WORKING CAPITAL MANAGEMENT OF BANK OF KATHMANDU LIMITED

Submitted by:

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RECOMMENDATION

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has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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VIVA-VOCE SHEET

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DECLARATION

I hereby declare that the work done in this thesis entitled "Working Capital Management of Bank of Kathmandu Limited" submitted to Birendra Multiple Campus, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business studies (M.B.S.) under the supervision and guidance of Mr. Sudip Wagle, Lecturer of Birendra Multiple Campus.

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Jyoti Malla
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A. D.	-	Anno Domini
B.S.	-	Bikram Sambat
BOKL	-	Bank of Kathmandu Limited
CA	-	Current Assets
CBB	-	Cash and Bank Balance
CR	-	Current Ratio
FD	-	Fixed Deposit
FY	-	Fiscal Year
Gov. Sec.	-	Government Securities
HBL	-	Himalayan Bank Limited
L & A	-	Loan and Advance
Misc.	-	Miscellaneous
NABIL	-	Nepal Arab Bank Limited
NPAT	-	Net Profit After Tax
NRB	-	Nepal Rastra Bank
PE	-	Probable Error
r	-	Correlation
RBB	-	Rastriya Banijya Bank
Rs.	-	Rupess (Nepali Currency)
T.U.	-	Tribhuvan University
TD	-	Total Deposit

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Working capital management is an important decision making area of financial management of an enterprises. It requires understanding for how to raise and allocated financial resources how to relate Short-term investments, financial decisions to the overall objectives of the firm and how to relate short-terms financial decisions to certain long term financial decision to certain long term financial decisions (Upadhyay,2004: 40).

Working capital management involves the relationship between a firm's Short-term assets and its short term liabilities. The goal of working capital management is to ensure that a firm is able to continue it's operations and that is has sufficient ability to satisfy both maturing short-term debt upcoming operational expenses. The management of working capital involves managing inventories, account receivable, account payable, cash etc.

There are two concept of working capital gross concept and net concept. Gross working capital simply called as working capital, refers to the firm's investment in current asserts. Current assets are the assets which can be converted into cash within an accounting year and include cash, short-term securities, debits, bills receivables and stock. Net working capital refers to the difference between current assets and current liabilities current liabilities are those claims of outsiders which are expected to return for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets (Pandey, 2005: 665).

Working capital management is a process of short-term decision making regarding the current assets and liabilities affecting the long term operation of an organization. It is a process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. It includes decision regarding cash and marketable securities, receivables, inventories and current liabilities with an objective of maximizing the overall in due of the firm.

In general, the concept of working capital is synonymous with the fund available for meeting day -to- day requirements of a company. But according to a group of authorities working capital refers to the amount of investment in total current assets only. It means they are supporting the gross concept of working capital. Thus the gross concept of working capital denotes short-term asset only, it does not include short-term liabilities. However, a business cannot exist only with the current assets, it needs current liabilities too. Actually, the amount of working capital heaving depends upon the amount of current liabilities. In this sense working capital means the excess of current assets over current liabilities.

Working capital is the part of the capital of a company that is employed in its trading. It consists of current assets and current liabilities. Current assets are those assets which can be converted into cash within an operational period. Generally, those refer to cash, marketable securities, receivable, inventory etc. Current liabilities generally means the liabilities such as bills payable, trade credit, bank, outstanding expenses, inter on unsecured loan, provision for tax, dividend etc. These liabilities should be paid in a reasonable short term period.

Working capital is also called circulating capital as it keeps on circulating in the course of business operation. Business starts with cash firstly which is converted into inventory after some times. Inventory may be invested in three ways; raw material, semi-finished goods and finished goods or goods for sale. These inventories are also converted into receivable and receivable into cash again. So it is a continuous process of business operation.

We know that firm's aim at maximizing the wealth of shareholders. In its effort to maximize shareholders wealth, the firm should earn sufficient return from its operation. Earning a sound amount of profit requires successful business activities. The firm has to invest enough funds in current assets for the success of business activity. Current assets are needed because sales do not convert into cash immediately. Investment in current assets should be just adequate, or not more not less, to the needs of the business firm. It should be realized that working capital needs of the firm may be fluctuating with changing business activity. This may cause excess or shortage of working capital frequently. The management should be too prompt to begin an action and current imbalances. Thus; the firm should have knowledge of the sources of working capital funds as well as investment avenues where idle funds may be temporarily invested.

About Bank of Katmandu Ltd.

Bank of Kathmandu Ltd. (BOKL) is a culmination of a comprehensive vision of the promoters to take the Nepalese economy to a newer realign in the global market. Each promoters of Bank of Kathmandu has successfully demonstrated leadership skill, business acumen and entrepreneurial wants his/her respective field. Bank of Kathmandu came into operation in March 1995, under the commercial bank act 2031 with the following predominant objectives.

- Identify business prospects not at catered by then existing commercial banks and offer new banking products and services.
- Introduce modern banking technology facilitating bank and business operations and transactions.

Bank of Kathmandu activities globe around deposit mobilizations, Advancement of various credits, International banking including trade financing, inward and outward remittance and funds and portfolio management. The bank has introduced many facilities to the customer. Deposits of unfavorable conditions, the bank has been able to make a substantial marketing of products, expansion of areas and diversification of service using latest technology, which will ultimately, helps it to grow further. Bank of Kathmandu is committed to providing products and service of the highest standards to its customer by understanding their requirements best suiting the market needs.

Bank of Kathmandu has been providing any where banking facilities, from which customer can deposit and withdraw from any of 43 branches including head office. Bank has lunched customer oriented service such as hire purchase, educational loan, housing loan, vehicle loan, festivity loan, foreign employment loan scheme etc. It's launched the mobile banking service through SMS. With the aim of providing banking services at the customer fingertips. BOKL is starting internet Banking and alert service.

Capital Structure of Bank of Kathmandu

Authorized Capital	Rs.2,00,00,00,000.00
Paid Up Capital	Rs.1,359,480,700.00
Issued Capital	Rs.1,359,480,700.00
Promoters	49%
General Public	51%

Source: Annual Report of BOKL

Independent and Self-Governing board, involving a pool of endowed and farsighted directors, each directors of the board has been recognized and well-acclaimed for his/her contribution in the development and growth of Bank of Kathmandu. Young, seasoned and talented bankers, each with year of banking experience and proven competency, Constitute the management team of bank of Kathmandu. In the present economic scenario the bank has to complete with other existing and new commercial bank of Nepal. It is already established itself as an innovative bank that introduces new modern technology in the banking industry. In short, BOK has made significant contribution to support the country's economic system and development effort.

1.2 Statement of the Problems

Working capital management has been regarded as one of the conditioning factor in the decision making issue. The management of working capital is synonymous to the management of short- term liquidity. Working capital is regarded as the life blood and nerve of a business concern and is essential to accommodate the smooth operations of working capital is harmful to an enterprise to achieve its primary objectives, therefore maintaining optimal level of working capital is the curse of the problem as it is strongly related to the tradeoff between risk and return. However it is difficult to point out as to how much working capital needed by a particular business organization.

Working capital management of banks is more difficult than that of manufacturing and non manufacturing business organization. Commercial banks are great monetary institutions which are playing important role to general welfare of the economy. The responsibility of commercial banks is more than any other financial institutions. They must be ready to pay on demand without warning or notice, a good share of their Liabilities. Banks collect funds from different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face the problem for utilizing more deposit as investment fully and productively. The gap between collection of deposits and disbursement of loan increase the cash balance on bank, which require paying its large amount of liability of banks. Some specific problems felt in this study are as follows:-

i. What are the Liquidity positions of BOKL?

ii. What are the condition of current liabilities and assets of BOKL?

iii. What are the major factor of profitability position of BOK on working capital management?

1.3 Objectives of the Study

Research objectives are the guidelines to conducting the research at a right way. The major objective of the study is to evaluate the working capital position of bank of Kathmandu limited. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of bank of

Kathmandu limited from the long rage view point. The specific objectives of the study are as follows:-

i. To find out liquidity positions of BOKL.
ii. To find out condition of current liabilities and assets of BOKL.
iii. To find out the profitability position of BOKL on working capital management.

1.4 Significance of the Study

Working capital management is critically important because working capital is used to make adjustment in operations to account for changing economic condition. If demand begins to rise or fall, the immediate Reponses is in the working capital account and the appropriateness of the Reponses can spell success or failure for the firm. The significance of the study lies in the fact comparative basis and enable in drawing inference regarding the working capital management of the selected is significantly to the management of the joint venture bank, shareholder, policy makers and above all future management studies.

The study throws light on the degree of efficiency of the working capital management. Hence the inference drawn from this study will be important to the working capital management of the capital management of the selected bank under the study in making their working capital decision.

The shareholders are the real owner of the joint venture banks. They are interested in the fair return on their investment through proper utilization of the fund; The need of the study like this arises from the real nature of the banking business and also forms the impact that it has economy of the country because the business of banks is to accept deposits and advanced loans, and the label of deposits and loans depends upon the working capital policy the study of this type will be most importance for the bankers, the economists and the public at large. It provides the literature to the researcher who wants to carry on further researcher who wants to carry on further research in this field. Therefore, it has been felt very necessary to evaluate the position of working capital management and to focus on the importance of the capital management in bank of Kathmandu limited.

1.5 Limitations of the Study

None of the study can go beyond the boundary of some limitations and this study is also not an exception. The scope of the present study has been limited in terms of period of study as well as sources and nature of data. A research is a vast perceived investigating subject matter for solving perceived research problems. Each and every study has its own liabilities. No can be free from constraints such as economic resources, time etc. The following are the major limitations of the study.

i. This study is considered only bank of Kathmandu limited and based on secondary data.
ii. This study focused on working capital management of bank of Kathmandu limited only. Thus the findings of the study may not be applicable for other bank so the study cannot judge other financial aspects of the bank.
iii. Only main financial tools and statistical tools are employed for analyzing the working capital management.
iv. The study only covers the period of five fiscal years from 2006/07 to 20010/ 011

1.6 Organization of the Study

The study has been divided into five chapters. They are as follows:-

Chapter – I Introduction

The first chapter deals with introduction, background of the study, statement of the problem, objective of the study, Significance of the study, limitations of the study and organization of the study. Therefore, this chapter is for brief introduction of the topic and it highlights the fundamental objectives.

Chapter -II Review of literature

The second chapter deals with the review of related literatures and available studies Written and prepared by different experts and researcher in the field of working capital.

Chapter – III Research Methodology

The third chapter presents the research methodology used in the study. It deals with research design, population and sample. Nature and sources of data, data processing procedure, tools and techniques of analysis and Research Gap.

Chapter- IV Presentation and Analysis of Data

The fourth chapter is the main part of this research that deals with the presentation analysis and interpretation of data. Different types of tools and technique have been used to analyze the available data in order to achieve the set objectives.

Chapter- V Summary, Conclusion and Recommendations

The fifth chapter presents the summary and conclusion of the study based on the analysis of data and also provides recommendation for the improvement of working capital management of bank of Kathmandu limited.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter is concerned with the review of relevant literatures available in the books, journals articles research reports, newspapers, magazines, policy documents which are published or unpublished. Every study is very much based in past knowledge study and experiences. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study various thesis works have done indifferent aspects of working capital of different organization are also review for the purpose of justifying the study .

2.1 Conceptual Framework

The management of the funds of business can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities, which are concerned with current uses and sources of funds. Both of these types of funds play a vital role in business finance. Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some other are required specially to meet day to day expenses and short term obligations. The assets such as cash, marketable, securities, account receivables and inventories which are known as current assets are required to maintain at a certain level depending upon the volume of production and sales.

Working capital management is an important domain of financial management, which affects the decision making of enterprises inadequate level of working capital can result in serious financial difficulties working capital management plays vital role in maximizing shareholders wealth, such as it could be better to understand, the theory of working capital management: in brief, as it provides conceptual and analytical in making this decision, skillfully." (Kuchal, 2000:157)

The cash and marketable securities are respectively considered as purely liquid and near liquid assets where as the account receivable and inventories are not.

However they can be liquidated as and when necessary within a period of less than one year.

The capital invested on these assets is known as working capital. In short working capital is the sources of financing current assets and it includes shorts as well as long term financing.

Firms need cash to pay for all their day to day activities. They have to pay wages, pay for raw materials, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are short term assets that the firm can use to generate cash. However the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has its disposal.

Working Capital is therefore:-

Working Capital (WC) = Current Assets (CA) - Current Liabilities (CL)

Thus working capital is the same as net current assets, and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet its entire requirement. Many businesses have gone under not because they were unprofitable but because they suffered from shortages of working capital.

By the definition of various experts of working capital management we conclude that all institution whether private or public financial institution manufacturing or non manufacturing that need just adequate working capital to compete with competitive market . It is because over or under adequacy of working capital is dangerous from the firms objective points of view over investment on working capital effects the firms profitability just as idle investment. on the other hand under investment on working capital effects the liquidity position of the firm and causes to financial hindrance and failure of the company . It is therefore a recognized fact that any mistake made in management of working capital can cause to adverse effects in business and reduces the liquidity turn over and profitability and increases the cost of financing of the organization." (K.C., 2003: 85)

The objective of managing working capital is to aid in the value maximization of the firm by minimizing the cost of working capital. The level of working capital also differs by the types and nature of business. The cost of maintaining the working capital depends on the sources of finance used. The short-term sources generally cost less than the long term sources but they are riskier (Pradhan, 2008: 148).

2.2 Concept of Working Capital

There are two schools of thoughts or concepts regarding the meaning of working capital. According to one school of thought, working capital is meant for the currents only. It is concerned nothing with the liabilities side. According to other school of thought working capital is the excess of current assets over current liabilities. The former concept which can be termed as gross concept, is important to newly established companies where liabilities have not been acquired immediately , but the lattes one which can be term as net concept is important for both newly established and operating concerns where some amount of current liabilities has been maintained for payment of different creditors, income taxes, bill payable, secured and unsecured loan etc. The term current assets refers to those assets which in the ordinary course of business can be or will be turn into cash within one year without undergoing or diminishing in value and without disrupting the operations of the firm such as cash, Marketable securities, accounts receivables and inventory etc. current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business such as accounts payable, bank overdraft and outstanding expenses etc .

Mainly there are two concepts of working capital gross concept and net concept. Working capital is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entity. Along with fixed assets such as planet and equipment, working capital is considered a part of operating capital. Net working capital is calculated as current assets minus current liabilities. It is a derivation of working capital that is commonly used in valuation techniques such as DCFs (Discount Cash Flows).

One of the main advantages of looking at the working capital position is being able to foresee any financial difficulties that may arise. Even a business that has billons of dollar in fixed assets will quickly find itself in bankruptcy court if it can pays its monthly bills. Under the best circumstances, poor working leads to financial pressure on a company, increased borrowing and late payments to creditors all of which in a lower credit rating. A lower credit rating means banks charge a higher interest rate, which can cost a corporation a lot of money over time.

Working Capital Management

Working capital management entitles short term decisions. Generally, relating to the next one year period which is "reversible". Working capital and short term financing are referred to as working capital management. These involve managing the relationship between a firm's short term assets and short term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operation and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. Guided by the above criteria, management will use a combination of policies and techniques for the management of working capital. These policies aim at managing the current assets and the short term financing, such as cash flows and returns are acceptable.

Gross Concept of working Capital

In a simple term gross concept of W/C means investment in current assets in other words, gross working capital is the total amount of available for financing of current assets .However it does not show the real financial position of a business firm.

According to this concept the working capital may be classified as capital invested in the various types of current assets such as cash, inventories, receivables etc. This classification important from financial manager's point of view as it lays emphasis on the various areas of functional responsibility but it totally ignores the time which is very important in the formulation of procurement policies. "Gross working capital refers to the firm's investment in current assets. C/A are the assets which can be converted into cash within an accounting year and include cash short term securities debtors bills receivables and stock." (Pandey, 2006:105)

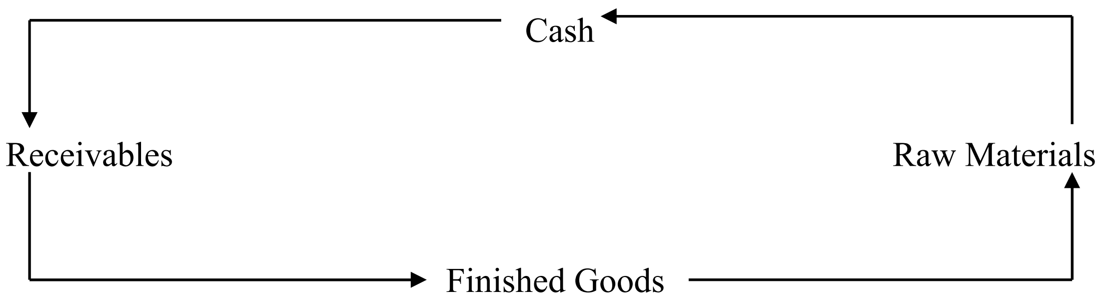
The goods of the merchant yield hi to no revenuer profit till the money yields him a little, it is again exchange going from him in once shape and returning him, in other shape and returning him in another and it’s only by means of such circulations or successive exchange that can yield vary profit, such capital. Therefore, may properly be called circulating capital.

Inventories may consist of raw materials working in progress or finished goods awaiting sales and shipment. Firm invest in inventory includes no only storage cost and the risk of spoilage or obsolescence but also the opportunity cost of capital, that is the rate of return offered by other equivalent risk investment opportunity. (Brely & Myers; 2006)

Current liabilities are obligation to outsiders repayable in a short period, usually within the accounting period or the operation cycle of the firm. It can be said to be the counterpart of the current assets. Conventionally they are paid out of the current assets, in same cases however, existing current liabilities can be liquidated through the creation of additional current liabilities.

Circulating capital means current assets of the company that are changed in the ordinary course of business firm one from to another, as for example, cash to inventory to receivable, receivable to cash.

Working capital cycle:



From the above definition it is clear that working capital management is concerned with the problems that arise in attempting to manage the current asset and interrelationship that exists between them.

Net Concept of working Capital

Gross concept of W/C is the narrow concept which is only concerned with the study about total investment of current assets .In the other hands, net concept of W/C is a broad concept which focuses to long term view of working capital. under the concept of net W/C it studies current assets and current liabilities as differently. Today's market is heterogeneous every changed in environment and other factor's bring changes of demand needs and wants of customers at the same time so every business firms have to be made their W/C policies to fit the new environment thus, Net W/C concept should be studied to know the portion of current liabilities. How much current liabilities should be managed to how much current assets? Net W/C is an accounting concept, which represents the excess of current assets over its current liabilities. current assets consists of cash, bank balance , stock, debtors, bills receivables etc and current liabilities consists bills payable, creditors, outstanding expenses etc. Excess of current assets over current liabilities, thus, it indicates the liquidity position of an enterprises. From the view point of I .M Pandey, the term net working capital refers to “the difference between current assets and current liabilities. Current liabilities are those claims outsiders which are expected to nature for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be negative or positive. A positive Net W/C will be arise when capital occurs when current liabilities are in excess of current assets. (Pandey, 2006:730)

Working capital sometimes called net working capital is represented by the excess of current assets over current liabilities and identifies the relatively liquid position of total enterprises capital, which constitutes the margin of buffer for maturing obligation within the ordinary operating cycle of the Business

2.3 Classification of Working Capital

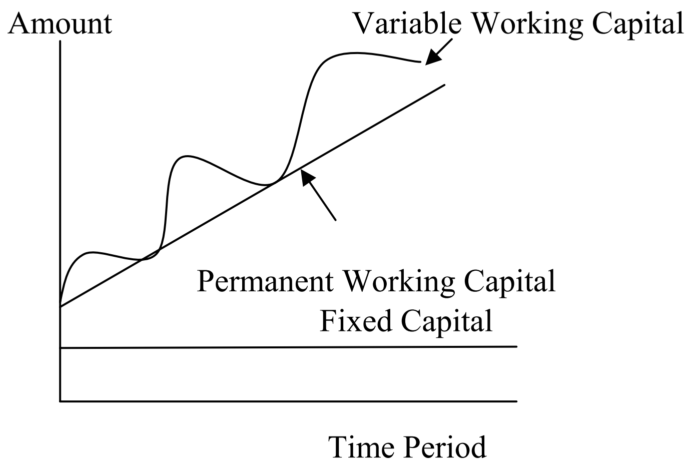
Working capital can be classified into two types:-

1. Permanent or fixed working capital
2. Variable or fluctuating working capital

A firm's permanent working capital is the amount of current assets required to meet long term minimum needs. Variable working capital on the other hand is the investment in current assets that varies with seasonal requirements. Figure in below illustrates the firm's changing needs for working capital over time while highlighting both the permanent and variable nature of those needs.

Figure No. 2.1

Permanent and Variable Working Capital



Source: I. M. Pandey, 2006:731

"Permanent working capital is similar to the firm's fixed assets in two important respects. First, the amount invested in both of these asset groups is long term. Therefore supplies of capital to the firm need to realize that the funding needs for permanent current assets is long term despite the seeming contradiction that the assets being financed are called 'Current'. Second, for a growing firm, the level of permanent working capital needed will increase over time in the same way that a firm's fixed assets will need to increase over time. However, permanent working capital is different from fixed assets in one very important respects- it is constantly changing permanent working capital does not consists of particular current assets staying permanently in place, but is a permanent level of investment in current assets, whose individual items are constantly turning over." (Sapkota & Koirala, 2000:219).

