and\ advances}{Fixed\ Deposits}$$

vi. Loan and Advances to Savings Deposit Ratio:

This ratio examines that how many times the funds is used in loans and advances against saving deposits. The ratio is calculated as follows:

$$\text{Loan and Advances to Savings Deposit } Ratio = \frac{Loan\ and\ Advance}{Saving\ Deposit}$$

3.6.1.3 Profitability Ratios:

"A company should earn profit to survive and grow over a long period of time profits are essential, but it would be wrong to assume that every action initiated by management to company should be aimed at maximizing profits."

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratio the lenders and investors want to decide whether to invest in a particular business or not.

i. Size of Net Profit

Profit is the most essential factor for smooth operation and growth of every bank. All of the business enterprises are established with the main objective of profit maximization.

ii. Return on Total Assets:

This ratio is measured the rate of return earned by the firm as a whole for all its investors. It is calculated by dividing net profit by total assets. A higher ratio indicates the efficiency of overall financial resources to invest. So that, the higher ratio, the better will be the performance. Return on total assets in computed by using the following formula:

$$\text{Return on Total Assets} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

iii. Return on Loans & Advances:

This ratio shows that return on loans and advances during the year. Higher ratio of net income to loans & advance is better. It ratio is calculated as follows:

$$\text{Return on Loans and Advances} = \frac{\text{Net Profit after tax}}{\text{Loan and Advance}}$$

iv. Return on Net Working Capital

This ratio measures the profitability of the firm by establishing the relationship between net profit after taxes and net working capital. It gives the earning power of the bank from utilizing its total investment. It ratio is calculated as follows:

$$\text{Return on Net Working Capital} = \frac{\text{Net Profit after tax}}{\text{Net Working Capital}}$$

3.6.2 Statistical Tools:

In this study, some important statistical tools have been used to present and analyze the data for achieving the objectives. Such as coefficient of correlation between different variables has been used, which are presented below:

i. Standard Deviation (S.D.)

ii. Coefficient of Variation (C.V.)

iii. Karl Pearson's of Coefficient of Correlation Analysis (r)

iv. Probable Error (P.E.)

v. Trend Analysis

3.6.2.1 Standard Deviation (S.D.):

$$Standard\ Deviation\ (\pm) = \sqrt{\frac{d^2}{n}}$$

Where, $d = X - \bar{X}$

$$Mean\ (\bar{X}) = \frac{X}{n}$$

ϕd^2 = Sum of squares of the deviations measured from the arithmetic average and X series

n = Number of Year and

ϕX = Sum of X series

3.6.2.2 Coefficient of Variances:

$$Coefficient\ of\ Variance\ (C.V.) = \frac{\pm}{\bar{X}}$$

3.6.2.3 Coefficient of Correlation:

$$Coefficient\ of\ Correlation\ (r) = \frac{d_1\ d_2}{\sqrt{d_1^2\ \ d_2^2}}$$

Where, $d_1 = X_1 - \bar{X}_1$ and

$d_2 = X_2 - \bar{X}_2$

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

i. Coefficient of correlation between Total Deposit and Net Profit
ii. Coefficient of correlation between Total Deposit and Loan & Advances
iii. Coefficient of correlation between Current Assets and Current Liabilities

3.6.2.4 Probable Error (P.E.):

Probable error is measured for testing the reliability of an observed value of correlation coefficient. It is computed to find the extent to which it is dependable. If correlation coefficient is greater than 6 times P.E. the observed value of r is said to be significant, otherwise nothing can be concluded with certainty. But if the calculated (r) is less than the P.E. correlation is not at all significant. It is calculated by using following formula:

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

Where, P.E. = Probable Error of correlation coefficient

r = Correlation coefficient & n = Number of observations

3.6.2.5 Trend Analysis:

Trend analysis is an analysis of financial ratio over time used to determine the improvement of determination of its financial situation. The trend line is represented by Least -Squares method as below:

$Y = a + bx$

where,

Y = Estimated value of Y for given value of x in coordinate axes,

a = Y intercept of mean of Y value,

b = slope of the line or rate of change

x = variable in time axis

To find the values of a & b, we have to solve the following equations:

$\phi Y = na + b\phi x$ ..... (i)

$\phi xY = a\phi x + b\phi x^2$ ..... (ii)

n = Number of years

To make calculation easier, the deviation of the independent variable (i.e. time) are taken from the middle of the time period so that $\phi x = 0$, then the above two equation change to:

$$a = \frac{Y}{n} \text{ and } b = \frac{xY}{x^2}$$

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The main objective of this chapter 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 of selected commercial banks listed in Nepal Stock Exchange. The major ratios for the study are liquidity ratios, turnover 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 listed commercial banks and then financial position of success/failure banks has been analyzed applying various methods.

4.2 Working Capital Policy and Trend Analysis

Working capital policy can be categorized into three categories viz. 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 of various variables and ratios of the selected commercial banks taking five years data to indicate working capital policy followed by them. The analysis is done bank wise as well as period wise.

4.2.1 Analysis of Composition of Current Assets

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 bank-wise and year-wise respectively.

4.2.1.1 Various Components of Current Assets

The main components of current assets at SCBNL and EBL are cash and bank balance, loan and advances and investment in Government securities. Miscellaneous current assets are also the components of it. Prepaid expenses, outstanding incomes, for example, interest receivable and other current assets are included on miscellaneous current assets.

Table 4.1

Components of Current Assets of SCBNL

(Rs. In million)

Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2005	1041.12	8143.21	7203.06	2865.29	19322.67
2006	1276.24	8935.42	8635.86	2615.83	21463.35
2007	2021.02	10502.64	7107.93	2394.21	22025.79
2008	2050.24	13718.60	8137.62	3546.86	27453.32
2009	3137.16	13679.76	9998.75	3397.13	30212.80
Average	**1905.156**	**10995.926**	**8216.644**	**2963.864**	**24095.586**

Above table 4.1 shows that SCBNL has the highest level of current assets of Rs. 30212.80 million in the year 2009 and the lowest level of current assets of Rs. 19322.67 million in the year 2005. On average it holds the level of current assets of Rs. 24095.586 million.

The components of currents assets of the banks are Cash & Bank Balance, Loan & Advances, Government Securities and Miscellaneous Current Assets. The amounts of these items are Rs. 1041.12 million, Rs. 8143.21 million, Rs. 7203.06, and Rs. 2865.29 million respectively in the fiscal year 2005. Where as these amounts are Rs. 3137.16 million, Rs. 13679.76 million, Rs. 9998.75 million, and Rs. 3397.13 million respectively in the fiscal year 2009.

The bank has the highest level of Cash & Bank Balance in 2009 and lowest level in 2005. Similarly it has highest level of Loan & Advances, Government Securities and Misc. Current Assets in 2008, 2009, and 2008 respectively but it has lowest level of Loan & advances, Government Securities and Misc. Current Assets in 2005, 2007, and 2007 respectively.

Table 4.2

Components of Current Assets of EBL

(Rs. In million)

Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2005	1050.00	7618.70	2100.30	290.50	11059.59
2006	1553.00	9801.30	3322.40	178.00	14854.70
2007	2391.40	13664.40	3614.50	222.60	19892.90
2008	2667.97	18339.08	4821.60	722.22	26550.87
2009	6164.37	23884.67	5146.04	492.16	35687.24
Average	**2765.348**	**14661.63**	**3800.968**	**381.096**	**21609.06**

Above table 4.2 shows that EBL has the highest level of current assets of Rs. 35687.24 million in the year 2009 and the lowest level of current assets of Rs. 11059.59 million in the year 2005. On average it holds the level of current assets of Rs. 21609.06 million.

The components of currents assets of the bank are Cash & Bank Balance Loan & Advances, Government Securities and Misc. Current Assets. The amounts of these items are Rs. 1050.00 million, Rs. 7618.70 million, Rs. 2100.30 million, and Rs. 290.50 million respectively in the fiscal year 2005. Where as these amounts are Rs. 6164.37 million, Rs. 23884.67 million, Rs. 5146.04 million, and Rs. 492.16 million respectively in the fiscal year 2009.

The bank has the highest level of Cash & Bank Balance in 2009 and lowest level in 2005. Similarly it has highest level of Loan & Advances, Government Securities and Misc. Current Assets in 2009, 2009, and 2008 respectively but it has lowest level of Loan & Advances, Government Securities and Misc. Current Assets in 2005, 2005, and 2006 respectively.

The study shows that an average current asset of SCBNL (24095.586) is higher than that of EBL (21609.06).

Table 4.3

Components of Current Assets of SCBNL (Percentage)

Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2005	5.41	42.30	37.41	14.88	100
2006	5.95	41.63	40.23	12.19	100
2007	9.18	47.68	32.27	10.87	100
2008	7.47	49.97	29.64	12.92	100
2009	10.38	45.28	33.10	11.24	100
Average	**7.91**	**45.66**	**34.12**	**12.31**	**100**

Above table 4.3 and the below graph 4.1 shows that SCBNL has the highest level of Cash & Bank Balance in current assets of 10.38 percentages in the year 2009 and the lowest level of it in current assets of 5.41 percentages in the year 2005. On average it holds the level of it in current assets of 7.91 percentages. The level of Loan & Advances is highest in 2008 and that of lowest in 2006. On average the bank holds the level of it in current assets of 45.66 percentages.

The level of Government Securities is highest in 2006 and that of lowest in 2008. On average the bank holds the level of it in current assets of 34.12 percentages. Similarly, the level of Misc. Current Assets is highest in 2005 and that of lowest in 2007. On average the bank holds the level of it in current assets of 12.31 percentages.

Graph 4.1

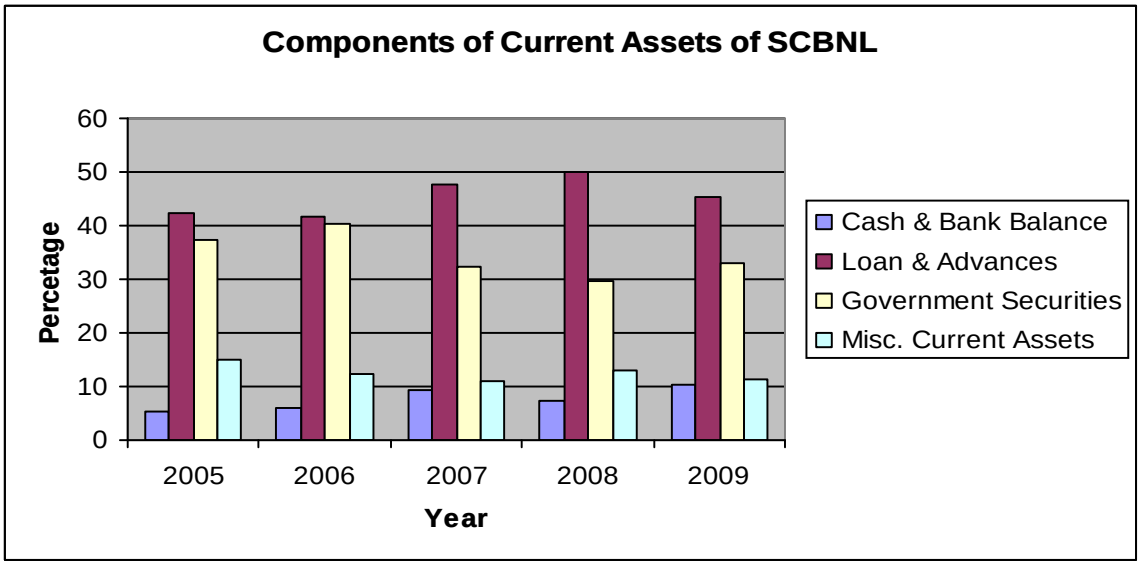


Table 4.4

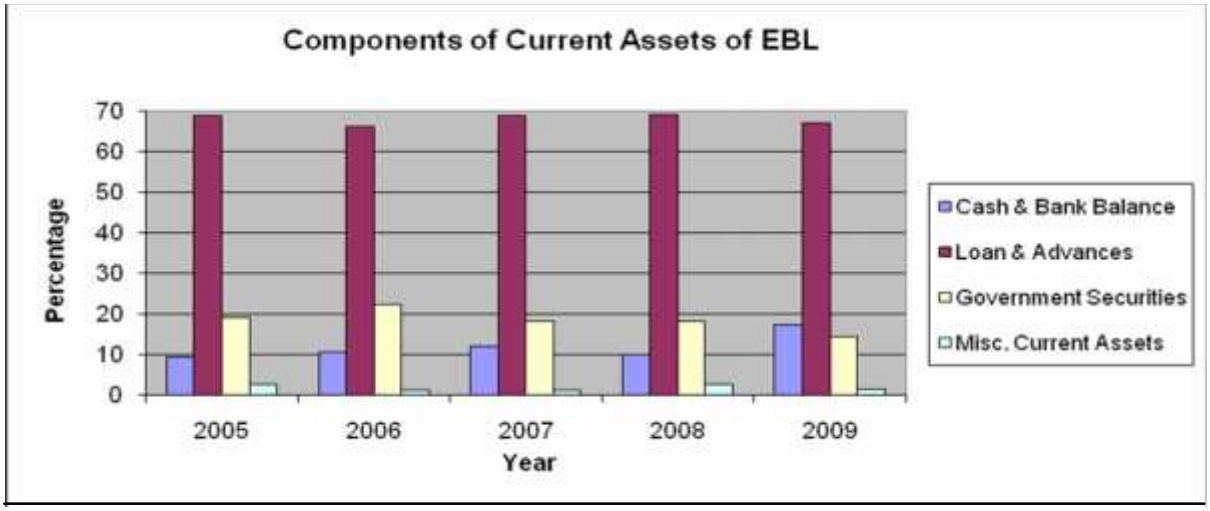
Components of Current Assets of EBL (Percentage)

Year	Cash & Bank Balance	Loan & Advances	Government Securities	Misc. Current Assets	Total Current Assets
2005	9.49	68.88	19.00	2.63	100
2006	10.45	65.98	22.37	1.20	100
2007	12.02	68.69	18.17	1.12	100
2008	10.05	69.07	18.16	2.72	100
2009	17.27	66.93	14.42	1.38	100
Average	**11.86**	**67.91**	**18.42**	**1.81**	100

Above table 4.4 and the below graph 4.2 shows that EBL has the highest level of Cash & Bank Balance in current assets of 17.27 percentages in the year 2009 and the lowest level of it in current assets of 9.49 percentages in the year 2005. On average it holds the level of it in current assets of 11.86 percentages. The level of Loan & Advances is highest in 2008 and that of lowest in 2006. On average the bank holds the level of it in current assets of 67.91 percentages.

The level of Government Securities is highest in 2006 and that of lowest in 2009. On average the bank holds the level of it in current assets of 18.42 percentages. Similarly, the level of Misc. Current Assets is highest in 2008 and that of lowest in 2007. On average the bank holds the level of it in current assets of 1.81 percentages.

Graph 4.2



4.2.2 Analysis of Composition of Current Liabilities

4.2.2.1 Various Components of Current Liabilities

The main components of current liabilities at SCBNL is loans & borrowings, deposit liabilities, bills payable and other current liabilities are also the components of it. Proposed and unpaid dividend, income tax liability and other liabilities are included on other current liabilities.

Table 4.5

Components of Current Liabilities of SCBNL

(Rs. In million)

Year	Loans & Borrowings	Deposit Liabilities	Bills Payable	Other C.L.	Total Current Liabilities
2005	55.93	19335.09	56.30	863.84	20311.16
2006	-	23061.03	55.75	905.41	24022.19
2007	400.00	24647.02	36.17	1397.15	26480.34
2008	-	29743.10	87.40	1011.84	30842.34
2009	300.00	35871.72	72.94	561.54	36806.20
Average	**151.19**	**26531.60**	**61.71**	**947.96**	**27692.45**

Above table 4.5 shows that SCBNL has the highest level of current liabilities of Rs. 36806.20 million in the year 2009 and the lowest level of current liabilities of Rs. 20311.16 million in the year 2005. On average it holds the level of current liabilities of Rs. 27692.45 million.

The components of currents liabilities of the banks are Loans & Borrowings, Deposit Liabilities, Bills Payable and Other Current Liabilities. The amounts of these items are Rs. 55.93 million, Rs. 19335.09 million, Rs. 56.30, and Rs. 863.84 million respectively in the fiscal year 2005. Where as these amounts are Rs. 300.00 million, Rs. 35871.72 million, Rs. 72.94 million, and Rs. 561.54 million respectively in the fiscal year 2009.

The bank has the highest level of loans & borrowings in 2007 and lowest level in 2005. Similarly it has highest level of deposit liabilities, bills payable and other current liabilities in 2009, 2008, and 2007 respectively but it has lowest level of deposit liabilities, bills payable and other current liabilities in 2005, 2007, and 2009 respectively.

Table 4.6

Components of Current Liabilities of EBL

(Rs. In million)

Year	Loans & Borrowings	Deposit Liabilities	Bills Payable	Other C.L.	Total Current Liabilities
2005	-	10097.70	17.78	484.43	10599.91
2006	-	13802.44	15.81	775.03	14593.28
2007	-	18186.25	26.78	1718.03	19931.06
2008	-	23976.30	49.43	253.98	24279.71
2009	312.00	33322.95	148.66	629.62	34413.23
Average	**62.4**	**19877.13**	**51.70**	**772.22**	**20763.44**

Above table 4.6 shows that EBL has the highest level of current liabilities of Rs. 34413.23 million in the year 2009 and the lowest level of current liabilities of Rs. 10599.91 million in the year 2005. On average it holds the level of current liabilities of Rs. 20763.44 million.

