CHAPTER: 1

INTRODUCTION

1.1 Background of the study

As survival, development and prosperity of any organization depend on number of factors, every organization should give prime concern to those factors. However one of the major determinants for effective running of a business entity is its financial operation system. Optimum utilization of the organizations financial resource, leads the organization to the ultimate target fulfillment so it is very important to analyze the accounting and financial statements to know whether the financial position is sound and what kind of measures should be applied.

"Finance is the life blood of the economic development of any country. Development of trade, commerce and industry are the prime requisite for the attainment of the economic, political and social goals. To fulfill the purpose of planning, financial functions more often dominate the other functions."

A strong financial sector can promote economic growth, mobilize and allocate resources efficiently make capital more productive and create jobs. An efficient financial sector mobilizes savings and offers a wide range of financial institutions and a wide range of financial instruments to meet a broad range of needs, including those of the poor, and ensures inter alias that smaller businesses have access to financial services which will provide them with opportunities to grow. Broader and deeper financial markets are important because of the stability, efficiency and access they confer- all of which are key determinant of prosperity and poverty alleviation.

In recent years due to liberal economic policy of the government, many private banks are coming into operation. The foreign joint venture banks are enjoying competitive advantageous factors like highly skilled personnel, modern and advanced banking technology, customer oriented modern banking services, management expertise and global banking networks. International joint venture banks, management and better services are becoming the major threats to the two oldest banks (Nepal bank limited and Rastriya banijya Bank) in Nepal.

Bank in general means an institution that deals with money and credit. It accepts deposits from public, makes funds available to those who need them and helps in remittance of funds from one place to another they perform several financial monetary and economic activities to accelerate the economic growth of the country. Concept of banking had developed from the ancient history with the effort of ancient Goldsmith who practiced storing people's gold and valuables. "Bank" was originated from French word "Banque". Banks plays a vital role for domestic resources mobilization and economic development of the country.

According to Kinley, “A bank is an establishment which makes to individual such advances of money as may be required and safely made and to which individuals entrust money when not required by them for use.”

According to crowther, “A bank collects money from those who have it to spare or who are saving it out of their incomes and lend this money to those requires it.”

According to the US law, “Any institutions offering deposit subject to withdrawal on demand and making loans of commercial or business nature is a bank.”

A sound banking system is important because of the role it plays in the economy intermediation, maturity transformation, facilitating payment flows, credit allocation and maintaining financial discipline among the borrowers. Banks can encourages thrift and allocate savings and by enabling savings to be used outside the sector which they originate. In any economy whether highly developed financial markets, banks remain at the center of the economic and financial activity and stand apart from other institutions as primary providers of payment services and for the fulcrum for monetary policy implementation.

So the importance of the banking as the nerve centre of the economic development cannot be overemphasized and it is said that the bank which are the need and great wealth of country have got to be kept very sacred. Just as water for irritation, good banks are for the country’s industry and trade.

Origin of traditional banking is traced bank to the Babylonians and Athenians period but the first modern banks are the bank of Venice (1171), the bank of Geneva (1320), and the bank of Amsterdam (1609).

Commercial bank deserve special recognition because of their capacity to create money in the form of demand deposits, commercial banks are mainly established to facilitate the development of trade and commercial sector of the country. The first commercial bank was “Bank of England” (1694), central bank of Britain.

Bank is a business organization that receives and holds deposits and funds from other and makes loans and extends credits. The first commercial bank is Nepal Bank Limited, which was established in1937 A.D

The commercial bank has its own role and contribution on the economic development and it is source for economic development and it maintains economic confidence of various segments and extends credit to people.

Modern commercial banks can be identified by different names such as business banks, clearing banks, Joint venture banks, Merchant banks etc.. No matter what we give name to the banks, they perform the same basic functions i.e. they provide a link between lenders, those who have surplus money and do not wish to spend immediately and with borrowers those who do not have surplus money and wishes to borrow for investment in productive purpose. Basically by charging a rate of interest to borrowers slightly higher than they pay to lenders, the banks make their profit. This is known as financial intermediations.

Commercial banks are the suppliers of financers for trade and industry and play a vital role in the economic and financial life of the country. By investing the savings in the productive areas they help in the formation of the capital. The qualitative credit policy ensures certain portion of the credit of the bank invested in the productive and priority areas so that there may not be shortage resources in sub areas. In addition flexible, monetary and credit policy improve the prevailing slow down in the economic activities to alleviate sluggish credit expansion to the private sector from the banking sectors. Rural people of underdeveloped countries like Nepal need various banking facilities. In most of the countries, the banks are generally concentrated in the urban and semi urban sector and rural sector is neglected due to risk and low return. But the main source of national income of developing countries comes from the very rural sector. In fact, the rural development is the key to the economic development without which other sectors of the economy cannot be flourished. “A sound banking system is important because of the key roles it plays in the economy, intermediation, maturity, transformation, facilitating payment, low credit allocation and maintains financial discipline among the borrowers. Banks provide important positive externalities as gathering of saving, allocation of resources and providers of liquidity and payment services.”

Commercial banks play the vital role in the economic development of any nation. Capital is the most important factor and foundation for not only the economic development but also for the overall growth and prosperity of the nation. Domestic capital formation is very difficult in the developing countries like Nepal whose people and society are extremely backward in every aspect.

The modern banking doesn’t only perform the traditional functions of lending and borrowing (accepting deposits) but also helps in economic development works required by the country. The role of commercial banks is significant not only in making investment on the development of different sectors of the economy but also important in reducing poverty, providing employment opportunities and minimizing disparity in income, wealth etc.. It has been already stated that banks especially commercial banks are the most effective means for mobilizing the nation’s resources in accelerating the development of an economy. The commercial banks are therefore called the engine of economic growth in the modern time and they play as much important role for capital formation as the heart plays in the circulation of blood in the human body.

1.2 **Regulatory Policy**

Nepal adopted the policy of “economic liberalization” and permitted Nepalese promoters in the early 1980 have to operate commercial banks in joint venture with foreign commercial banks. The reasoning behind this policy of government is to import opportunity to the people to encourage for saving by acquiring shares, placing money in the form of deposits, to mobilize ands invest the accumulated savings in the field of agriculture, trade, commerce, industry, tourism, hydro-electricity and other general utility projects, which helps to create employment and investment opportunities for people and to generate revenue in the form of corporate tax from them.

As mentioned above, banking sector has serious responsibility of mobilizing financial resources essential for economic and social development. This sector needs to invest accumulated resources for the returns on the one hand and to protect the assets of the depositors on the others. Lacking effective regulations, bad debt is mounting and the capital is eroding. Therefore, government has formulated various acts, prudential rules and regulations and directories to ensure that the NRB exercise its regulatory role to best protect the interest of the depositors at large. The related acts and policies have been reviewed under the chapter review of literature.

NRB as the central bank is empowered with the responsibility of regulating and supervising the commercial banks in order to protect the interest of public and to motivate them towards the development goal of the country.

The whole financial system of the country is strictly regulated by the central bank Act, commercial Bank Act and different Regulatory' Directives in order to direct and control the operations of all the commercial banks operating in Nepal. However all the commercial banks have been allowed to quote their own rates of interest for deposits, advances, commissions and other banking charges.