Like permanent working capital, variable working capital also consists of current assets in a constantly changing form. However since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature (Van Horn, 2009: 205).

Thus the permanent working capital refers to that level of current assets which is required on a continuous basis over the entire year and the variable working capital represents that portion of working capital which is required over permanent working capital.

2.4 Objectives of Working Capital

A bank undertakes many transactions daily. Sometimes, customers deposits large quantity and sometimes withdraw from their deposits in high quantity. Investment fund of banks 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 objective. It is no doubt that no company can achieve its goal without proper use of working capital. Therefore it can compare as lifeblood to the organization. The main objectives of arranging capital are as follows:-

i. To pay to depositors

ii. To maintain cash reserve ratio (CRR) & statutory liquidity Ratio (SLR)

iii. To satisfy the customers by granting loans promptly and increase the attraction of business etc.

iv. To meet the administrative expenses, perform the task as per objectives of business and run the business smoothly.

v. To fulfill the present need of business as well as get ready for risk and economic fluctuation in future. *(Kulkarni, 2000:374)*

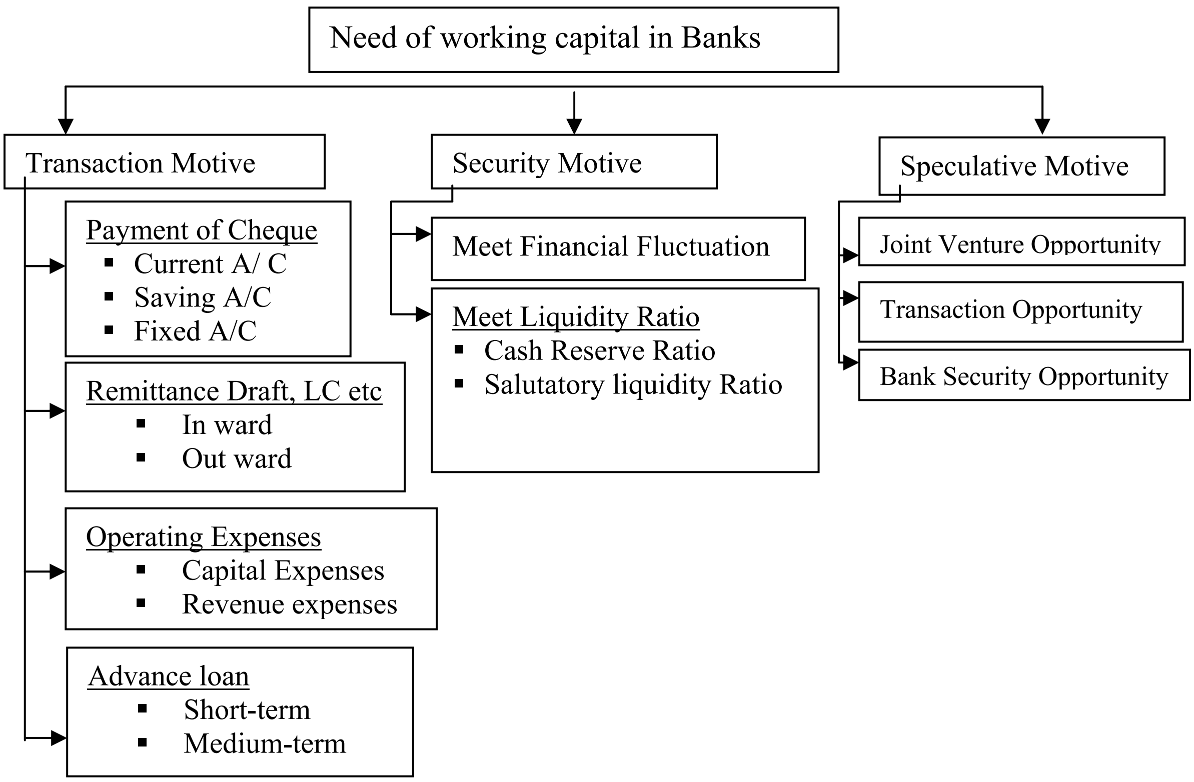
2.5 Need of Working Capital

Working capital is maintained at bank by current saving & fixed deposit collection. Specially to grant loan and to pay cheque, creditor's and account holders demand the liquidity. Generally banks need liquidity for maintaining following goals.

i. Transaction Motive
ii. Security Motive
iii. Speculative Motive

Figure No. 2.2

Need of working capital



Source: Kulkarni; 2000:376

2.6 Determinants of Working Capital

The total requirement of working capital is determined by a wide variety of factors. The influence of these factors is different in different business organizations. Perhaps none of them can neglect the management of adequate w/c. Therefore, an analysis of the relevant factors should be made in order to determine the total investment in WC. The description of the factors which generally influence the WC requirement of the firm is given below

1) Nature and Size of Business

The working capital requirement of a firm is basically related to Nature and size of the business organization. If the size of the business is small, then it requires less working capital but if the business organization is bigger, it requires more working capital. Financial and training institution have needed very high amount of w/c. Public utilities have a very limited need of w/c and have to invest abundantly in fixed assets. Their working capital requirements are nominal.

2) Production Policy

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due to seasonal changes in the demand for the firm's product. A steady production policy will cause inventories to accumulate during the off season periods and the firm will be exposed to greater inventory costs and risks. Thus, if cost and risks of maintaining a constant production schedules in accordance with changing demand. Those firms, whose productive capacities can be utilized for manufacturing varied products can have the advantaged of diversified activities and solve their working capital problems (Pandey, 2006: 675).

3) Operating Efficiency

Operating efficiency of the firm means the optimums utilization of resources at minimum cost .The firm cannot effectively contribute to its working capital when the operating efficiency is low. Working capital turnover is improved with a better operation and financial efficiency of a firm, efficiency of operation accelerates the face of cash cycle and improves the working capital turnover. It releases the pressure on working capital by improving profitability and improving the internal generation of fund.

4) Manufacturing Cycle

Manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle larger will be the firm's working capital requirements. An extended manufacturing time span means large tie-up funds in stocks. Thus if there are alternative way of manufacturing cycle should be chosen, once a manufacturing process has been selected, it should be ensured that manufacturing cycle is completed within the specified period. This need proper planning and coordination at all levels of activity non manufacturing firm financial and service oriented enterprises do not have manufacturing cycle. (Pandey, 2004: 674).

5) Profit Margin

The net profit is source of working capital to the extent that has been earned in cash. The earning capacity of the different firm cannot be equal." some firms enjoy a dominant position due to quality product or good marketing management or monopoly power in the market and earn a high profit margin." (Pandey, 2004: 674).

Higher profit margin contributes to more working capital. The level of working capital is determined not only by the profit margin, but also by the way of appropriation for taxations, dividends, reserves and depreciation only after providing for these items internal funds can be set aside for working capital . As the provisions' for these items are higher the amount of working capital will be lesser.

6) Level of Taxes

The level of taxes is one of the important elements, which is also influences working capital requirement of a firm. The amount of taxes to be paid in advances is determined by the prevailing tax regulations. But the firms profit is not constant or can't be predetermined. Tax liability in a sense of short- term liquidity is payable in cash. Therefore the provision for tax amount is one of the important aspects of working capital planning. If tax liability decrease, it needs to decrease the working capital and vice -versa.

Besides the above factors there are many other factors also which may have a greater role in determining the size and composition of working capital for example firms attitude to take risk, credit policy, firms policies toward the financial management in the inflationary period, co-ordination among production, distribution, developed transport and communication system etc could also play an important role in determinants effects both temporary and permanent working capital.

2.7 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed (Western and Brigham , 2001:333).

So first of all the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Working capital policy refers to the firm's basic policies regarding target levels for each category of current assets and how current assets will be financed. Working capital policy is categories in two parts, these are:

1) Investment policies working capital.

2) Financing policies working capital.

2.7.1 Working Capital Investment Policies

Working capital investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. How much a firm will invest in CA will depend on its operating cycle. There are three alternative working capital investment policies. These are: fat cat, lean and mean, and moderate.

i. Fat Cat Policy

This policy is also known as relaxed working capital investment policy. In this policy, the firm holds relating large amount of amount of cash, marketable securities, inventories, receivables and other types of current assets. This policy creates larger inventory and cash conversion cycles. It also creates the larger receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk.

ii. Lean and mean policy

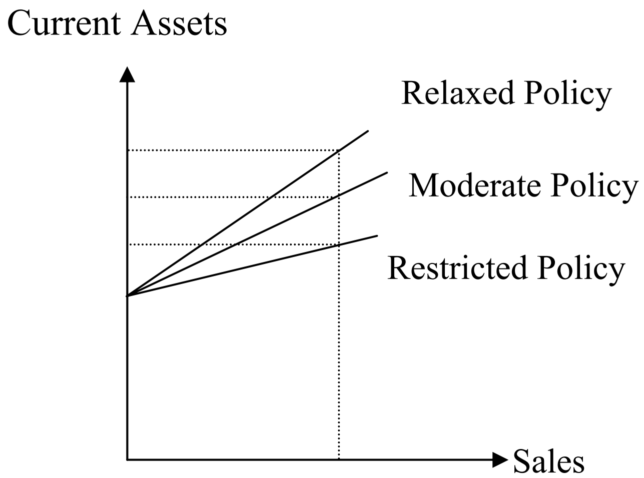
This policy is also called as restricted working capital investment policy. Under this policy, the firm holds the minimum amount of cash, marketable securities, inventories, receivable and other current assets are reduced. Under this policy firm follows a light credit policy and bears the risk of losing sales.

iii. Moderate Policy

In this policy investment in current assets should not be as maximum as in relaxed policy and it should not be as minimize as in restricted policy. Both, excess investment in current assets and inadequate investment in current assets are not good. Therefore, there should be optimum investment in current assets. Both risk and return are moderate in this policy. These three alternatives policies regarding the level of current assets that a firm might carry can be shown in the following figure

Figure No. 2.3

Alternative Working Capital Investment Policies



Source: Weston, Besley & Brigham, 2002:345

The relationship between current assets and output level for these alternatives is illustrated in above figure. We see from the figure that the greater the output, the greater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a great proportional investment in current assets when only a few units of output are produces then it does later on, when the firm can use its current assets more efficiently. (Weston, Besley and Brigham, 2002:345)

2.7.2 Working Capital Financing Policies

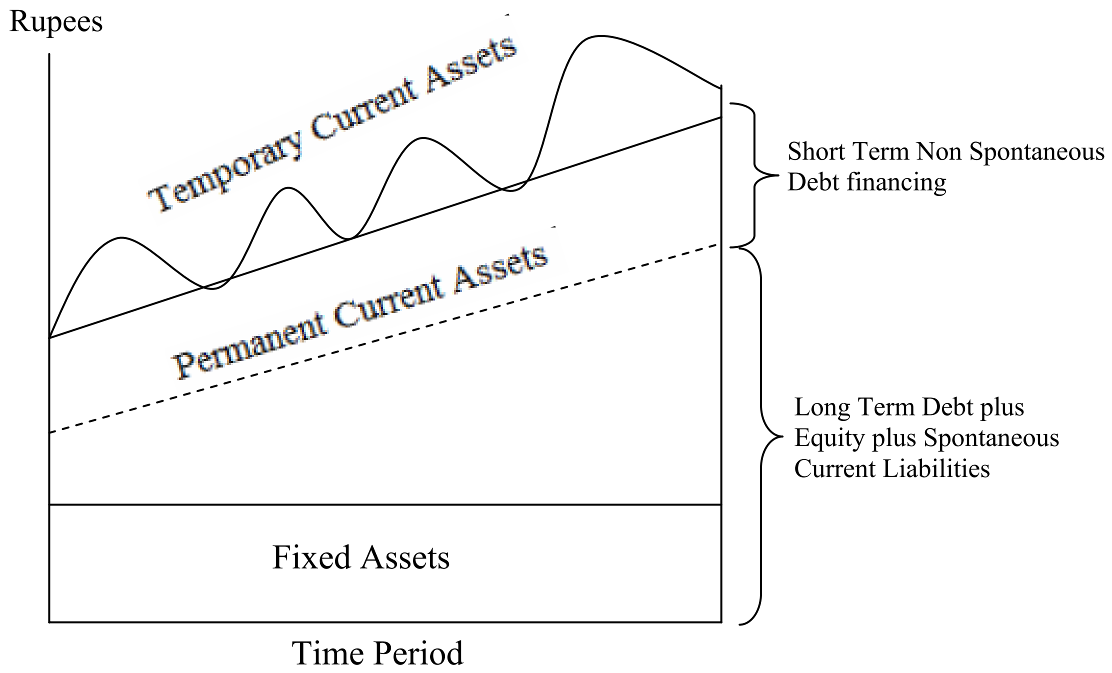
It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, working capital financing policy should clearly outline the sources of financing. There are three policies. These are – aggressive, conservative and matching or hedging policies of current assets financing.

I) Aggressive or Non Conservative Policy

Under this approach, temporary current assets and some parts of permanent current assets are financing with short term debt. In other words, the firm finances a part of its permanent current assets with short term financing and rest with long term financing. In this policy, the liquidity position will be low and the risk will be high. A business firm uses relatively large amount of short term debt. Short term debt is more risky because the firm should be able to repay the short term debt with in short time period. If it could not pay its debt with in short time period, there will be high probability of bankruptcy of that firm. It can be shown in the following figure:

Figure No. 2.4

Aggressive Financing



Source: Kuchhal, 2008:160

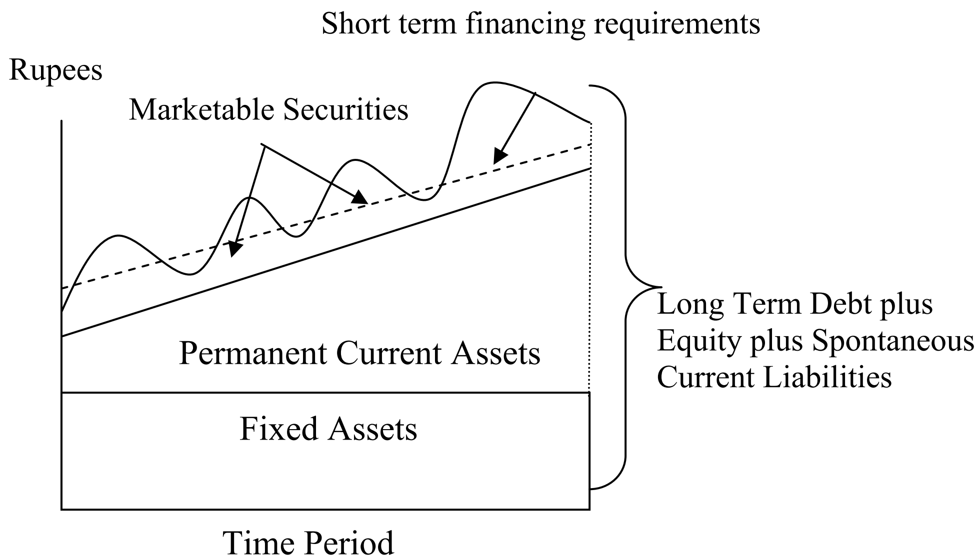
Above figure shows that short term financing finances 50% of the permanent current assets. In the short period the interest rate is low. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal condition the firm borrows on a short term financing rather than long term financing. On the other side, if the firm finances its permanent current assets by short term financing, Then it runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. Thus, this policy provides the higher risk, higher return and low liquidity position.

ii) Conservative Policy

In this policy, permanent current asses and a larger portion of temporary current assets are financed with long term debt and equity and only a small portion of temporary current assets is financed with short term debt. The cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized. It can be shown from the following figure.

Figure No. 2.5

Conservative Financing



Source: Kuchhal, 2008:161

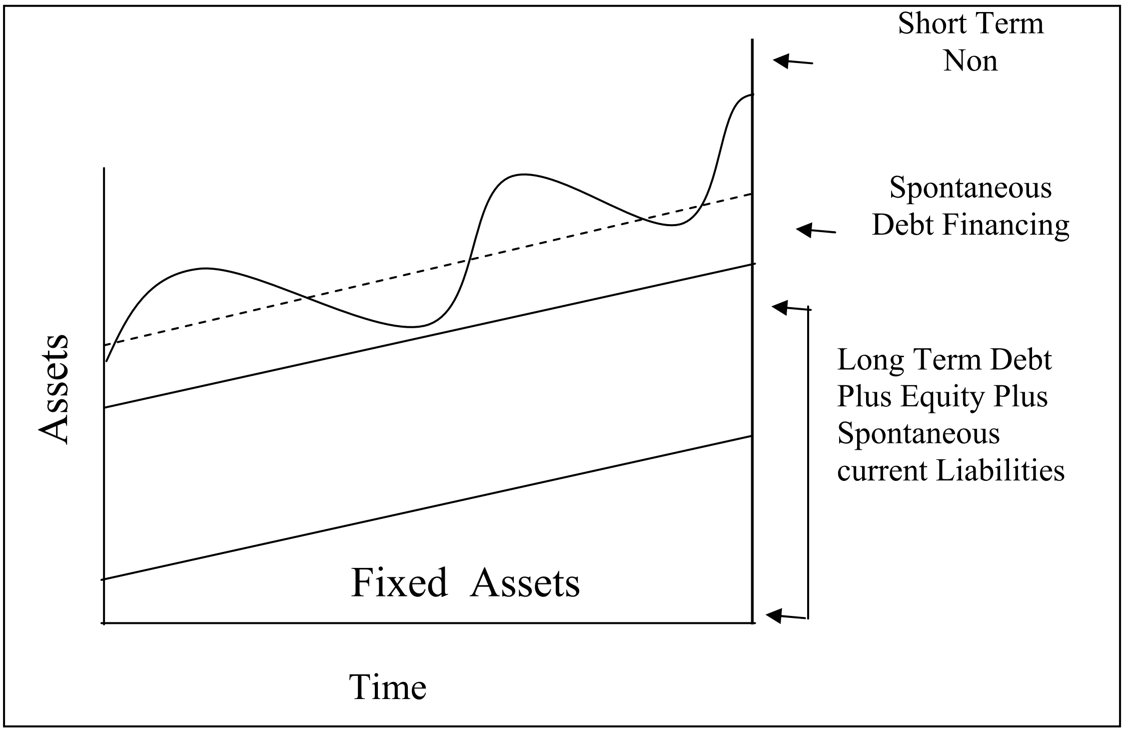
In the above figure, the conservative financing policy is shown. Note that when the firm has no temporary current assets (at the level of slope), the long term funds released can be invested in marketable securities to build up the liquidity position of the firm.

iii) Matching Policy

In this policy, permanent current assets are financed with long term debt and equity and temporary current assets are financed with short term debt. According to this policy, source of short term financing should be determined according the maturity of current assets. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current assets and current liabilities. Figure in below shows the temporary working capital financed by short term financing and long term financing. Thus, no working capital is zero under this policy.

Figure No. 2.6

Matching Policy



Source: Kuchhal, 2008: 161

The above figure is used to illustrate the matching policy over time. The firm's fixed assets and permanent current assets are financed with long term funds and as the level of these assets increases, the long term financing level will also increase. The temporary of variable current assets are financed with short term funds and as their level increases the level of short term financing also increases."

2.8 Review of Related Articles/Journals

This part is mainly focused on the review of journals/articles published by different management who are experts on working capital management among them Professor Dr. Khagendra Acharya, He has described two major problems, operational problems and organizational problems regarding the working capital management in Nepalese public enterprises. The operational problems his found are listed in the first part, which are

He states that most of the enterprise's management has been misunderstanding as the managed the money rather than its efficient utilization. Thus, existing problems in the finance are mostly directed toward the management of working capital rather than in any area. Finally, monitoring of the proper functioning of working capital management has never been considered a management job. In the second part, he has listed the organization problems, in the public enterprises. In most of the public enterprises, there is lack of regular internal and external audit system as well as evaluation of financial result. Similarly very few public enterprises have been able to present their capital requirement, functioning of finance development is not satisfactory level and some public enterprises has been facing the under utilization of capacity. To make an efficient use of funds for minimizing the risk of loss to attain profit objective. He has suggested that manufacturing concern finance staff must be acquainted with the modern scientific tools for the presentation and analysis of the data. Public enterprises should avoid the system of crises decision, which has prevailed frequently in their operation, avoid finite hedge of the assets and lastly the has suggested optimizing its level of investment at a point time neither over or under investment in working capital is desired by the management of an enterprises because both of these situation will erode the efficiency of the concern. Journals, articles and bulletins are of great significance for thesis writing. So, various published and unpublished articles by different experts and journals and bulletins relating to working capital have been revised.

Kunwar Naresh (2004) entitled "*A Study of Working Capital Management of Pharmaceutical Industry of Nepal*".

The main objectives of this study are,

i. To evaluate the relationship between selected variables regarding working capital

ii. To examine the management of working capital in Royal Drugs Limited.