The components of currents liabilities of the banks are Loans & Borrowings, Deposit Liabilities, Bills Payable and Other Current Liabilities. The amounts of the deposit liabilities is Rs. 10097.70 million, bills payable is Rs. 17.78 million, and other current liabilities is Rs. 484.43 in the fiscal year 2005, where loans & borrowings is nil. Where as these amounts are Rs. 312.00 million, Rs. 33322.95 million, Rs. 148.66 million, and Rs. 629.62 million respectively in the fiscal year 2009.

The bank has loans & borrowings in 2009. It has highest level of deposit liabilities, bills payable and other current liabilities in 2009, 2009, and 2007 respectively but it has lowest level of deposit liabilities, bills payable and other current liabilities in 2005, 2006, and 2008 respectively.

The study shows that an average current liability of SCBNL i.e. 27692.45 is higher than that of EBL i.e. 20763.44.

Table 4.7

Components of Current Liabilities of SCBNL (Percentage)

Year	Loans & Borrowings	Deposit Liabilities	Bills Payable	Other C.L.	Total Current Liabilities
2005	0.28	95.19	0.28	4.25	100
2006	-	96	0.23	3.77	100
2007	1.51	93.08	0.14	5.28	100
2008	-	96.44	0.28	3.28	100
2009	0.82	97.46	0.20	1.53	100
Average	**0.55**	**95.81**	**0.22**	**3.42**	**100**

Above table 4.7 and the below graph 4.3 shows that SCBNL has the highest level of Loans & Borrowings in current liabilities of 1.51 percentages in the year 2007 and the lowest level of it in current liabilities of 0.28 percentages in the year 2005. On average it holds the level of it in current liabilities of 0.55 percentages. The level of Deposit Liabilities is highest in 2009 and that of lowest in 2007. On average the bank holds the level of it in current liabilities of 95.81 percentages.

The level of Bills Payable is highest in 2005 & 2008, and that of lowest in 2007. On average the bank holds the level of it in current liabilities of 0.22 percentages. Similarly, the level of Other Current Liabilities is highest in 2007 and that of lowest in 2009. On average the bank holds the level of it in current liabilities of 3.42 percentages.

Graph 4.3

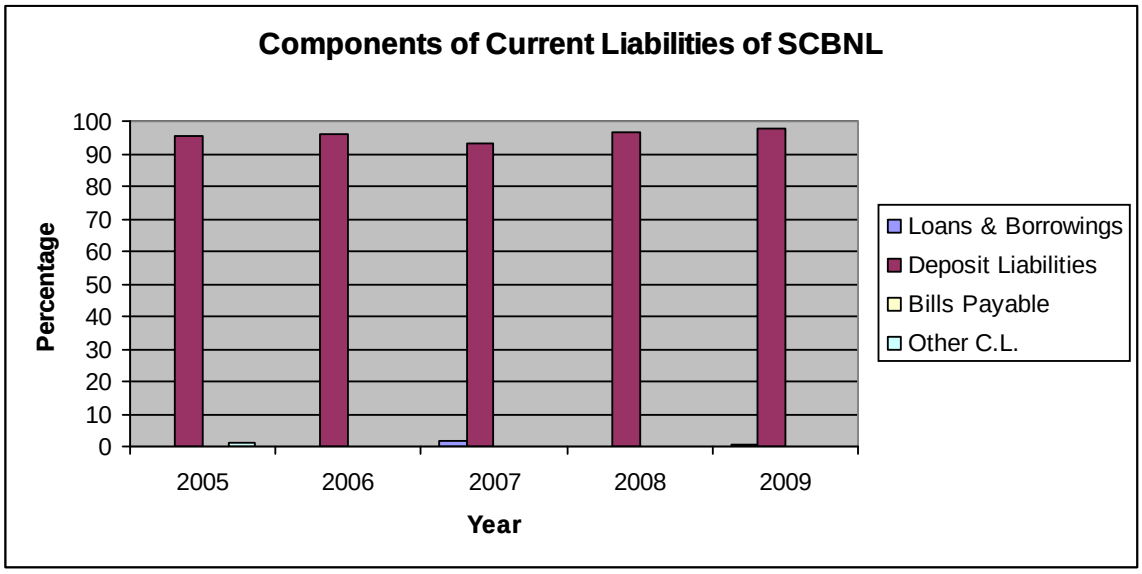


Table 4.8

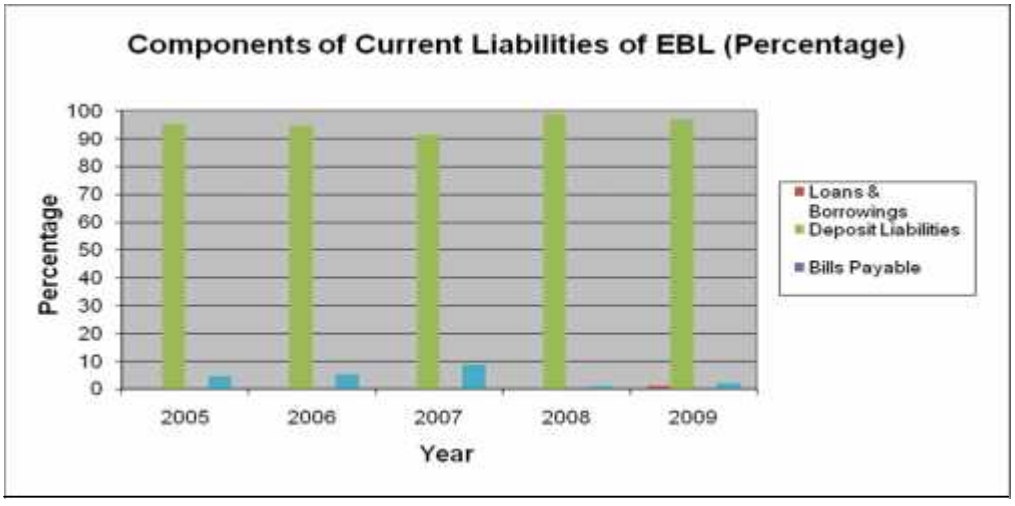
Components of Current Liabilities of EBL (Percentage)

Year	Loans & Borrowings	Deposit Liabilities	Bills Payable	Other C.L.	Total Current Liabilities
2005	0	95.26	0.17	4.57	100
2006	0	94.58	0.11	5.31	100
2007	0	91.25	0.13	8.62	100
2008	0	98.75	0.20	1.05	100
2009	0.91	96.83	0.43	1.83	100
Average	**0.18**	**95.33**	**0.21**	**4.28**	**100**

Above table 4.8 and the below graph 4.4 shows that EBL has Loans & Borrowings in current liabilities of 0.91 percentages in the year 2009. On average it holds the level of it in current liabilities of 0.18 percentages. The level of Deposit Liabilities is highest in 2008 and that of lowest in 2007. On average the bank holds the level of it in current liabilities of 95.33 percentages.

The level of Bills Payable is highest in 2009, and that of lowest in 2006. On average the bank holds the level of it in current liabilities of 0.21 percentages. Similarly, the level of Other Current Liabilities is highest in 2007 and that of lowest in 2008. On average the bank holds the level of it in current liabilities of 4.28 percentages.

Graph 4.4



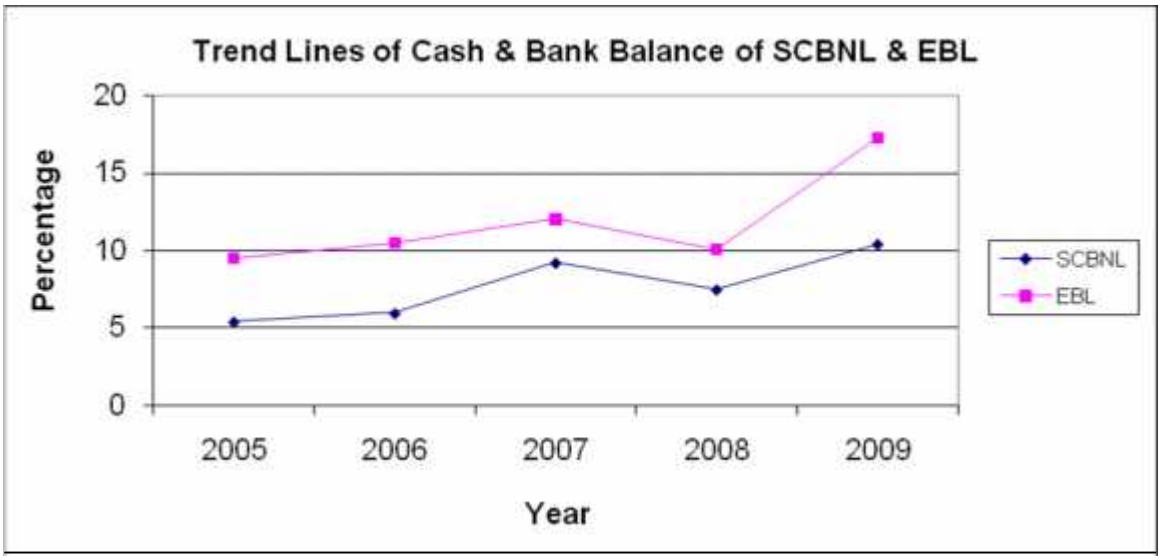
4.2.1.1.1 Trend of Cash and Bank Balance

Cash and bank balance is one of the major components of current assets of the banks. Cash and bank balance of SCBNL is fluctuated over the study period. The level of it is highest with 10.38 percentages in the current assets of the bank in the last year of the period where as its weight is lowest with 5.41 percentages in the first year of the study period. The average level of cash and bank balance of the bank in current assets is 7.91 percentages.

Similarly, cash and bank balance of EBL is fluctuated over the study period. The level of it is highest with 17.27 percentages in the current assets of the bank in the last year of the period where as its weight is lowest with 9.49 percentages in the first year of the study period. The average level of cash and bank balance of the bank in current assets is 11.86 percentages.

The study shows that the average level of cash and bank balance i.e. 11.86 percentages of EBL are higher than that of SCBNL i.e. 7.91 percentages during the study period.

Graph 4.5



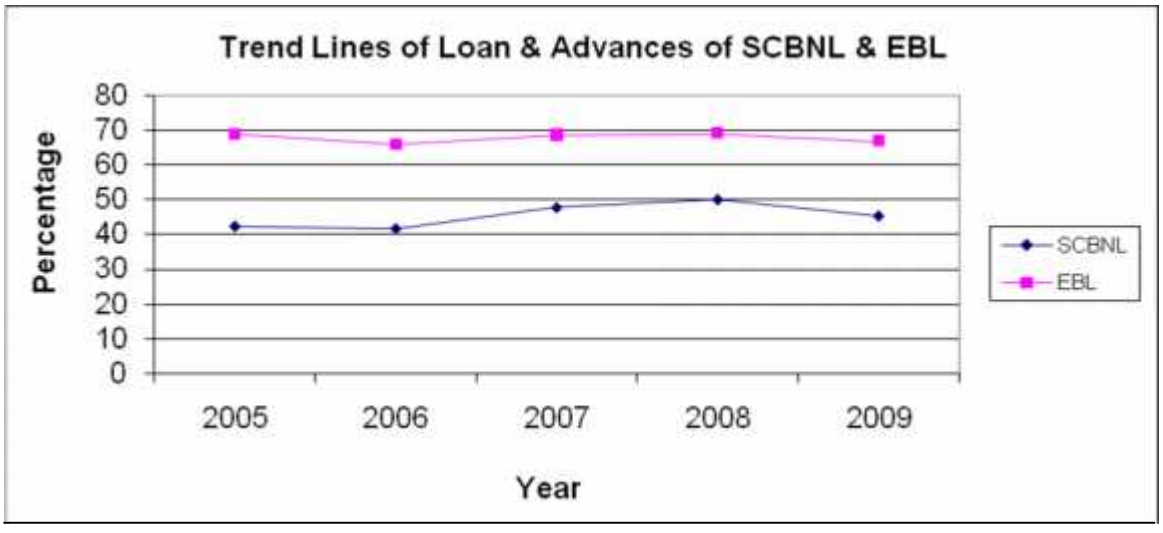
4.2.1.1.2 Trend of Loan and Advances

Loan and advances is another major component of current assets of the banks. Loan and advances of SCBNL is fluctuated over the study period. The level of it is highest with 49.97 percentages in the current assets of the bank in the fourth year of the period where as its weight is lowest with 41.63 percentages in the second year of the study period. The average level of loan and advances of the bank in current assets is 45.66 percentages.

Similarly, loan and advances of EBL is also fluctuated over the study period. The level of it is highest with 69.07 percentages in the current assets of the bank in the fourth year of the period where as its weight is lowest with 65.98 percentages in the second year of the study period. The average level of loan and advances of the bank in current assets is 67.91 percentages.

The study show that the average level of loan and advances i.e. 67.91 percentages of EBL is higher than that of SCBNL i.e.45.66 percentages during the study period.

Graph 4.6



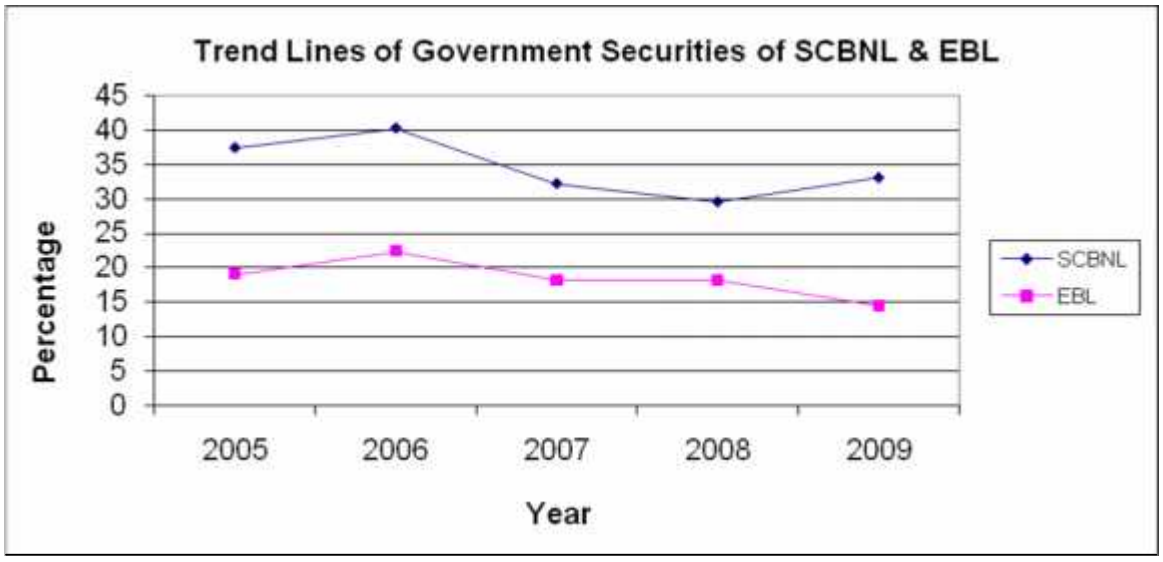
4.2.1.1.3 Trend of Government Securities

Government Securities is also another major component of current assets of the banks. Government securities of SCBNL are fluctuated over the study period. The level of it is highest with 40.23 percentage in the current assets of the bank in the second year of the period where as its weight is lowest with 29.64 percentage in the fourth year of the study period. The average level of Government securities of the bank in current assets is 34.12 percentages.

Similarly, Government securities of EBL are also fluctuated over the study period. The level of it is highest with 22.37 percentage in the current assets of the bank in the second year of the period where as its weight is lowest with 14.42 percentage in the last year of the study period. The average level of Government securities of the bank in current assets is 18.42 percentages.

The study shows that the average level of Government securities i.e. 34.12 percentage of SCBNL are higher than that of EBL i.e. 18.42 percentage during the study period.

Graph 4.7



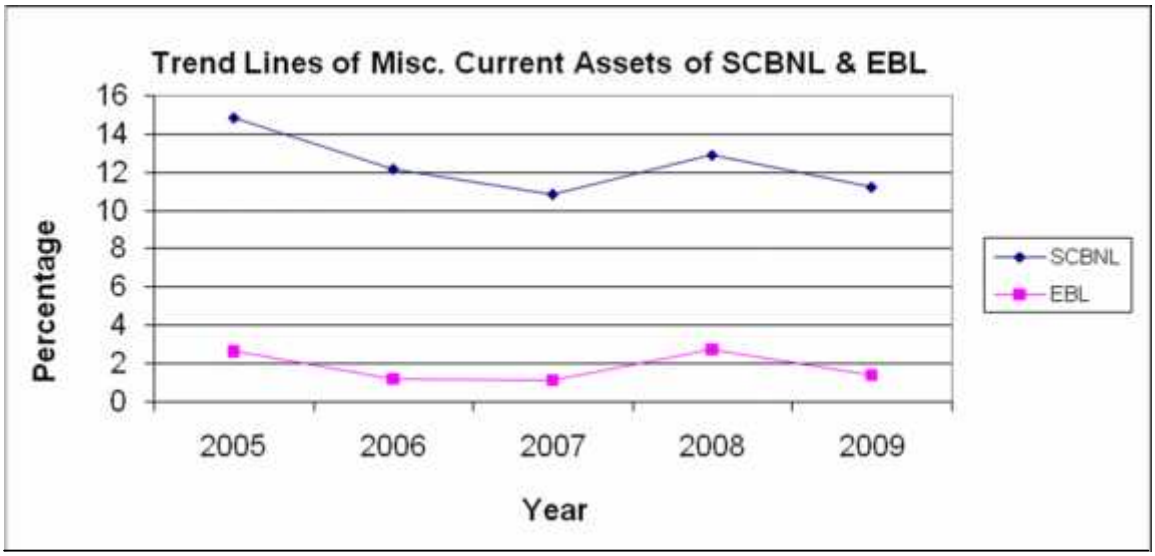
4.2.1.1.4 Trend of Miscellaneous Current Assets

Miscellaneous current assets are also another component of current assets of the banks. Miscellaneous current assets of SCBNL are fluctuated over the study period. The level of it is highest with 14.88 percentages in the current assets of the bank in the first year of the period where as its weight is lowest with 10.87 percentages in the third year of the study period. The average level of miscellaneous current assets of the bank in current assets is 12.31 percentages.