The main objective of Nepal Rastra Bank is the establishment of a sound financial system to maintain the stability of the banking. It ensures that the banks are operating in a sound condition, so that the interest of the depositors and the general public are protected. NRB is in a better position to regulate and supervise commercial banks in an efficient manner.
Central bank is able to evaluate the position of any particular bank through the periodic on-site and offsite inspections. Central bank can judge the true financial position of the banks through different rating systems like CAMEL, which stands for:

C= Capital Adequacy
A= Assets Quality
M= Management Quality
E= Earnings
L= Liquidity

1.3 Functions of Commercial Banks

Commercial banks perform different functions however some common functions are briefly explained below:

1.3.1. **Extension of credit**

The primary function of commercial banks is the extension of credit of worthy borrowers. Bank lending contributes a lot to the economy in terms of financial, agricultural, commercial, social services, and industrial.

1.3.2. Creating Money

One of the major functions of commercial banks that differentiate them from other institutions is their ability to create money through lending and investing activities. The power of commercial banking system to create money is of great economic significance as it helps to create and elastic credit system that is necessary for economic progress.

1.3.2.1. Payment Mechanism

Payment mechanism is a part and parcel of commercial banks, which makes use of cheque and credit cards facilitating safe and efficient transaction.

1.3.2.2. Pooling and Saving

The commercial banks renders very important service to all sectors of the economy, by providing facilities for the pooling of saving to be used for socially desirable purposes and the server is paid with interest on his deposits. The pooled fund is made available to others in the form of loans for some productive purpose.

1.3.3. Facilitating foreign trade

The commercial bank efficiently arranges the amount of foreign exchange required by business organization. Moreover, the issue of letter of credit has facilitated foreign trade transactions.

1.3.4 Safe keeping of valuables

Safe keeping of valuables is one of the oldest services rendered by the commercial banks. They provide locker facilities to keep valuables and they are accepted by commercial banks. In the present context the role and importance of the commercial banks has loomed large. In this connection Nepalese economy has witnessed several changes in the financial systems in a few years or so financial liberalization.

1.4. Origin and growth of bank in Nepal

The growth of banking is Nepal is not so long. In comparison with other developing or developed countries, the institutional development in banking system of Nepal is far behind. Nepal had to wait for a long and its beginning of growth is controversial. However, stage wise development of banking can be narrated as follows.

1.4.1The first phase of banking developing

Even through the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Manadev, the coin Manak and Gunak during the reign of the king Gunakamandev were in use. Historically, we find the evidence of minted coin of Anshuverma in 7^{th} century, and later the coin of Jishnu gupta. In the beginning of eighth century, king Gunakamandev renovated the kathmandu city by taking the loan and at the end of the same century; a merchant named Shankhadhar had started the New Year Sambat after freeing all kthe people of Kathmandu from the debt. Sadashiva Dev in 12^{th} century, introduced, silver coins, king Jayasthiti Malla, had givedn the responsibility to caste of society called Tankadhari while he had given the name of the castes and their professions for the purpose of transaction of money in the society. In the same century copper coins were used by King Ratna Malla of Kathmandu, silver coins by Mahendra Malla and the gold coins by the last Malla King of Kathmandu Jaya Prakash Malla.

After the unificatio0n of Nepal, Prithvi Narayan Shah the great king had used coin Mohar in his name. An institution called "Taksar" was established in 1989 and it started to issue the scientifically. In this way, we see that the coins have been in use from the ancient time, and there wad practice of taking and giving loans for the purpose of trade and other various purposes. During the reign of Ranodip Singh, an office named "Tejarat" was established in Kathmandu in 1933 B.S. It used to provide loans to the government officials and the people against the deposit of gold and silver. It had also extended its branches outside Kathmandu Valley for giving loans. But this office had no right to accept deposit of public and it had no0 characteristics of modern banks. Nevertheless we can say that the institutional banking system had started from then. After having concluded a treaty with British India in 1980 B.S, Nepal could trade over sea freely for the diversification of trade. As a result, in 1993 (1936) the draft of the company act and banking act were prepared by forming industrial council " A Jute Mill" was established in Biratnagar under this act and both commercial bank and industrial development as well as institutional banking system had been started together at a time in Nepal.

1.4.2 The second phase of Banking Development

Nepal Bank Limited

In today's world, banking plays a vital role on the overall role on overall economic development of a country. For this every banking institution should be financially strong. Among various types of banks, importance of commercial banks cannot be exaggerated for smooth financial development of industries, trade and commerce.

Nepal Bank Limited (NBL), is pioneer commercial bank is the oldest bank in the history of modern banking system of Nepal. The bank was established on13th kartik1994 BS (1937AD) in the technical assistance of Imperial Bank of India under "Nepal Bank Act1993". The establishment of NBL laid the foundation of modern financial system in the country. The significance of launching of this bank was highlighted in the speech by the late Prime Minister Juddha Shamsher Janga Bahadur Rana on the occasion of its inauguration, as "The work which is being done in the largest interest of the nation is a great moment for me. Until today a bank would not be opened in Nepal. Therefore, this bank, which is being established under the name of

Nepal bank limited to fill the need to be inaugurated by his Majesty the King, is a moment of great joy and happiness. The bank's objective is to render service to the people whether rich or poor and to contribute to the nation's development will also need the support and best wishes of all, which I am confident, will be forthcoming." With the starting paid up capital Rs.842, 000 invested in 1994 has grown to Rs.38.04 crore as at

2060 kartik. Shareholdings are distributed as40.49% to government and 59.51% to general public. As this bank was established prior to Nepal Rastra Bank i.e. central bank, it is used to perform the functions of a commercial bank as well as of a central bank until the inception of NRB. Now, in the presence of a separate central bank, it carries out the functions of a commercial bank only. Being the oldest bank in the banking history of the country, it has played a vital role in the development of the banking system of the country. It has expanded its branches throughout the kingdom including the far remote areas having very poor profitability and some of the parts having income not sufficient to meet breakeven. The bank has given more priority to the service of common and poor class people rather than to the profit and it has been able to achieve some objectives, which were is set at the time of its inception. The main objectives of setting up the NBL under the circumstances prevailing at that time were highlightened in the preamble of the Nepal Bank Act, 1993. As " In the absence of any bank in Nepal, the economic progress of the country was being hampered and causing inconvenience to the people and therefore, with the objectives of fulfilling that need by providing services for the people for the betterment of the country, this is hereby promulgated for the establishment of the bank and its operation."

Accordingly, Nepal bank limited was established to provide the services: to accept deposits, to extend credit facilities for the promotion of trade, cottage industries and agriculture, to render customer related services, i.e. issue of bill of exchange, hundis etc..to invest on government bonds and securities, to carry out agency functions and to act banker to the government.

Nepal Rastra Bank (Central Bank)

Under the Nepal Rastra Bank Act 2012(1956), Nepal Rastra Bank was established in 2013 (1957), Baishak 14^{th} in Nepal. But this act has been repealed and the Nepal Rastra Bank Act 2058 (2002) has been enacted by; the parliament. After its establishment, it issued the nepali notes on 7^{th} Falgun 2016 for the first time. The ban is the Central Bank on Nepal. It was established with many objectives but mainly, the use of Nepalese currency in place of Indian currency. In addition to this, its function were to increase usages of Nepalese Notes, to stop dual monetary system, to apply monetarism in all parts of the kingdom of Nepal, to provide for issuance of notes, to bring Nepalese currency in use to manage the monetary system well, to keep stability of the exchange rate of Nepalese currency, to encourage national industry by mobilizing the capital for development and to develop the banking system in Nepal.