The findings of the study were as follows,

i. In total amount of working capital, long term sources are used more than short term i.e. firm has followed conservative working capital policy.

ii. Inventory holds the largest portion of current assets components cash and bank balance, receivable & inventory.

iii. Because of the fluctuation in sales volume of the company, cash & bank balance with respect to CAs & CLs shows decreasing trend & inventory & receivable position in fluctuating. From the calculation of turnover position of the company, he has found that company can't efficiently utilize current assets because it can't create sales as investment in CAs. To summarize, company is not able enough to utilize current assets properly. There is unsatisfactory inventory management system & poor liquidity position.

iv. Inefficient management of receivable collection policy.

v. Current ratio is satisfactory i.e. the company has enough current assets to meet obligation of current liabilities. Similarly, the overall quick ratio is not found satisfactory because it is below the standard value.

vi. Gross and net profit margin shows continuous loss during first four year of study period.

vii. High level of operating ratio indicates operational inefficiency of the company.

He had concluded and suggested that the overall management of working capital in RDL is not satisfactory.

Shrestha Basudev (2005) entitled "*A study on working capital management of dairy development corporation*". The main objectives of the studies are

i. To appraise the working capital management of DDC

ii. To study the relationship between sales & different variables of working capital.

To achieve these objectives, he has taken five years study period and applied the secondary data.

The major findings of his study are as follows,

i. The major components of current assets are inventory, cash & bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion and cash hold the smallest portion.

ii. Company's investment in form of working capital has been increasing. The average investment in current assets is lower with respect to net fixed assets during the study period & DDC has no clear vision about the investment in current assets to fixed assets portion.

iii. There is growing tendency of investment over current assets.

iv. Liquidity position of the company is not well because current & quick ratios are below standard value.

v. Because of high collection period, turnover position of the company is weak.

vi. The overall return position of DDC is negative because of inefficient utilization of CA, TA & shareholders' wealth.

He has suggested that DDC should minimize its current assets by adjusting on inventory & cash balance. It should increase production capacity by investing capital goods. Again, he has given advice to reduce operating cost by avoiding unnecessary manpower & expenses.

Shrestha Bhawana (2005) has conducted a research on *"A Study of Working Capital Management with Respect to National Trading Limited and Salt Trading Corporation Limited."* The main objective of her study was to present overall picture of National Trading Limited and Salt Trading Limited. The major findings of her study are as follows:

There is operating inefficiency in both the companies and overall return position of the companies is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholders' wealth. The outcome of cash conversion cycle of sample companies are not in satisfactory condition. Liquidity position of Salt Trading Corporation Ltd shows satisfactory and favorable position by being successful in maintaining the standers but NTL been unable to meet standard. Both are following aggressive financing policy.

The study has suggested the companies to follow the mix-financing policy between moderate and aggressive policy to reduce the risk and earn some profits. According to the researcher, the companies should introduce effective inventory control techniques to decrease huge blockage of inventory and credit policy techniques for collecting receivables. The researcher recommended that the companies should allocate some money for trainings of financial employees to produce skilled and experienced manpower. She suggested NTL to maintain the standard level of both current ratio and quick ratio to get the optimum solvency position.

Shrestha Rojina (2006) has carried out her research on *"A study on Working Capital Management with respect to National Trading Limited and Salt Trading Limited"*. Her main objectives of the study are to present overall picture of working capital of National Trading Limited and Salt Trading Limited, to examine the relationship between liquidity and profitability and to know whether the companies have maintained optimum level of working capital or not. She has analyzed 11 years data from the fiscal year 1996 to 2006 and used financial tools and statistical tools to achieve these objectives.

Her analysis shows that the various profitability ratios, it can be conclude that there is operating inefficiency in both sample companies and overall return position of the company is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholders wealth. The outcome of cash conversion cycle of these companies are not in satisfied condition for long run because analysis shows that there is long payable deferral period, short inventory collection period and short receivable conversion period in both companies which is favorable only for short run and it will cause negative impact from its trade creditors in upcoming days of the companies. This study shows that the receivable portion of National Trading Limited are found in decreasing trend except the fiscal year 1999 and the receivable portion of Salt Trading Corporation Limited is fluctuating year after year. These both trading companies follow aggressive financing policy which comprises higher risk and higher return and low liquidity position are not in condition of following the policy.

2.9 Review of Previous Research Work

In this section an attempt has been made to various some books on financial management, which deals with the management of working capital. We receive some theoretical concepts on working capital from Van Horne. He has categorized the various component of working capital. Liquidity, receivables, inventory and current liabilities grouping then according to the way that affect valuation. He has also described the different methods for efficient management of cash and marketable securities and various models for balancing cash and marketable securities. For the management of receivable different credit and collection policies have been described and various principles of inventory have been examined for inventory management and control.

The well known professors, Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. The broad conceptual a finding of their studies provides sound knowledge and guidance for the further study on the field of management of working capital in any enterprises and naturally to this study as well. They explain in the beginning. The importance of working capital concepts of working capital, financial of working capital, the use of short-term versus long-term debt, relationship current assets to fixed assets. In this chapter they deal with on cash, marketable securities, receivable and inventory for the efficient management of cash. They have explained the major sources and the firm of short terms financing, such as trade credit, loan from commercial bank and commercial papers Prior to this thesis, various students have carried out several thesis works on the related topic. Some of them are relevant for these study propose, which are presented below.

K. C. (2005) in his thesis entitled, *"Comparative study of working capital management of NBL and NABIL"*, aims to examine the management of working capital in NBL and NABIL. In his study he has mentioned the following Findings:

i. The average cash and bank balance and loan and advance are higher on NABIL than NBL. Management of loan and advances is more problematic is NBL than NABIL.
ii. Income from interest of NBL is better than NABIL.
iii. 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.
iv. Liquidity management policies of these two banks are significantly different.
v. Due to more conservative working capital policy, risk of insolvency is lesser but cost of funds is higher on NBL than NABIL.
vi. NBL earned higher interest income than NABIL, but the profitability position of NABIL is better.

Acharya (2006) has carried out research *"Working Capital Management of Manufacturing Companies Listed in NEPSE"* with the objectives of finding out the working capital financing policy adopted by listed Nepalese manufacturing companies; analyzing the current assets and current liabilities policies; examining the effects of working capital on profitability and pointing out valuable recommendations and suggestions based on the research. He examined five year data from 2001 to 2005. He has used ratio analysis, correlation coefficient, regression, probable error etc. as the tools of analysis.

From the research, what he found out that the companies are accompanied with various hindrances like lower turnover, lower return, lower net working capital or poor liquidity position, lack of proper working capital policy, deteriorating financing situation, lack of appropriate credit and collection policy, improper inventory management, high operating cost of production etc.

As per the recommendations forwarded by the researcher, the companies should formulate appropriate working capital policies as per their need, invest idle fund in marketable securities, adopt definite credit and collection policies, and adopt good store keeping, material handling and timely inspection system

Shrestha (2007) had conducted a research on *"A working capital management of Dairy Development Corporation"*. The objectives of his study were to present overall picture of Dairy Development Corporation, to analyze the current assets and current liabilities of corporation and their impact and relationship to each other. In his study he had basically used the secondary data. He had derived following Major findings from his study.

i. The DDC followed the conservative working capital policy and its investment in working capital has been increasing trend.

ii. The investment in current assets is lower with respect to net fixed assets during the study period. The DDC has no clear vision about the investment in current assets.

iii. The major components of current assets i.e. cash, inventories and receivables are in fluctuating Trend. The Company do not follow credit sales policy.

iv. The company has been able to maintain its current ratio in an average 1.78:1 during the study period which is also a satisfactory level.

v. The company bears the heavy loss during the study period.

vi. The overall return position of DDC is negative, not in favorable condition. It is because of inefficient utilization of current assets, total assets and shareholders wealth.

Ghimire (2008) had conducted a research on a topic of *"Financial performance of commercial banks: A comparative case study of NB Bank HBL and EBL"*. He had mainly focused on his study in examining the financial performance of those three banks such as liquidity, Profitability, activity and capital structure analysis. He had taken the five years data and the necessary data and other information were primarily based on secondary data such as annual reports and other related journals and books etc. In this research Ghimire, had pointed out various findings.

The liquidity position of the all banks was not satisfactory

i. The HBL was more efficient in utilizing the deposits in loan and advances or other more - profit- Generating sectors.
ii. The banks did not do a lot of exercise in more credit creation and reducing the interest rate for loan and advances for more competitiveness.
iii. The EPS of NB Bank and EBL had been increasing trend but the EPS of HBL had been rapidly decreasing over the period.

Gupta (2009) had conducted a research on a topic *"Financial performance Analysis of Everest Bank ltd"*. He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity. profitability ratios of EBL. The period covered by the research was five years and Necessary data and other information had been collected from the primary and secondary sources of data. In this research Mr. Gupta pointed out some remarkable findings these are.

i. The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.
ii. EBL should be encouraging the small depositors for promoting small investors.

iii. The EBL should utilize its risky assets and shareholder fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.
iv. Return on equity is not satisfactory, as it has not efficiently utilized it's equity capital.

Tuladhar (2010) had undertaken a study entitled *"A comparative study of working capital management of NABIL and standard chartered Bank Nepal Limited".* The main objective of her study was to study the current assets and current liabilities and their impact on liquidity and profitability as well as to analyze the liquidity, assets utilization, long -term solvency and profitability position of those two banks. She had analyzed five years published data of selected banks and mostly used statistical and financial tools to analyze them in order to achieve the set objectives. In her study, she has mentioned the following findings.

i. NABIL and SCBNL had maintained current Ratio of 1.55 and 1.31 respectively.
ii. The average quick ratio of NABIL and SCBNL were 0.64 and 0.75 respectively. Liquidity of SCBNL was always better than NABIL during the study period.
iii. SCBNL had more short term and less costly resources of fund than NABIL.
iv. NABIL had better investment efficiency on loans and Advances.
v. Both banks follow conservative working capital policy.
vi. Profitability position of SCBNL is better than NABIL.

Many research studies have been made by the researcher about the topic of working capital management. Some studies are related to a case study of a single manufacturing company and some are comparative in nature. Keeping in view, the fact that there is no sufficient study of working capital management particularly in Nepalese commercial bank. Thus, "Working capital management", A case study of Bank of Kathmandu limited has been taken for the study of working capital position and to suggest overcoming form such difficulties.

2.10 Research Gap

As the above research works are concerned with working capital Management of Bank of Kathmandu Limited. They are mostly done by taking single firms as a sample. In most of the studies, the samples are taken from same sector which may not represent different sectors. The studies also observed some defects in Working Capital Management of BOKL. The tools used for analysis have been limited to working capital management policy with NRB directives. So this study tries to explore the determinants of capital structure and capital structure pattern in three different sectors of Nepalese organization with current year's data. Furthermore this study will be helpful to the Working capital management groups. At last this study will be different from the above in terms of sample companies, data presentation as well as statistical tools used for interpretation and analysis of data.

Hence in this study BOKL are taken in a defensible way which makes sense. The selection of the banks here in made on the basis of BOKL. Beside this study, working capital management of BOKL has covered the latest data, which cover the information from 2006/07 to 2010/11 which makes it the latest visions on the study with the banks.

CHAPTER THREE

RESEARCH METHODOLOGY

Research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection analysis and interpretation of the facts and figures, "Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. (Kothari, 1994:19)

Therefore we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem. According to Clifford woody "Research compromise defining redefining problems, formulating, hypothesis or suggested solutions, collecting, organizing and evaluating data, making deduction and reaching conclusion and at last carefully testing the conclusions to determined whether they fit the formulating hypothesis.

3.1 Research Design

In order to make any type of research a well-set research design is necessary to fulfill the objectives of the study. Generally research design means definite procedure and technique which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve the objective of this study, descriptive and analytical research design has been used. Some statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate rationality of investors' in Nepalese securities market.

In this chapter efforts have been made to present and explain specific research design for the sake of attaining the research objective. It describes the methods and process applied in the entire subject of the study. It is the plan, structure and strategy of investigation conceived to answer the research questions. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of BOKL, diffident circular regarding rules and regulations of BOKL, NRB directives to the commercial banks, other published and unpublished material different official websites etc. It consists of research design, sources of data, population and sample data processing procedure and tools and technique of analysis of data.

3.2 Population and Sample

The large group about which the generalization is made is called the population under study or the universe and small portion which the study is made is called the sample of the study until June-2012, 32 commercial banks (Including government owned, private and joint ventures) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore sampling will be done selecting from population. Bank of Kathmandu limited is select as a sample for the study and analysis. The main reason for the selection of bank of Kathmandu Ltd is that the BOKL is operated by the Nepalese investors. (www.wiki.answer.com)

3.3 Nature and Sources of Data

The study is mainly based on the secondary data. The required data have been extracted from the annual reports of BOKL, different circular regarding rules and regulations of the bank, reports of the pertains coordination council, other published and unpublished materials, newspapers, magazines, related documents and journals available in different libraries, other organization like Nepal stock exchange and Nepal Rastra Bank as well as from official websites of corresponding organizations.

3.4 Data Processing Procedure

Data collected from various sources were in raw from. Method of analysis is applied as simple as possible. The obtained data are presented in various tables, diagrams and charts with supporting interpretation.

3.5 Tools and Techniques of Analysis

Under this study, financial as well as statistical tools have been used to Analyses the gathered data and information

3.5.1 Financial Tools

In this research study various financial tools are employed for the Analysis. There are various ratios but in the study some important ratios among them are used. Ratio Analysis is the most important tools of the financial Analysis, which help to ascertain the financial conditions of the organizations. “Ratio analysis is such a powerful tool of financial analysis that thought the help of it economic and financial position of business unit can be fully x-rayed. (Kothari C. R.; 1994:187).

Ratios are calculated to obtain the better insight into real situation of working capital management of BOKL. Various ratios are employed and grouped for the Analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

a) Liquidity Position

Liquidity position of a company is identified with the help of liquidity Ratio, which measures the company’s ability to pay its current obligations. It is employed to determine the short -term solvency position of the company. In other words, this ratio provides insight into the present cash solvency in the event of adverse financial condition. Generally ratio of one or more than one is acceptable but it depends on the nature of the company.

i) Current Ratio

This ratio measures the short-term solvency i.e. its ability to measure short term obligation. In other words, current ratio measures the ability to pay debts. Current ratio is calculated by dividing the current assets by current liabilities.

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

Current assets include cash and these assets which can be converted into cash within year, such as debtor, receivable, prepaid expenses, inventory etc. Current liabilities mean all obligations maturing within a year under the current liabilities include creditor provision for taxation, bank loan, miscellaneous current liabilities and provision.

ii) Cash and Bank Balance to Current Assets Ratio

The cash and bank balance is almost liquid form of the current assets. This ratio shows the percentage of readily available fund within the banks. It can be calculated by dividing cash and bank balance by current assets.

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} \times 100$$

What percent of current Assets cover cash and bank balance is shown by this ratio. Lower the ratio means higher will be risk and profitability and vice-versa.

iii) Cash and Bank Balance to Total Deposit Ratio (Excluding Fixed Deposit)

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposit).

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}} \times 100$$

iv) Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit which is interest bearing and short term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit which is given as follows.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}} \times 100$$

b) Activity or Turnover Position

Activity Turnover position shows the efficiency on assets management as well as effectiveness of the investment of resources in the company. These ratios are intended to measure the effectiveness of the employment of the resource in a business concern. Through these ratios it is known whether the funds employment have been used effectively in the business activity or not. The following are the ratios employed to analyze the activeness of the concerned bank.

i) Loan and Advance to Total Deposit Ratio

This ratio assesses to what extent, the bank are able to utilize the depositors fund to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited funds.

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}} \times 100$$

High ratio is the symptom of higher or proper utilization of funds and low ratio is a signal of balance remained unutilized or idle.

ii) Loan and Advance to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loan and advances against fixed deposits. For commercial banks, fixed deposits are long term interest bearing obligations, where as investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under.

$$\text{Loan and Advance to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}} \times 100$$

A low Ratio indicates idle cash balance. It means total funds not properly utilized. This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

iii) Loan and Advance to Saving Deposit Ratio

This ratio assesses how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short term obligation and the major sources of investment. This ratio indicates how many times the short term interest bearing deposits are utilized for generating the income. It is calculated by dividing the amount of loan and advances by total deposit in saving Account.

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}} \times 100$$

c) Profitability Position

Profitability position indicates the degrees of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Though profitability ratios, the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used as follows.

i) Interest Earned to Total Asset Ratio

It is the ratio which is formed to find out the percentage of the interest earned to total assets. This is calculated by dividing the amount of interest earned by the total assets of the firms.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100$$

ii) Net Profit to Total Assets Ratio

This ratio is commonly known as return on assets (ROA). This ratio is very much crucial for measuring the profitability of fund invested in the bank's assets. It measures the return on assets. It is computed dividing the Net Profit after tax by total assets.

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$$

iii) Net Profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return from deposits. It is computed dividing the net profit by total deposits.

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit}} \times 100$$

Higher ratio indicates the return from investment on loan and Advances are desirable and lower ratio indicates the funds are not properly mobilizing.

iv) Cost of Services to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. This ratio is useful to measuring the assets utilization with cost of services. This ratio is computed dividing the cost of service by total assets.

$$\text{Cost of Services to Total Assets Ratio} = \frac{\text{Cost of Services}}{\text{Total Assets}} \times 100$$

d) Capital Structure or Leverage Position

Leverage refers to the ratio of debt to equity in the capital structure to the firm. Debt and equity are long term obligations and remaining parts in the liability side of the balance sheet are termed as short term obligations. Both types of obligations are required in forming the capital structure of the form. The long term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used the firm.

i) Long Term Debt to Net worth Ratio

Long term debit refers to the amount of fixed deposits and loans of the banks. The ratio measures proportion of outsiders and owner's fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owners claim.

$$\text{Long Term Debt to Net worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}} \times 100$$

ii) Net Fixed Assets to Long Term Debt ratio

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:-

$$\text{Net Fixed Assets to Long Term Debt Ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}} \times 100$$

3.5.2 Statistical Tools

Besides the financial tools various statistical tools are also used for analysis to support the objective of the research work. The tools are as follows.

a) Correlation Analysis

"Correlation is the statistical tools that we can use to describe the degree to which one variable is linearly related to another". (Levin & Rubin; 1991:505).

The correlation analysis is the technique used to measure the classiness of the relationship between the variables. It helps to determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The value of coefficient of correlation always lies between ± 1. A value of + 1 indicates a perfect positive relationship between the variables and a value of -1 indicates a perfect negative relationship. A value of Zero indicates that there is no relationship between the variables. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the strength, or classiness of the relationship between two variables. The correlation coefficient can be calculated as

$$r = \frac{Cov(XY)}{\sigma_X \sigma_Y}$$

or

$$r = \frac{\sum\left(X - \overline{X}\right)\left(Y - \overline{Y}\right)}{\left(n-1\right)\sigma_x \sigma_y}$$

or,

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

σ_x σ_y = standard deviation of the distributions of x and y value respectively.

Cov (xy) = covariance of x and y value

$$r = \frac{\sum\left(X - \overline{X}\right)\left(Y - \overline{Y}\right)}{\left(n-1\right)}$$

N = Number of items in the series. X and Y = Variables

b) Probable Error (P.E.)

The probable error of the Coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$\text{P.E.} = \quad 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e. the value of ‘r’ is significant.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter entitled “presentation, analysis and interpretation of data” is the crucial chapter as it utilizes the processed data tools and techniques of working capital analysis, as described in research methodology to achieve the objectives of this study. Objectives of this study are to find out the solutions of the problems identified. Bank of Kathmandu facing working capital management problems of current assets, fixed assets, long term and short term solvency, profitability and value of the firm. This study aim to determining the effect of working capital variable on the profitability and value of the firm and they’re by, generalizing the result.

For this purpose the collected and organized data should be analyzed through different tools and techniques and interpreted. These data are presented in the tabular form, diagram or the graphical form the analysis through different statistical and financial tools. As per the tools used in this study, this chapter has been divided into sub chapters such as ratio analysis, trend analysis, correlation analysis and hypothesis testing. Analysis and interpretation of data involves an attempt to determine the significance and meaning of financial data so that a judgment on past activities can be made and a forecast may be de of the prospect for future earning ability to pay interest debt maturity both current as well as long term and profitability of sound. The analysis and interpretation of data requires a comprehensive and intelligent as well as the determining of relationship with other data to facilitate comparison. Interpretation and analysis are closely connected because interpretation is impossible without analysis and lack of interpretation analysis is useless. Therefore, interpretation requires analysis. Analysis involves the compilation of data ranking data as per its relative significance, making, and data homogeneous and examines that the data using different device. On the other hand, interpretation of data according to the analysis is necessary because more examination of the components does not lead to definite conclusion and statement has to be dissected in to this constituent in order to measure the relative magnitude of various entities.

This Chapter deals the presentation, analysis and interpretation of statistics evidence and face; to clarify the research works. Data of the Fiscal Year 2006/07 to 2010/011 have been presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital, which means current assets, current liabilities, liquidity, turnover, leverage and profitability of BOKL. It also uses correlation analysis, with the help of these analysis, we can know the working capital as well as financial position of BOKL.

Working capital is defining as the difference between current assets and current liabilities. Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. in general companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth and further activities.

Working Capital = Current Assets - Currents Liabilities.

4.1.1 Components of Current Assets

We require different types of current assets for our day to day operation. Current assets refer to those assets that are cash or can be converted into cash within a year. The composition of current assets or the main components of current assets at BOKL are cash and bank balance, loan and Advances and Government securities. Miscellaneous current assets are also a Component of current assets. Prepaid expenses, outstanding income like interest receivable, money at call or short notice and other currents assets are included in miscellaneous current assets. The following table shows the amount of cash and bank balance, loan and Advances, Government securities and miscellaneous assets of Bank of Kathmandu Limited.