Similarly, miscellaneous current assets of EBL are also fluctuated over the study period. The level of it is highest with 2.72 percentages in the current assets of the bank in the fourth year of the period where as its weight is lowest with 1.12 percentages in the third year of the study period. The average level of miscellaneous current assets of the bank in current assets is 1.81 percentages.

The study shows that the average level of miscellaneous current assets i.e. 12.31 percentages of SCBNL are higher than that of EBL i.e. 1.81 percentages during the study period.

Graph 4.8



4.3 Net Working Capital

Net Working Capital refers to the difference between current assets and current liabilities. The need for this concept arises because the gross concept fails to consider current liabilities. The current liabilities are those liabilities, which can be claimed by outsiders/ suppliers with in a year. It includes account payable, bills payable and outstanding expenses. The concept of net working capital helps the management to look for permanent sources for its financing since working capital under this approach, does not increase with increases in short term borrowing. Net working capital can be positive and negative. A negative net working capital occurs when current liabilities are in excess of current assets.

Net Working Capital = Current Assets - Current Liabilities

Net working capital is that portion of firms' current assets, which is financed with long-term fund. NWC is the difference between the current assets and current liabilities. This positive difference in the amount of working capital is financed by long term fund. This concept is also known as qualitative concept of working capital; it shows liquidity of business enterprises this concept helps to determine optimum mixture of short term and long term capital of business enterprises. This concept is useful to running business, which is running in the present. It can analyze profitability, liquidity position, and risk return position of business enterprise.

Table 4.9

Net Working Capital of SCBNL

(Rs. in million)

Year	Total Current Assets	Total Current Liabilities	Net Working Capital	% change in NWC
2005	19322.67	20311.16	-988.49	-
2006	21463.35	24022.19	-2558.84	61.37
2007	22025.79	26480.34	-4454.55	42.56
2008	27453.32	30842.34	-3389.02	-31.44
2009	30212.80	36806.20	-6593.4	48.60
Average	**24095.59**	**27692.45**	-3596.86	24.22

The above table 4.9 and below graph 4.9 shows that the level of net working capital of SCBNL is negative and fluctuated over the period of time. During the study period of 5 years from 2005 to 2009, the highest

amount of net working capital is Rs. -988.49 million in 2005 and that of lowest amount is Rs. -4454.55 million in 2007.

The average level of current assets of the bank is Rs. 24095.59 million and that of current liabilities is Rs. 27692.45 million. The bank has the average of net working capital of Rs. -3596.86 million.

The highest level of change in net working capital is by 61.37 percentages in 2006 and that of lowest level of change in net working capital is by -31.44 percentages in 2008. On average the level of net working capital is changed by 24.22 percentages.

Graph 4.9

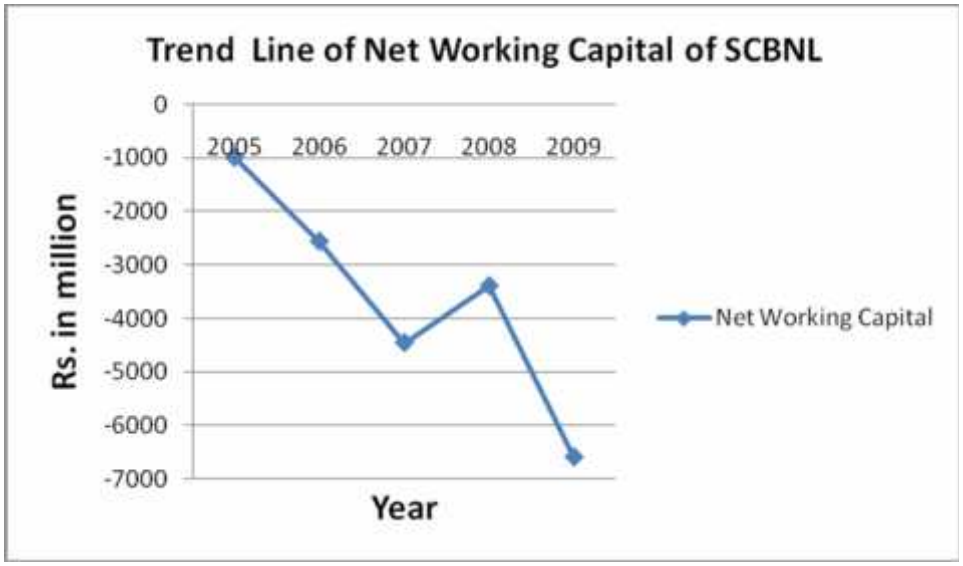


Table 4.10

Net Working Capital of EBL

(Rs. in million)

Year	Total Current Assets	Total Current Liabilities	Net Working Capital	% change in NWC
2005	11059.59	10599.91	459.68	-
2006	14854.70	14593.28	261.42	-75.84
2007	19892.90	19931.06	-38.16	785.06
2008	26550.87	24279.71	2271.16	101.68
2009	35687.24	34413.23	1274.01	-78.27
Average	**21609.06**	**20763.44**	**845.62**	**146.53**

The above table 4.10 and below graph 4.10 show that the level of net working capital of EBL is fluctuated over the study period, during the study period of five years from 2005 to 2009, the highest amount of net working capital is Rs. 2271.16 million in 2008 and that of lowest amount is Rs. -38.16 million in 2007.

The average level of current assets of the bank is Rs. 21609.06 million and that of current liabilities is Rs. 20763.44 million. The bank has the average of net working capital of Rs. 845.62 million.

The highest level of change in net working capital is by 785.06 percentages in 2007 and that of lowest level of change in net working capital is by -75.84 percentages in 2006. On average the level of net working capital is changed by 146.53 percentages.

Graph 4.10

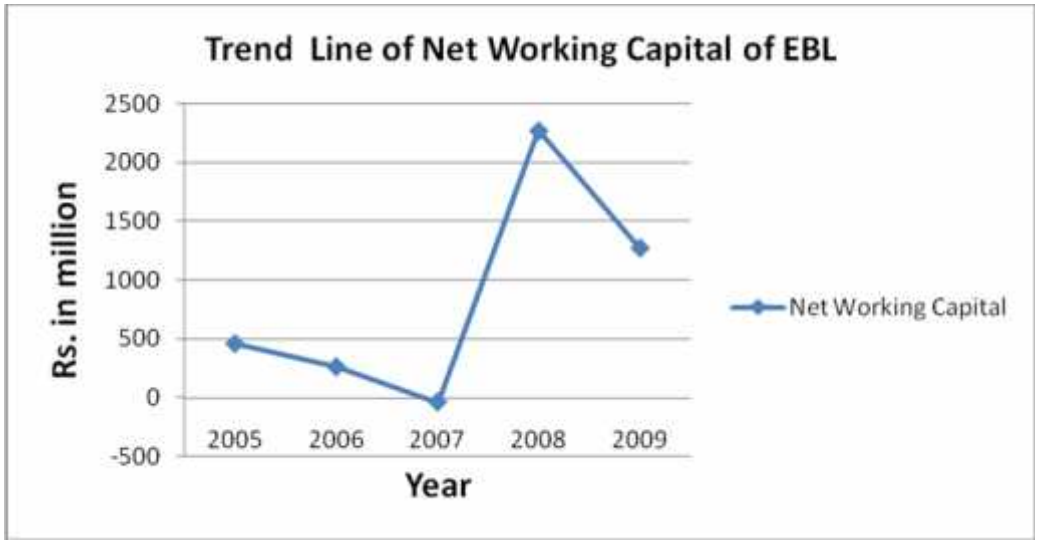


Table 4.11

4.3.1 Comparison on Net Working Capital of SCBNL & EBL and Trend Analysis

	SCBNL		EBL	
Year	**NWC**	**Trend Analysis**	**NWC**	**Trend Analysis**
2005	-988.49	-1188.86	459.68	117.94
2006	-2558.84	-2392.86	261.42	481.78
2007	-4454.55	-3596.86	-38.16	845.62
2008	-3389.02	-4800.86	2271.16	1209.46
2009	-6593.40	-6004.86	1274.01	1573.30
Average	**-3596.86**		**845.62**	

The above table 4.11 and below graph 4.11 show that the level of net working capital of SCBNL is negative and much more fluctuated and EBL is positive and also much fluctuated over the study period.

During the study period of five years from 2005 to 2009, the highest amount of net working capital of SCBNL is Rs. -988.49 million in 2005 and that of lowest is Rs. - 4454.55 million in 2007. The bank has the average of net working capital of Rs. -3596.86 million.

Similarly, the highest amount of net working capital of EBL is Rs. 2271.16 million in 2008 and that of lowest amount is Rs. -38.16 million in 2007. The bank has the average of net working capital of Rs. 845.62 million.

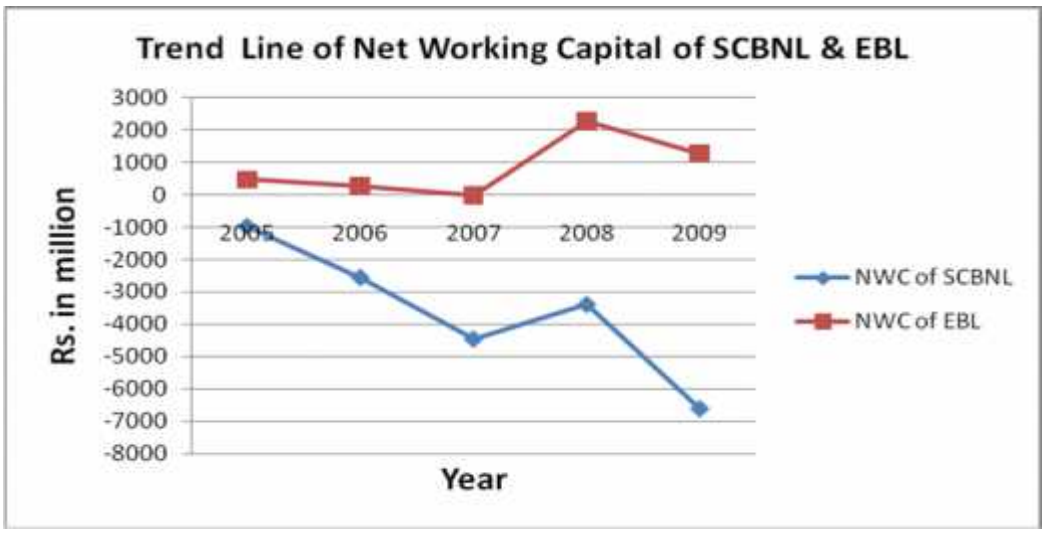
The study shows that SCBNL's average working capital is negative i.e. -3596 but EBL has positive average working capital i.e. 845.62 during the study period.

From the calculation of Net Working Capital trend as per Appendix, the value of the constants ‘a’ and ‘b’ is as follows:

Bank	Constants ‘a’	Constants ‘b’
SCBNL	-3596.86	-1204
EBL	845.62	363.84

The rate of change of Net Working Capital ‘b’ in SCBNL is negative and EBL is positive. The positive value of ‘b’ indicates the better managing of net working capital for sufficient liquidity.

Graph 4.11



4.4 The Relationship between Net Working Capital and Net Profit

Working capital management is the management of all short-term assets used in daily operations. Profitability indicates the degree of success in achieving desire profit. Success and failure of the bank depends upon its profitability showing how efficiently it is utilizing its deposit.

Table 4.12

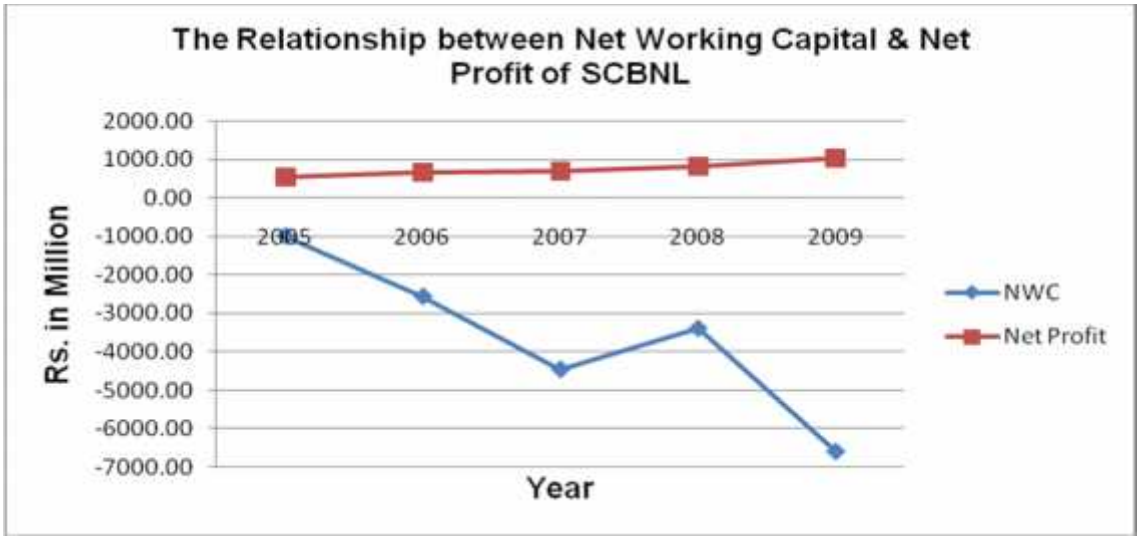
The Relationship between Net Working Capital and Net Profit of SCBNL

(Rs. in million)

Year / Bank	2005	2006	2007	2008	2009	Total	Average
NWC	-988.49	-2558.84	-4454.55	-3389.02	-6593.40	-17984.30	-3596.86
Net Profit	536.24	658.76	691.67	818.92	1025.11	3730.70	746.14

The net profit of the SCBNL is increasing trend but the net working capital of the SCBNL is rapidly decreasing trend which clearly shown in table 4.12. The highest net profit during the study period is Rs. 1025.11 million of SCBNL in 2009 and the lowest net profit during the study period is 536.24 million of SCBNL in 2005. The SCBNL bank has positive profit with regards to bank average, the bank averages of net profit is Rs. 746.14 million.

Graph 4.12



From the above graph 4.12 clearly show that the relationship between NWC and net profit. The SCBNL bank has positive net profit in increasing trend but net working capital of the SCBNL has rapidly decreasing. Positive net profit is the indicator of better financial position.

Table 4.13

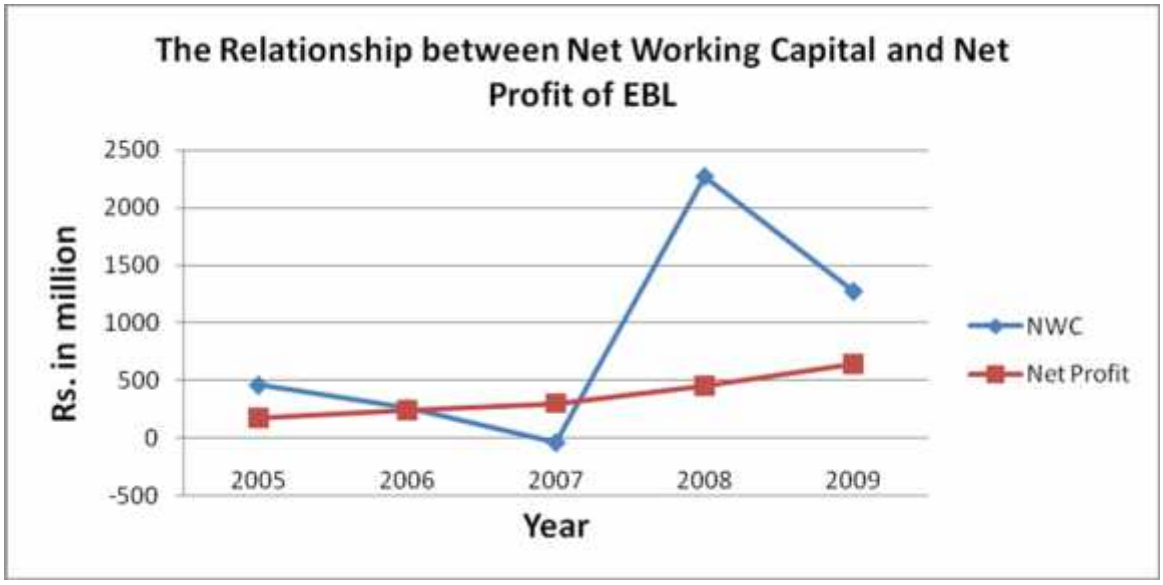
The Relationship between Net Working Capital and Net Profit of EBL

(Rs. in million)

Year / Bank	2005	2006	2007	2008	2009	Total	Average
NWC	459.68	261.42	-38.16	2271.16	1274.01	4228.11	845.62
Net Profit	168.21	237.29	296.41	451.22	638.73	1791.86	358.37

The net profit of the EBL is extremely increasing trend but the net working capital of the EBL is fluctuating trend which clearly shown in table 4.13 and below graph 4.13. The highest net profit during the study period is Rs. 638.73 million of EBL in 2009 and the lowest net profit during the study period is Rs. 168.21 million of EBL in 2005. The EBL has positive profit with regards to bank average; the average of net profit is Rs. 358.37 million. Similarly, the average of net working capital of EBL is Rs. 845.62 million.

Graph 4.13



From the above graph 4.13 clearly show that the relationship between NWC and net profit of EBL. The EBL has positive net profit in increasing trend but net working capital of the EBL has rapidly decreasing trend with fluctuated.

The study shows that the average level of net profit i.e. Rs. 746.14 of SCBNL is higher than that of EBL i.e. Rs. 358.37 percentages during the study period.