This is the government bank. This is the bank of banks. After the establishment of the Nepal Rastra Bank, the first 5 year plan was introduced in the country. To fulfill the necessity of the financial development corporation, 2016, Agricultural Development

Bank, 2024 B.S (1968 A.D), the National Insurance Corporation were established under the special consideration of the bank.

Rastriya Banijya Bank

Rastriya Banijya Bank was another important bank to be established in Nepal. Due to the existence of only one bank (Nepal Bank Limited) and as it was functioning in the field of business only, establishment of RBB in 2022 B.S (1966 A.D) was of great significance. It was established under the Banijya Bank Act 2021 B.S, according to the recommendation of NRB. After enacting the commercial bank act 2031 B.S, both the Banijya Bank Act 2020 and the National Banijya Bank Act 2021B.S were repealed. Infact, commercial Banks are prominent bank in the peoples point of view. Therefore, there is no doubt and dispute about the significant role and the function of this bank. Its function is to accept the deposits, to provide loans, to carryout work relating to industries. It has rendered the great contribution to the development of the country.

The development of any country can't be imagined without economic activities. The development of the banking system is one of the grounds of the economic development. In another words, there is no possibility of economic development of a country without the development of banking system. In order to establish and develop other joint venture commercial banks and other financial institutions Nepal adopted liberal and free economy policy. Accordingly Nepal allowed establishing different joint ventures banks under collaboration with foreign banks. This was the great significance event in the Nepalese banking history from which the real development of the banking system started in Nepal. The competition began to grow. The banks began to offer their valuable services to the people through new technologies. Banks that are opened as the joint venture banks are Himalayan Bank Ltd., Nepal Credit and Commerce Bank Ltd., Nabil Bank Ltd., Standard Chartered Bank Ltd., Nepal Investment Bank Ltd., Nepal SBI Bank Ltd., Nepal Bangladesh Bank Ltd., Everest Bank Ltd., and Bank of Kathmandu Ltd.

Table No.1
List of Licensed Commercial Banks
2008

s.n	Name of a Company	Listing Date	Address
1.	**Nabil Bank ltd.**	**24/11/1985 (2042/08/09)**	**POB 3729, Nabil House, Kamaladi,Ktm. e-mail: nabil@nabil.com.np**
2.	**Nepal Investment Bank Ltd.**	**22/07/1986 (2043/04/07)**	**POB: 3412, Darbar Marg, Ktm e-mail: nibl.com.np**
3.	**Standard chartered Bank Ltd.**	**04/07/1988 (2045/03/20)**	**POB:3990, Naya Baneshwor, Ktm e-mail: ANZ@Dixitu.com**
4	**Himalayan Bank Ltd**	**05/07/1993**	**POB20590, Tridevi Marg,Thamel,ktm e-mail:hbl@hbl.mos.com.np**
5	**Nepal SBI Bank Ltd**	**17/01/1995 (2051/1003)**	**POB:6049, Hattisar,Kamalpokhari,Ktm e-mail:nsblco@mos.com.np**
6	**Nepal Bangladesh Bank Ltd**	**24/12/1995 (2052/09/09)**	**POB:9062,bijulibazar,New Baneshwor,Ktm e-mail:nbbl@mos.com.np**
7	**Everest Bank Ltd.**	**07/04/1996 (2052/12/25)**	**POB:13384, EBL House, Lazimpath, Ktm e-mail: ebl@mos.com.np**
8	**Bank of Kathmandu Ltd**	**17/07/1997 (2054/04/02)**	**POB:9044, Kamal Pokhari, Ktm e-mail: info@bok.mos.com.np**
9	**Machhapuchhare Bank Ltd.**	**28/05/2003 (2060/02/14)**	**Central off. POB:41, Naya Bazar, Pokhara-9 Corporate off. POB:12427, Putalisadak, Ktm. e-mail:machbank@mbl.com.np**
10	**Laxmi Bank Ltd.**	**20/04/2004 (2061/01/08)**	**POB:61, Adrashanagar, Birgunj, Parsa e-mail: info@laxmibankltd.com**
11	**Kumari Bank Ltd.**	**29/07/2004 (2061/04/14)**	**POB:21128, Putalisadak, ktm e-mail: info@kbl.com.np**
12	**Lumbini Bank Ltd.**	**10/11/2004 (2061/07/25)**	**Central off. Narayanghat, Chitwan Corporate off. Durbarmarg,ktm e-mail: lumbiniktm@mos.com.np**
13	**Nepal Credit and**	**31/01/2005**	**Central off. Bhairawa,**

	Commerce Bank Ltd.	**(2061/10/18)**	**Siddharthanagar Corporate off. POB:12559, Bagbazar, ktm. e-mail: corporate@nccbank.com.np**
14	**Siddhartha Bank Ltd.**	**2062/11/12**	**POB:13806, Tindhara Marg, ktm**
15	**NMB Bank Ltd.**	**20/06/2001 (2058/03/06)**	**POB: 11543, NMB Building, Babar Mahal, ktm e-mail: nmb@wlink.com.np**
16	**Development Credit Bank Ltd.**	**13/06/2002 (2059/02/30)**	**POB: 7716, Kathmandu plaza, Kamaladi, ktm e-mail: info@dcbl.com.np**
17	**Nepal Bank Limited**	**15/11/1937 (1994/07/30)**	**Dharmapath, ktm e-mail:info@nepalbank.com.np**
18	**Nepal Industrial & Commercial Bank Ltd**	**21/071998**	**POB:7367, Kamaladi Sadak,ktm e-mail:kamaladi@nicbank.com.np**
19	**Kumari Bank Ltd**	**21/12/2057 03/04/2001**	**Putalisadak,ktm e-mail:info@kbl.com.np**
20	**Agriculture Development Bank Ltd**		**Ramshahpath,ktm e-mail:info@adbn.gov.np**
21	**Citizens Bank International Ltd.**	**21/16/2007**	**POB:19681,Sharada Shadan,Kamaladi,ktm e-mail:info@ctznbank.com**
22	**Prime Commercial Bank ltd.**	**24/09/2007**	**Bira Complex, Newroad, ktm e-mail:info@pcbl.com.np**
23	**Bank of Asia Nepal Ltd.**	**12/10/2007**	**POB:11021, Tripureshwor,ktm e-mail:boan@bankofasia.com.np**
24	**Sunrise Bank Ltd.**	**12/10/2007**	**POB:15203, Gairidhara Crossing, ktm**
25	**KIST Bank Ltd.**	**07/05/2009**	**POB:8975 e-mail:info@kistbank.com**
26	**Rastriya Banijya Bank**	**23/01/1966 10/10/2022**	**Singha Durbar Plaza, ktm e-mail:info@rbb.com.np**

1.5. Overview of Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd upon approval of Bank's Annual General meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structures.