Table No. 4.1

Components of Current Assets of BOKL *(Rs. in Million)*

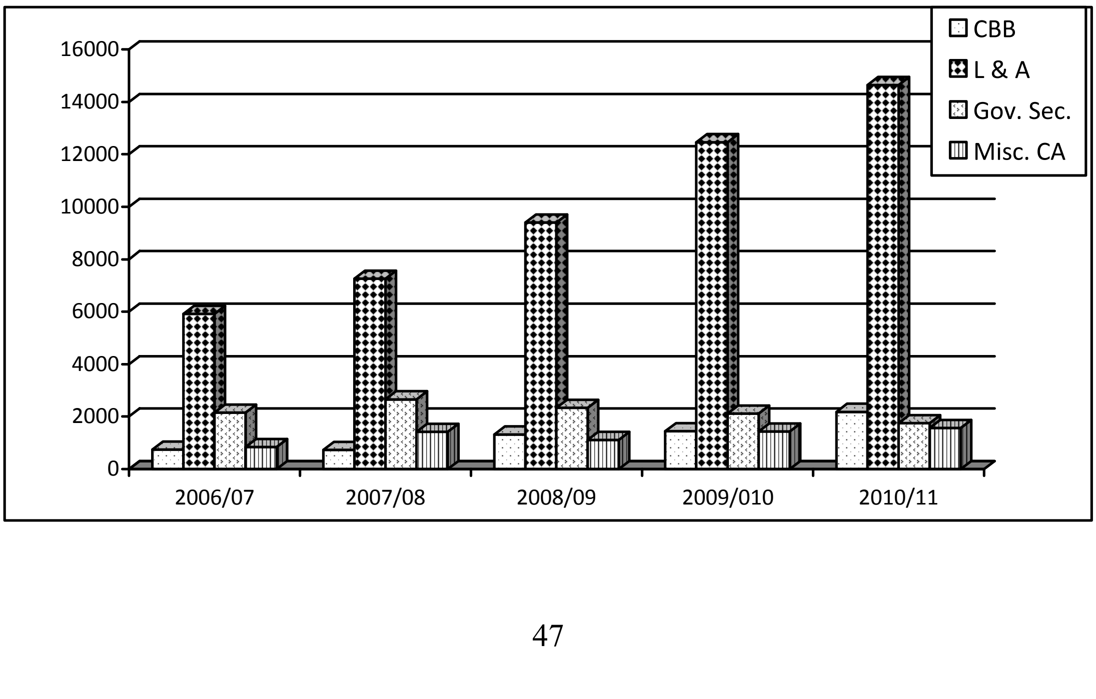
Fiscal year	Cash and Bank Balance	Loan and advances	Governments Securities	Misc.CA	Total CA
2006/07	740.52	5912.58	2146.62	845.42	9645.14
2007/08	728.70	7259.08	2658.37	1420.63	12066.78
2008/09	1315.91	9399.33	2332.03	1110.94	14158.21
2009/010	1440.46	12462.64	2113.22	1432.93	17449.25
2010/011	2182.11	14647.3	1744.75	1567.82	20141.98

Sources: Annual Report of BOKL from 2006/07 to 2010/11

Above table 4.1 shows that the components of current assets of BOKL consists cash and bank balance, loan and advances, governments securities and miscellaneous current assets. In fiscal year (FY) 2006/07, total current assets of the bank was amounted to Rs.9645.14 million which included Rs.740.52 million of cash and bank balance, Rs.5912.58 million of loan and advances, Rs.2146.62 million of Government securities and Rs.845.42 million of miscellaneous current assets. CA of the bank increases all the five year. In FY 2010/011 it has reached to Rs.20141.54 million, which included Rs. 2182.11 million of cash and bank balance Rs.14647.3 million of loan and advances Rs.1744.75 million of Government securities and Rs.1567.82 million of miscellaneous current assets respectively.

Figure No. 4.1

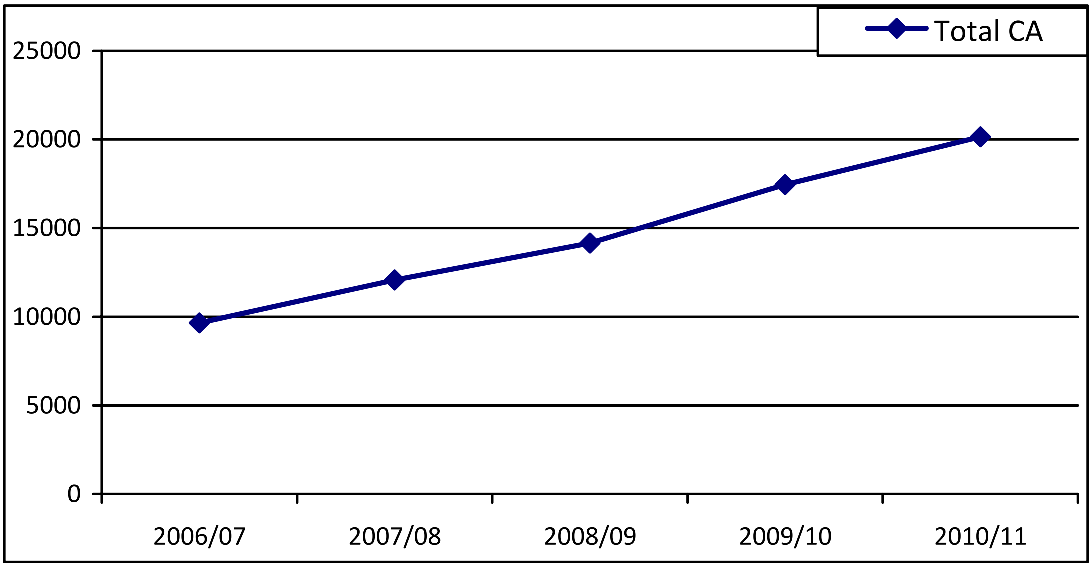
Components Current Assets



In above figure 4.1 shows that the component of cash and bank & loan and advance increase all five years from FY 2006/07 to 2010/011. The trend of government securities & miscellaneous current assets point the slowly upward to 2006/07 to 2007/08 and deeply down ward up to 2008/09 to 2010/11. Miscellaneous current assets FY 2009/10 to 2010/11, the increasing trend of miscellaneous current assets.

Figure No. 4.2

Current Assets of BOKL



As stated in above figure 4.2, the Current assets of the BOKL increases all the five year from FY 2006/07 to 2010/11. In the cash of FY 2007/08 the increasing trend is low from FY 2009/10, the increasing trend of current assets is higher.

4.1.2 Component of Current Liabilities

Current liabilities is a short-term obligation which is payable within a year. The composition of current liabilities or the main components of current liabilities at BOKL are Deposits, short-term loan, Bills Payable and miscellaneous current liabilities. Tax provision staff bonus, proposed dividend payable and other current liabilities are included in miscellaneous currents liabilities. The following table shows the amount of deposit and other accounts, short term loans, bills payable and miscellaneous current liabilities of BOKL.

Table No. 4.2

Components of Current Liabilities of BOKL *(Rs. in Millions)*

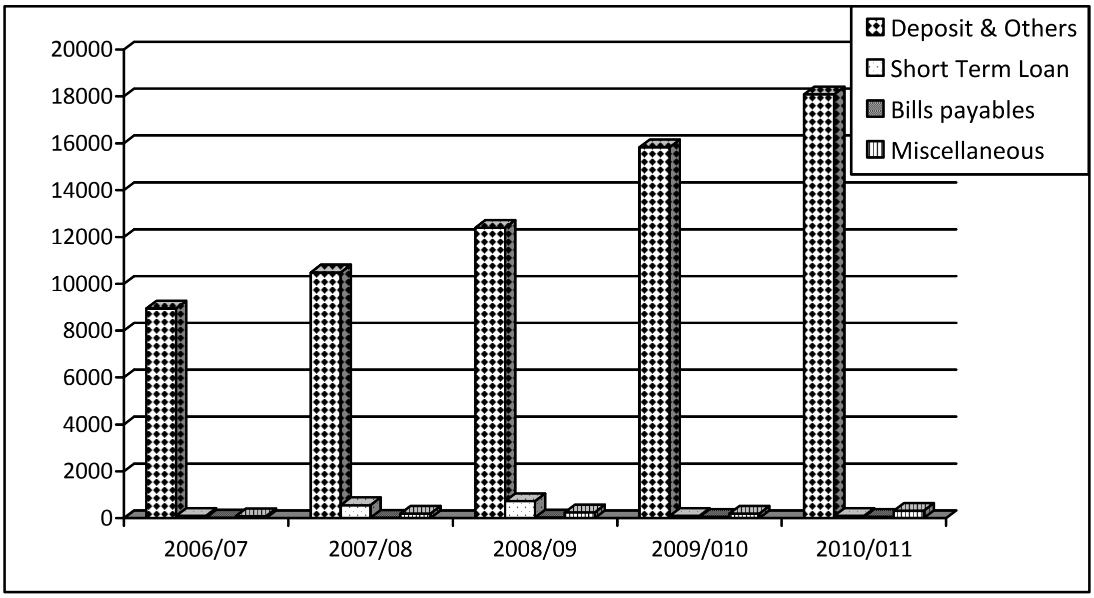
Fiscal year	Deposits and other A/c	Short term loans	Bills Payable	Miscellaneous	Total CL
2006/07	8942.75	96.00	19.87	77.77	9136.39
2007/08	10485.36	553.18	11.62	188.43	11238.59
2008/09	12388.93	730.00	25.78	243.42	13388.13
2009/010	15833.74	100	51.58	194.53	16179.85
2010/011	18083.98	100	51.12	319.3	18554.4

Sources: Annual Report of BOKL from 2006/07 to 2010/011

In the above table, we can found that the component of currents liabilities which consists deposit and other Accounts. Short-term loan, bills Payable and miscellaneous CL. The increasing trend of current liabilities is same as current assets. In fiscal year 2006/07 the total amount of currents liabilities is Rs.9136.39 million. For the increasing impact of Deposit and other A/C the total amount of current liabilities also be increased in all the five fiscal year. At the end of FY 2010/11, the current liabilities of BOKL reached to Rs18554.4 million, which included Rs. 18083.98 million of Deposit and other Accounts, Rs. 100.00 million of short term loans, Rs.51.12 million of Bills payable and Rs.319.30 million of miscellaneous current liabilities respectively .

Figure No. 4.2

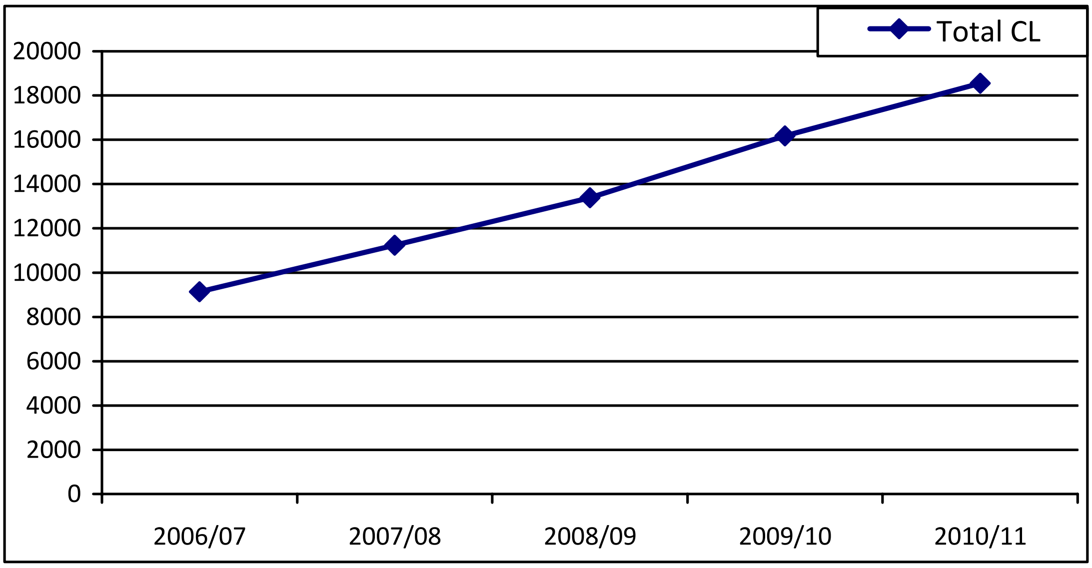
Components of Current Liabilities



In the above table 4.2, we can found that the component of currents liabilities which consists deposit and other Accounts, shorts-term loan, bills Payable and miscellaneous CL. The increasing trend of current liabilities is same as current assets. In fiscal year 2006/07 the total amount of currents Liabilities is Rs. 9136.39 million. For the increasing impact of Deposit and other A/C the total amount of current liabilities also be increased in all the five fiscal year. At the end of FY 2010/011, the current liabilities of BOKL reached to Rs18554.4 million, which included Rs. 18083.98 million of Deposit and other Accounts, Rs. 100.00 million of short term loans, Rs.51.12 million of Bills payable and Rs.319.30 million of miscellaneous current liabilities respectively .

Figure No. 4.4

Current Liabilities of BOKL



The above figure 4.4 shorts that the current liabilities of BOKL is in increasing in the same trend in FY 2006/07 and grows high ratio from FY 2009/10 and 2010/11.

4.1.3 Working Capital of BOKL

Working capital is required to run the business smoothly and efficiently in the context of set objectives. It is no doubt that no organization can achieve its goal without proper use of working capital. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank and determining which one is more beneficial to the bank and which is not. The following table shows the amount of working capital of BOKL of the study Period.

Table No. 4.3

Components of Working Capital of BOKL *(Rs. in Millions)*

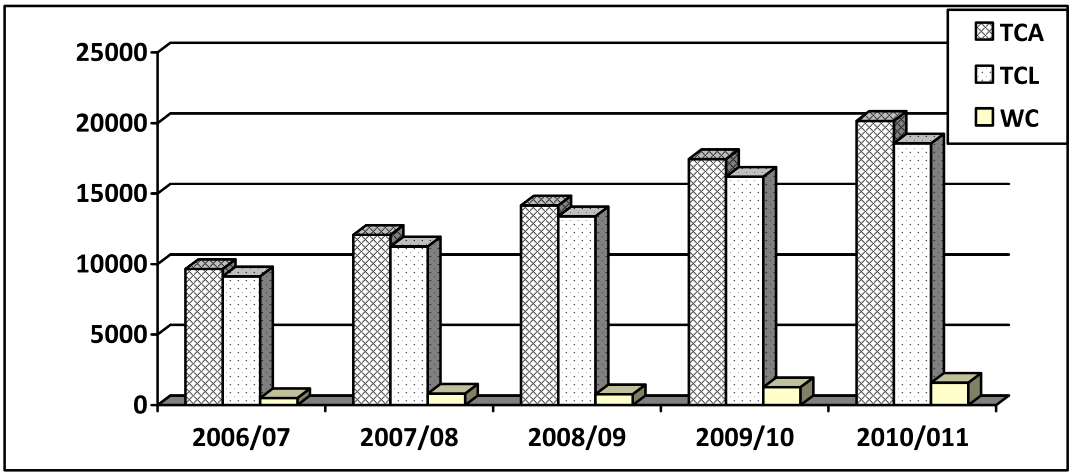
Fiscal Year	Total CA	Total CL	WC =CA-CL
2006/07	9645.14	9136.39	508.75
2007/08	12066.78	11238.59	828.19
2008/09	14158.21	13388.13	770.08
2009/10	17449.25	16179.85	1269.4
2010/11	20141.98	18554.4	1587.58

Sources: Annual report of BOKL from 2006/07 to 2010/011

In the above table, we clearly shows that the working capital condition of the bank from fiscal 2006/07 to 2010/011. The BOKL has increased working capital from Rs 508.75 million to Rs 1587.58 million from the fiscal year 2006/07 to 2010/011. In FY 2007/08. The bank increased its working capital from Rs508.75 million to Rs 828.19 million. Similarly, in FY 2008/09 the working capital decreased by 58.11 million But in FY 2009/010 the working capital of the bank was highly increased and reached to Rs.1269.4 million. At the end of study period, working capital of the bank was more increased and amounted to Rs.1587.58 million.

Figure No. 4.5

Working Capital of BOKL



In the above figure we clearly shows the current assets, current liabilities and working capital condition of the BOKL from fiscal year 2006/07 to 2010/011. Working capital condition of the bank is satisfactory level. All the year of the study period the working capital of the bank is positive. Working capital of the bank is in increasing tread, In fiscal year 2006/07 the working capital was Rs.508.75 similarly at the end of study period it reached to Rs.1587.58 million. The working capital shows the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa.

4.2 Liquidity Ratio

Liquidity ratios measures ability of the firm to meet its short-term obligations. Liquidity of any business organization is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Bank is a different organization which is engaged in mobilization of funds. So, without sound liquidity position, bank is not able to operate its function. To measure the bank's solvency position of ability to meet it's short-term obligation. Various liquidity ratios are calculated and to know the trend of liquidity are trend analysis of major liquidity ratios have been considered.

4.2.1 Current Ratio

This ratio indicates the current short-term solvency position of bank. In other words, current ratio represents a margin of safety. Higher current ratio indicates better liquidity position. It is calculated as follows:

$$\textit{Current Ratio} = \frac{\textit{Current Assets (CA)}}{\textit{Currnt liabilities (CL)}}$$

The following table shows the current ratio to compare the working capital management of Bank of Kathmandu Limited.

Table No. 4.4

Current Ratio of BOKL *(Rs. in millions)*

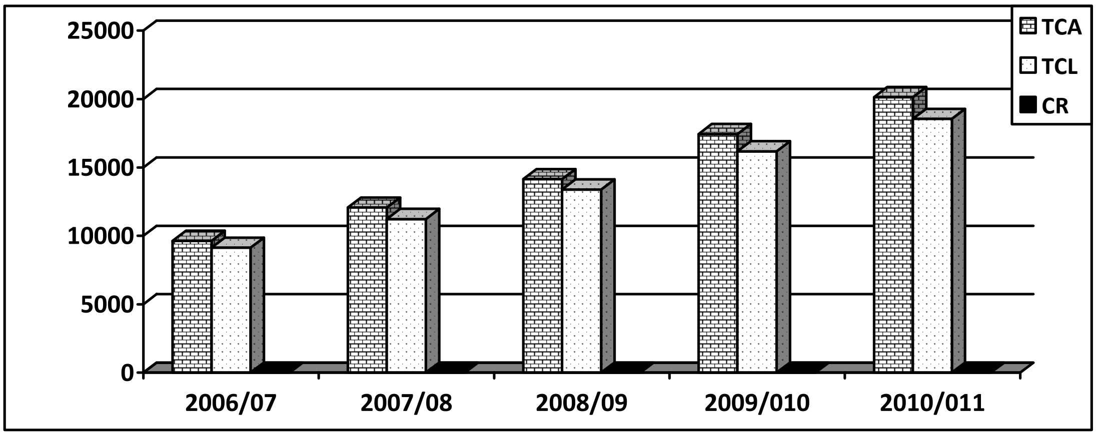
Fiscal year	Total CA	Total CL	Current Ratio (Times)
2006/07	9645.14	9136.39	1.06
2007/08	12066.78	11238.59	1.07
2008/09	14158.21	13388.13	1.06
2009/010	17449.25	16179.85	1.08
2010/011	20141.98	18554.4	1.09
Average			1.07

Sources; Annual report of BOKL from 2006/07 to 2010/011

The above table 4.4 shows the CA, CL and current ratio of BOKL. The current ratio of the BOKL is in increasing trend over the year. The highest current ratio is 1.09 in the fiscal year 2010/011 and lowest current ratio is 1.06 in the fiscal years 2006/07 and 2008/09. The average current ratio of BOKL is 1.07.

Figure No. 4.6

Components of Current Ratio of BOKL



The above figure shows depicts that the trend line of BOKL increasing slowly in the fiscal year 2004/05 and little decrease in the fiscal year 2006/07 but in the fiscal year 2007/08. It has slightly increasing these current years. We can clearly showed that the fluctuating trend is not more.

The above analysis helps to find out the liquidity position of the bank. It indicates that the bank has sufficient liquidity. It is true that the higher the ratio supposedly the greater the ability of a firm to pay its bill. But if a firm has more than the sufficient current assets it is an indication of unfavorable distribution of current assets.

4.2.2 Cash and Bank Balance to Current Assets Ratio

The cash and Bank Balance is almost liquid form of the current assets, This Ratio Shows the percentage of readily available fund within the banks. It can be calculated by dividing cash and bank balance current assets, which is given below.

$$= \frac{\text{Cash and bank Balance}}{\text{Current Assets}}$$

This Ratio shows the percentage of current assets cover cash and bank balance. The following table and figure shows the cash and bank balance to current assets ratio of the BOKL over the study Period.