4.5 Analysis Based on Liquidity Ratios

Liquidity position is one of the crucial factors that make firm's day to day operation easier. It indicates the ability to pay its short term obligations. Liquidity position on the firm depends on its working capital policy. If the firm follows aggressive policy, it has low liquidity position while conservative policy has high liquidity position. To the extent how much bank enjoy liquidity position determine their working capital requirement. Liquidity denotes the ability for payment of short-term liabilities. Liquidity position of any organization is directly related with the net working capital or current assets and current liabilities. One of the main objectives of working capital management is to keep good liquidity position. Ratio analysis is one of the powerful tools to measure the financial performance of any banks. Different factors can be taken into consideration using this analysis like wise there are many factors that determine the working capital needs. Hence, liquidity position of selected bank is analyzed with the help of following ratios.

4.5.1 Current Ratio

Current ratio measures the short-term solvency of the firm. This is the crude measurement of liquidity position of the firm. This ratio is calculated by dividing current assets by current liabilities. Higher the liquidity position, lesser the need for additional working capital, since it will be better for them to have the best use of existing liquidity position. On the other hand, bank having lower liquidity position must raise the amount of working capital to save themselves from serious future liquidity crises. The current ratio explain that how much current asset is hence as against each rupee of current liabilities. The ratio is computed as below:

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

Table 4.14

Current Ratio (In times)

Year	SCBNL	EBL	Bank Average Ratio
2005	0.95	1.04	1.00
2006	0.89	1.02	0.96
2007	0.83	1.00	0.92
2008	0.89	1.09	0.99
2009	0.82	1.04	0.93
Average Ratio	**0.88**	**1.04**	**0.96**

Above table 4.14 and the below graph 4.14 shows the trend of current ratio of both the banks is in fluctuating order. The overall bank average current ratio is 0.96 and the average current ratio of SCBNL is 0.88 as well as that of EBL is 1.04. The highest bank average current ratio is 1.00 in 2005 and that of lowest of 0.93 in 2009.

Table 4.15

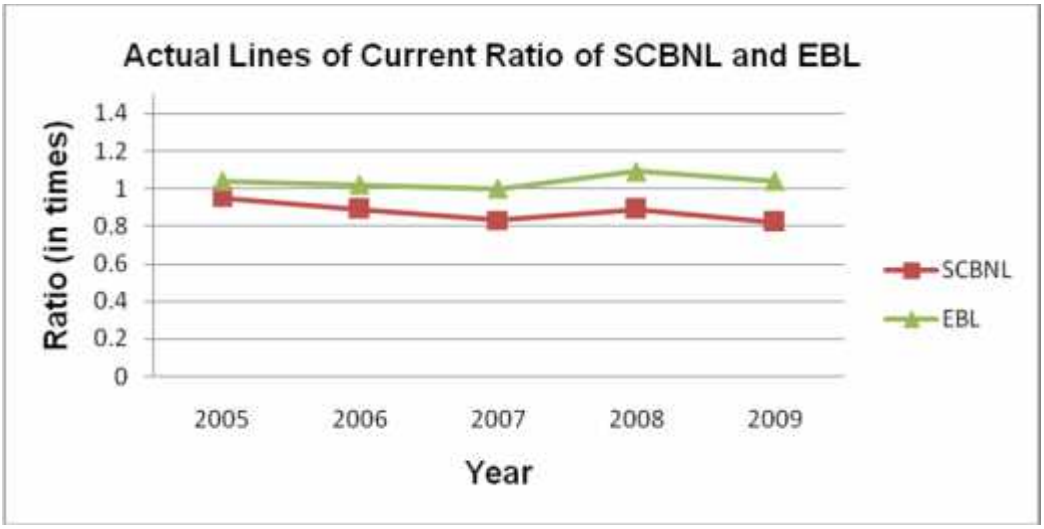
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<0.96	5
EBL	<0.96	0

The overall bank average current ratio is greater than the average ratio of SCBNL and is lower that of EBL during the study period. SCBNL is not able even to meet the overall bank average ratio for five years where as EBL seems to be able to meet this standard for five years.

In the above it can be seen that the yearly ratios of EBL is always higher than that of SCBNL. Therefore, the average ratio of EBL is higher than the average ratio of SCBNL. EBL has sufficient current assets to discharge the current liabilities but SCBNL has not. Comparatively, the liquidity position of EBL is better than that of SCBNL. In other words, EBL has more ability to meets its current obligations than SCBNL.

Graph 4.14



4.5.2 Quick / Acid – test Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. Quick asset are obtained after deducting inventories from CA. Cash is the most liquid asset. An asset is said to be liquid if it can be converted into cash immediately or reasonably without a loss of value of cash. Other assets which are considered to be relatively liquid are book debts and marketable securities. The quick ratio is found by dividing total quick assets by total CL as below:

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

Table 4.16

Quick Ratio (In times)

Year	SCBNL	EBL	Bank Average Ratio
2005	0.90	0.94	0.92
2006	0.84	0.91	0.88
2007	0.76	0.88	0.82
2008	0.82	0.98	0.90
2009	0.74	0.86	0.80
Average Ratio	**0.81**	**0.92**	**0.86**

Above table 4.16 and the below graph 4.15 shows the trend of quick ratio of both the banks is in fluctuating order. The overall bank average quick ratio is 0.86 and the average current ratio of SCBNL is 0.81 as well as that of EBL is 0.92. The highest bank average quick ratio is 0.92 in 2005 and that of lowest is 0.80 in 2009.

Table 4.17

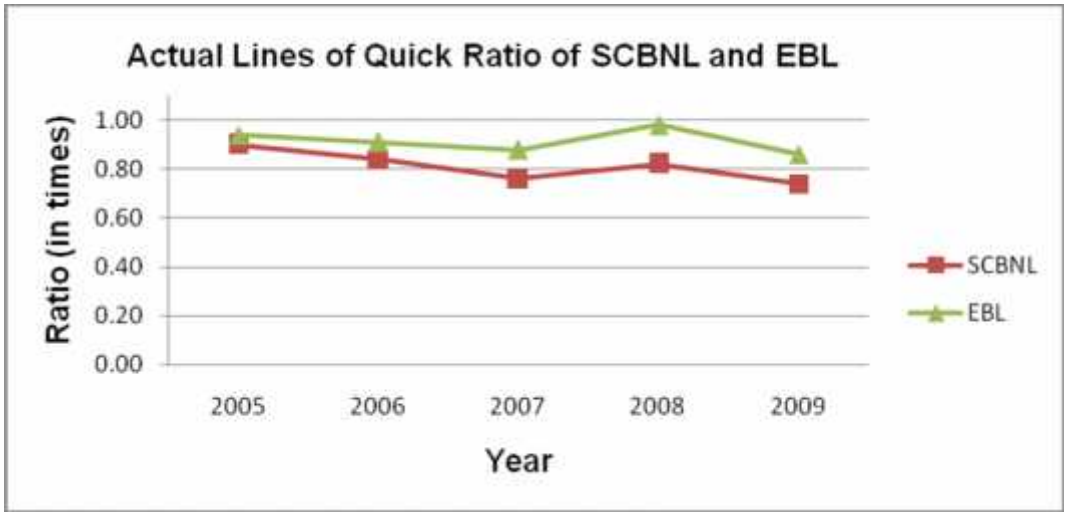
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<0.86	4
EBL	<0.86	0

The overall bank average quick ratio is greater than the average ratio of SCBNL and is lower that of EBL during the study period. SCBNL is not able even to meet the overall bank average ratio for four years where as EBL seems to be able to meet this standard for five years.

In the above it can be seen that the yearly ratios of EBL is always higher than that of SCBNL. Therefore, the average quick ratio of EBL is higher than the average quick ratio of SCBNL. It shows the better liquidity position of EBL in comparison to SCBNL.

Graph 4.15



4.6 Activity / Turnover Position

Activity or turnover ratios are used to evaluate the efficiency and speed with which assets are being converted into cash. The behavior of working capital utilization and improvement can be analyzed with the help of turnover ratios. This reflects the speed and rapidity, with which assets are converted into sales that results the efficiency of the enterprise. This ratio measures the degree of effectiveness in use of resources or funds by an enterprise. Though there is no standard of ideal turnover, generally, a greater turnover is regarded as efficient utilization of the assets. With the help of these ratios such as current assets to total assets, net working capital to total assets, cash and bank balance to total deposit, loan and advances to total deposit, loan and advances to fixed deposit and loan and advances to saving deposit are analyzed below.

4.6.1 Current Assets to Total Assets

Total assets include the total of fixed assets and total current assets. The need of assets highly depends upon the nature of business. Generally current assets are required to meet the need of working capital or fulfilling the requirement of daily business. The percentage of current assets to total assets has been analyzed under following formula:

$$Current\ Assets\ to\ Total\ Assets\ Ratio = \frac{Current\ Assets}{Total\ Assets}$$

Table 4.18

Current Assets to Total Assets Ratio (In times)

Year	SCBNL	EBL	Bank Average Ratio
2005	0.89	0.94	0.92
2006	0.83	0.93	0.88
2007	0.77	0.93	0.85
2008	0.82	0.98	0.90
2009	0.74	0.97	0.86
Average Ratio	**0.81**	**0.95**	**0.88**

Above table 4.18 and the below graph 4.16 shows the trend of the ratio of both the banks is in fluctuating order. The overall bank average ratio is 0.88 and the average ratio of SCBNL is 0.81 as well as that of EBL is 0.95. The highest bank average ratio is 0.92 in 2005 and that of lowest is 0.85 in 2007.

Table 4.19

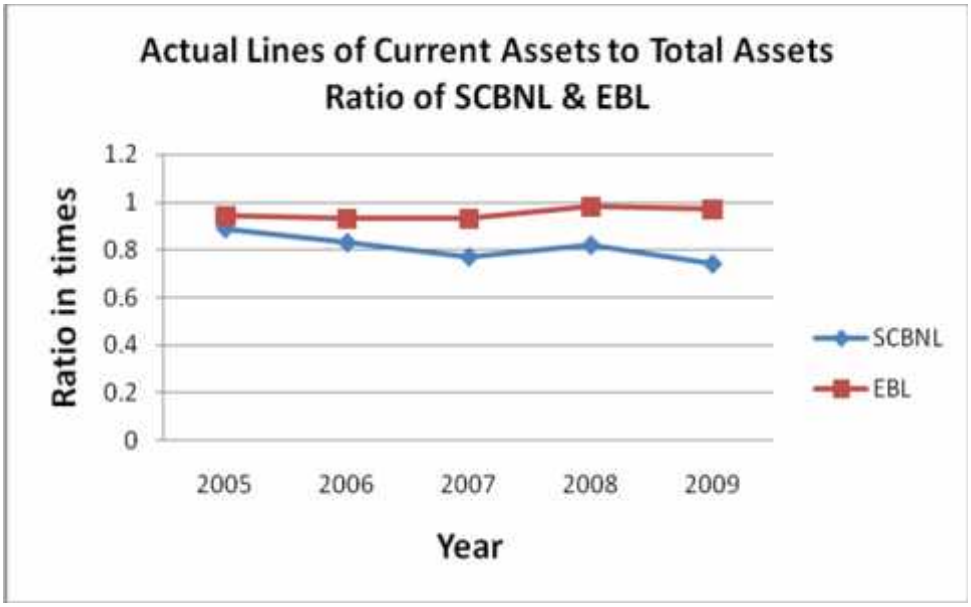
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<0.88	4
EBL	<0.88	0

The overall bank average current assets to total assets ratio is greater than the average ratio of SCBNL and is lower that of EBL during the study period. SCBNL is not able even to meet the overall bank average ratio for four years where as EBL seems to be able to meet this standard for five years.

In the above it can be seen that the yearly ratios of EBL is always higher than that of SCBNL. Therefore, the average current assets to total assets ratio of EBL is higher than that of SCBNL.

Graph 4.16



4.6.2 Net Working Capital to Total Assets

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. NWC to total assets of different bank has been analyzed as follow:

Thus,

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

Table 4.20

Net Working Capital to Total Assets Ratio (In times)

Year	SCBNL	EBL	Bank Average Ratio
2005	-0.045	0.039	-0.003
2006	-0.099	0.016	-0.042
2007	-0.156	-0.002	-0.079
2008	-0.102	0.084	-0.009
2009	-0.162	0.035	-0.064
Average Ratio	**-0.113**	**0.034**	**-0.039**

Above table 4.20 and the below graph 4.17 shows the trend of the ratio of both the banks is in fluctuating order. The overall bank average ratio is -0.039 and the average ratio of SCBNL is -0.113 as well as that of EBL is 0.034. The highest bank average net working capital to total assets ratio is -0.003 in 2005 and that of lowest is -0.079:1 in 2007.

Table 4.21

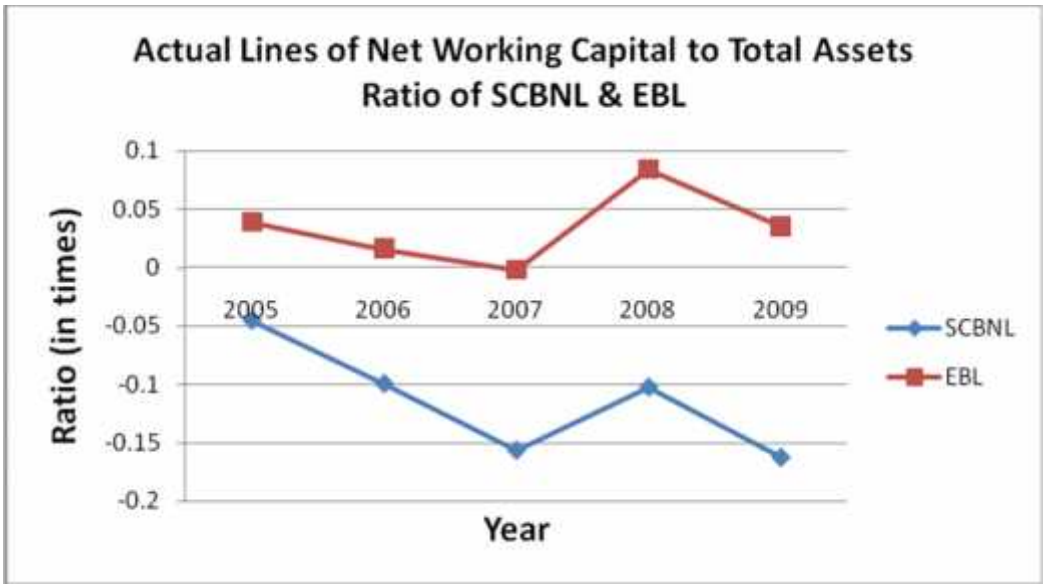
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<-0.039	0
EBL	<-0.039	1

The overall bank average net working capital to total assets ratio is lesser than the average ratio of both bank during the study period. SCBNL is not able even to meet the overall bank average ratio for five years where as EBL seems to be able to meet this standard for four years.

In the above it can be seen that the SCBNL has negative the ratio but EBL has negative in the third year during the study period. Ranges of the ratio in EBL is from -0.002 to 0.084.

Graph 4.17



4.6.3 Cash and Bank Balance to Total Assets

Cash and bank balance to total assets ratio shows the ability of banks immediate funds to cover their deposit. There is no standard measurement; higher turnover of current assets is always desirable as it indicates the maximum utilization of current assets during the year. For finding out the utilization of current assets of the bank has been calculated and presented as below. Thus,

$$\text{Cash \& Bank Balance to Total Assets} = \frac{Cash\ \&\ Bank\ Balance}{Total\ Assets} x100$$

Table 4.22

Cash and Bank Balance to Total Assets Ratio (In percentage)

Year	SCBNL	EBL	Bank Average Ratio
2005	4.78	8.95	6.87
2006	4.95	9.73	7.34
2007	7.07	11.16	9.12
2008	6.15	9.83	7.99
2009	7.73	16.70	12.22
Average Ratio	**6.14**	**11.27**	**8.71**

Above table 4.22 and the below graph 4.18 shows the trend of the ratio of both the banks is in fluctuating order. The overall bank average ratio is 8.71 and the average ratio of SCBNL is 6.14 as well as that of EBL is 11.27. The highest bank average ratio is 12.22 in 2009 and that of lowest is 6.87 in 2005.

Table 4.23

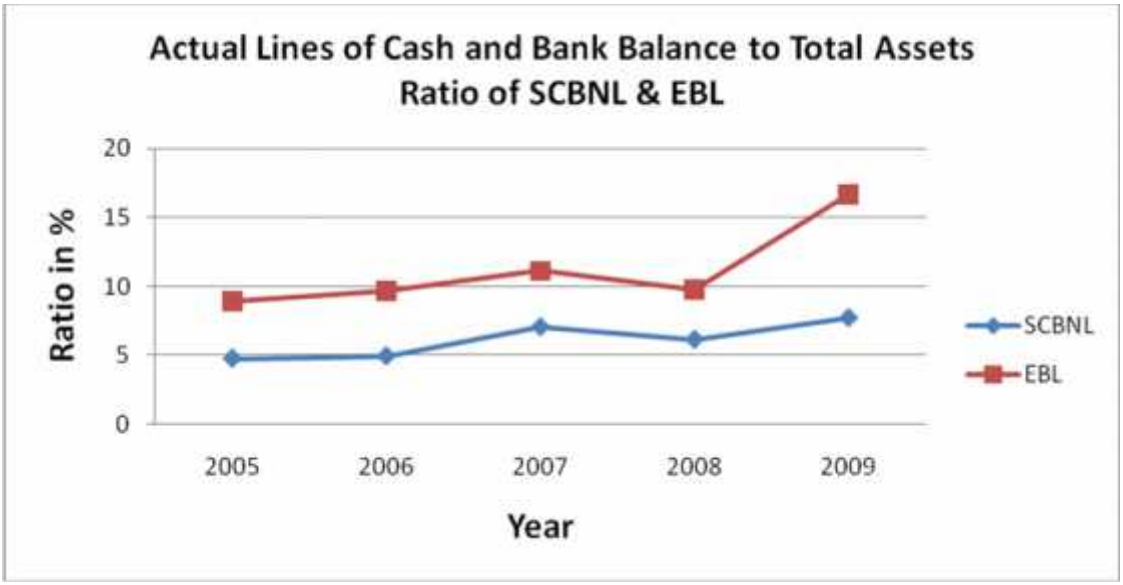
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<8.71	5
EBL	<8.71	0

The overall bank average ratio is greater than the average ratio of SCBNL and that is lower than the EBL during the study period. SCBNL is not able even to meet the overall bank average ratio for five years where as EBL is able to meet this standard for five years.