- A group of companies holding 50% of the capital
- Rastriya Banijya Bank Holding 15% of the Capital
- Rastriya Beema Sasthan holding the same percentage
- The remaining 20% be we believe that NIBL, (which means that NIBL is a company listed on the Nepal Stock Exchange)

We believe that NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. We are sure that your choice of a bank will be guided among other things by its reliability and professionalism.

The Bank's Vision

To be the leading Nepali bank, delivering world class service through the blending of state of the art technology and visionary management in partnership with competent and committed staffs, to achieve sound financial health with sustainable value addition to all their stakeholders. They are committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

The Bank's Mission

The bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the bank; Preferred Provider and Quality financial services; therefore we at NIBL believe that the mission will be accomplished only by satisfying these two important components with the customers at focus. The bank always strives positioning itself in the hearts and minds of the customers.

The Bank's Objectives

To become the bank of first choice is the main objective of the bank.

Board of Directors

Nepal Investment Bank is managed by Professional management teams. The members of the management have proven track record in the banking sector. The board of directors consists of the following personalities.

Board of Directors

Mr. Prithvi Bahadur Pandey	Chairman/ Chief Executi Director	Group "A"
Mr. Prajanya Rajbhandari	Director	Group "A"
Mr Deepak Man Sherchan	Director	Group "A"
Mr.Krishna Prasad Sharma	Director	Rastriya Banijya Bank
Dr. Shiva Hari Shrestha	Director	Rastriya Beema Sasthan
Mr.Surendra Bdr. Singh	Director	Public Shareholder
Mr.Damodar Prasad Sharma Pandey	Professional Director	Under BFIA

Services offered by Nepal Investment Bank Limited (NIBL)

- Deposits
- Ezee Savings
- E- Banking
- Premier Banking
- ATM
- NTC Mobile Bill Payment
- Loans and Advances
- Vehicle Loans
- Credit Cards
- Debit Cards
- Safe Deposit Lockers
- 365 Days Service
- Trade Finance
- Remittance
- Export Credit
- Bills Purchase
- Telebanking Service
- Any Branch Banking
- Funds transfer
- Bank Gaurantees
- Clearing/ Collection

Remittance of NIBL

Nepal Investment Bank Limited(NIBL), operating under the guidelines set by the Government of Nepal and Nepal Rastra Bank(the Central Bank of Nepal), offers one of the safest and the most secured means of money transfer to Nepal. Remitters can send money to NIBL from any part of the globe through the correspondent banks, exchange houses and banks in the Middle East and using Prithvi Express, through in-house remittance software.

Swift Transfer

NIBL offers fast and reliable money transfer services through SWIFT. Your bank account with they can be credited with remittance from anywhere in the world. The remitter has to mention the NIBL's SWIFT addresses "NIBLNPKT" and the beneficiary details to transfer money to Nepal through it. NIBL cater the need of customers to remit fund anywhere in the world, denominated the major currencies, through SWIFT.

Demand Draft

NIBL has draft drawing arrangement with their correspondent banks in different countries. NIBL honors bank drafts drawn on/by various international banks denominated in major currencies like US Dollar, Euro, Great Britain Pound etc..

Travelers Cheque

NIBL offers "American Express Traveler's Cheque" that is accepted worldwide.

Cash management Services

NIBL provides Cash Management Services in Nepal. This bank will help you to collect your bills receivables more efficiently if you are engaged in exporting goods to India. You can enroll yourself for the service and provide details of your buyer in India. The correspondent bank in India will collect cheque from the buyer and credit account in a short time through NIBL.

1.6 Focus of the study

Working Capital Management is a crucial aspect of Financial Management of the firm. It plays a vital role in every business organization, whether they are trading or manufacturing concerns. It is the life blood and controlling nerve centre for any type of business because without proper control upon it is no business organization can run smoothly. Management of current assets and current liabilities of the business organization is necessary for day to day operations. Thus, it plays the key role in the success and failure of an organization.

Generally we divide financial management decision into the management of assets (investment) and liabilities (sources of financial) in the long term and in the short term. Short term financial management is known as working capital management. It deals with management of the current asset and current liabilities of a firm. As we know that a firm's value cannot be maximized in the long run unless it survives the short run. Firms fails most often because they are unable to meet their working capital needs, consequently, sound working capital management is a requisite for firm survival.

Working capital deals with the matrix of current assets and current liabilities. The conversion process of current assets that include cash, inventory and accounts receivable must be quick as possible to get readily available cash with in one year to meet current obligations. In a like manner, the current liabilities comprising sundry debtors, trade creditors, account payable, short-term bank loan, and outstanding expenses must be paid with in one year as they become due.

Bank is a business organization where monetary transaction occurs. It creates funds from its clients saving and lends the same to needy person or business companies in terms of loans, advances and investments. So, proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of bank are concerned with current assets and current liabilities.

The working capital management of a bank is different from other type of business enterprises. A bank plays a significant role to fulfill the requirement of working capital of any type of business enterprises. It also needs efficient management. Investment in working capital of other business enterprises is a part of current assets of bank's working capital and we can consider deposits and short term borrowings as a part of current liabilities.

Nepal investment bank limited is joint venture with Credit Agricole Indosuez of French. It has been performing very well in Nepalese banking scenario. Once it used to be only joint venture bank but with tremendous increment in the number of new joint venture it has to face a lot of competitions and to survive in this competitive atmosphere, one has not only to excel but also has to be able to manage all its functional areas very well. One of such aspects of the organization, which should be managed well, is its working capital management. To compete with rivals it is considered as a vital tool, since it affects all functional areas of any organization. So, any firm should have the sound working capital management in order to survive in the market.

1.7. Statement of the problem

Working capital is a crucial capital, which is compared as life blood of the human beings, for any organization. In most enterprises the management of working capital has been understood as the management of money rather than its efficient utilization. The management of working capital is synonymous to the management of short term liquidity. It has been regarded as one of the conditioning factor in the decision making issues. It is no doubt, very difficult to point out as to how much working capital needed by a particular business organization. An organization, which is not willing to take more financial risks, can go for more short term liquidity. The more of short term liquidity means more of current assets and less of current liabilities. The less current liabilities implies less short term financing heading to the lower returns resulting from the use of more high cost long term financing. So it is very essential to analyze and find out problems and its solutions to make efficient use of funds for minimizing the risk of loss to attain profit objective.

Working capital management on bank is also difficult that of manufacturing and non manufacturing business organization. Commercial banks 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 an demand without any warning or notice, a good share of their liabilities. Bank collects funds from different types of deposits for providing loans and advances to different sectors. To get higher return, banks must try to increase funds from deposits as well as their investments. The first motive of banking business is to borrow public saving and lend to needy people. But commercial banks always face problems for utilizing more deposits as investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on bank, which require paying its large amount of liabilities on its depositors demand without notice. But large amount of idle cash balance also decreased profitability of banks.

Basically this study has tried to find out the issues of working capital management of Nepal Investment Bank Limited. This has tried to solve the following research questions:

1) What are the major factor affecting the management of working capital in Nepal Investment Bank Limited?
2) Is Nepal Investment bank limited able to manage working capital properly?
3) Which of the current assets are more problematic in Nepal Investment Bank Limited?
4) What is lending pattern of loans and advances and other investments?
5) How are the current assets of NIBL financed?