Table No. 4.5

Cash and Bank Balance to Current Assets Ratio of BOKL *(Rs in million)*

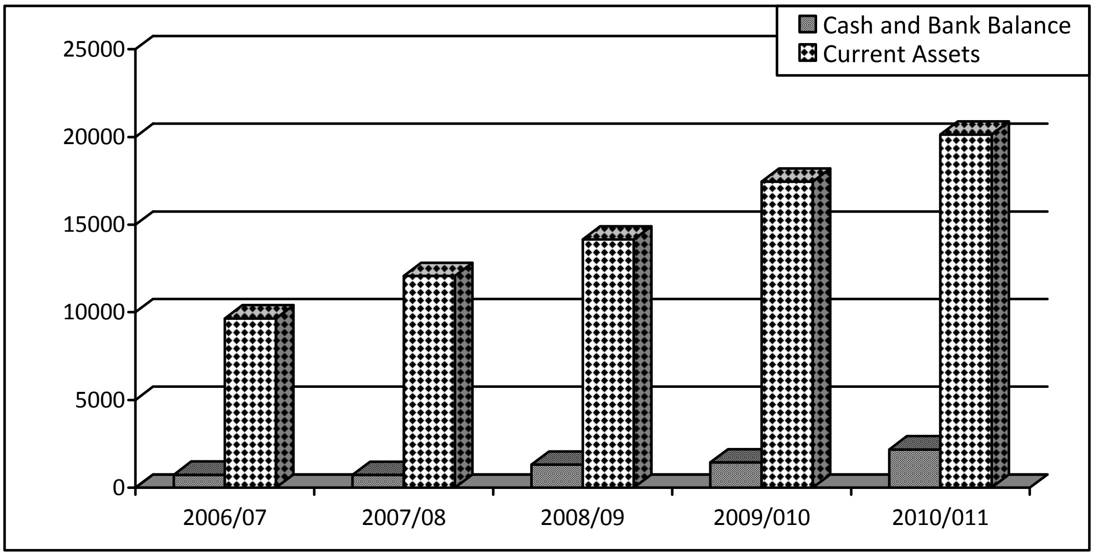
Fiscal Year	Cash and Bank	Current Assets	Ratio (%)
2006/07	740.5	9645.14	7.68
2007/08	728.70	12066.78	6.04
2008/09	1315.91	14158.21	9.29
2009/010	1440.46	17449.25	8.26
2010/011	2182.11	20141.98	10.83
Average			8.42

Sources: Annual Report of BOKL from 2006/07 to 2010/011.

The above table 4.5 shows that the amount of cash and bank balance was Rs.740.5 million in Fiscal Year 2006/07. Fiscal year 2007/08 it was slightly decreased to 728.70 and again Fiscal Year 2008/09 it has increased to 1315.91 million and continuously it is increasing by 1440.46 million and 2182.11 million in Fiscal Years 2009/010 and 2010/011, on the other hand current assets of BOKL has been gradually increasing over the study period. In the same way cash and bank balance to current Assets ratio of BOKL is fluctuating where 7.68 percent was in Fiscal Year 2006/07 and decreased to 6.04 percent in Fiscal Year 2007/08. Fiscal Year 2008/09 it raised up to 9.29 percent and fluctuating by 8.26 percent and 10.83 percent in Fiscal Years 2009/010 and 2010/011.

Figure No. 4.7

Cash and Bank Balance to Current Assets Ratio of BOKL



The above figure clearly shows the cash and bank balance to currents ratio of BOKL has been slightly decreased up to Fiscal year 2007/08 and increasing in fiscal year 2008/09 as the same decreased in FY 2009/010 and also increasing in 2010/011.

So above analysis contribute to conclude that cash and bank balance position with respect to current assets of BOKL is in moderate condition, which indicates the sound or better liquidity position of BOKL. The high amount of cash and bank balance is also not so good because it cannot gives the any earning. it is a idle amount.

4.2.3 Cash and Bank Balance to Total Deposit Ratio *(Excluding Fixed Deposit)*

The ratio shows the ability of banks immediate funds to cover their (current, margin, call and saving) deposits. It can be calculated by dividing cash and balance by deposits (excluding fixed deposits). The ratio can be expressed as:

$$\text{Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

The following table and figure shows the cash and bank balance to total deposit ratio of the BOKL over the study period.

Table No. 4.6

Cash and Bank Balance to Total Deposit Ratio of BOKL *(Rs in Million)*

Fiscal Year	Cash and Bank	Total Deposit (Excluding FD)	Ratio (%)
2006/07	740.52	6063.88	12.21
2007/08	728.70	7775.61	9.37
2008/09	1315.91	9351.76	14.07
2009/010	1440.46	12130.56	11.87
2010/011	2182.11	13609.36	16.03
Average			12.84

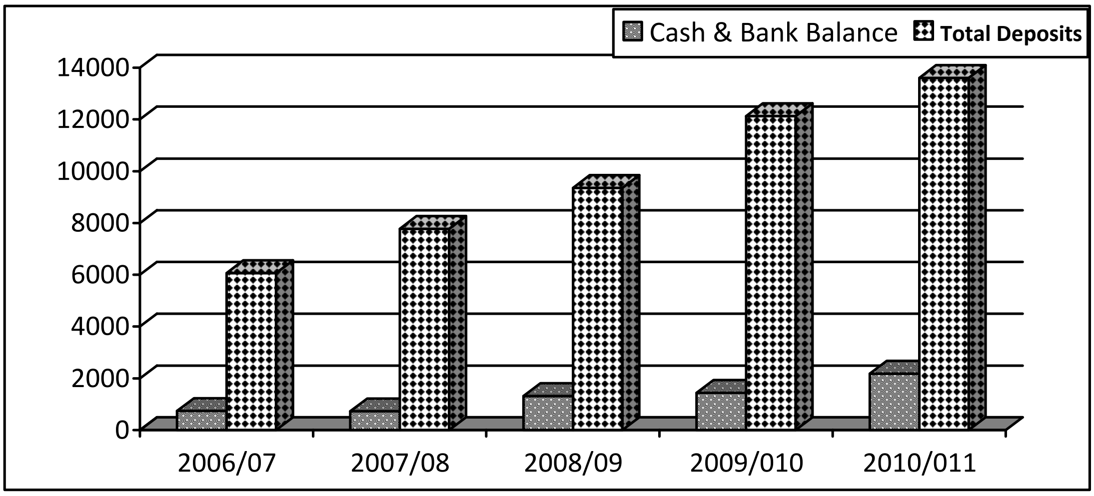
Sources: Annual Report of BOKL from 2006/07 to 2010/011.

The above table depicts that the cash and bank balance to deposit (except fixed deposit) of BOKL has been slightly decreasing first two years of the study periods and increasing gradually in the fiscal year 2008/09, 2009/010, and

2010/011. Cash and bank balance of the bank is also fluctuating over first two years and increasing gradually remain three years of the study period. Similarly, there is no consistency in total deposit of the bank. The bank has average ratio of 12.84 percent.

Figure No. 4.8

Cash and Bank Balance to Total Deposit Ratio of BOKL



The above figure clearly shows the cash and bank balance to deposit ratio has been slightly decreasing to 9.37 percent in fiscal year 2007/08 and fluctuating by 14.7, 11.87, and 16.03 percent accordingly.

The above analysis helps to find out the ability of banks immediate funds to cover its current margin, call and saving deposit of the bank. In other words liquidity position of the bank. But the large amount of idle cash and bank balance directly affect the profitability of the bank. The position of BOKL not so satisfactory level over the study period.

4.2.4 Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short in natures. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given bellows:

$$\text{Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

The following table and figure shows the BOKL's saving to total deposit ratio.

Table No. 4.7

Saving Deposit to Total Deposit Ratio of BOKL

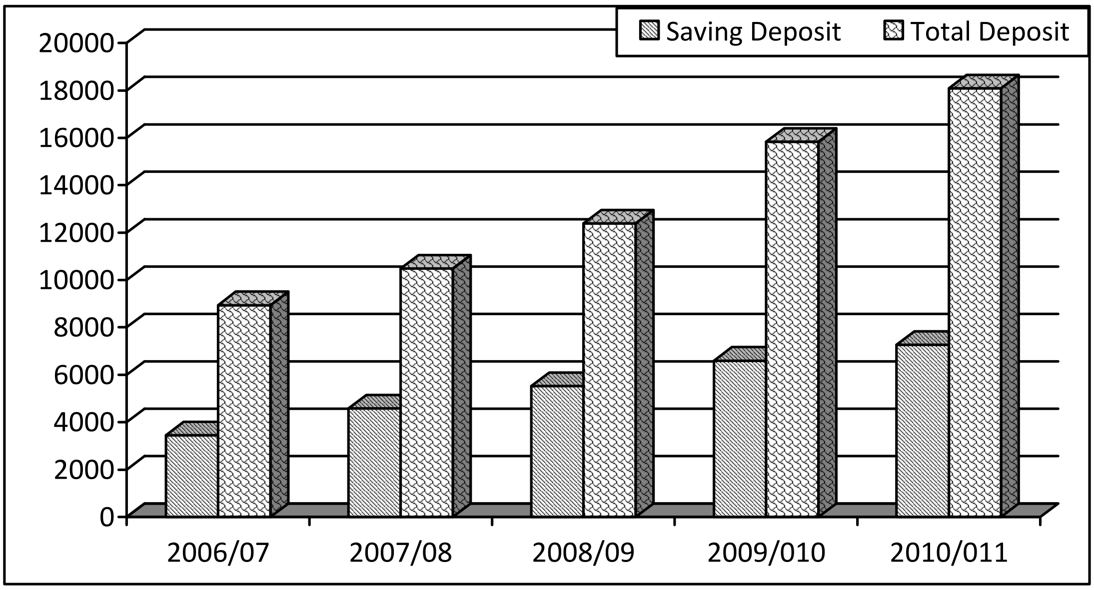
Rs in million

Fiscal Year	Saving Deposit	Total Deposit	Ratio (%)
2006/07	3447.45	8942.75	38.55
2007/08	4581.96	10485.36	43.70
2008/09	5527.29	12388.93	44.61
2009/010	6596.11	15833.74	41.66
2010/011	7260.31	18083.98	40.15
Average			41.73

Sources: Annual Report of BOKL from 2006/07 to 2010/011.

The above table 4.7 shows that the amount of saving deposit has been gradually increasing during the study period. Similarly, the total deposit of BOKL also be increasing during the study period. Likewise, the saving deposit to total deposit ratio of BOKL is also in increasing trend in first three years and fluctuating in remaining 2 years of the study period. In the fiscal year 2006/07 the saving deposit to total deposit ratio was 38.55% but and the end of the study period it reached to 40.15%. The average ratio stands at 41.73%.

Figure No. 4.9
Saving Deposit to Total Deposit Ratio of BOKL



As stated in above figure, the saving deposit to total deposit ratio is smoothly increasing over the first 3 years of the study period. In the fiscal year 2009/010 it has decreased and more decreased in the FY 2010/011.

Although, saving deposit is short-term liability but it's nature is long-term then current margin and other deposits. So, the large position saving deposit in total deposit shows the liquidity of the bank. Banks also pays interest on saving deposit but current, margin and other deposits are nominal cash fund. It means higher the ratio higher the liquidity position of the bank and vice versa. In other hand, the higher saving deposits increased interest obligation to the bank. Therefore, the higher ratio of saving deposit to total deposit decreased the profitability of the bank. From the view point of profitability the lower ratio is preferable than higher ratio. The ratio of BOKL seems satisfactory level over the study period.

4.3 Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the bank's ability to utility their available resources.

4.3.1. Loan and Advances to Total Deposit Ratio

This ratio assess to what extent, the bank are able to utilize the outsiders fund (deposited fund) for the profit generating purpose on the loan and advances. It is computed dividing the total amount of loan and advances by total deposited funds.

$$\text{Total Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Total deposit}}$$

The following table and figure shows the effectiveness in utilization of total deposits of BOKL.

Table No. 4.8

Loan and Advances to Total Deposit Ratio of BOKL

Rs in million

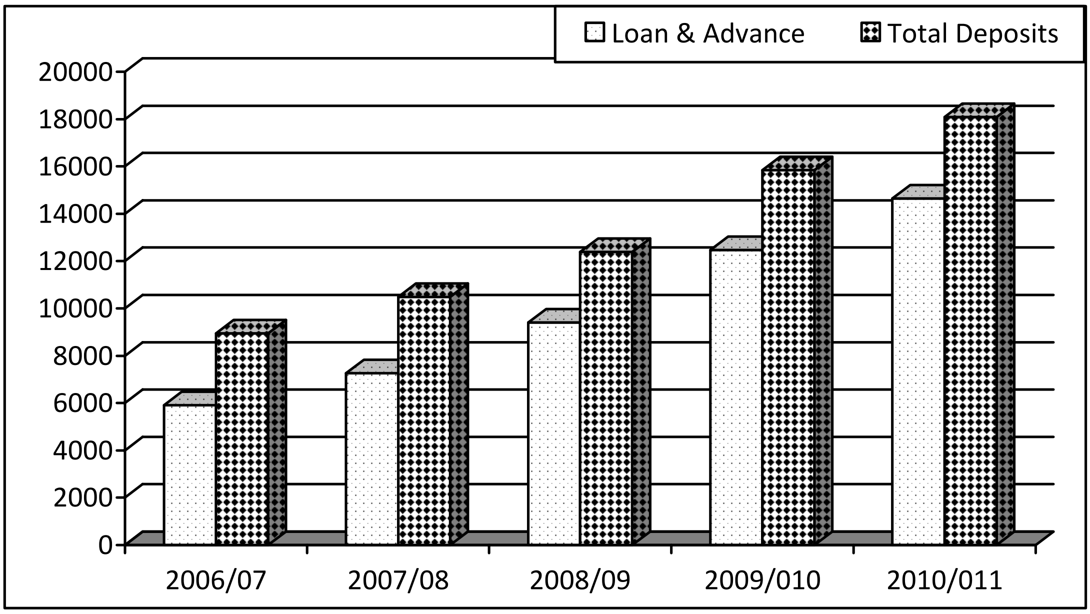
Fiscal Year	Loan and Advance	Total Deposit	Ratio (Times)
2006/07	5912.58	8942.75	0.66
2007/08	7259.08	10485.36	0.69
2008/09	9399.33	12388.93	0.76
2009/010	12462.64	15833.74	0.78
2010/011	14647.30	18083.98	0.81
Average			0.74

Sources: Annual Report of BOKL from 2006/07 to 2010/011.

The above table shows the position and ratio of loan and advances and total deposit of BOKL from fiscal year 2006/07 to 2010/011. The loan and advances of the bank has been gradually increasing all the five fiscal years. Similarly total deposit of the bank also been increasing in five fiscal years. Likewise, the loan and Advance to total deposit ratio also has increasing gradually over the whole study period of five fiscal years and the average ratio stands at 0.74.

Figure No. 4.10

Loan and Advances to Total Deposit Ratio of BOKL



Above figure shows that the loan and advances to total deposit ratio was 0.66 in fiscal year 2006/07, which slightly increased up to fiscal year 2007/08 to 0.69 and thereafter again increased and reached to 0.81 in fiscal year 2010/011. From the above analysis, loan and advances to total deposit ratio clearly shows the low capacity of the bank to mobilize its deposit at initial of the study period and gradually correcting at end of the study period. The bank has the responsibility of collecting a huge amount of deposit for the purpose of lending a great amount of it to needy people. It's collect money not for keeping it idle, but for using it in a creative work. If it cannot utilize it's deposit more profitability, it is better to reduce the volume of deposits. So, the volume of deposits has some limit which is affected by loans. But there is no limit to the volume of loans. However, the rate of interest as well as the volume of deposits highly affects the volume of loans. Once the deposit is more than sufficient, there is no need to pay higher rate of interest on it. On the contrary, if the volume of deposits is insufficient for meeting the need of borrowers the interest rate should be increased.

4.3.2 Loan and Advances to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. Fixed deposits are interest bearing long-term obligation where loans and advances are the major sources of investment to generate income for the commercial banks. A low ratio indicates the idle cash balance. It means total funds not properly utilized. This ratio compute as follows:

$$\text{Fixed Deposit} = \frac{\text{Loan and Advance}}{\text{Fixed deposit}}$$

The following table and figure shows the effective loan and advances to fixed deposit ratio of BOKL.

Table No. 4.9

Loan and Advances to Fixed Deposit Ratio of BOKL *Rs in million*

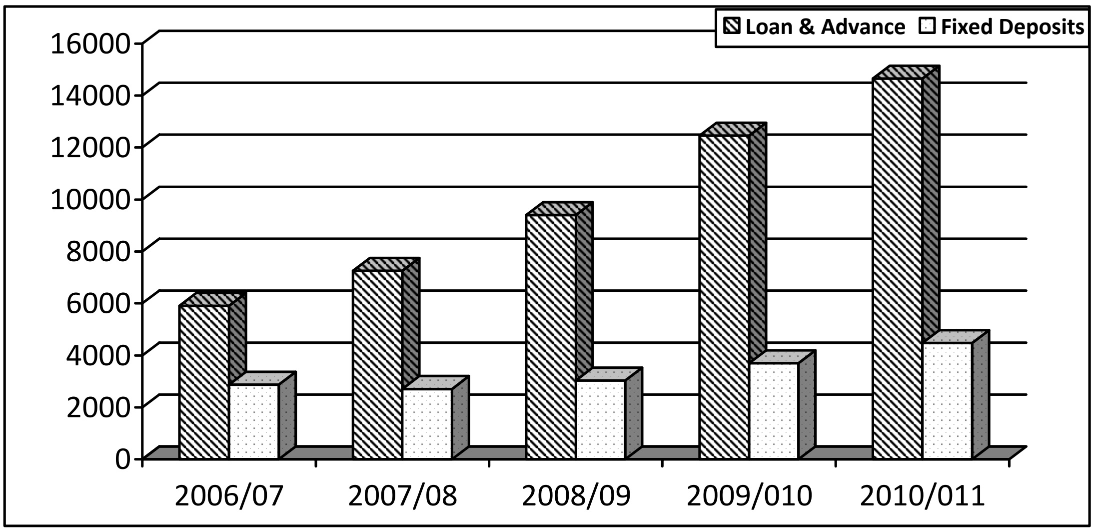
Fiscal Year	Loan and Advance	Fixed Deposit	Ratio (Times)
2006/07	5912.58	2878.87	2.05
2007/08	7259.08	2709.75	2.68
2008/09	9399.33	3037.17	3.09
2009/010	12462.64	3703.18	3.37
2010/011	14647.3	4474.62	3.27
Average			2.89

Sources: Annual Report of BOKL from 2006/07 to 2010/011.

In the above table depicts that the loan and advances to fixed deposit ratio of BOKL was increased in fiscal year 2007/08 than previous year 2006/07. In fiscal year 2008/09, it increased again and reached to 3.09. In the fiscal year 2009/010 it was increased and reached to 3.37. It was decreased and reached up to 3.27 at the end of fiscal year 2010/011. It indicates that the loan and advances to fixed deposit ratio of BOKL is fluctuating.

For understanding it more clearly, the loan and advances and fixed deposit and its ratio of BOKL can be presented in figure with the help of trend analysis method.

Figure No. 4.11
Loan and Advances to Fixed Deposit Ratio of BOKL



The above figure clearly shows that the loan and advance to fixed deposit of BOKL was increased in fiscal year 2007/08 to fiscal year 2009/010. In fiscal year 2010/011 it was slightly decreased.

The above analysis shows that the utilization of fixed deposit in loan and advances efficiently or not. The higher ratio implies the efficient mobilization of fixed deposit and vice versa. From the above trend analysis we can conclude that the BOKL has been mobilizing its fixed deposit quite satisfactory but decrement in ratio of final year of study period indicates to reform the policy.

4.3.3 Loan and Advance to Saving Deposit Ratio

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interest bearing short-term obligation whereas loan and advances are the major sources of investment to generate income for the commercial banks. This ratio indicates how many times the short-term interest bearing deposit is utilized for income generating purpose. The following formula is used to determine this ratio.

$$\text{Saving Deposit Ratio} = \frac{\text{Loan and advance}}{\text{Saving Deposit}}$$

The following table and figures shows the loan and advance to saving deposit ratio of BOKL.

Table No. 4.10

Loan and Advance to Saving Deposit Ratio of BOKL *(Rs. in million)*

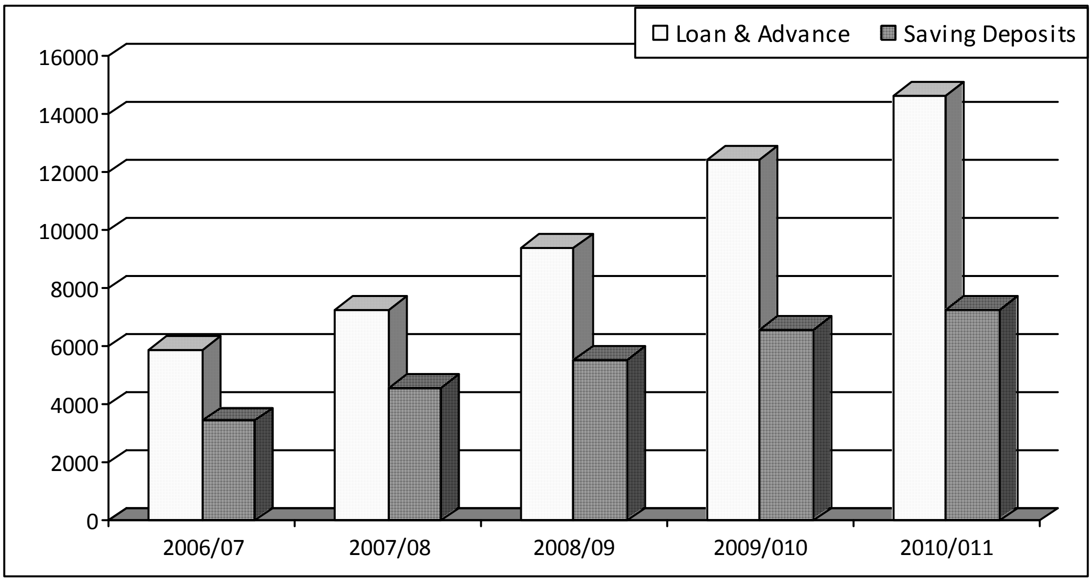
Fiscal Year	Loan and Advance	Saving Deposit	Ratios (Times)
2006/07	5912.58	3447.45	1.72
2007/08	7259.08	4581.96	1.58
2008/09	9399.33	5527.29	1.70
2009/010	12462.64	6596.11	1.89
2010/011	14647.3	7260.31	2.02
Average			1.78

Sources: Annual Report of BOKL from the year 2006/07 to 2010/011.