In the above it can be seen that the average cash and bank balance to total assets ratio of SCBNL i.e.6.14 is lesser than that of EBL i.e. 11.27. EBL is more preferable than SCBNL in terms of cash and bank balance to total assets.

Graph 4.18



4.6.4 Loan and Advances to Total Deposit

Current assets comprise of different types of components such as cash, receivable, inventories etc. Receivable is one of the major components of current assets. So, its degree of liquidity plays a vital role in the liquidity position of the firm. Thus, the measure of actual liquidity position of the firm remains uncompleted without the analysis of the liquidity of receivables. So, receivable turnover has been used to measure the liquidity position of receivable. It indicates the number of times the receivable is turned out during the year. Higher turnover shows the higher degree of liquidity of receivable and vice versa.

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

Thus,

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

Table 4.24

Loan and Advances to Total Deposit Ratio (In times)

Year	SCBNL	EBL	Bank Average Ratio
2005	0.42	0.75	0.59
2006	0.39	0.71	0.55
2007	0.43	0.75	0.59
2008	0.46	0.76	0.61
2009	0.38	0.72	0.55
Average Ratio	**0.42**	**0.74**	**0.58**

Above table 4.24 and the below graph 4.19 shows the trend of the ratio of both the banks is in fluctuating order. The overall bank average ratio is 0.58 and the average ratio of SCBNL is 0.42 as well as that of EBL is 0.74. The highest bank average loan and advances to total deposit ratio is 0.61 in 2008 and that of lowest is 0.55 in 2006 & 2009.

Table 4.25

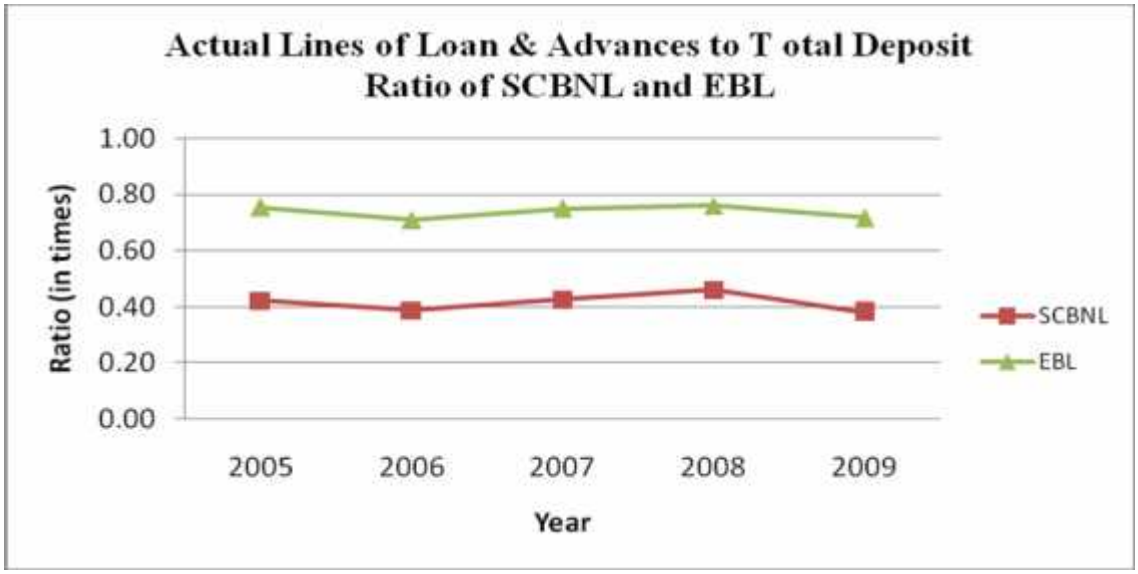
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<0.58	5
EBL	<0.58	0

The overall bank average ratio is greater than the average ratio of SCBNL and that is lower than the EBL during the study period. SCBNL is not able even to meet the overall bank average ratio for five years where as EBL seems to be able to meet this standard for five years.

In the above it can be seen that the average ratio of SCBNL i.e. 0.42 is lesser than that of EBL i.e. 0.74. It is the indication of long term investment policy of SCBNL. Thus, SCBNL is utilizing the funds more efficiently for the profit generating purpose on loan and advances than EBL.

Graph 4.19



4.6.5 Loan and Advances to Fixed Deposit

This ratio examines that how many times the fund is used in loan and advance against fixed deposit. Fixed deposits are interest bearing long term obligation where as loan and advances are the major sources of investment in generating income for commercial bank.

This ratio indicates how many times the long term interest bearing deposits are utilized for generating income, is calculated by dividing the amount of loan and advances by total deposit in fixed amount. The ratio is calculated as follows:

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

Table 4.26

Loan and Advances to Fixed Deposit Ratio (In times)

Year	SCBNL	EBL	Bank Average Ratio
2005	5.75	2.24	3.10
2006	4.18	2.31	3.25
2007	3.29	2.43	2.86
2008	4.16	2.84	3.50
2009	1.93	3.39	2.66
Average Ratio	**3.86**	**2.64**	**3.07**

Above table 4.26 and the below graph 4.20 shows the trend of loan and advances to fixed deposit ratio of SCBNL is in fluctuating order and that is the trend of EBL is in increasing order. The overall bank average ratio is 3.07 and the average ratio of SCBNL is 3.86 as well as that of EBL is 2.64. The highest bank average loan and advances to fixed deposit ratio is 3.50 in 2008 that of lowest is 2.66 in 2009.

Table 4.27

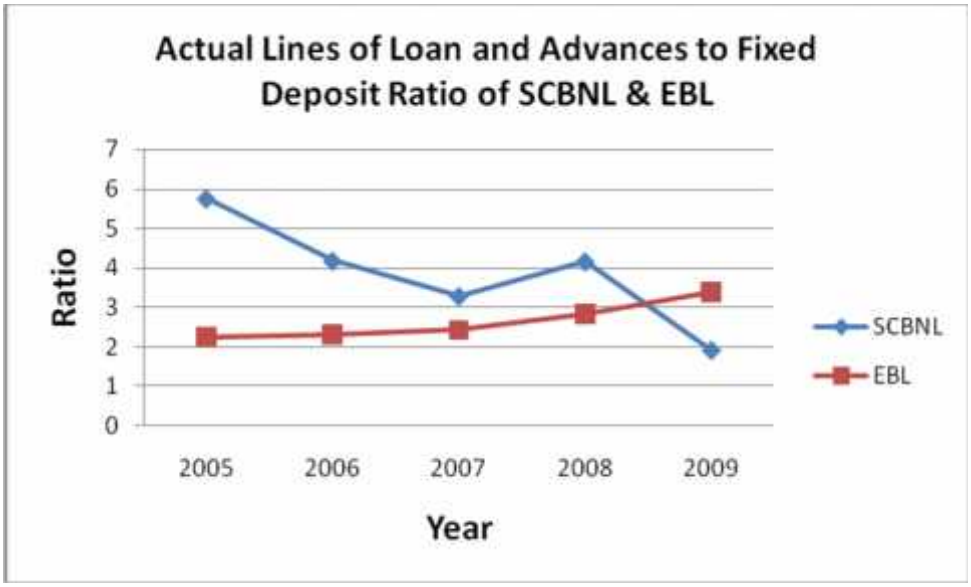
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<3.07	1
EBL	<3.07	4

The overall bank average ratio is lower than the average ratio of SCBNL and that is greater than the EBL during the study period. SCBNL is able even to meet the overall bank average ratio for four years where as EBL is not able to meet this standard for four years.

In the above it can be seen that the average ratio of SCBNL i.e. 3.86 is higher than that of EBL i.e.2.64. The loan and advances to fixed deposit ratio of EBL is better than SCBNL. Because of lower amount of fixed deposit, the ratio becomes higher on EBL than SCBNL. The ratio implies that EBL is utilizing its fixed deposit in loan and advances more efficiently.

Graph 4.20



4.6.6 Loan and Advances to Savings Deposit

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

$$\text{Loan and Advances to Savings Deposit } Ratio = \frac{Loan\ and\ Advance}{Saving\ Deposit}$$

Table 4.28

Loan and Advances to Savings Deposit Ratio (In times)

Year	SCBNL	EBL	Bank Average Ratio
2005	0.62	1.58	1.10
2006	0.61	1.41	1.01
2007	0.69	1.51	1.10
2008	0.77	1.54	1.16
2009	0.71	1.62	1.17
Average Ratio	**0.68**	**1.53**	**1.11**

Above table 4.28 and the below graph 4.21 shows the trend of loan and advances to saving deposit ratio of both the banks is in fluctuating order. The overall bank average ratio is 1.11 and the average ratio of SCBNL is 0.68 as well as that of EBL is 1.53. The highest bank average loan and advances to saving deposit ratio is 1.17 in 2009 and that of lowest is 1.01 in 2006.

Table 4.30

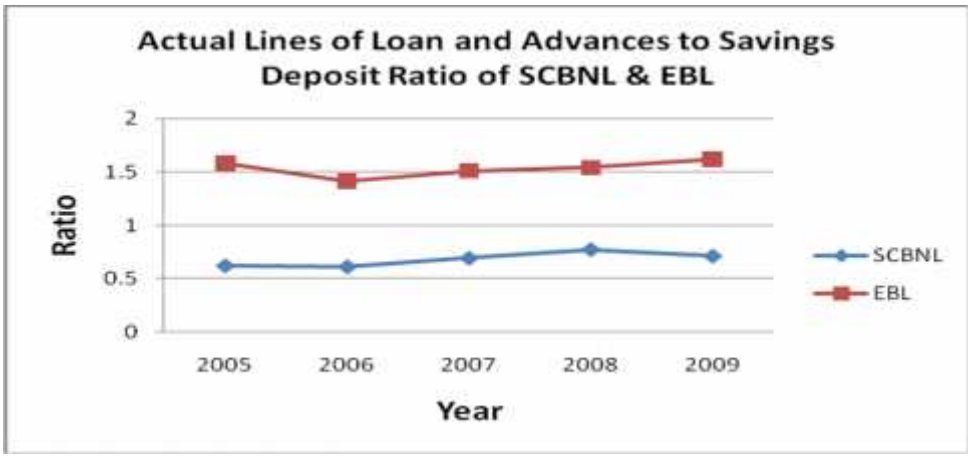
Grouping of Fiscal Years

Bank	Ratio	No. of Years
SCBNL	<1.11	5
EBL	<1.11	0

The overall bank average loan and advances to savings deposit ratio is greater than average ratio of SCBNL and that is lower than EBL during the study periods. SCBNL is not able even to meet the overall bank average ratio for five years where as EBL seems to be able to meet this standard for five years.

In the above it can be seen that the average ratio of SCBNL i.e. 0.68 is lower than that of EBL i.e.1.53. The loan and advances to saving deposit ratio of EBL is better than SCBNL. In implies that EBL is utilizing short term fund of outsiders more effectively than SCBNL.

Graph 4.21



4.7 Profitability Position

Every organization has the motive of maximizing the profit. Profit is the excess of revenues over expenses within a period of time. A bank should earn to survive and grow over a period. Profit is a basic long-term objective of commercial enterprises. Profitability is a measure of operating efficiency and the search for it provides an incentive to achieve efficiency. The profitability of a firm can be measured by its net profit and profitability ratios.

4.7.1 Size of Net Profit

Profit is the most essential factor for smooth operation and growth of every bank. All of the business enterprises are established with the main objective of profit maximization. Profit can be categorized into two types' viz. gross and net profit. Gross profit is profit after considering all

activities and net profit is the difference between gross profit and provision for staff bonus as well as provision for income tax. For the sake of convenience, the analysis is divided into following two categories.

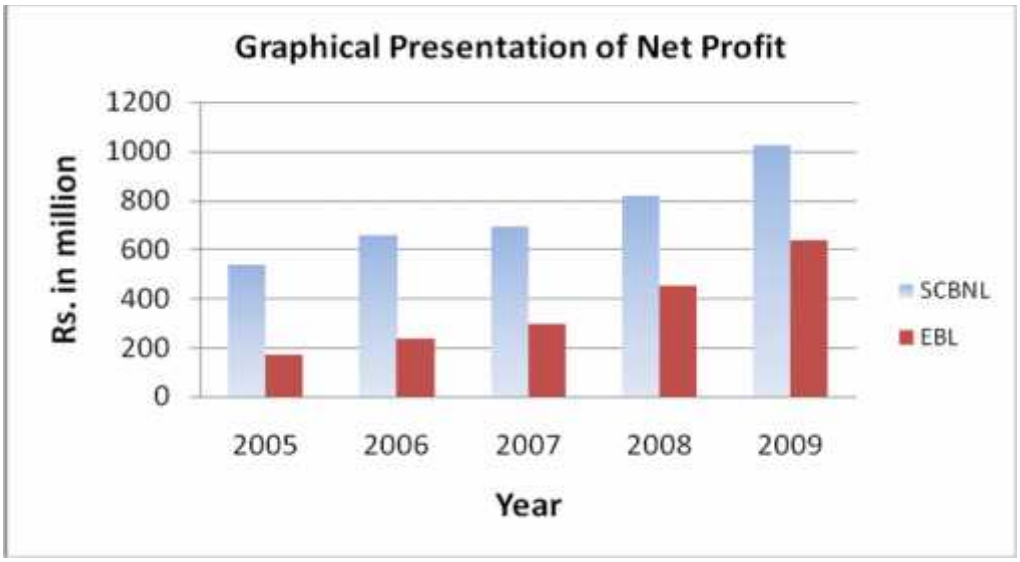
Table 4.30

Net Profit (Rs. in million)

Year / Bank	2005	2006	2007	2008	2009	Total	Average
SCBNL	539.20	658.76	691.67	818.92	1025.11	3733.66	746.73
EBL	168.21	237.29	296.41	451.22	638.73	1791.86	358.37
Total	707.41	896.05	988.08	1270.14	1663.84	5525.52	1105.10
Average	**353.71**	**448.03**	**494.04**	**635.07**	**831.92**	**2762.77**	**552.55**

The net profit of most of the commercial banks are in increasing trend which clearly shown in above table and below graph. The highest profit yielded/earned during the study period is Rs. 1025.11 million of SCBNL in 2009 whereas the highest profit yielded/earned during the study period is Rs. 638.73 million of EBL in 2009. The banks have positive profit with regards to bank average; the bank average of net profit is Rs. 746.73 million and Rs. 358.37 million of SCBNL and EBL respectively.

Graph 4.22



Above table and graph clearly show that the commercial banks have positive net profit. Positive net profit is the indicator of better financial position. Positive profitability of the bank shows that the financial position is sound. The net profit of SCBNL is always greater than EBL. Thus, the yearly average net profit of SCBNL is greater than EBL average in five fiscal years. SCBNL has better performance on mobilization funds to earn higher rate of profit.

4.7.2 Return on Total Assets and Risk Measurement

This ratio measures the profitability of the firm by establishing the relationship between net profit after taxes and total assets. This ratio also helps to understand the utilization of assets of the enterprise. It measures profitability of all financial resources invested in the firm's assets. It gives the earning power of the firm from utilizing its total investment. The average return on total assets is presented and calculated as follows:

$$ROA \text{ X} \frac{Net \text{ Pr } ofit\ after\ tax}{Total\ Asset}$$

Table 4.31

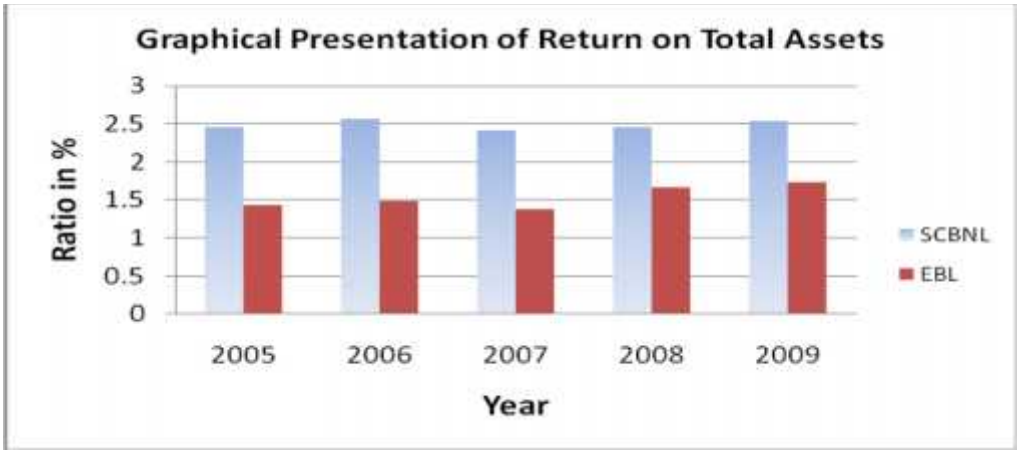
Return on Total Assets (In percentage)

Year / Bank	2005	2006	2007	2008	2009	Total	Average	Std. Dev.	C.V.
SCBNL	2.46	2.56	2.42	2.46	2.53	**12.42**	**2.48**	**0.05**	**0.02**
EBL	1.43	1.49	1.38	1.66	1.73	**7.70**	**1.54**	**0.15**	**0.09**
Total	3.90	4.04	3.80	4.12	4.26	**20.11**	**4.02**		
Average	**1.95**	**2.02**	**1.90**	**2.06**	**2.13**	**10.06**	**2.01**		

Above table 4.31 and the below graph 4.23 shows the trend of bank average of return on assets of both banks is much fluctuating in nature. The overall bank average ratio is 2.01 and the average ratio of SCBNL is 2.48 as well as that of EBL is 1.54. The highest bank average ROA is 2.13 in 2009 and that of lowest is 1.90 in 2007.