1.8 Objectives of the study

Working Capital Management plays a vital role of success of the business. The excess working capital as well as short term working capital is harmful for business. The main objective of the study is to examine of the management of working capital in Nepal Investment Bank Limited. The specific objectives of this study are as follows:

1) To verify the factors determining the size of working capital on NIBL
2) To verify whether the Nepal Investment Bank Limited has maintain optimum level of working capital or not
3) To analyze the financing pattern of working capital of Nepal Investment Bank Limited.
4) To analyze the lending pattern of loans and advances and other investment of NIBL.
5) To evaluate the types of current assets that report more problematic in NIBL.

1.9 Signification of the study

Working Capital Management is a crucial aspect of financial management of a firm. There is availability of research work, journals and articles of “Working Capital management”. In this content present study is serving as a source of literature in the field of working capital management. The study attempts to fill a serious gap in this important area of capital structure practice. The research is useful for further researchers. It is useful for university student of new generation. It is helpful for financial managers and analyses. It would also be of interest to development banks, commercial banks, financial companies etc.

1.10 Limitations of the study

As every study has limitations, it is not an exception. It has also some limitations, which are as follows:

1) Although there are many commercial banks, this study is concerned on only one bank “ Nepal Investment Bank Limited”
2) Unavailability of sufficient resources also limits the study
3) The truth of the result is based upon the available data from the bank
4) Time and budget limitations
5) Due to the shortage of the time volume and budget, new method may not be developed.

1.11Research Methodology

1. Research design: As per the nature of the study, secondary data as well as survey research design is followed with exploratory and analytical approach.
2. Sources of data: Secondary data as well as primary data is taken to hold the research report.
3. Data collection Technique: Mainly secondary data is taken from the library, other, magazines and other sources and primary data collection technique will be interview and questionnaire.
4. Data Analysis: Chart, Diagram, % ratio and other appropriate statistical tools and techniques all taken as data analysis tools.
5. Limitations of the Methodology: Known and secondary method is used but primary method is not discovered due to short period and other factors.

1.12 Organization of the study

This study has been organized into five different chapters.

1. Introduction: Chapter one introduces the major issues, objectives, significance, and limitations of the study.

2. Review of Literature: Chapter two is devoted to the theoretical analysis and brief review to the related literature available. It includes a discussion of the conceptual framework and review of the major studies.
3. Research Methodology: Chapter three describes the research methodology employed in the study, it consists of research design. Sources of data, population and sample, statistical and financial tools used to analyze the data.
4. Presentation and analysis of data: In Chapter four Data has been presented and analyzed in accordance with the selected research methodology.
5. Summary, Conclusion and Recommendation: The last chapter Presents the major findings and provides some suggestions. The bibliography and appendixes have been incorporated at the end of the study.

CHAPTER: 2

REVIEW OF LITERATURE

2.1 Conceptual Framework

The main objective of this chapter is to provide the insight of the concept of working capital management. This chapter reviews literature on working capital management and the theoretical framework through the study and analysis of different books, research articles and dissertations of experts and researchers. The main purpose of this chapter is to provide an insight into working capital management of given bird eye view of different experts through regarding theories and studies of working capital and its implicates. In this chapter, focus will be in the review of literature on working capital management for disclosing its concepts, which clarifies the need of the study rationally and systematically.

Working capital is key component of every enterprise and management is challenging professional risky job. Of course, working capital is a controlling nerve centre of business because every enterprise can run smoothly by only proper working capital management. Without working capital, no business can run for an hour. So, it is like oxygen for living creature. While making review of related literature of working capital management, the researcher has gone through different books, documents, journals, articles, bulletins, reports and previous studies. So far the management of working capital in Nepal Investment Bank Ltd. Is concerned, different financial experts and students of management, describing the working capital management of various banks, have undertaken a number of studies. To conduct this study, it is important to go through relevant literature on working capital management in context of the Nepal Investment Bank Ltd.

The cash and marketable securities are respectively considered as purely liquid and near liquid assets where all receivables and inventories are not. However, they can be liquidated when necessary with in a period of less than one year, so the capital investment on these assets is known as working capital. The objectives of the managing working capital are to aid in the value maximization of the firm by minimizing the cost of working capital. In particular, the cost of maintaining the working capital depends on the source of finance used. The short term source generally costs less then the long term source. The job of financial manager is to balance the cost of working capital and the risk associated with source of capital. (Pradhan, 1992)

Glenn V. Henderson and his friends also suggests the gross and net concept and concluded that both concepts are important to firm management but special attention must be given to the net working capital level because of its impact on liquidity. A firm could have a very desirable working capital level but goes bankrupt because of liquidity problem, caused by a low net working capital position. An increase in net working capital reduces risk because liquidity is increased. A decrease in net working capital implies that a greater proportion of funds are invested in fixed assets, which have a higher yield than current assets. Thus profitability should increase. (Glenn. V. Henderson) Working Capital can also be explained from negative and positive point of view. If the total current assets are more than the total current liabilities then it is said to be positive working capital and vice versa. Working capital in needed in every organization to run day to day business activities, since there is a time gap between the sales of product and realization of cash, every organization requires sufficient amount of working capital to meet the daily requirement and to tackle the problem when arise for the smooth running for the business.(Mathur, 1994)

Gross working capital to the firm's investment is current assets. Net working capital means the difference between current assets and current liabilities and therefore represents that position of current assets which the firm has to finance either from long term fund or bank borrowings. How much a firm will invest in current assets depends on its operating cycles, where operating cycles means the time duration which the firm requires to manufacture and sell the products and to collect cash. So, it is major determinant to working capital requirement and the firm's credit policy is also the major factors, which influences working capital requirement. The firm's decision about the level of investment in current assets involves a trade off between risk and return. When the firm invest more in current assets it reduces the risk of liquidity but loses in terms of profitability. Since the opportunity of earning from the excess investment in current assets is lost. The firm therefore is required to strike a right balance. The financing of current assets also involves a trade off between risk and return. A firm can choose from short or long term source of finance. If the firm uses more of short term fund for financing both current assets and fixed assets, its financing policy is considered aggressive and risky. Its financing policy is considered conservative if it makes relatively more use in long term source of financing its assets. The balance approach is to finance permanent current assets by long term source and temporary current assets by short term source of finance. (Pandey)

An enterprise needs not only fixed capital but also working capital. The working capital is the capital that needs to conduct the day to day operation of a business firm, for day to day operation of the concern, it finance in some of assets of short term nature like inventories, accounts receivable, cash and securities etc.. When all these short term assets are put together, it is called working capital, so we can say that working capital is related with short term financing. The area of working capital management is not only related to the functional area of business but it is also related to other discipline like economic and accounting. There are two concepts of working capital. They are gross working capital and net working capital. Gross working capital means the current assets only. It is concerned with the liabilities side of balance sheets. Working capital is the excess of current assets over current liabilities according to net concepts of working capital. Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and interrelationship that exist between them. (Pradhan, 2000)

Therefore, working capital management is continuous process for crucial and critical decision of the problem that arises in attempting to manage the current assets and current liabilities, are interrelation between them. Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. The investing the financing decision on working capital management is planning, utilization and controlling its current assets (short term assets) in terms of the requirements of the company, and is concerned with profitability and liquidity position of the enterprise.