In the above table we clearly shows that the saving deposit of the bank has been gradually increasing from the fiscal year 2006/07 to 2010/011. Likewise the ratio of loan and advance to saving deposit is seems quit fluctuating. It was 1.72 at the end of 2006/07 but at the end of 2009/010 it reached to 1.89. The first two year ratio is in decreasing trend. In fiscal year 2010/011 it slightly increased and reached to 2.02. It is greater than 1.89 the fiscal year 2009/010 ratio. The average ratio stands at 1.79.

Figure No. 4.12

Loan and Advance to Saving Deposit of BOKL



In the above figure we clearly show that the saving deposit of the bank has been gradually increasing from the fiscal year 2006/07 to 2010/011. Likewise the ratio of loan and advance to saving deposit is seems quit fluctuating. It was 1.72 at the end of 2006/07 but at the end of 2009/010 it reached to 1.89. The first two year ratio is in decreasing trend. In fiscal year 2010/011 it slightly increased and reached to 2.02. It is greater than 1.89 the fiscal year 2009/010 ratio. The average ratio stands at 1.79.

From the above analysis it can be concluded that the saving deposit of the bank has been effectively utilized in loan and advances.

4.4 Profitability Ratios

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. To find out the operating efficiency of the BOKL. The following profitability ratios are calculated.

4.4.1 Interest Earned to Total Assets Ratio

It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firm.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}} \times 100$$

The following table and figure shows the interest earned to total assets ratio of the BOKL.

Table No. 4.11

Interest Earned to Total Assets Ratio of BOKL

(Rs. in million)

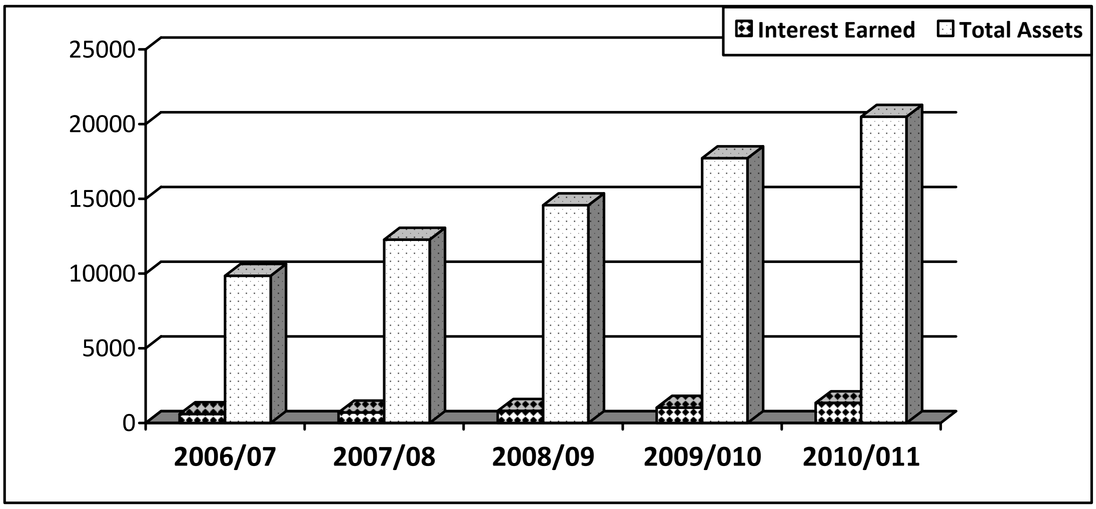
Fiscal year	Interest Earned	Total assets	Ratios (%)
2006/07	607.10	9857.13	6.16
2007/08	718.12	12278.33	5.85
2008/09	819.00	14570.10	5.62
2009/010	1034.16	17721.93	5.84
2010/011	1347.76	20496.01	6.58
Average			6.01

Sources: Annual Report of BOKL from the year 2006/07 to 2010/011.

BOKL interest earned and total assets both are in increasing trend. In the fiscal year 2006/07, the interest earned was Rs. 607.10 million but in the fiscal year 2010/011 it reached to Rs.1347.76 million. Likewise, at the end of fiscal year 2006/07 the total assets was Rs.9857.13 million but at the end of fiscal year 2010/011 it reached to Rs.20496.10 million. Interest earned to total assets ratio of the bank was quit fluctuating. It was stands at 6.16% in fiscal year 2006/07. It was slightly decreased in fiscal year 2007/08 and also in the fiscal year 2008/09. After the end of fiscal year 2009/010 the ratio is growing up and raising to 5.84 percent and 6.58 percent accordingly for the FY 2009/010 and 2010/011. The average ratio of BOKL stands at 6.01% over the study period.

Figure No. 4.13

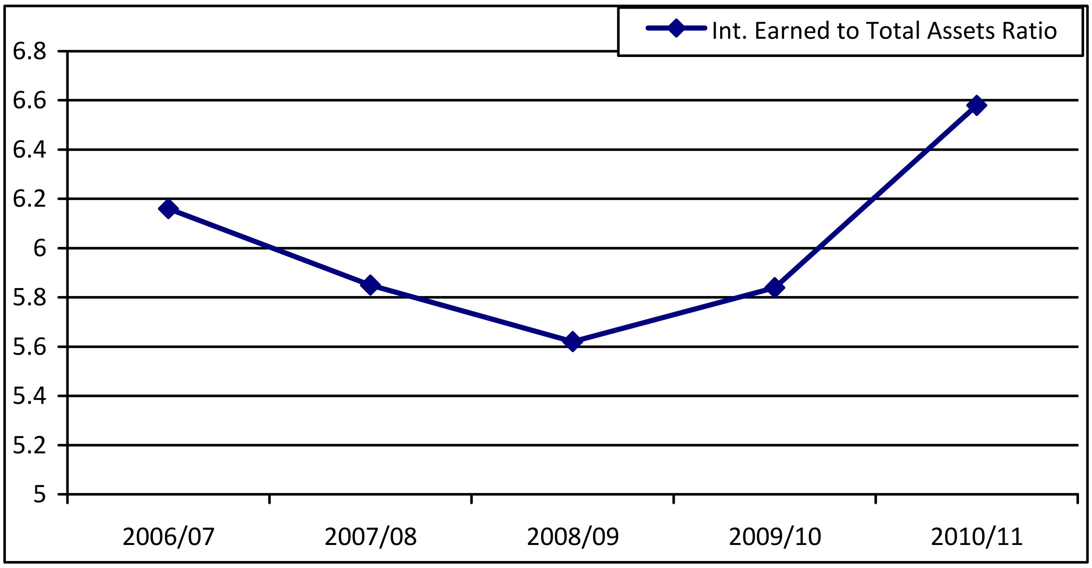
Interest Earned to Total Assets of BOKL



In the fiscal year 2006/07, the interest earned was Rs. 607.10 million but in the fiscal year 2010/011 it reached to Rs.1347.76 million. Likewise, at the end of fiscal year 2006/07 the total assets was Rs.9857.13 million but at the end of fiscal year 2010/011 it reached to Rs.20496.10 million. Interest earned to total assets ratio of the bank was quit fluctuating. It was stands at 6.16% in fiscal year 2006/07. It was slightly decreased in fiscal year 2007/08 and also in the fiscal year 2008/09. After the end of fiscal year 2009/010 the ratio is growing up and raising to 5.84 percent and 6.58 percent accordingly for the FY 2009/010 and 2010/011. The average ratio of BOKL stands at 6.01% over the study period.

Figure No. 4.14

Interest Earned to Total Assets Ratio of BOKL



The above figure depicts that the interest earned to total assets ratio of BOKL seems quite fluctuating over the study period. From fiscal year 2006/07 to 2008/09 the trend line of the bank was in declining position. But at the end of fiscal year 2008/09 it seems to in growing position and reached to 6.58 percent at the end of fiscal year 2010/011.

From the above analysis we can conclude that the interest earned to total assets of the BOKL was not so satisfactory in previous 3 fiscal years and improving in these last two years. It implies that the bank was not able to use its total assets of funds to earned interest previous 3 years of study period.

4.4.2 Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula.

$$\text{Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$$

The following table and figures shows the net profit to total assets of BOKL.

Table No. 4.12

Net Profit to Total Assets Ratio of BOKL *(Rs. in million)*

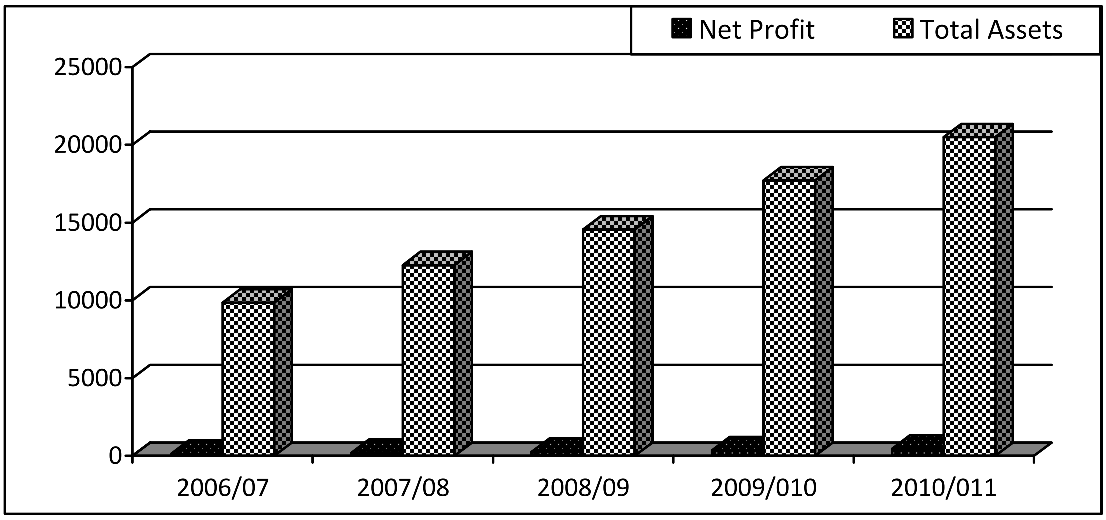
Fiscal Year	Net profit	Total assets	Ratios (%)
2006/07	139.53	9857.13	1.42
2007/08	202.44	12278.33	1.65
2008/09	262.39	14570.10	1.80
2009/010	361.5	17721.93	2.04
2010/011	461.73	20496.01	2.25
Average			1.83

Sources: Annual Report of BOKL from the year 2006/07 to 2010/011.

As shown in the above table 4.12 the net profit of the bank was Rs.139.53 million in FY 2006/07, Rs.202.44 million in FY 2007/08, Rs.262.39 million in FY 2008/09, Rs.361.5 million in FY 2009/010 and Rs.461.73 million in FY 2010/011. The Net profit of the BOKL is in increasing trend. In the same way total assets of the bank also be increasing trend. Likewise, the ratio of net profit to total assets is also raising. In the fiscal year 2006/07, the ratio was 1.42%. After that all the years, the ratio is in increasing smoothly and at the end of fiscal year 2010/011 it reached to 2.25%. The average ratio stands at 1.83% over the study period.

Figure No. 4.15

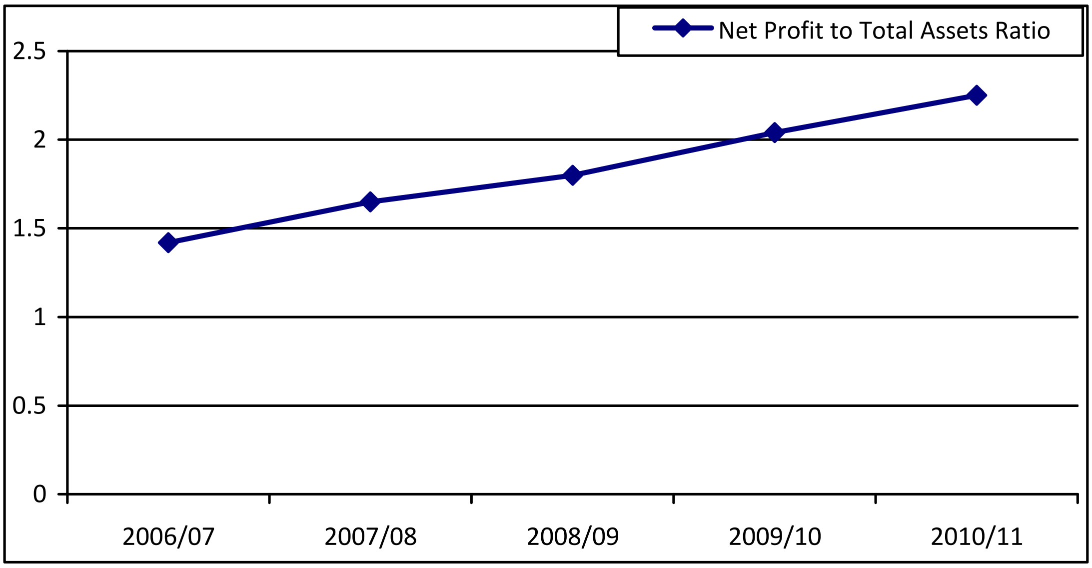
Net Profit to Total Assets of BOKL



As shown in the above figure the net profit of the bank was Rs.139.53 million in FY 2006/07, Rs.202.44 million in FY 2007/08, Rs.262.39 million in FY 2008/09, Rs.361.5 million in FY 2009/010 and Rs.461.73 million in FY 2010/011. The Net profit of the BOKL is in increasing trend. In the same way total assets of the bank also increasing trend. Likewise, the ratio of net profit to total assets is also raising.

Figure No. 4.16

Net Profit to Total Assets Ratio of BOKL



The above figure, we clearly shows that the net profit to total asset ratio is in increasing trend. Above analysis helps to find out whether the bank efficiently used its working funds or total assets to earned higher rate of profit or not. The ratio of net profit to total assets of BOKL implies that the bank could not able to be used its available working funds effectively over the study period which signify towards the smooth growth of the bank.

4.4.3 Net Profit to Total Deposit Ratio

This ratio measures percentage of the profit earned from the use the total deposit. It is calculated by dividing the amount of net profit by the amount of total deposit.

$$\text{Total Deposit Ratio} = \frac{\textit{Net Profit After Tax}}{\textit{Total Deposit}} \times 100$$

The following table and figures shows the net profit to total deposit ratio of BOKL.

Table No. 4.13

Net Profit to Total Deposit Ratio of BOKL

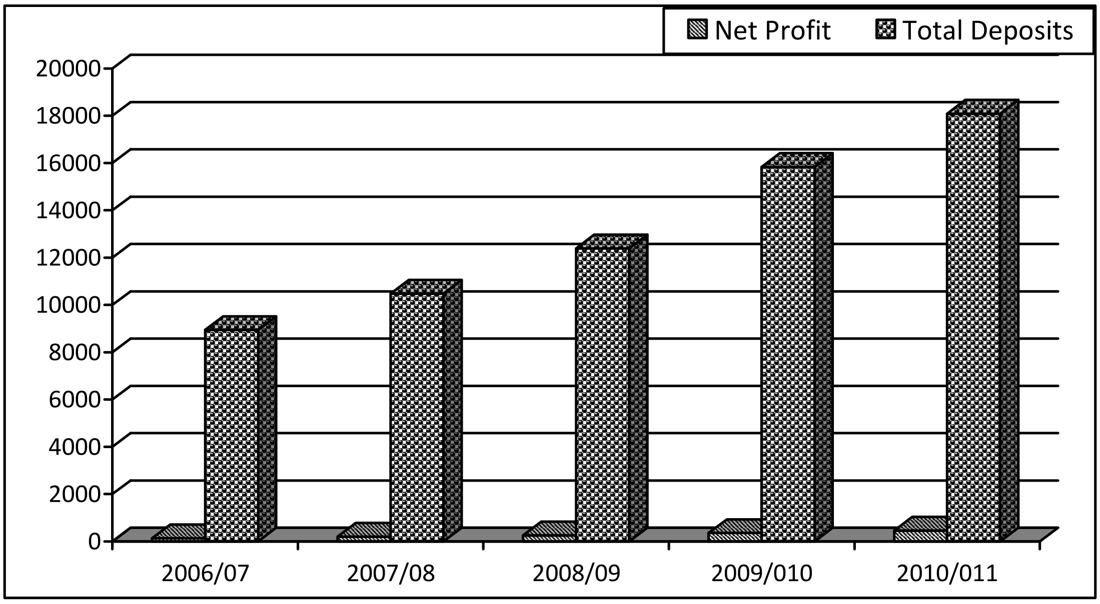
(Rs. in millions)

Fiscal Year	Net Profit	Total Deposit	Ratio (%)
2006/07	139.53	8942.75	1.56
2007/08	202.44	10485.36	1.93
2008/09	260.39	12388.93	2.12
2009/010	361.5	15833.74	2.29
2010/011	461.73	18083.98	2.55
Average			2.09

Sources: Annual Report of BOKL from the year 2006/07 to 2010/011.

The above table shows that the total deposit and net profit of BOKL both has been gradually increasing over the study period. In the same way, net profit to total deposit ratio has been gradually increased in all the five fiscal year. At the end of fiscal year 2006/07, it stands at 1.56. Likewise, at the end of fiscal year 2010/011 it reached to 2.55 which is maximum and the average of net profit to total deposit ratio is 2.09 over the study period.

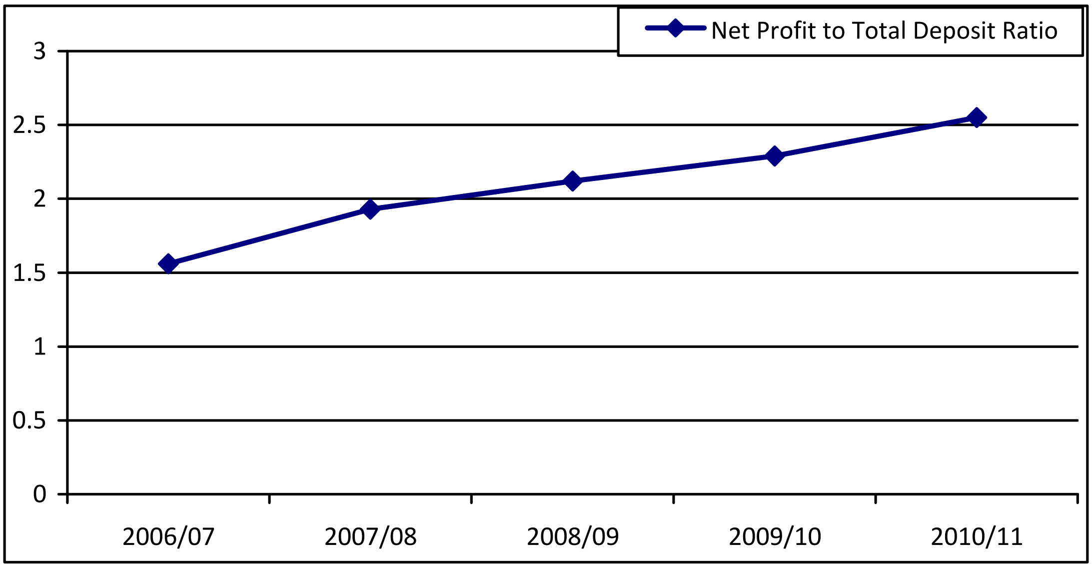
Figure No. 4.17
Net Profit to Total Deposit of BOKL



The above Figure shows that the total deposit and net profit of BOKL both has been gradually increasing over the study period. In the same way, net profit to total deposit ratio has been gradually increased in all the five fiscal year. At the end of fiscal year 2006/07, it stands at 1.56. Likewise, at the end of fiscal year 2010/011 it reached to 2.55 which is maximum and the average of net profit to total deposit ratio is 2.09 over the study period.

Figure No. 4.18

Net Profit to Total Deposit Ratio of BOKL



In the above figure clearly shows that the net profit to total deposit ratio is in increasing trend it was 1.56 percent in FY 2006/07 and reached 2.55 percent at the end of study period and 2.09 percent was in average.

Above analysis helps to find out whether the bank could able to mobilize of outsiders funds properly or not. The mobilization of outsiders funds is very important to earn profit for a commercial banks. Therefore, the bank mobilizes it's deposit as efficiently as possible. As shown in above table we can easily conclude that the bank could not able to mobilized its deposit or outsiders funds efficiently. The bank should mobilized its deposits properly to increase profit.