In the above it can be seen that the overall bank average ROA i.e. 2.01is lower than average ratio of SCBNL i.e 2.48 and that is higher than EBL i.e. 1.54 during the study periods. Thus, the overall profitability of SCBNL has been better than EBL. SCBNL is efficient using its working fund of assets to earn higher rate of profit.

Graph 4.23



Above graph clearly show that the trend of yearly average of ROA is consistent up to large extent.

The standard deviation is 0.05 is SCBNL where as it is 0.15 in EBL. Hence it shows EBL has higher risk factor than that of SCBNL. Similarly, coefficients of variation are 0.02 in SCBNL and 0.09 in EBL. Hence, it shows that there is more variation in ROA in EBL compared to SCBNL.

4.7.3 Return on Loans & Advances and Risk Measurement

It 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 purchases and discounted. Return on loans and advances ratio of EBL and SCBNL are presented below in the table. It is calculated as follows:

$$ROL\ X \frac{Net\ \Pr ofit\ after\ tax}{Loans\ \&\ Advances}$$

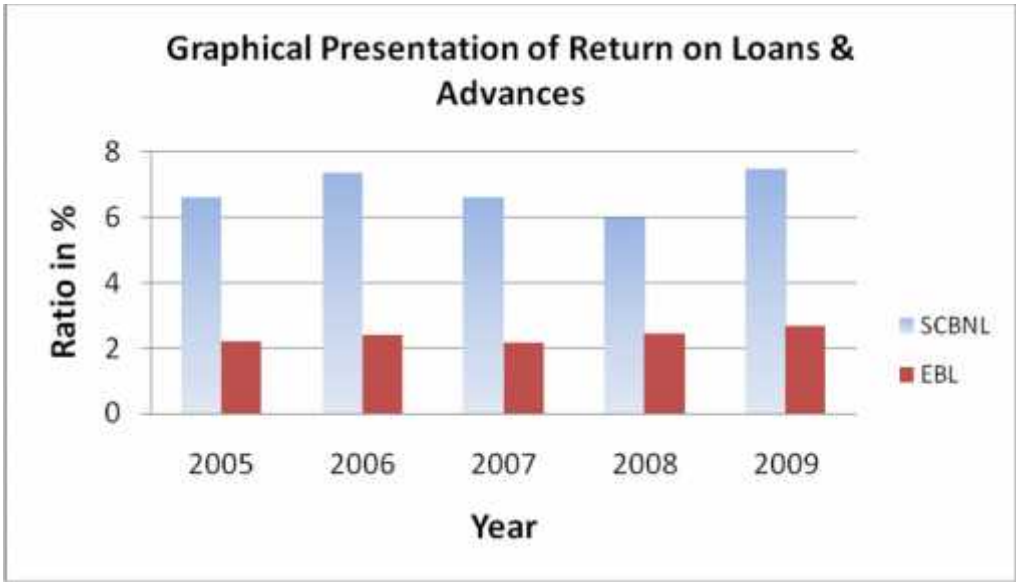
Table 4.32

Return on Loans & Advances (in %)

Year / Bank	2005	2006	2007	2008	2009	Total	Average	Std. Dev.	C.V.
SCBNL	6.59	7.37	6.59	5.97	7.49	**34.01**	**6.80**	**0.63**	**0.09**
EBL	2.21	2.42	2.17	2.46	2.67	**11.93**	**2.39**	**0.20**	**0.08**
Total	8.79	9.79	8.75	8.43	10.17	**45.94**	**9.19**		
Average	**4.40**	**4.90**	**4.38**	**4.21**	**5.08**	**22.97**	**4.59**		

Above table 4.32 and below graph 4.24 depicts the return on loans and advances ratio of the selected commercial banks. The return on loans and advances ratio of both banks is fluctuating over the study period. The average return on loans and advances ratio of SCBNL and EBL are 6.80 percent and 2.39 percent respectively.

Graph 4.24



The highest return on loans and advances ratio of SCBNL is 7.49 percent and lowest ratio is 5.97 percent as well as EBL's highest return on loans and advances ratio is 2.67 percent and lowest ratio is 2.17 percent. The overall bank average return on loans and advances ratio is 4.59 which lower than the average ratio of SCBNL and that is higher than EBL.

In the above it can be seen that the average ratio of SCBNL is higher than EBL. To make bank's profitability and return from loans and advances is satisfactory; EBL should really make an effort in loans and advances efficiently to generate adequate level of return in comparison to SCBNL.

The standard deviation is 0.63 is SCBNL where as it is 0.20 in EBL. Hence it shows SCBNL has higher risk factor than that of EBL. Similarly, coefficients of variation are 0.09 in SCBNL and 0.08 in EBL. Hence, it shows that there is more variation in ROL in SCBNL compared to EBL.

4.7.4 Return on Net Working Capital and Risk Measurement

This ratio measures the profitability of the firm by establishing the relationship between net profit after taxes and net working capital. This ratio also helps to understand the utilization of assets and liabilities of the banks. It gives the earning power of the bank from utilizing its total investment. The average return on net working capital is presented below. It is calculated as follows:

$$Return\ on\ Net\ Working\ Capital\ X \frac{Net\ Profit\ after\ tax}{NWC}$$

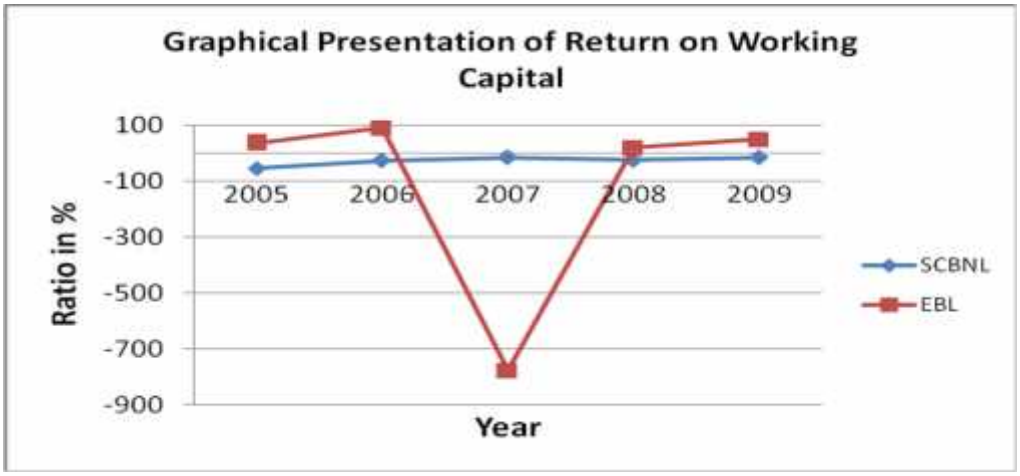
Table 4.33

Return on Net Working Capital (In percentage)

Year / Bank	2005	2006	2007	2008	2009	Total	Average	Std. Dev.	C.V.
SCBNL	-54.25	-25.74	-15.53	-24.16	-15.55	**-135.23**	**-27.05**	**15.93**	**-0.59**
EBL	36.59	90.77	-776.76	19.87	50.14	**-579.39**	**-115.88**	**370.39**	**-3.20**
Total	-17.66	65.03	-792.28	-4.30	34.59	**-714.62**	**-142.92**		
Average	**-8.83**	**32.51**	**-396.14**	**-2.15**	**17.29**	**-357.31**	**-71.46**		

Above table 4.33 and below graph 4.25 shows the trend of bank average of return on net working capital is much fluctuating in nature. The average return on the ratio of SCBNL and EBL are -27.05 percent and -115.88 percent respectively.

Graph 4.25



The highest return on net working capital ratio of SCBNL is -15.53 percent and lowest ratio is -54.25 percent as well as EBL's highest return on the ratio is 90.77 percent and lowest ratio is -776.76 percent. During the study period, the highest average return is 32.51 percent in the year 2006 and that of lowest is -396.14 percent in the year 2007.

The overall bank average return on net working capital ratio is -71.46 percent which lower than the average ratio of SCBNL and that is higher than EBL.

In the above it can be seen that the average ratio of SCBNL is lower than EBL and the standard deviation is 15.93 is SCBNL where as it is 370.39 in EBL. Hence it shows EBL has higher risk factor than that of SCBNL. Similarly, coefficients of variation are -0.59 in SCBNL and -3.20 in EBL. Hence, it shows that there is more variation in return on net working capital in EBL compared to SCBNL.

4.8 Co-efficient of Correlation:

This analysis interprets and identifies the relationship between two of more variables. In the case of highly correlated, the effects on none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

a) Coefficient of Correlation between Total Deposit and Net Profit

b) Coefficient of Correlation between Total Deposit and Loan & Advances

c) Coefficient of Correlation between Current Assets and Current Liabilities

The above analysis tools analyze the relationship between these the relevant variables and helps the bank to make sound policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization.

The following formula is used to find out the relationships:

$$\text{Coefficient of Correlation (r)} = \frac{d_1 . d_2}{\sqrt{\sum d_1^2 . \sum d_2^2}}$$

Where,

$d_1 = X_1 - \overline{X}_1$

$d_2 = X_2 - \overline{X}_2$

For the purpose of decision-making, interpretation is based on following term:

- When r = 1, there is perfect positive correlation
- When r = -1, there is perfect negative correlation
- When r = 0, there is no correlation
- Nearer the value of r to +1, closer will be the relationship between two variables and nearer the value of r to 0, lesser will be the relationship

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

Where,

P.E = Probable error of correlation coefficient

r = Correlation coefficient

n = Number of observations

4.8.1 Coefficient of Correlation between Total Deposit and Net Profit

The following table describes the relationship between total deposits and net profit of EBL and SCBNL with comparative under five years study period. In the following case, total deposit is independent variables (X_1) and net profit is dependent variables (X_2).

Table 4.34

Correlation Coefficient between Total Deposits and Net Profit

Banks	SCBNL	EBL
Coefficient of Correlation (r)	0.998	0.997
P.E.	0.0012	0.0018
6 P.E.	0.0072	0.0108

From the above table, it is found that coefficient of correlation between total deposit and net profit of SCBNL is 0.998 i.e. there is high degree of positive correlation between the two variables. It also reveals that relationship between total deposit and net profit is closer to perfect correlation. Similarly, probable error (P.E.) is 0.0012 and 6P.E. is 0.0072 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between total deposit and net profit is highly significant.

Similarly, it is found that coefficient of correlation between total deposit and net profit of EBL, is 0.997 i.e. there is high degree of positive correlation between two variables. It means correlation of coefficient between total deposit and net profit of EBL is perfect correlation. Similarly, probable error (P.E.) is 0.0018 and 6P.E. is 0.0108 which shows that 'r' is greater than 6P.E. Therefore it reveals that relationship between total deposit and net profit is highly significant.

From the above analysis, it can be concluded that there is highly significant relationship between total deposit and net profit in both banks.

4.8.2 Coefficient of Correlation between Total Deposit and Loans & Advances

The following table describes the relationship between total deposits and loan and advances of SCBNL and EBL with comparatively under five years study period. In the following case, total deposit is independent variables (X_1) and loan and advances is dependent variables (X_2).

Table 4.35

Correlation Coefficient between Total Deposits and Loans & Advances

Banks	SCBNL	EBL
Coefficient of Correlation (r)	0.931	0.997
P.E.	0.0402	0.0018
6 P.E.	0.2411	0.0108

From the above table, it is found that coefficient of correlation between total deposit and loans and advances of SCBNL is 0.931 i.e. there is high degree of positive correlation between these two variables. It also reveals that relationship between total deposit and loans & advances is closer to perfect correlation. Similarly, probable error (P.E.) is 0.0402 and 6 P.E. is 0.2411 which shows that 'r' is greater than 6 P.E. Therefore it reveals that relationship between total deposit and loans & advances is highly significant.

Similarly, it is found that coefficient of correlation between total deposit and loans & advances of EBL, is 0.997 i.e. there is high degree of positive correlation between two variables. It means correlation of coefficient between total deposit and loans & advances of EBL is perfect correlation. Similarly, probable error (P.E.) is 0.0018 and 6 P.E. is 0.0108 which shows that 'r' is greater than 6 P.E. Therefore it reveals that relationship between total deposit and loans and advance is highly significant.

From the above analysis, it can be concluded that there is highly significant relationship between total deposit and loans & advances in both banks.

4.8.3 Coefficient of Correlation between Current Assets and Current Liabilities

The following table describes the relationship between current assets and current liabilities of SCBNL and EBL with comparatively under five years study period. In the following case, current assets are independent variables (X_1), and current liabilities are dependent variables (X_2).

Table 4.36

Correlation Coefficient between Current Assets and Current Liabilities

Banks	SCBNL	EBL
Coefficient of Correlation (r)	0.981	0.997
P.E.	0.0114	0.0018
6 P.E.	0.0681	0.0108

From the above table, it is found that coefficient of correlation between current assets and current liabilities of SCBNL & EBL are as follows:

Likewise in case of SCBNL, coefficient of correlation between current assets and current liabilities is 0.981 i.e. there is high degree of positive correlation between two variables. It means correlation of coefficient between current assets and current liabilities of SCBNL is perfect correlation. Similarly, probable error (P.E.) is 0.0114 and 6 P.E. is 0.0681 which shows that 'r' is greater than 6 P.E. Therefore it reveals that relationship between current assets and current liabilities is highly significant.

Similarly, it is found that coefficient of correlation between current assets and current liabilities of EBL is 0.997 i.e. there is high degree of positive correlation between these two variables. It also reveals that relationship between current assets and current liabilities is perfect correlation. Similarly, probable error (P.E.) is 0.0018 and 6 P.E. is 0.0108 which shows that 'r' is greater than 6 P.E. Therefore it reveals that relationship between current assets and current liabilities is highly significant.

From the above analysis, it can be concluded that there is highly significant relationship between current assets and current liabilities in both banks.

4.9 Major Findings:

The Major findings of this study of SCBNL and HBL during the five year period are summarized below

1. The major component of current assets in SCBNL and EBL are cash and bank balance, loan and advances, government securities. In the studies period the proportion of the cash and bank balance, loan and advances and government securities to total current assets on an average are 7.91%, 45.66%and 34.12% in SCBNL and 11.86%, 67.91 and 18.42% in EBL respectively. So it is found that the average cash and bank balance and lone and advances percentages on EBL are higher than SCBNL, and average government securities percentage is higher in SCBNL then in EBL.

   Similarly, major component of current liabilities SCBNL and EBL are loans & borrowings, deposit liabilities and bills payable. In the studies period the proportion of these are on an average are 0.55%. 95.81% and 0.22% in SCBNL and 0.18%, 95.33% and 0.21% in EBL respectively. So it is found that the average loans & borrowings, deposit liabilities and bills payable percentages are higher in SCBNL then in EBL.

2. The networking capital of SCBNL is negative and EBL is negative in the year 2007 of study period. The average net working capital of SCBNL is Rs. -3596.86 million and that of EBL is Rs 845.62 million. The net working capital of SCBNL range from Rs. -3596.86 million to Rs -988.49 million where as in EBL, it range from Rs -38.16 million to Rs. 2271.16 million. Comparatively, EBL has higher net working capital than SCBNL. EBL sufficient

amount of working capital for operation requirement. In other word EBL are able to maintain adequate liquidity position to meet the short term or even instant obligations in that period.

The trend values of net working capital on SCBNL are decreasing and on EBL are increasing. The rate of change of Net Working Capital 'b' in SCBNL is negative and EBL is positive. The positive value of 'b' indicates the better managing of net working capital for sufficient liquidity.

3. The relationship between net working capital and net profit of two banks, SCBNL is higher net profit while negative net working capital and EBL is lower profit with positive net working capital. It shows SCBNL is managed working capital efficiently.

4. The liquidity position of bank is analyzed with the current ratio and quick ratio. The current and quick ratio of SCBNL and EBL are fluctuating. The current ratio of SCBNL and EBL range from 0.82 to 0.95 and 1.00 to 1.09 respectively. The average ratio of SCBNL and EBL are 0.88 and 1.04 respectively. This shows that the liquidity position or short term solvency of EBL is better than SCBNL in the study period.

5. The turnover positions of both banks have fluctuating besides the loan and advances to fixed deposit of EBL is in increasing trend. The average value of current assets to total assets, net working capital to total assets, cash & bank balance to total assets, loan & advances to total deposit, loan & advances to fixed deposit and loan and advances to saving deposit ratio are 0.81, -0.113, 6.14,

0.42, 3.86, 0.68 on SCBNL and 0.95, 0.034, 11.27, 0.74, 2.64, 1.53 on EBL respectively. From the analysis of the turnover of these banks, it is found that EBL has slightly better turnover than SCBNL. EBL has better utilization of deposits in income generating activity than SCBNL. It also shows that EBL has better investment efficiency on loan and advances.

6. The profitability position of SCBNL and EBL are analyzed from different ways. Net profit of SCBNL is higher than EBL in each year of study period. The average value of return on total assets and return on loans & advances are 2.48% and 6.80% in SCBNL, and 1.54% and 2.39% on EBL. The ROA & ROL are always higher on SCBNL than that of EBL during the study period. This implies that SCBNL is more efficiently using its total assets to earn profit.