2.1.1 Working Capital Policy

The component of working capital constitute the current assets and their way a financing i.e. current liabilities, the level and quality of current assets and current liabilities is guided by the working capital policy and management adopted by it. Working capital policy refers to decision relating to the target level investment and the financing mix of current assets. Working capital policy concerns with two basic issues among firm's balance sheet item. These two policies regarding (a) what is the appropriate level of current assets, both in total by specific account, and (b) how should the required level of current assets be financed? (Weston and Brigham, 1990)

The issues in the working capital management, 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 financing managers' attitude towards the risk return trade off. One of the most important decisions of financial manager is how much current liabilities should be used to finance current assets. So, working capital policy regards to the level of each category of current assets and financing of current liabilities on it.

Current Assets Investment Policy:

Current assets investment should be optimum level. Unbalance working capital investment gives bad financial results, may be solvency. Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets (working capital) investment policies, which are as follows (Weston and Brigham, 1990).

1) Fat Cat of relaxed Working Capital Policy: In the relaxed working capital investment policy, the firm holds relatively large amount of cash and marketable securities, inventory and receivable to support a given level of sales. Sales are stimulated by the use of credit policy which provides liberal financing to customers and then results in a corresponding high level of receivable with large collection period due to liberal credit policy. This policy provides the lowest expected return on investment with lower risk.

2) Lean &Mean or Restricted Current Assets Investment Policy: In this working capital investment policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy tends to reduce the conversion cycle. Under this policy, firm follows a tight credit policy and bears risk of losing sales.

3) Moderate Current Assets investment Policy: In this policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.

Current Assets financing policy:

Financing the long term or short term funds to current assets has significant impact on an enterprise risk or return, liquidity and profitability, deciding how current liabilities should be used to finance current assets in one of the most important decisions concerning working capital management (Pradhan, 1986, pp.23). Long term as well as short term funds involves cost and cost of financing is a deciding factor in the use of different types of funds. Working capital financing policy deals with the optimum financing mix of short term and long term liabilities. Depending upon attitude towards risk, liquidity and profitability the management can follow following three alternatives working capital financing approach.

1) Aggressive of Tiger Working Capital Financing Approach
In this Policy, the firm financed not only temporary current assets but also a part of the permanent current assets with short term financing rest with the long term financing sources. In other words, the firm financed not only temporary current assets but also a portion of the permanent current assets with long term financing. Some aggressive firms may even finance a part of their fixed assets with short term financing. Hence, this sort of mix financing increases the profitability and exposes towards risk by financing restively longer position of its assets through lower cost short term borrowings. Under the policy, higher risk, higher returns and low liquidity position.

2) Conservative Policy
Conservative approach refers to a financing mix which is less risky leading to low profitability and high liquidity. The approach world to finance all funds required from long term funds (Pradhan, 1986, pp.25). The financing policy of the firm is said to be conservative when it depends more or long term funds for financing needs. Under this financing policy, the firm finances its permanent assets and a part of temporary current assets with long term financing (Pandey, 1999, pp.829). This policy leads to high level of CAs, with long conservation cycle, low levels of CLs and higher interest cost. The risk and return are lower than that of aggressive one. The adverse management follows this policy.

3) Maturity matching/ Heading/ self liquidity/ moderate Approach
This approach of working capital policy entails moderate risk with moderate return. The firm can return adopt a financial plan which involves the matching of the expected life of an asset with the expected life of the sources of funds raised to finance assets. "When the firm follows matching approach, long tem financing will be used to financing fixed assets and permanent current assets and short term financing to finance temporary or variable current assets (Pandey, 1999 pp.828). This approach tries to achieve trade of between profitability and liquidity with neither too risky nor least risky by financing mix. It lies in

between a low liquidity, high profitability case a high liquidity low profitability case (Pradhan, 1986).

In conclusion conservation or looser working capital policy refers to that policy under which a firm keeps high level of investment in working capital variables like high level of receivables throughout liberal policy, high inventory and cash/ bank balance. While aggressive or tight working capital policy just follows the reversed policy that of former policy. But the moderate policy follows the medium way between aggressive way between aggressive and conservative working capital policy.

2.2 Review of related empirical studies

This part is mainly focused on the review of thesis/ journals/ articles published by different management experts and students in working capital management.

2.2.1 Review of thesis

Besides the review of available books and research studies, some researcher studies have been made by students of MBA and MBS relating to working capital management in different fin PEs and private companies of Nepal. This section will review some of those dissertations.

1. A study made by Aryal, Biswas Raj on "Working Capital Management of Pharmaceuticals industry of Nepal" (2003) a case study on Royal Drug Limited (RDL). His study is based on eight years financial statement from the FY 2049/50 to 2057/58.

The main objectives of the study are: (i) finding the liquidity turnover and profitability ratio, and their comparison with trend, and (ii) give the recommendations to achieve organizational goal. He has used various statistical tools (i.e. correlation and probable error) and financial tools (i.e. ratio analysis) for data analysis to get research findings

From the study analysis he has found that:

1. RDL is following conservative working capital policy

2. It has more inventories which is the largest portion of CAs

3. Investment is CAs is high with respect to TA and NFA

4. Level of investment is inventory is fluctuating due to fluctuating sales volume and inventory management is not satisfactory

5. CA conversion period is high

6. Inefficient utilization of current assets, and

7. Profitability is not satisfactory

After finding this situation in RDL, Aryal suggested that the management should formulate effective working capital management policy improve turnover position, minimize the operating cost, prepare effective attitude towards risk and increase the efficiency of personnel and staffs.

2. Another study made by Shrestha, Prabita on " A study of working capital management with reference to the listed companies of Hotel(Yak and Yeti, Soaltee) 2003", she focused he study on working capital management of these two hotels in relation to appropriateness of investment in CAs, financing mix, liquidity position and utilization of CAs. This study covers the four years data from 2054/55 to 2058/59. the specific objectives of the study are: (i) to analyze the relationship between sales and different variables of working capital, liquidity, profitability, and cash conversion cycle, (ii) to know current assets financing and investment is correct or not. She has used financial as well as statistical tools to data analysis.

From the study she found that (i) the liquidity position of both hotels in the weak condition (ii) the profitability ratio is decreasing and fluctuating in the study period of both hotels but yak and yeti can able to earn high profit compare to Soaltee (iii)both hotel gross profit and sales are perfectly in positive relationship. (iv) Soaltee has followed highly aggressive financing policy and it has negative net working capital and (v) current assets of Yak and Yeti has not been properly utilized.

To overcome the above weakness, she made some recommendations: which are (i) Soaltee should follow mix financing policy not only aggressive policy (ii) operating expenses should reduced (iii) Receivable and inventory conversion period should managed by applying suitable credit policy.

3. Shrestha, Basudev has done the research on "A study on working capital management of Daily Development Corporation" (2002). He has shown working capital and its management for five year period of corporation and has used the secondary data that is used for calculating various financial and statistical tools.