4.4.4 Net Profit to Shareholders Equity Ratio

This ratio is calculated to evaluate the profitability of owners investment. In other words, it tells us the earning power on shareholders book investment and is frequently used in comparing two or more firms in an industry. This ratio is commonly known as return on equity (ROE). It is calculated by dividing the net profit by the net worth.

$$\text{ROE} = \frac{\textit{Net Profit After Tax}}{\textit{Net Worth}} \times 100$$

Where,

Net Worth = Common Equity–Retained Earning

The following table and figure shows the return on net worth of BOKL.

Table No. 4.14

Net Profit to Shareholders Equity Ratio of BOKL

(Rs. in million)

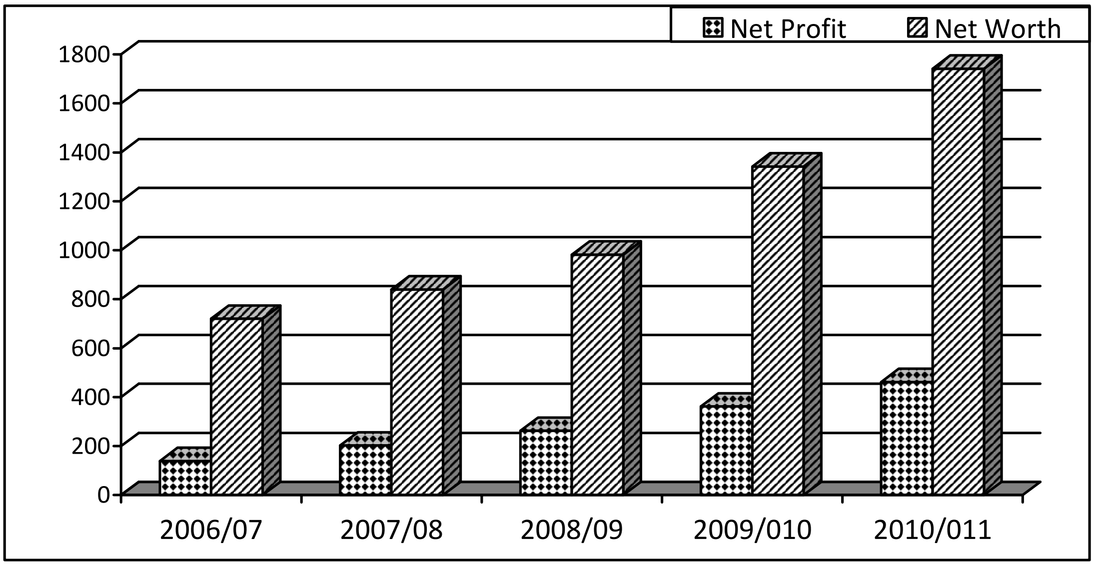
Fiscal Year	Net profit	Net Worth	Ratios (%)
2006/07	139.53	720.74	19.36
2007/08	202.44	839.73	24.11
2008/09	262.39	981.98	26.72
2009/010	361.5	1342.07	26.94
2010/011	461.73	1741.59	26.51
Average			24.72

Sources: Annual Report of BOKL from the year 2006/07 to 2010/011

As shown in the above table the net worth of the bank was Rs.720.74 million in fiscal year 2006/07, Rs.839.73 million in FY 2007/08, Rs.981.98 million in FY 2008/09 Rs.1342.07 million in FY 2009/010 and Rs. 1741.59 million in FY 2010/011. Both the net profit and net worth of the bank is in fluctuating trend, it was 19.36 percent on FY 2006/07 and reached 24.11 percent on FY 2007/08 accordingly it was 26.72 percent on 2008/09, 26.94 percent on FY 2009/010, and finally 26.51 percent on the end of study period FY 2010/011. The average ratio stands at 20.79.

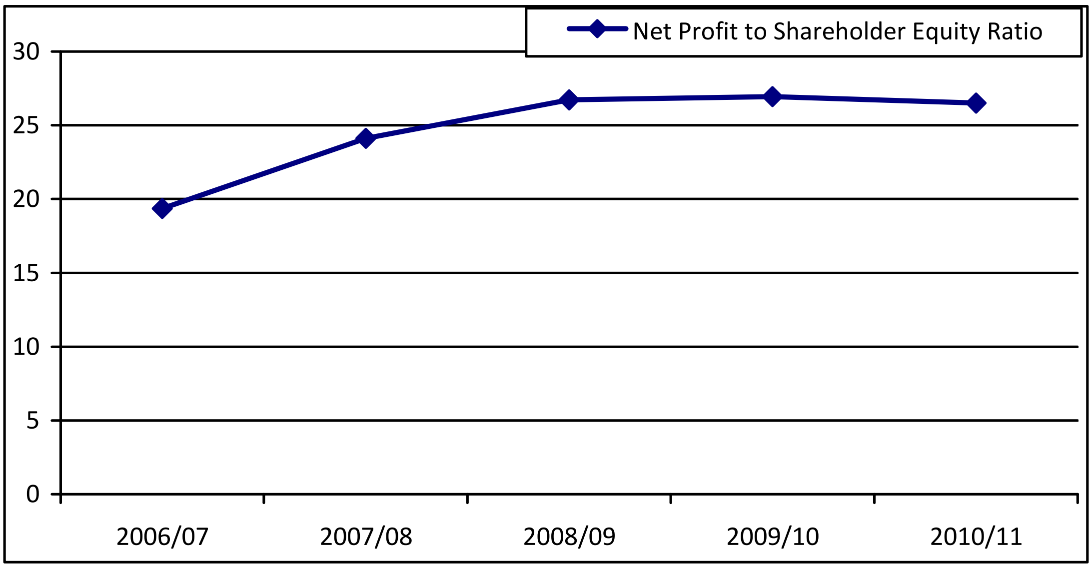
Figure No. 4.19

Net Profit to Shareholders Equity of BOKL



In the above figure the net worth of the bank was Rs.720.74 million in fiscal year 2006/07, Rs.839.73 million in FY 2007/08, Rs.981.98 million in FY2008/09 Rs.1342.07 million in FY 2009/010 and Rs. 1741.59 million in FY 2010/011. Both the net profit and net worth of the bank is in fluctuating trend, it was 19.36 percent on FY 2006/07 and reached 24.11 percent on FY 2007/08 accordingly it was 26.72 percent on 2008/09, 26.94 percent on FY 2009/010, and finally 26.51 percent on the end of study period FY 2010/011.

Figure No. 4.20
Net Profit to Shareholders Equity Ratio of BOKL



In the above figure shows that the ratio is in increasing trend. The average ratio stands at 20.79. Unfortunately in FY 2010/011 the ratio was slightly decreased. This ratio is calculated to evaluate the effectiveness of the owners investment, which indicated how well the firm has used the resource of the owners. It is an important ratio, which helps to maximize the shareholders welfare and is an important indicator of financial performance. From the above analysis we can conclude that the net profit to shareholders equity of the BOKL has in satisfactory level.

4.5 Capital Structure or Leverage Ratio

A firm should have a strong short-term liquidity as well as long-term financial position. This long-term financial position of the firm is judge by the leverage or capital structure ratios. The leverage ratios are calculated to measures the & financial risk and the firm's ability of using debt for the benefit of the shareholders. The bank often uses these ratios to see how the assets are financed.

4.5.1 Long-term Debt to Net Worth Ratio

This ratio measures the proportion of outsiders and owners' fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owner's claim. It is the relationship between owner funds and borrowed funds. Long term debt includes long term borrowing from government agencies or financial institutions, differed payment, liabilities etc. It is calculated by using following formula:

$$\text{Long-term debt to net worth ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}} \times 100$$

The following table shows the long term debt to net worthy ratio of the BOKL over the study period.

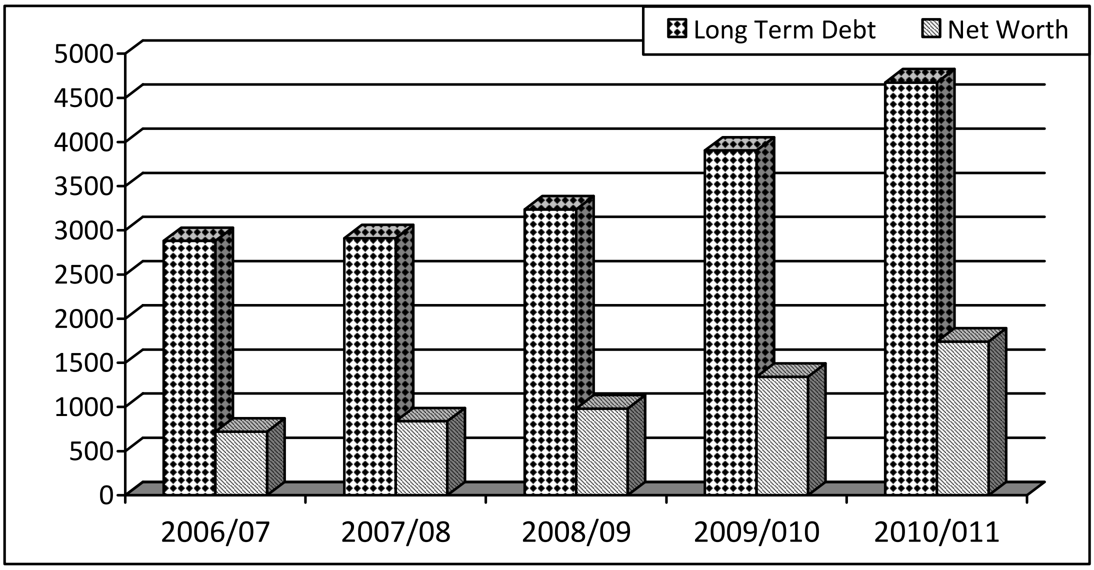
Table No. 4.15
Long-term Debt to Net Worth Ratio of BOKL

Fiscal year	Long term debt	Net worth	Ratios (%)
2006/07	2878.87	720.74	399.43
2007/08	2909.75	839.73	346.51
2008/09	3237.17	981.98	329.66
2009/010	3903.18	1342.07	290.83
2010/011	4674.62	1741.59	268.41
Average			326.57

Sources: Annual Report of BOKL from the year 2006/07 to 2010/011

From the above table shows that the long term debt and net worth both are increasing gradually over the study period. At the end of fiscal year 2006/07 the long term debt was Rs.2878.87 million, but at the end of FY 2010/011 it reached to Rs.4674.62. Likewise, at the end of FY 2006/07 the net worth was Rs.720.74 million, but at the end of FY 2010/011 it reached to Rs.1741.59 millions. On the other hand long-term debt to net worth ratio of BOKL is in decreasing trend, which is 399.43 percentage in 2006/07 and 346.51 percent, 329.66 percent, 290.83 percent and 268.41 percent gradually in the FY 2007/08, 2008/09, 2009/010 and 2010/011. It is 326.57 percentages in average of the study period.

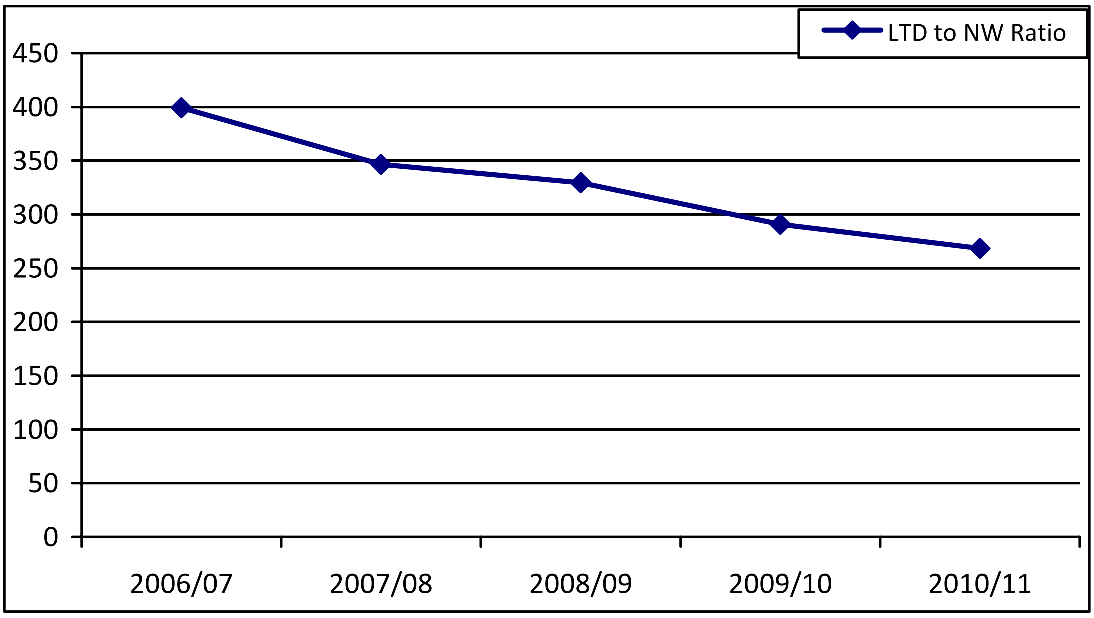
Figure No. 4.21
Long-term Debt to Net Worth of BOKL



From the above figure shows that the long term debt and net worth both are increasing gradually over the study period. At the end of fiscal year 2006/07 the long term debt was Rs.2878.87 million, but at the end of FY 2010/011 it reached to Rs.4674.62. Likewise, at the end of FY 2006/07 the net worth was Rs.720.74 million, but at the end of FY 2010/011 it reached to Rs.1741.59 millions.

Figure No. 4.22

Long-term Debt to Net Worth Ratio of BOKL



In the above figure, we clearly shows that the long-term debt to net worth ratio of BOKL was in decreasing trend over the study period of five fiscal years. It was 399.43 percent on FY 2006/07 and gradually decreased and reached to 268.41 percentage in FY 2010/011. It was 326.97 percentage in average during the study period.

The above analysis helps to conclude that the long term debt to net worth ratio of BOKL is in quite satisfactory condition. If the ratio is high, it indicates the risky and aggressive capital structure. This ratio also implies that the proportion of outsiders claim in total capitalization is higher in BOKL.

4.5.2 Net Fixed Assets to Long-term Debt Ratio

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:

$$\text{Net fixed assets to long term debt ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}} \times 100$$

The following table and figure shows the Net fixed assets to long-term debt ratio of the BOKL over the study period.

Table No. 4.16

Net Fixed Assets to Long-term Debt Ratio of BOKL

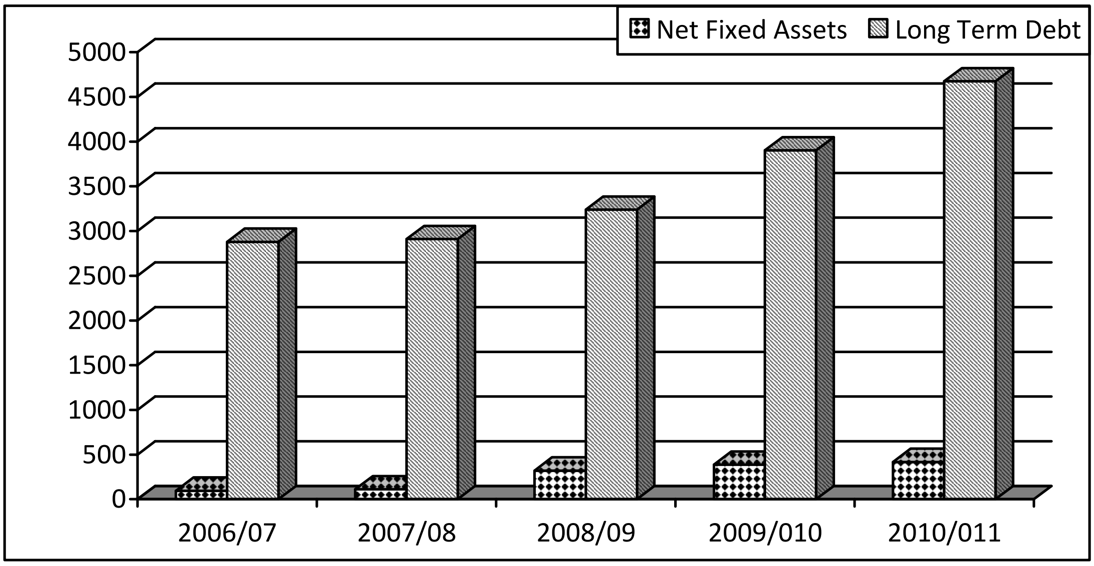
Fiscal year	Net fixed assets	Long term debt	Ratios (%)
2006/07	95.23	2878.87	3.31
2007/08	110.75	2909.75	3.81
2008/09	320.85	3237.17	9.89
2009/010	387.27	3903.18	9.92
2010/011	417.04	4674.62	8.92
Average			7.17

Sources: Annual Report of BOKL from the year 2006/07 to 2010/011.

The above table 4.17 shows that the Net fixed assets of BOKL has been gradually increasing over the study period. Long-term debt of BOKL also be in increasing trend. Net fixed assets to long term debt ratio of BOKL was in increasing trend until FY 2009/010 and decreased in fiscal year 2010/011. It was increased to 3.81 percent in FY 2007/08 from 3.31 percent in FY 2006/07. And increased to 9.89 and 9.92 percent in the FY 2008/09 and 2009/010. Finally it was decreased to 8.92 percent in the end of study period of FY 2010/011.

Figure No. 4.23

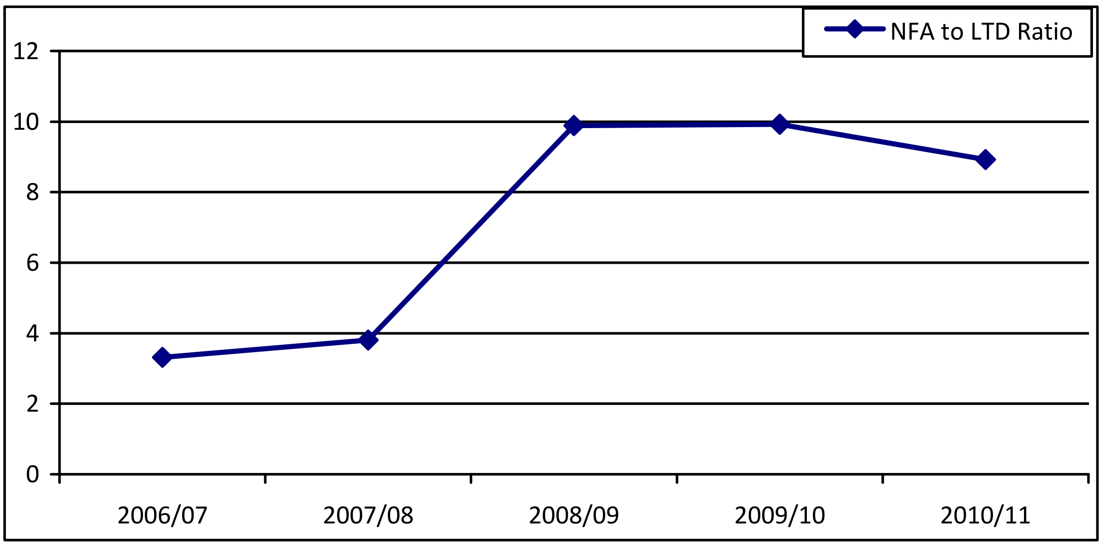
Net Fixed Assets to Long Term Debt of BOKL



The above figure shows that the Net fixed assets of BOKL has been gradually increasing over the study period. Long-term debt of BOKL also is in increasing trend. Net fixed assets to long term debt ratio of BOKL was in increasing trend until FY 2009/010 and decreased in fiscal year 2010/011. It was increased to 3.81 percent in FY 2007/08 from 3.31 percent in FY 2006/07. And increased to 9.89 and 9.92 percent in the FY 2008/09 and 2009/010. Finally it was decreased to 8.92 percent in the end of study period of FY 2010/011.

Figure No. 4.24

Net Fixed Assets to Long Term Debt Ratio of BOKL



Above figure states that the net fixed assets to long term debt ratio was 4.70 in fiscal year 2003/04. Which increased up to fiscal year 2009/010 and then it was decreased and reached to 8.92 percent in fiscal year 2010/011 and it was 7.17 percent in average of study period.

From the above analysis it can be concluded that the BOKL net fixed assets covers very low portion of long term debt. In other words, large portion of long-term debt is used in current assets of the bank.

4.6 Correlation Analysis

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other. In other words, correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures.

4.6.1 Coefficient of Correlation between Investment on Government Securities and Total Deposit

The coefficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between two variables. Although bank utilizes its deposits on loan and advances but some part of idle deposit are invested on government securities. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables.

Table No. 4.17

Coefficient of Correlation between Investment on Gov. Sec. and TD

Name of bank	Correlation (r)	PE	6PE
BOKL	- 0.71	0.15	0.89

Source: Appendix-1.

From the above table, we can find the coefficient of correlation between government securities and total deposits of BOKL value 'r' is - 0.71. It shows that the negative relationship between these two variables. By considering the probable error, since the value of r of BOKL is not more than six times of PEr, the value of r is not significant i.e. there is no significant relationship between government securities and total deposit of the bank.

4.6.2 Coefficient of Correlation between Loan and Advance and Total Deposits

The coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on bank i.e. total deposit. In correlation analysis, deposit is independent variable and loan and advance is dependent variable. The purpose of computing coefficient of correlation is to justify whether the deposits are significantly used in loan and advances or not and whether there is any relationship between these two variables.