Standard deviation on ROA of SCBNL is 0.05 and 0.15 in EBL. Similarly, standard deviation on ROL of SCBNL is 0.63 whereas it is 0.2 in EBL. Hence it shows that EBL has higher risk factor than SCBNL on total assets and SCBNL has higher risk factor than EBL on loans and advances.

Measuring the risk factor it shows that there is more variation in ROA in EBL compared to SCBNL and more variation in ROL in SCBNL compared to EBL.

The average return on net working capital, mean of return on net working capital and standard deviation are -27.05%, -27.046 & 15.93 in SCBNL, and -115.88%, -115.886 & 370.39 in EBL.

Measuring the risk factor it shows that there is more variation in return on net working capital in EBL compared to SCBNL.

7. While analyzing the coefficient of correlation between total deposit and net profit of both banks SCBNL and EBL are high significantly correlated. The value of r of SCBNL is 0.998 and 0.997 in EBL. The positive values of 'r' show the positive relationship between total deposit and net profit. It shows that both banks utilize its total deposit effectively to earn profit comparatively, relationship as well as utilization of deposits to earn profit is better in SCBNL than in EBL.

8. Coefficient of correlation between total deposit and loans and advances of both banks SCBNL and EBL are high significantly correlated. The value of 'r' of SCBNL is 0.931 and 0.997 in EBL. The positive values of r show the positive relationship between total deposit and loans and advances. It shows that both banks utilize its total deposit on loans and advances effectively but relationship as well as utilization of deposits is better in EBL than in SCBNL.

9. Coefficient of correlation between current assets and current liabilities of both banks SCBNL and EBL are high significantly correlated. The value of 'r' of SCBNL is 0.981 and 0.997 in EBL. The positive values of r show the positive relationship between current assets and current liabilities. It shows that both banks utilize its current assets effectively.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter includes summary, conclusion & recommendation on the basis of main findings. The final and most important task of the researcher 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. Standard Chartered Bank Nepal Ltd. and Everest Bank 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. The major ratio analysis consists of the composition of working capital position, liquidity ratio, activity/turnover ratio, capital structure and profitability ratio. Under these, main ratios and their trend position are studied in the chapter four. Least square method of Regression is used to test for trend analysis and 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 day, 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, 26 commercial banks are operating in Nepal. But in this study, only two commercial banks have been undertaken i.e. Standard Chartered Bank Nepal Ltd. and Everest Bank 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. SCBNL and EBL 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 SCBNL and EBL and to identity their strengths and weakness. Theoretical framework of ratio analysis, trend analysis, and correlation between two variables, its importance and limitations, research methodology and limitations of the study are mentioned.

The findings of liquidity ratios, activity ratios and profitability ratios are presented on a comparative basis. Besides, statistical analysis i.e. mean, standard deviation, coefficient of variance and correlation of coefficient of total deposit with net profit, total deposit with loans and advances and current assets with current liabilities 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. annual reports, websites.

The operating efficiencies of the selected banks and their abilities to ensure adequate returns to the shareholders have been measured.

5.2 Conclusion:

On the basis of entire research study some conclusions have been deducted. 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 SCBNL and EBL, covering the study period of 2005 to 2009 the following conclusions can be drawn from the study:

1. The total current asset of SCBNL is higher than EBL. Similarly, the total current asset of SCBNL is also higher than EBL.

2. The average net working capital of SCBNL is negative and that is the positive in EBL. SCBNL's net working capital is negative in all year of the study period but EBL is negative in third year of study period. Comparatively, EBL has higher net working capital than SCBNL. EBL are able to maintain adequate liquidity position to meet the short term or even instant obligations in that period.

3. In comparison with the relationship between net working capital and net profit of two banks, SCBNL is negative net working capital and higher net profit than that of EBL is lower profit with positive net working capital. SCBNL is managed working capital efficiently.

4. The mean (∈X) of current ratio of SCBNL is 0.88 as well as EBL is 1.04. Both the banks are below the normal ratio of 2:1. However, the liquidity position of EBL is slightly better than that of SCBNL. Higher liquidity means lower risk as well as lower profit. But in commercial bank, higher liquidity is not always the cause of lower profitability.

5. Quick ratio of EBL is higher than SCBNL. EBL is maintaining adequate liquidity position regarding cash reserve ratio than SCBNL.

6. Analyzing the activity/turnover position between these two banks, EBL has emerged as having a large volume of banking operations, mainly its deposits and lending in the light of its greater deposits and greater credits compared to SCBNL. EBL is utilizing its funds more efficiently for the profit generating purpose on loan and advances than SCBNL. EBL is utilizing saving deposits more for the income generating purpose whereas SCBNL is utilizing more fixed deposits for the income generating purpose.

7. In case of profitability position, profitability in terms of net profit of SCBNL is higher than that of EBL. Return on total assets and return on loans & advances of SCBNL is higher than that of EBL, and return on net working capital of both banks is negative. Therefore, SCBNL is more efficiently using its total assets (funds) to earn profit. Thus, it is concluded that the average profitability ratio of SCBNL is higher than that of EBL. The profitability ratios of the selected banks are fluctuating over the study period. To acquire higher profitability and return from loans and advances is satisfactory, the banks should make an effort in loans and advances efficiently to generate adequate level of return and take strong steps for the better management, strong marketing and strategic development etc.

8. The coefficient of correlation between two variables (i.e. total deposits and net profit, total deposit and loans & advances, and current assets and current liabilities) of the selected banks is nearly 1. So, high degree of positive correlation between these two variables. It also reveals that the relationship between these two variables of the selected banks is closer to perfect positive correlation. Correlation of coefficient (r) is greater than 6P.E. Therefore it reveals that relationship between two variables is significant.

5.3 Recommendations:

On the basis of major findings of the study, some important recommendations have been forwarded. Although these banks have more commercial experiences in the Nepalese commercial banking sector, with a competent managerial team, some improperness have come into light through the study. The sampled banks may use it as a remedial measure. The recommendations have been made:

1. Although proportion of loan and advances out of the total current assets of SCBNL is more than other current assets. Similarly, the proportion on loan & advances out of the total current assets of EBL is more than 50% of current assets. Hence, SCBNL should adjust its policy of investment on loan and advances with collected funds and increase the proportion of loan and advances in total current assets.

2. Positive working capital represents the sound liquidity management of the banks. Similarly, negative working capital represents the poor liquidity management of the banks. In case of SCBNL, found always negative working capital during the study period however, it is positive in all year beside third year of study period in EBL. Besides these, net profit of SCBNL is higher than EBL. Therefore, to eradicate this situation in EBL, suitable working capital should be formulated and implemented. There should be keeping optimum size of investment in current assets and current liabilities. SCBNL should pay attention on working capital management policy.

3. The liquidity position in terms of current ratio of both banks SCBNL and EBL are below normal. Therefore, both banks should pay more attention in current assets and current liabilities.

4. The turnover of the commercial banks is the primary factor of income generating activity. The loans and advances to total deposit and saving deposit are fluctuating and loans and advances to fixed deposit of EBL is increasing trend during the study period. The performances of both banks have well and it will be better to maintain in coming year also.

From turnover ratio, SCBNL has higher loan and advances to fixed deposit ratio than that of EBL. Thus, SCBNL has been suggested to improve its deposits and credits to increase its volume of banking operations.

5. ROA & ROL as well as C.V. on ROL of SCBNL is higher than EBL. Similarly, return on NWC, C.V. on ROA as well as C.V. on return on NWC of EBL is higher than SCBNL. The profitability position of EBL suggested that to improve its overall efficiency and returns to its shareholders.

6. The banks should match up between total deposits and loans & advances in coming years also, to maximize benefits.

7. By implementing the matching working capital management policy instead of adopting conservative working capital policy, SCBNL as well as EBL, can improve in its profitability in both short and long term.

8. 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.

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APPENDIX

1. Trend analysis of Net Working Capital of SCBNL:

X	x=X -}X	x^2	y	xy	y = a + bx
2005	-2	4	-988.49	1976.98	-3596.86+(-1204)(-2) = -1188.86
2006	-1	1	-2558.84	2558.84	-3596.86+(-1204)(-1) = -2392.86
2007	0	0	-4454.55	0	-3596.86+(-1204)(0) = -3596.86
2008	1	1	-3389.02	-3389.02	-3596.86+(-1204)(1) = -4800.86
2009	2	4	-6593.40	-13186.8	-3596.86+(-1204)(2) = -6004.86
Total	**0**	**10**	**-17984.3**	**-12040**	

Here,
X = Fiscal Year
y = Net working capital of SCBNL
€X = Mean of fiscal year
a = Y intercept of mean of net working capital of SCBNL
b = slope of the line or rate of change of net working capital of SCBNL
y = a + bx = Trend line

$$a \text{ X} \frac{y}{n} = \frac{\text{Z}17984.30}{5} = -3596.86$$

$$b \text{ X} \frac{xy}{x^2} = \frac{\text{Z}12040}{10} = -1204$$

2. Trend analysis of Net Working Capital of EBL:

X	x=X -}X	x^2	y	xy	y = a + bx
2005	-2	4	459.68	-919.36	845.62+(363.84)(-2) = 117.94
2006	-1	1	261.42	-261.42	845.62+(363.84)(-1) = 481.78
2007	0	0	-38.16	0	845.62+(363.84)(0) = 845.62
2008	1	1	2271.16	2271.16	845.62+(363.84)(1) = 1209.46
2009	2	4	1274.01	2548.02	845.62+(363.84)(2) = 1573.30
Total	**0**	**10**	**4228.11**	**3638.40**	

Here,
X = Fiscal Year
y = Net working capital of EBL
€X = Mean of fiscal year
a = Y intercept of mean of net working capital of EBL
b = slope of the line or rate of change of net working capital of EBL
y = a + bx = Trend line

$$a \text{ X} \frac{y}{n} = \frac{4228.11}{5} = 845.622$$

$$b \text{ X} \frac{xy}{x^2} = \frac{3638.40}{10} = 363.84$$

3. Current Ratio of Selected Banks :

Fiscal Year	SCBNL			EBL		
	Total Current Assets	Total Current Liabilities	CR = CA/CL	Total Current Assets	Total Current Liabilities	CR = CA/CL
2005	19252.68	20311.16	0.95	11059.59	10599.91	1.04
2006	21463.35	24022.19	0.89	14854.70	14593.28	1.02
2007	22025.79	26480.34	0.83	19892.90	19931.06	1.00
2008	27453.32	30842.34	0.89	26550.87	24279.71	1.09
2009	30212.80	36806.20	0.82	35687.24	34413.23	1.04
Average	**24081.59**	**27692.45**	**0.88**	**21609.06**	**20763.44**	**1.04**

4. Quick Ratio of Selected Banks :

Fiscal Year	SCBNL			EBL		
	QA	TCL	QR = QA/TCL	QA	TCL	QR = QA/TCL
2005	18211.56	20311.16	0.90	10009.59	10599.91	0.94
2006	20187.11	24022.19	0.84	13301.70	14593.28	0.91
2007	20004.77	26480.34	0.76	17501.50	19931.06	0.88
2008	25403.08	30842.34	0.82	23882.90	24279.71	0.98
2009	27075.64	36806.20	0.74	29522.87	34413.23	0.86
Average	**22176.43**	**27692.45**	**0.81**	**18843.71**	**20763.44**	**0.92**

5. Current Assets to Total Assets Ratio:

Fiscal Year	SCBNL			EBL		
	TCA	TA	Ratio	TCA	TA	Ratio
2005	19322.67	21781.68	0.89	11059.59	11732.52	0.94
2006	21463.35	25776.33	0.83	14854.70	15959.28	0.93
2007	22025.79	28596.69	0.77	19892.90	21432.57	0.93
2008	27453.32	33335.79	0.82	26550.87	27149.34	0.98
2009	30212.80	40587.47	0.74	35687.24	36916.85	0.97
Average	**24095.59**	**30015.59**	**0.81**	**21609.06**	**22638.11**	**0.95**

6. Net Working Capital to Total Assets Ratio (in times):

Fiscal Year	SCBNL			EBL		
	NWC	Total Assets	Ratio	NWC	Total Assets	Ratio
2005	-988.490	21781.680	-0.045	459.680	11732.520	0.039
2006	-2558.840	25776.330	-0.099	261.420	15959.280	0.016
2007	-4454.550	28596.690	-0.156	-38.160	21432.570	-0.002
2008	-3389.020	33335.790	-0.102	2271.160	27149.340	0.084
2009	-6593.400	40587.470	-0.162	1274.010	36916.850	0.035
Average	**-3596.860**	**30015.592**	**-0.113**	**845.622**	**22638.112**	**0.034**

7. Cash and Bank Balance to Total Assets Ratio (in %):

Fiscal Year	SCBNL			EBL		
	Cash & Bank Balance	Total Assets	Ratio	Cash & Bank Balance	Total Assets	Ratio
2005	1041.12	21781.68	4.78	1050.00	11732.52	8.95
2006	1276.24	25776.33	4.95	1553.00	15959.28	9.73
2007	2021.02	28596.69	7.07	2391.40	21432.57	11.16
2008	2050.24	33335.79	6.15	2667.97	27149.34	9.83
2009	3137.16	40587.47	7.73	6164.37	36916.85	16.70
Average	**1905.16**	**30015.59**	**6.14**	**2765.35**	**22638.11**	**11.27**

8. Loan & Advances to Total Deposit Ratio (in times):

Fiscal Year	SCBNL			EBL		
	Loan & Advances	Total Deposit	Ratio	Loan & Advances	Total Deposit	Ratio
2005	8143.21	19335.09	0.42	7618.70	10097.69	0.75
2006	8935.42	23061.03	0.39	9801.30	13802.44	0.71
2007	10502.64	24647.02	0.43	13664.40	18186.25	0.75
2008	13718.60	29743.10	0.46	18339.08	23976.30	0.76
2009	13679.76	35871.72	0.38	23884.67	33322.95	0.72
Average	**10995.93**	**26531.60**	**0.42**	**14661.63**	**19877.13**	**0.74**

9. Loan & Advances to Fixed Deposit Ratio (in times):

Fiscal Year	SCBNL			EBL		
	Loan & Advances	Fixed Deposit	Ratio	Loan & Advances	Fixed Deposit	Ratio
2005	8143.21	1416.38	5.75	7618.70	3403.96	2.24
2006	8935.42	2136.31	4.18	9801.30	4242.35	2.31
2007	10502.64	3196.49	3.29	13664.40	5626.66	2.43
2008	13718.60	3301.01	4.16	18339.08	6446.18	2.84
2009	13679.76	7101.70	1.93	23884.67	7049.98	3.39
Average	**10995.93**	**3430.38**	**3.86**	**14661.63**	**5353.83**	**3.07**

10. Loan & Advances to Saving Deposit Ratio (in times):

Fiscal Year	SCBNL			EBL		
	Loan & Advances	Saving Deposit	Ratio	Loan & Advances	Saving Deposit	Ratio
2005	8143.21	13030.93	0.62	7618.70	4806.83	1.58
2006	8935.42	14597.67	0.61	9801.30	6929.22	1.41
2007	10502.64	15244.38	0.69	13664.40	9029.26	1.51
2008	13718.60	17856.13	0.77	18339.08	11883.86	1.54
2009	13679.76	19187.64	0.71	23884.67	14782.33	1.62
Average	**10995.93**	**15983.35**	**0.68**	**14661.63**	**9486.30**	**1.53**

11. Return on Total Assets (in %):

Fiscal Year	SCBNL			EBL		
	Net profit after tax	Total Assets	Ratio	Net profit after tax	Total Assets	Ratio
2005	536.24	21781.68	2.46	168.21	11732.52	1.43
2006	658.76	25776.33	2.56	237.29	15959.28	1.49
2007	691.67	28596.69	2.42	296.41	21432.57	1.38
2008	818.92	33335.79	2.46	451.22	27149.34	1.66
2009	1025.11	40587.47	2.53	638.73	36916.85	1.73
Total	**3730.70**	**150077.96**	**12.42**	**1791.86**	**113190.56**	**7.70**
Average	**746.14**	**30015.59**	**2.48**	**358.37**	**22638.11**	**1.54**

12. Calculation of Standard Deviation and coefficient of variation of Return on total assets:

Year	SCBNL			EBL		
	X_S	$d_1 X X_S Z \overline{X_S}$	$d_1^2 X (X_S Z \overline{X_S})^2$	X_E	$d_2 X X_E Z \overline{X_E}$	$d_2^2 X (X_E Z \overline{X_E})^2$
2005	2.46	-0.03	0.00	1.43	-0.11	0.01
2006	2.56	0.07	0.01	1.49	-0.05	0.00
2007	2.42	-0.07	0.00	1.38	-0.16	0.02
2008	2.46	-0.03	0.00	1.66	0.12	0.01
2009	2.53	0.04	0.00	1.73	0.19	0.04
Total	**12.43**	**0.00**	**0.01**	**7.70**	**0.00**	**0.09**