He has found that (i) Inventory hold large amount of major components of CAs of DDC (ii) the overall proportion of current assets on total assets is in decreasing trend but proportion of CA to FA was found in increasing trend during his study period. (iii) DDC has used conservative working capital policy (iv) Liquidity and turnover are not satisfied situation (v) profitability position is very poor and (vi) the company has not able to effectively utilize its CAs and TAS.

He ha suggested that DDC had to minimize its CAs by adjusting on inventory and cash balance. It should increase production capacity by avoiding unnecessary manpower and expenses.

4. Sharma Yam Prasad has focused in his study, "Working Capital Management of manufacturing companies of Nepal (listed on Nepal Stock Exchange Ltd.)1999" has tried ti analyze the management of working capital of 16 manufacturing industries. He has used 10 years historical data from 1987 to 1996, the specific objectives of this study are: (i) to study of working capital management and policies adopted by them, (ii) Empirical

testing of variables affecting working capital management such as CA, sales, CLs, NP, TA, cost of goods sold and (iii) to analyze turnover, liquidity and profitability position, and evaluate the relationship between variables. He has used quantitative as we;; as qualitative method for study analysis.

From the study he found that overall profitability of PEs is negative among listed manufacturing companies. He has analyzed that Nepalese PEs are suffering from sickness and they must determine the appropriate financing Mix. These manufacturing companies undertake measure like; identification of need funds, regular check, development of marketing information system, right combination of short term and long term sources of funds to finance combination of investment in CA, minimizing operating cost, preparing effective sales, plan, scientific working capital policy, improving liquidity position and speedy cash conversion period and the major ways to make healthy efficient management of working capital of manufacturing PEs of Nepal.

5. A study conducted by Ghimire , Ram Babu on working capital management of selected manufacturing companies(listed in Nepal Stock Exchange, 2003). He has collected five years historical data from 1997 to 2001 of server manufacturing companies. He has focused his study on the issue of working capital management in relations to selected manufacturing companies.

The main objectives o0f his studies are i) to study WC practices of listed Nepalese manufacturing companies ii) to analyze the variables affecting working capital management in Nepalese manufacturing companies, and iii) to determine the issue and gaps in working capital management of these companies.

For findings the answer of above problem of objective, he has employed quantitative method and qualities method. In the quantitative method he has used financial tools (ratio analysis, cash conversion cycle, predicting power of ratio of success or failure and Du-Pont analysis) and statistical tools. (Karl's Person's correlation coefficient and simple linear regression). In the quantitative method he has used opinion survey method.

6. Gurung Bikram Om has done the research on the title of "A Study on Working Capital Management of Nepal Lever Limited (NILL)". The main objectives of that study is to analyze the working capital management of NILL. The specific objectives of that study are to analyze the liquidity composition of working capital. Assets utilization and profitability of working capital is to analyze financing pattern and to examine the relation between liquidity and profitability of NILL.

The study covered 5years period and analyze secondary data by using financial and statistical models. He has found that major components of CAs are inventories, receivables, and prepaid expenses. Among them inventories holds major portion of CAs. He has mentioned that all the components of CAs were fluctuating during study period. It indicates that company didn't have any clear vision about the investment of working capital. CA investment policy of NILL has been shifting towards the moderate policy. The current ratio of the company was satisfactory. The CR contains more inventory and receivables and there was insignificant relationship between CA and CLs. This management had not proper policy to maintain liquidity position and its liquidity position was not sound.

As study on working capital management of pharmaceutical industry of Nepal with special reference of Royal Drugs Ltd (RDL) was conducted by Bishwas Raj Aryal a student of management. The main objective of that study was to find out working capital management system and its effect on profitability of the company by using nine years data. The major findings of the study are described in the next paragraph.

Working capital is more difficult to mange that of fixed capital. 65% of respondents of RDL said that working capital was more difficult to manage than fixed capital and only 35% were in favors of that fixed capital management is more difficult to manage than working capital. So, far as the importance of CAs management, 82% of respondents of RDL opine that a lot of time has taken to it. With respect to receivable management the major factors affecting the larger investment in receivable is fond to be liberal credit policy. The major reason for holding inventories is to facilitate smooth operation of production and sales, majority of respondents of RDL performs for it not for to take advantage of price increase.

7. Pathak has carried out another study relating to working capital management. (Pathak, 1994, T.U.). He has tried to make an evaluation of working capital management of Nepal Lube Oil Ltd. for five years (043/44 to 047/48). He has focused on the working capital management with respect to cash credit and inventory management, and relationship between sales and different variables of working capital. He has used ratio analysis, Karl Pearson's co-efficient 'r' and t-test.

Major findings of this study were high portion of current assets, unfavorable liquidity position and very low level of cash. Inventories have occupied the major portion of current assets, but the share finished goods is very low. Receivable has the second phase in current assets and it is continuously growing. Finally, he concluded that this company had adopted the moderate financing policy.

8. Giri Rajendra (Giri, 1986, T.U) in his study has attempted to evaluate working capital management of ' Balaju Textile Industry Limited'. The major finding of his study has no significant improvement in working capital during study period. Increased working capital was financed by sales of fixed assets or sources of share capital. Current assets was financed by long term financing and high level of sluggish inventory's amount to unnecessary tied up of funds, impairment of profit and increased costs.

He has suggested for efficient working capital management of BTIL. It is better to fix a minimum target rate of return, make regular check to identify both excess and excess and deficient current assets to avoid risk in management of working capital. Financing current assets from the appropriated combination of short term an long term sources to preserve liquidity and maintain stability: take necessary actions for disposing a hug inventory with tied up working capital, involved huge carrying cost risk of losses; sick position and working inefficiency of corporation should improve.

He has set only three research question to analyze working capital management of BTIL, which is insufficient. He has used ratio analysis as a research tools. But he has not done analysis to evaluate the relationship of current assets components with total current assets. Similarly, he has set null hypothesis but has not tested it through appropriate tools to find out whether null hypothesis is accepted or rejected. So, we can say it is not fully analytical type of research.

9. Joshi (Joshi, 1986, T.U.) in his study seeks to have true insight into the working capital management in Biratnagar Jute Mill. This study is concerned with management of current assets and covers five years period (2036/37 to 2040/41). This study has embodied various financial ratios for measuring Biratnagar Jute Mill's financial viability. The study is based on secondary data with opinion survey method and limited to gross concept of working capital.the study has indicated mismanagement of inventory, no proper policy of cash holding and heavy dependence on short term bank credit. He has recommended for effective working capital management of the mill by planning realistic turnover target specimen, designing effective inventory management program, following productive investment approach preparing effective sales plan and exhaustive market research program, using short term bank credit up to certain reasonable limit, maintaining optimum cash balance and making proper utilization of accumulated collection debts.

10. Bhandari Raj Anir (Bhandari, 2047B.S.) in his thesis entitled "Working Capital Management" (A case study of Nepal Bank Limited)" has done research work for the ten years period, 2034 to 2043 B.S. He has drawn some major findings from his study were as follows. The bank has heavy liquid assets that reflect the improper utilization of the bank's fund due to heavy growth in deposit and other borrowed capital, the volume of share capital became insufficient. Rate of return on shareholders investment is considered insufficient. The rate of return on shareholders investment is considered insufficient; the bank could not fully utilize its funds and not paid attention to the portfolio management in investment.