The following table shows the coefficient of correlation between loan and advance and total deposits i.e. r, PE and 6PE of BOKL.

Table No. 4.18

Coefficient of Correlation between Loan and Advance and Total Deposit

Name of bank	Correlation (r)	PE	6PE
BOKL	0.9994	0.00036	0.0022

Source: Appendix-2.

From the above table depicts that the coefficient of correlation between loan and advances and total deposit value 'r' of BOKL is 0.9994 It shows highly positive relationship between two variables loan and advance and total deposit of BOKL. By considering the probable error. Since the value of 'r' i.e. 0.9994 is more than six times of probable error i.e. 0.0022, so we can say that the value of r is highly significant, i.e. there is significant relationship between total deposits and loan and advance.

From the above analysis, it can be concluded that the BOKL has utilized its total deposits on loan and advances effectively.

4.6.3 Coefficient of Correlation between CBB and CL

Cash and bank balance is most liquid component of current assets. Bank require cash and bank balance to meet its short term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is calculated to measure the degree of relationship between cash and bank balance and current liabilities. In correlation analysis, cash and bank balance is dependent variable and current liabilities are independent variable.

The following table should the coefficient of correlation between cash and bank balance and current liabilities i.e. 'r', 'PEr' and '6PEr' of BOKL.

Table No. 4.19

Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Name of bank	Correlation (r)	PE	6PE
BOKL	0.95	0.029	0.18

Source: Appendix-3

As stated in above table, we can find out coefficient of correlation between cash and bank balance to current liabilities of BOKL is 0.95: which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the probable error. Since the value of 'r' i.e. 0.95 is more than six times of PE i.e. 0.18, we can say that the value of 'r' is highly significant.

From the above analysis, it can be concluded that there is significant relationship between cash and bank balance and current liabilities.

4.6.4 Coefficient of Correlation between Loan and Advance and Net Profit

The basic function of commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan and advance generate higher profit. The coefficient of correlation between loan and advance and net profit is calculated to measure the degree of relationship between loan and advance and net profit. In correlation analysis, loan and advances is independent variable and net profit is dependent variable. The purpose of computing coefficient of correlation is to justify whether the loan and advances are significantly generating profit or not and whether there is any relationship between these two variables.

The following table shows the coefficient of correlation between loan and advances and net profit, i.e. 'r', 'PE' and '6PE' of BOKL.

Table No. 4.20
Coefficient of Correlation between Loan and Advance and Net Profit

Name of bank	Correlation (r)	PE	6PE
BOKL	0.9966	0.002	0.012

Source: Appendix-4.

As stated in above table, the coefficient of correlation between loan and advances and net profit of BOKL over the study period is 0.9966 It shows the highly positive relationship between these two variables loan and advances and net profit. Similarly, considering the value of probable error, the value of 'r' is 0.9966 is more than six times of PE i.e. 0.012, so we can say that the value of 'r' is highly significant.

Thus from the above analysis, it can be concluded that there is highly significant relationship between loan and advances and net profit.

4.7 Major Findings of the Study

The following are the major findings of the study:

i. All the year of study period, the working capital of BOKL is positive. The working capital depicts the liquidity position of the organization. It means higher the working capital higher the liquidity of the firm and vice versa. The working capital level of the bank is not constant. Total working capital of the bank was limited to Rs.508.75 million, Rs.828.19 million, Rs.770.8 million, Rs.1269.4 million and Rs.1587.58 million at the end of FY 2006/07, 2007/08, 2008/09, 2009/010 and 2010/011 respectively.

ii. The current ratio of the bank is not so fluctuating which stands 1.06 at FY 2006/07, 1.07 at FY 2007/08, 1.06 at FY 2008/09, 1.08 at 2009/010 and 1.09 at 2010/011 respectively. The average CR of the bank stands at 1.07 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 1.06.:1, which is minimum in

FY 2006/07 and FY 2008/09. In this case, the bank has enough idle money which cannot generate inflow to the bank.

iii. Cash and bank balance to current assets ratio of the bank is 7.68 percent in FY 2006/07. After that it started to decreased and reached to 6.04 at the end of FY 2007/08 but at the end of FY 2008/09 it was increased and reached to 9.29. and again decreased to 8.26 percent in FY 2009/010 and again increased to 10.83 percent at the end of study period FY 2010/011. High ratio indicates the idle amount, it is not so good for the profit oriented organization.

iv. The cash and bank balance to total deposit ratio excluding fixed deposit of the bank slightly decreases up to FY 2007/08 and it is slightly increased at the end of FY 2008/09 and continue to the end of the study period. It indicates that how much funds available with the bank to cover it's current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.1284 over the study period, which means bank is not so satisfactory level.

v. The saving deposit to total deposit ratio of the bank has been gradually increasing at initial and decreasing at the end of the study period. It stands at 41.73% over the study period. This ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. Firm profitability point of view, the bank should minimize the ratio which is showing decreasing trend in recent fiscal year’s. As depicted by the study BOKL position seems satisfactory level over the study period.

vi. The loan and advance to total deposit ratio of BOKL is in increasing trend. The ratio stands 0.66 in FY 2006/07, 0.69 in FY 2007/08, 0.76 in FY 2008/09, 0.78 in FY 2009/010 and 0.81 in FY 2010/011. These ratios indicate the capacity of the bank to mobilization its deposit. As stated by the study the mobilization of deposit of the bank is not so satisfactory level over the study period.

vii. The loan and advance to fixed deposit ratio of BOKL was slightly increased over the study period except the FY 2010/011 which stands at

3.27 at the end of study period. These ratios indicates the capacity of mobilizing its fixed deposit to loan and advance. From the study, it is fund that the bank has been mobilizing it's fixed deposit quite satisfactory.

viii. The loan and advance to saving deposit ratio of the bank is in increasing trend in the whole study period. These ratios implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.

ix. Interest earned to total assets ratio of any organizations indicates the profitability ratio. This ratio of the bank is quite fluctuating. It was 6.16 percent at FY 2006/07, which is fluctuating in further FY by 5.85 percent, 5.62 percent, 5.84 percent, and 6.5 percent in FY 2007/08, 2008/09, 2009/010 and 2010/011 accordingly. It stands at average 6.01 percentage over the study period. From the study, it is concluded that the interest earned to total assets ratio of BOKL is not so much satisfactory. It means, the bank could not be able to use its total assets properly to earn interest.

x. Net profit to total assets ratio of BOKL is in increasing trend over the study period. It was 1.42% in the beginning of the study period. But at the end of FY 2010/011 it reached to 2.25%. It stands at average 1.83 over the study period. The study shows that the bank could not able to utilized its total assets to generate profit.

xi. Net profit to total deposit ratio of the bank was in increasing trend over the study period, which stands at 1.56% at the end of FY 2006/07. It stands at 2.55% at the end of FY 2010/011. It stands at average 2.09 over the study period. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposits as efficiently as possible. But for the analysis of BOKL, we can easily found that the bank could not able to mobilized its total deposit efficiently.

xii. Net profit to shareholders equity ratio is in increasing trend over the study period except the FY 2010/011. The average ratio stands at

24.72%. This ratio is calculated to evaluate the effectiveness of the owners investment, which indicates how well the firm has used the resources of the owners. For the study, it can be conclude that the net profit to shareholders equity of the BOKL is in satisfactory level.

xiii. Long term debt to net worth ratio of BOKL is in decreasing trend over the study period. It is gradually decreased 399.43%, 346.51%, 329.66%, 290.83% and 268.41% over the FY 2006/07, 2007/08, 2008/09, 2009/010 and 2010/011. The average ratio stands at 326.97% over the study period. If the ratio is high, it indicates the risky and aggressive capital structure for the study, it can be easily shows that the proportion of outsiders claim in total capitalization is higher in BOKL.

xiv. Net fixed assets to long term debt ratio of BOKL was in increasing trend over the period except FY 2010/011. The average ratio stands at 7.17% over the study period. For the consideration of these ratios, it can be concluded that the BOKL net fixed assets covers very low portion of long term debt. In other words, large portion of long term debt is used in current assets of the bank.

xv. The coefficient of correlation between investment on government securities and total deposit is - 0.71, which is not insignificant over the study period.

xvi. The coefficient of correlation between loan and advance and total deposit stands at 0.9994, which is significant. It means there is positive relationship between loan and advances and total deposit of the bank i.e. perfectly correlated.

xvii. The coefficient of correlation between cash and bank balance and current liabilities of BOKL is 0.95. Which shows the positive relationship between the factor. By considering the probable error (PEr). We can say that the value of 'r' is highly significant.

xviii. The coefficient of correlation between loan and advance and net profit is 0.9966. It means high degree of positive relationship between the loan and advance and net profit, which is highly significant.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is used to summarize the whole study, to draw the conclusions of the study and forward the applicable recommendations for more better and efficient management of working capital of Bank of Kathmandu Limited.

5.1 Summary

Working capital is one of the major factors of the company. It is life – blood to operate the business day-to-day smoothly. The study aims at examining the impact of current assets and current liabilities, current assets and cash balance, total debt to equity, return, EPS, receivable etc. by using the secondary data. The study mainly aims to assessment and analysis working capital management of Bank of Kathmandu Ltd. in Nepal.

The study is based on secondary data covering the five years study periods from 2006/07 to 2010/11.

The research works divided in five chapters consisting, a brief introduction about this study and company has been already presented in chapter I, in chapter II, various related books, journals, and other publications as well as unpublished master level dissertation have been recovered. Research methodology has been described in chapter in III. While all the available data have been presented and analyzed and major findings in chapter IV. In this chapter, the effort has been made first to present summary and conclusion drawn from the analysis. While last step proceeds with recommendation to concerned companies.

Commercial banks are established to improve people's economic welfare and facility, to provide lone to the agriculture, industry and commerce and to offer banking services to the people and the country. The modern banking system that we have today has passed the several stages before reaching the present stage. Because of the liberal economic policy adopted by the Nepalese government a number of commercial banks are operating today in Nepal. Until mid 2012, 32 commercial banks (including government owned, private and joint venture) are operating in Nepal. Among various commercial banks established in Nepal, Bank of Kathmandu Limited is one of them. The main objectives of the study was to evaluate the working capital position as well as financial performance of Bank of Kathmandu Ltd. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of bank of Kathmandu limited from the long range view point. Commercial bank is income oriented, thus proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between current assets and current liabilities. Thus, working capital management has been regarded as one of the conditioning factor in the decision making issue of commercial banks. The term working capital management closely relates with short term financing; it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, the current liabilities and interrelationships that exist between them.

Net profit to total assets ratio of BOKL is in increasing trend over the study period. fulfill the objectives of this study and other specific objective as described in chapter one, an appropriate research methodology has been developed which includes the ratio analysis as financial tools and trend analysis, correlation coefficient as statistical tools. The major ratio analysis consists of the liquidity ratio, activity or turnover ratio, profitability ratio and capital structure or leverage ratio. Under these main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital, coefficient of correlation 'r' is calculate and analyzed.

The necessary data are derived from the balance sheet and profit and loss A/C of the bank for the period of five years from fiscal years 2006/07 to 2010/011. Now in, this chapter an attempt has been made to present summary, conclusions and some suggestions and recommendations.

On the basis of the research, the researcher came to the conclusion that the interest was the major sources of income. From the analysis of the financial position of the BOKL from the year 2006/07 to 2010/011 the collection of deposits and loan investment are increasing satisfactorily and there are also increasing in operating profit. The CR of the bank over the five year is 1.07 times on an average. It indicates that the margin for safety for customers has been maintained satisfactorily. The average of the cash and bank balance to current assets ratio is 8.42 percent which indicates that the cash and bank balance proportion with respect to the current assets is moderate. The average cash and bank balance to total deposit ratio stands at 12.84 percent. It is not so satisfactory level over the study period. The saving deposit to total deposit ratio of bank over the five year period is 41.73 percent. This ratio of BOKL seems satisfactory level over the study period. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation.

Large amount of loans and advances are given out of total deposits. The BOKL net fixed assets covers very low portion of long term debt. In other words large portion of long term debt is used in current assets of the bank. Loan term debt to net worth ratio of the bank is in satisfactory condition. This ratio also implies that the proportion of outsiders claim in total capitalization is higher in BOKL.

5.2 Conclusion

After drawing above findings we can draw the following conclusion. This study is basically related to various aspect of working capital. Data is taken from four commercial banks and analyze data as our requirement and find something the researcher wants to draw the conclusion the basis of the forward objective. On the basis of the research, the researcher came to the conclusion that the interest was the major sources of income. From the analysis of the financial position of the BOKL from the year 2006/07 to 2010/011 the collection of deposits and loan investment are increasing satisfactorily and there are also increasing in operating profit.

As depicted by the study BOKL position seems satisfactory level over the study period. The mean value of current assets to total assets had the highest . That means it is less risky to invest in these banks than the other banks. The mean value of current assts to total assets of BOKL. That means it is high risk to invest in this bank than the other banks.

The CR of the bank over the five year is safety for customers has been maintained satisfactorily. Cash and bank balance to current assets ratio indicates that the cash and bank balance proportion with respect to the current assets is moderate. Cash and bank balance to total deposit ratio stands at percent. It is not so satisfactory level over the study period. The saving deposit to total deposit ratio of bank over the five year period is in increasing trend. So, this ratio of BOKL seems satisfactory level over the study period. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation.

Large amount of loans and advances are given out of total deposits. The BOKL net fixed assets covers very low portion of long term debt. In other words large portion of long term debt is used in current assets of the bank. Loan term debt to net worth ratio of the bank is in satisfactory condition. This ratio also implies that the proportion of outsiders claim in total capitalization is higher in BOKL.

The researcher found that the operating efficiency of the bank is in satisfactory condition. Interest earned in comparison to total assets is not fair enough. Net profit earned in comparison to the total assets and total deposit is relatively low. The researcher found that the EPS of the bank is quite good as during the study period.

5.3 Recommendations

Samples Bank of Kathmandu Ltd under consideration are foreign commercial banks. Bank of Kathmandu ltd have been passing through a very tough phase. For the viewpoint of ratio to an investor or depositor or shareholder or any stakeholders, the proper identification of the extent of bank ability of the banks are successful to some extent to meet there operational as well as the working capital goals. But there may still following major recommendation have been notices of the study.

i. Working capital is essential to meet short-term obligation. But high level of working capital increased idle fund which affects the profitability of the bank. Therefore, the bank should maintain sound working capital position. It means neither more nor less. The working capital of BOKL has been following increasing trend. Thus, the bank should try to maintain sound working capital.

ii. The services provided by BOKL are similar to those provided by other commercial banks. Therefore, it is recommended to BOKL to formulate new schemes and techniques in order to attract more and more people towards the bank.

iii. The current ratio of the bank is more than one. It means the bank has sufficient liquidity to remain solvent. It is true that such higher ratios supposed by the greater ability of bank to pay its bills. But if a bank has more than sufficient current assets is indication of unfavorable of distribution of current assets than current liabilities. Therefore, there is quite higher idle fund which may result unproductive for bank. Thus, the bank should try to reduce its current assets to increase its profitability.

iv. The loan and advances to total deposit ratio indicates the capacity of bank to mobilize its deposit into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the bank could not able to mobilize its total deposit through loan and advances. Therefore, the bank should disburse its total deposit as much as possible by means of loan and advances.

v. From the above study the researcher easily found that the bank's interest earned to total assets ratio is not satisfactory so far. It indicates the bank could not able to utilize its total assets to earned interest. Therefore, the bank should utilize its available assets as properly as possible to earned interest.

vi. The net profit to total assets ratio of the banks is not also satisfactory, from the above study it is easily found that the bank could not able to utilized its available sources properly to earn profit. Therefore, the bank should utilize its total assets as possible as much.

vii. Although, the cost of services to total assets ratio has been decreasing, it is not in so satisfactory level. Therefore, the bank should try to decline its cost of services as possible as it can.

viii. Expansion of more branches is necessary to collect more deposit. If the services are expanded in most part of the nation, it can collect deposits from different area and can invest that fund in productive sector for generating income. So, BOKL should also expand its branches in rural and urban area as it is doing so that it can provide its services to the people of the different part of the county as well as it is benefit for the bank also.

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Appendix - 1

Coefficient of Correlation between Investment on Government Securities and Total Deposit

(Rs. In Millions)

FY	Inv. Sec. (X)	Total Deposit (Y)	X^2	Y^2	XY
2006/07	2146.62	8942.75	4607977.424	79972777.56	19196686.01
2007/08	2658.37	10485.36	7066931.057	109942774.3	27873966.46
2008/09	2332.03	12388.93	5438363.921	153485586.5	28891356.43
2009/010	2113.22	15833.74	4465698.768	250707322.4	33460176.04
2010/011	1744.75	18083.98	3044152.563	327030332.6	31552024.11
N=5	10994.99	65734.76	24623123.73	921138793.5	140974209

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{(5\times410974209)-(10994.99\times6534.76)}{\sqrt{(5\times24623123.73)-(10994.99)^2}\ \sqrt{(5\times921138793.5)-(65734.76)^2}}$$

$$= \frac{70487145.2-722753028.9}{\sqrt{123115618.7-120889805.1}\ \sqrt{4605693967-4321058672}}$$

$$= \frac{-17881983.63}{1491.92\times16871.138}$$

$$= \frac{-17881983.63}{25170388.2}$$

$= -\ 0.71$

$$(PE) = 0.6745\times\frac{1-r^2}{\sqrt{N}}$$

$$= \frac{0.3345}{2.236} = 0.15, \quad 6\ PE = 0.89$$

Appendix - 2

Coefficient of Correlation between Loan and Advance and Total Deposits

(Rs. In Millions)

FY	Loan and Adv. (X)	Total Deposit (Y)	X^2	Y^2	XY
2006/07	5912.58	8942.75	34958602.26	79972777.56	52874724.8
2007/08	7259.08	10485.36	52694242.45	109942774.3	76114067.07
2008/09	9399.33	12388.93	88347404.45	153485586.5	116447641.4
2009/010	12462.64	15833.74	155317395.8	250707322.4	197330201.5
2010/011	14647.3	18083.98	214543397.3	327030332.6	264881480.3
N=5	49680.93	65734.76	545861042.2	921138793.5	707648115

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{(5\times707648115)-(49680.93\times6534.76)}{\sqrt{(5\times545861042.2)-(49680.93)^2}\ \sqrt{(5\times921138793.5)-(65734.76)^2}}$$

$$= \frac{3538240575-3265764010}{\sqrt{2729305211-2468194806}\ \sqrt{4605693967-4321058672}}$$

$$= \frac{272476564.9}{272619232.9}$$

$= 0.9994$

$$(PE) = \quad 0.6745\times\frac{1-r^2}{\sqrt{N}}$$

$$= \frac{0.0008}{2.236}$$

$= 0.00036,\quad 6\ PE = 0.0022$

Appendix - 3

Coefficient of Correlation between Cash and Bank Balance and Current Liabilities.

(Rs. In Millions)

FY	Cash and Bank Bal. (X)	Current Liability (Y)	X^2	Y^2	XY
2006/07	740.5	9136.39	548340.25	83473622.23	6765496.795
2007/08	728.7	11238.59	531003.69	126305905.2	8189560.533
2008/09	1315.91	13388.13	1731619.128	179242024.9	17617574.15
2009/010	1440.46	16179.85	2074925.012	261787546	23306426.73
2010/011	2182.11	18554.4	4761604.052	344265759.4	40487741.78
N=5	6407.68	68497.36	9647492.132	995074857.7	96366799.99

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{(5\times 96366799.99) - (6407.68\times 68497.36)}{\sqrt{(5\times 9647412.13) - (6407.68)^2}\ \sqrt{(5\times 995074857.7) - (68497.36)^2}}$$

$$= \frac{481834000 - 438909163.7}{\sqrt{48237460.66 - 41058362.98}\ \sqrt{4975374288 - 4691888327}}$$

$$= \frac{42924836.23}{45112831.86}$$

$= 0.95$

$$(PE) = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

$$= \frac{0.06576}{2.236}$$

$= 0.029, \quad 6\ PE = 0.18$

Appendix - 4
Coefficient of Correlation between Loan and Advance and Net Profit.

(Rs. In Millions)

FY	Loan and Adv. (X)	Net Profit (Y)	X^2	Y^2	XY
2006/07	5912.58	139.53	34958602.26	19468.6209	824982.2874
2007/08	7259.08	202.53	52694242.45	41018.4009	1470181.472
2008/09	9399.33	262.39	88347404.45	68848.5121	2466290.199
2009/010	12462.64	361.5	155317395.8	130682.25	4505244.36
2010/011	14647.3	461.73	214543397.3	213194.5929	6763097.829
N=5	49680.93	1427.68	545861042.2	473212.3768	16029796.15

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{(5\times16029796.15)-(49680.93\times1427.68)}{\sqrt{(5\times545861042.2)-(49680.93)^2}\ \sqrt{(5\times473212.38)-(1427.68)^2}}$$

$$= \frac{80148980.74-70928470.14}{\sqrt{2729305211-2468194806}\ \sqrt{2366061-2038270.18}}$$

$$= \frac{9220510.6}{9251470.53}$$

$= 0.9966$

$$(PE) = \quad 0.6745\times\frac{1-r^2}{\sqrt{N}}$$

$$= \frac{0.004579}{2.236}$$

$= 0.0020, \quad 6\ PE = 0.12$