Here,
n = Number of years
X_S = Return on total assets ratio of SCBNL
X_E = Return on total assets ratio of EBL
$\overline{X_S}$ = Mean of return on total assets ratio of SCBNL
$\overline{X_E}$ = Mean of return on total assets ratio of EBL
$\pm_S$ = Standard deviation of SCBNL
$\pm_E$ = Standard deviation of EBL
$C.V_s$ = Coefficient of variance

$$\overline{X_S} \text{ X} \frac{X_S}{n} = \frac{12.42}{5} = 2.484$$

$$\overline{X_E} \text{ X} \frac{X_E}{n} = \frac{7.70}{5} = 1.54$$

$$\pm_S \text{ X} \sqrt{\frac{d_1^{\,2}}{n \text{ Z} 1}} \quad \text{X} \sqrt{\frac{0.01}{5 \text{ Z} 1}} = 0.05$$

$$\pm_E \text{ X} \sqrt{\frac{d_2^{\,2}}{n \text{ Z} 1}} \quad \text{X} \sqrt{\frac{0.09}{5 \text{ Z} 1}} = 0.15$$

$$C.V_S = \frac{\pm_S}{\overline{X_S}} = \frac{0.05}{2.48} = 0.02$$

$$C.V_E = \frac{\pm_E}{\overline{X_E}} = \frac{0.15}{1.54} = 0.09$$

13. Return on Loans and Advances (in %):

Fiscal Year	SCBNL			EBL		
	Net profit after tax	Loan & Advances	Ratio	Net profit after tax	Loan & Advances	Ratio
2005	536.24	8143.21	6.59	168.21	7618.70	2.21
2006	658.76	8935.42	7.37	237.29	9801.30	2.42
2007	691.67	10502.64	6.59	296.41	13664.40	2.17
2008	818.92	13718.60	5.97	451.22	18339.08	2.46
2009	1025.11	13679.76	7.49	638.73	23884.67	2.67
Total	**3730.70**	**54979.63**	**34.01**	**1791.86**	**73307.82**	**11.93**
Average	**746.14**	**10995.93**	**6.80**	**358.37**	**14661.63**	**2.39**

14. Calculation of Standard Deviation and coefficient of variation of Return on loans & advances:

Year	SCBNL			EBL		
	X_S	$d_1 = X - X_S - \overline{X_S}$	$d_1^2 = (X - X_S - \overline{X_S})^2$	X_E	$d_2 = X - X_E - \overline{X_E}$	$d_2^2 = (X - X_E - \overline{X_E})^2$
2005	6.59	-0.21	0.04	2.21	-0.18	0.03
2006	7.37	0.57	0.32	2.42	0.03	0.00
2007	6.59	-0.21	0.04	2.17	-0.22	0.05
2008	5.97	-0.83	0.69	2.46	0.07	0.01
2009	7.49	0.69	0.47	2.67	0.28	0.08
Total	**34.01**	**0.00**	**1.58**	**11.93**	**0.00**	**0.16**

Here,
n = Number of years
X_S = Return on loans & advances ratio of SCBNL
X_E = Return loans & advances ratio of EBL
$\overline{X_S}$ = Mean of return on loans & advances ratio of SCBNL
$\overline{X_E}$ = Mean of return on loans & advances ratio of EBL
$\pm_S$ = Standard deviation of SCBNL
$\pm_E$ = Standard deviation of EBL
$C.V_S$ = Coefficient of variance

$$\overline{X_S} \text{ X} \frac{X_S}{n} = \frac{34.01}{5} = 6.802$$

$$\overline{X_E} \text{ X} \frac{X_E}{n} = \frac{11.93}{5} = 2.386$$

$$\pm_S \text{ X} \sqrt{\frac{d_1^{\,2}}{n\,\text{Z1}}} \quad \text{X} \sqrt{\frac{1.58}{5\,\text{Z1}}} = 0.63$$

$$\pm_E \text{ X} \sqrt{\frac{d_2^{\,2}}{n\,\text{Z1}}} \quad \text{X} \sqrt{\frac{0.16}{5\,\text{Z1}}} = 0.20$$

$$\text{C.V}_\text{S} = \frac{\pm_S}{\overline{X_S}} = \frac{0.63}{6.80} = 0.09$$

$$\text{C.V}_\text{E} = \frac{\pm_E}{\overline{X_E}} = \frac{0.20}{2.39} = 0.08$$

15. Return on Net Working Capital (in %):

Fiscal Year	SCBNL			EBL		
	Net profit after tax	NWC	Ratio	Net profit after tax	NWC	Ratio
2005	536.24	-988.490	-54.25	168.21	459.680	36.59
2006	658.76	-2558.840	-25.74	237.29	261.420	90.77
2007	691.67	-4454.550	-15.53	296.41	-38.160	-776.76
2008	818.92	-3389.020	-24.16	451.22	2271.160	19.87
2009	1025.11	-6593.400	-15.55	638.73	1274.010	50.14
Total	**3730.70**	**-17984.30**	**-135.23**	**1791.86**	**4228.11**	**-579.39**
Average	**746.14**	**-3596.860**	**-27.05**	**358.37**	**845.622**	**-115.88**

16. Calculation of Standard Deviation and coefficient of variation of Return on net working capital:

Year	SCBNL			EBL		
	X_S	$d_1 X X_S Z \overline{X_S}$	$d_1^2 X (X_S Z \overline{X_S})^2$	X_E	$d_2 X X_E Z \overline{X_E}$	$d_2^2 X (X_E Z \overline{X_E})^2$
2005	-54.25	-27.20	740.06	36.59	152.48	23248.93
2006	-25.74	1.31	1.71	90.77	206.66	42706.70
2007	-15.53	11.52	132.62	-776.80	-660.91	436807.32
2008	-24.16	2.89	8.33	19.87	135.76	18429.69
2009	-15.55	11.50	132.16	50.14	166.03	27564.63
Total	**-135.23**	**0.00**	**1014.87**	**-579.43**	**0.00**	**548757.27**

Here,
n = Number of years
X_S = Return on net working capital ratio of SCBNL
X_E = Return net working capital ratio of EBL
$\overline{X_S}$ = Mean of return on net working capital ratio of SCBNL
$\overline{X_E}$ = Mean of return on net working capital ratio of EBL
$\pm_S$ = Standard deviation of SCBNL
$\pm_E$ = Standard deviation of EBL
$C.V_S$ = Coefficient of variance

$$\overline{X_S} \; X \frac{X_S}{n} = \frac{Z135.23}{5} = -27.046$$

$$\overline{X_E} \; X \frac{X_E}{n} = \frac{Z579.43}{5} = -115.886$$

$$\pm_S \; X \sqrt{\frac{d_1^{\,2}}{n \, Z1}} \quad X \sqrt{\frac{1014.87}{5 \, Z1}} = 15.93$$

$$\pm_E \; X \sqrt{\frac{d_2^{\,2}}{n \, Z1}} \quad X \sqrt{\frac{548757.27}{5 \, Z1}} = 370.39$$

$$C.V_S = \frac{\pm_S}{\overline{X_S}} = \frac{15.93}{Z27.05} = -0.589$$

$$C.V_E = \frac{\pm_E}{\overline{X_E}} = \frac{370.39}{Z115.89} = -3.196$$

17. Calculation of correlation of coefficient between Total Deposits and Net Profit of SCBNL:

(Rs. in million)

Year	X_1	X_2	$d_1 = X_1 - \overline{X_1}$	$d_2 = X_2 - \overline{X_2}$	$d_1.d_2$	d_1^2	d_2^2
2005	19363.47	536.24	-7173.80	-209.90	1505780.20	51463377.74	44058.01
2006	23061.03	658.76	-3476.24	-87.38	303753.68	12084230.63	7635.26
2007	24647.02	691.67	-1890.25	-54.47	102961.81	3573037.50	2966.98
2008	29743.10	818.92	3205.83	72.78	233320.45	10277358.81	5296.93
2009	35871.72	1025.11	9334.45	278.97	2604032.07	87131994.14	77824.26
Total	**132686.34**	**3730.70**	**0.00**	**0.00**	**4749848.21**	**164529998.83**	**137781.44**

Here,
n = Number of years
X_1 = Total Deposit
X2 = Net Profit
$\overline{X_1}$ = Mean of Total Deposit
$\overline{X_2}$ = Mean of Net Profit

$$\overline{X_1} = \frac{X_1}{n} = \frac{132686.34}{5} = 26537.27$$

$$\overline{X_2} = \frac{X_2}{n} = \frac{3730.70}{5} = 746.14$$

$$r = \frac{d_1 \; d_2}{\sqrt{d_1^2 . \; d_2^2}} = \frac{4749848.21}{\sqrt{164529998.83 \times 137781.44}} = \frac{4749848.21}{4761216.25} = 0.9976$$

Positive correlation:

$$P.E. = \frac{0.6745(1 - r^2)}{\sqrt{n}} = \frac{0.6745(1 - 0.998^2)}{\sqrt{5}} = 0.001205$$

6 P.E. = 6 x 0.001205 = 0.00723

r > 6 P.E. so r is highly significant

18. Calculation of correlation of coefficient between Total Deposits and Net Profit of EBL:

(Rs. in million)

Year	X_1	X_2	$d_1 = X_1 - \overline{X_1}$	$d_2 = X_2 - \overline{X_2}$	$d_1.d_2$	d_1^2	d_2^2
2005	10097.69	168.21	-9779.44	-190.16	1859677.11	95637368.48	36161.59
2006	13802.44	237.29	-6074.69	-121.08	735535.13	36901810.00	14660.85
2007	18186.25	296.41	-1690.88	-61.96	104770.06	2859061.65	3839.29
2008	23976.30	451.22	4099.17	92.85	380600.11	16803227.48	8620.75
2009	33322.95	638.73	13445.82	280.36	3769644.32	180790183.04	78600.61
Total	**99385.63**	**1791.86**	**0.00**	**0.00**	**6850226.73**	**332991650.65**	**141883.09**

Here,
n = Number of years
X_1 = Total Deposit
X2 = Net Profit
$\overline{X_1}$ = Mean of Total Deposit
$\overline{X_2}$ = Mean of Net Profit

$$\overline{X_1} = \frac{X_1}{n} = \frac{99385.63}{5} = 19877.126$$

$$\overline{X_2} = \frac{X_2}{n} = \frac{1791.86}{5} = 358.372$$

$$r = \frac{d_1 \; d_2}{\sqrt{d_1^2 . \; d_2^2}} = \frac{6850226.73}{\sqrt{332991650.65 \times 141883.09}} = \frac{6850226.73}{6873564.065} = 0.9966$$

Positive correlation:

$$P.E. = \frac{0.6745(1 - r^2)}{\sqrt{n}} = \frac{0.6745(1 - 0.997^2)}{\sqrt{5}} = 0.001807$$

6 P.E. = 6 x 0.001807 = 0.0108

r > 6 P.E. so r is highly significant

19. Calculation of correlation of coefficient between Total Deposits and Loans & Advances of SCBNL:

(Rs. in million)

Year	X_1	X_2	$d_1 = X_1 - \overline{X_1}$	$d_2 = X_2 - \overline{X_2}$	$d_1.d_2$	d_1^2	d_2^2
2005	19363.47	8143.21	-7173.80	-2852.72	20464808.34	51463377.74	8137988.58
2006	23061.03	8935.42	-3476.24	-2060.51	7162809.26	12084230.63	4245684.98
2007	24647.02	10502.64	-1890.25	-493.29	932432.87	3573037.50	243331.08
2008	29743.10	13718.60	3205.83	2722.67	8728435.43	10277358.81	7412953.71
2009	35871.72	13679.76	9334.45	2683.83	25052119.65	87131994.14	7202964.94
Total	**132686.34**	**54979.63**	**0.00**	**0.00**	**62340605.55**	**164529998.83**	**27242923.28**

Here,
n = Number of years
X_1 = Total Deposit
X2 = Loans & Advances
$\overline{X_1}$ = Mean of Total Deposit
$\overline{X_2}$ = Mean of Loans & Advances

$$\overline{X_1} = \frac{X_1}{n} = \frac{132686.34}{5} = 26537.27$$

$$\overline{X_2} = \frac{X_2}{n} = \frac{154979.63}{5} = 10995.93$$

$$r = \frac{d_1 \; d_2}{\sqrt{d_1^2 . \; d_2^2}} = \frac{62340605.55}{\sqrt{164529998.83 \times 27242923.28}} = \frac{62340605.55}{66949818.03} = 0.93115$$

Positive correlation:

$$P.E. = \frac{0.6745(1 - r^2)}{\sqrt{n}} = \frac{0.6745(1 - 0.931^2)}{\sqrt{5}} = 0.04019$$

6 P.E. = 6 x 0.04019 = 0.2411

r > 6 P.E. so r is highly significant

20. Calculation of correlation of coefficient between Total Deposits and Loans & Advances of EBL:

(Rs. in million)

Year	X_1	X_2	$d_1 = X_1 - \bar{X}_1$	$d_2 = X_2 - \bar{X}_2$	$d_1.d_2$	d_1^2	d_2^2
2005	10097.69	7618.67	-9779.44	-7042.89	68875531.13	95637368.48	49602355.90
2006	13802.44	9801.31	-6074.69	-4860.25	29524516.93	36901810.00	23622068.94
2007	18186.25	13664.08	-1690.88	-997.48	1686621.76	2859061.65	994974.33
2008	23976.30	18339.09	4099.17	3677.53	15074818.96	16803227.48	13524197.48
2009	33322.95	23884.67	13445.82	9223.11	124012260.01	180790183.04	85065684.29
Total	**99385.63**	**73307.82**	**0.00**	**0.00**	**239173748.79**	**332991650.65**	**172809280.94**

Here,
n = Number of years
X_1 = Total Deposit
X2 = Loans & Advances
$\bar{X}_1$ = Mean of Total Deposit
$\bar{X}_2$ = Mean of Loans & Advances

$$\bar{X}_1 = \frac{X_1}{n} = \frac{99385.63}{5} = 19877.126$$

$$\bar{X}_2 = \frac{X_2}{n} = \frac{73307.82}{5} = 14661.564$$

$$r = \frac{d_1 \; d_2}{\sqrt{d_1^2 . \; d_2^2}} = \frac{239173748.79}{\sqrt{332991650.65 \times 172809280.94}} = \frac{239173748.79}{239883404.40} = 0.99704$$

Positive correlation:

$$P.E. = \frac{0.6745(1 - r^2)}{\sqrt{n}} = \frac{0.6745(1 - 0.997^2)}{\sqrt{5}} = 0.001807$$

6 P.E. = 6 x 0.001807 = 0.01084

r > 6 P.E. so r is highly significant

21. Calculation of correlation of coefficient between Current Assets and Current Liabilities of SCBNL:

(Rs. in million)

Year	X_1	X_2	$d_1 = X_1 - \overline{X_1}$	$d_2 = X_2 - \overline{X_2}$	$d_1.d_2$	d_1^2	d_2^2
2005	19322.67	20311.16	-4772.92	-7381.29	35230258.05	22780727.14	54483383.01
2006	21463.35	24022.19	-2632.24	-3670.26	9660979.97	6928666.36	13470779.11
2007	22025.79	26480.34	-2069.80	-1212.11	2508812.15	4284055.48	1469200.96
2008	27453.32	30842.34	3357.73	3149.89	10576506.18	11274377.61	9921832.21
2009	30212.80	36806.20	6117.21	9113.75	55750783.56	37420307.12	83060511.97
Total	**120477.93**	**138462.23**	**0.00**	**0.00**	**113727339.91**	**82688133.72**	**162405707.26**

Here,
n = Number of years
X_1 = Current Assets
X2 = Current Liabilities
$\overline{X_1}$ = Mean of Current Assets
$\overline{X_2}$ = Mean of Current Liabilities

$$\overline{X_1} = \frac{X_1}{n} = \frac{120477.93}{5} = 24095.586$$

$$\overline{X_2} = \frac{X_2}{n} = \frac{138462.23}{5} = 27692.446$$

$$r = \frac{d_1 \; d_2}{\sqrt{d_1^2 . \; d_2^2}} = \frac{113727339.91}{\sqrt{82688133.72 \times 162405707.26}} = \frac{113727339.91}{115883669.4} = 0.9814$$

Positive correlation:

$$P.E. = \frac{0.6745(1 - r^2)}{\sqrt{n}} = \frac{0.6745(1 - 0.981^2)}{\sqrt{5}} = 0.0113536$$

6 P.E. = 6 x 0.0113536 = 0.0681

r > 6 P.E. so r is highly significant

22. Calculation of correlation of coefficient between Current Assets and Current Liabilities of EBL:

(Rs. in million)

Year	X_1	X_2	$d_1 = X_1 - \overline{X_1}$	$d_2 = X_2 - \overline{X_2}$	$d_1.d_2$	d_1^2	d_2^2
2005	11059.59	10599.91	-10549.47	-10163.53	107219833.73	111291317.28	103297301.41
2006	14854.70	14593.28	-6754.36	-6170.16	41675468.39	45621379.01	38070849.74
2007	19892.90	19931.06	-1716.16	-832.38	1428493.83	2945205.15	692853.13
2008	26550.87	24279.71	4941.81	3516.27	17376748.13	24421486.08	12364168.78
2009	35687.24	34413.23	14078.18	13649.79	192164228.74	198195152.11	186316821.64
Total	**108045.30**	**103817.19**	**0.00**	**0.00**	**359864772.82**	**382474539.62**	**340741994.71**

Here,
n = Number of years
X_1 = Current Assets
X2 = Current Liabilities
$\overline{X_1}$ = Mean of Current Assets
$\overline{X_2}$ = Mean of Current Liabilities

$$\overline{X_1} = \frac{X_1}{n} = \frac{108045.30}{5} = 21609.06$$

$$\overline{X_2} = \frac{X_2}{n} = \frac{103817.19}{5} = 20763.438$$

$$r = \frac{d_1 \; d_2}{\sqrt{d_1^2 . \; d_2^2}} = \frac{359864772.82}{\sqrt{382474539.62 \mid 382474539.62}} = \frac{359864772.82}{361005730.6} = 0.9968$$

Positive correlation:

$$P.E. = \frac{0.6745(1 - r^2)}{\sqrt{n}} = \frac{0.6745(1 - 0.997^2)}{\sqrt{5}} = 0.001807$$

6 P.E. = 6 x 0.001807 = 0.010842

r > 6 P.E. so r is highly significant

23. Balance Sheet and Profit & Loss A/C of SCBNL from 2005 to 2009

24. Balance Sheet and Profit & Loss A/C of EBL from 2005 to 2009