The thesis entitled "An appraisal of financial position of Nepal Bank Limited" by Narendra Bahadur Amatya (Amatya, 1993, T.U.) analyzed, examined and interprets the financial position of the bank from 1980/81 to 1989/90. Main findings of his study are as follows:

Regarding the liquidity management, the bank is in better position, but the bank has been following a uniform policy to finance current assets and current liabilities.

The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.

The trade and commerce advances are playing major role in the credit composition of the bank. So, the reserve of the bank is increasing gradually. The reserve plays a nominal role in the credit expansion control.

The major portion of investment of the bank is in NG'S securities. And the volume of transaction is high in all respects but the bank does not show higher ratio of profit or it shows a decreasing trend of profit.

11. Ramji Poudel (poudel, 1997, T.U.) in his thesis entitled "A comparative analysis of financial performance between NBL and NGBL" has drawn some major findings. Although the liquidity position of NBL is better than NGBL but on the whole the current assets of these banks are adequate to meet the current liabilities. NGBL has better credit position than NBL, in terms of short term investment. It also found that NBL has better turnover and highly levered than NGBL. Joint venture banks such as NGBL is fast growing, the overall profitability are higher but government owned commercial banks such as NBL has higher expenditure and the profit making capacity is lower and gradually decreasing.

The thesis entitled "Comparative Study of Working Capital Management of NBL and Himalayan Bank Limited" by Niraj K.C (Niraj K.C, 2000, Shankar Dev Campus) aims to examine the management of working capital in NBL and NABIL. The specific objectives undertaken in his study are:

1. To study the current assets and current liabilities and their impact and relationship to each other of NBL and NABIL.
2. To analyze the comparative study of working capital management of NBL and NABIL.
3. Recommendation and Suggestion for the improvement of working capital management NBL and NABIL in the future.

Study has mentioned the following findings

1. The average cash and bank balance and loan and advances are higher on NABIL and NBL. Management of loans and advances is more problematic in NBL than NABIL.
2. Interest income of NBL is better than NABIL
3. Liquidity management policy of these two banks is significantly different
4. 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
5. Due to more conservative working capital policy risk of insolvency is lesser but cost of funds is higher on NBL than NABIL
6. Profitability position of NABIL is far better although NBL earned higher interest than NABIL

12. Hari Prasad Lamsal, in his thesis entitled " A comparative of study working capital management of NABIL and Standard Chartered Bank" (Prasad Lamsal,

2002, Shankar Dev Campus) has drawn some major findings. He found that average cash and bank balance and government securities percentage are higher in standard chartered than nabil but loan and advances percentage is higher in nabil bank. Standard Chartered has less costly source of funds. So, Nabil has higher interest income. Liquidity position of Standard Chartered (except in current ratio) is better than Nabil bank. Due to conservative working capital policy risk of insolvency is lesser but cost of fund is higher in Nabil than in Standard Chartered. Profitability position of Standard Chartered is better although Nabil earns higher interest than Standard Chartered.

2.2.2. Review of Articles

This part is mainly focused on the review of journals/ articles published by different management experts in working capital management.

1. Dr. R.S. Pradhan and K.D. Koirala (Pradhan & Koirala, 1982) jointly prepared a research study on the "Aspects of Working Capital Management in Nepalese Corporation" during 031/32 to 035/36.

Among the eleven public corporations, five manufacturing and six non-manufacturing corporations, the problem dealt in this study were size of investment in current assets management and it also dealt with the motive for holding cash and inventory and the major factors affecting the size of investment. In this study report, they concluded that investment of current assets had declined over the period of time in both type of corporations. However, the Nepalese PEs had consistently more investment in cash and receivables as compared to Non- manufacturing Corporations due to more liberal and less consistent credit policies. Inventory management is of great significance to manufacturing corporations and the management of cash and receivables is of great significance to Non- manufacturing Corporations. The major motive for holding cash in Nepalese corporations was to provide a reserve for routine net outflows of cash and for holding inventories was to facilitate smooth operation of production and sales. They also found that working capital was more difficult to manage than fixed capital. Further more, the inventory in manufacturing corporations and cash receivables in non-manufacturing ones were more problematic to manage.

With reference to the above problems and findings they recommended the need to control investment in working capital as a whole for manufacturing corporations as the average proportion of a working capital to sales increased over time. Since, manufacturing and Non-manufacturing Corporations had been trying to control investment in receivables. The focus of the attention should be deprived to control investment in receivables. The focus of the attention should be deprived to control the investment in cash and inventory. But the manufacturing corporations should pay attention to control the investment in inventory.

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

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

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

3. M.K. Shrestha has studied the working capital management of ten selected public enterprises (PEs) focused on the liquidity, turnover and profitability position of those selected PEs. The studies found that majority of PEs were unable to maintain adequate liquidity position. The turnover and profitability aspect of the PEs were also unsatisfactory. In his study he has brought certain issues and problems faced by PEs such as lack of appropriate financing planning, negligence of working capital management and deviation between liquidity and turnover to assets. At last, he had made some suggestive measures to overcome for the above issue i.e. identification of required funds. Regular check of accounts, attitude towards risk and return, development of management information system and determination of right combination of sources of funds (i.e. short term and long term funds to finance and make choice of appropriate working capital policy)

4. Conducted a research study on working capital management in public manufacturing enterprises at 1984. This study does not cover all the PEs in manufacturing sectors. Study has been based on sample of nine manufacturing PEs. The manufacturing PEs selected for the study differs in their nature of works. The study covers ten years period from FY 1973 to 1982. The major objectives of the study were to examine the behavior and management of working capital in Nepalese manufacturing PEs and the specific objectives undertaken in his study are: to conduct risk return analysis of working capital

position, to assess the financial liquidity position of the enterprise to determine the structure and utilization of working capital and estimate transaction demand function of working capital and its various companies. (Pradhan)

This study used a variety of financial ratios to accomplish the objectives. It employed discriminating analysis to examine the short term liquidity position and multiple regression analysis to estimate the transaction demand functions of working capital and its various components. The major findings of the study are described in the following paragraph.

Most of the selected enterprises had been achieving a trade off between risk and return. Thereby following neither an aggressive nor a conservative approach of working capital.
The study of risk return trade off over a period of time indicates that most of the enterprises have been moving slowly towards the conservative approach while some of them towards an aggressive approach of working capital. He found that almost all the selected enterprises had positive net working capital. The negative net working capital has been observed in few cases. The enterprises have an average, half of their total assets in the form of CAs. The study showed that share of cash as well as receivable have declined slowly and steadily, whereas the share of inventories has increased in the majority of the selected enterprises. He concluded that Nepalese public manufacturing enterprises should pay more attention to management of inventories. The regression result also show that the level of working capital and its components of an enterprises desired to hold depend not only on sales but on holding cost also. The study showed that working capital management is the weakest and neglected part of financial management in almost all of the manufacturing PEs in Nepal.

5. The article related to working capital management by R.S. Pradhan ha studied on "The demand for working capital by Nepalese Corporations." (Pradhan) He has selected nine manufacturing public corporations with 12 years dates for 1973 to 1984. Those nine corporations has represented about 80% of Nepalese manufacturing public corporations established before 1973 regression analysis has been used or adopted as the tools of analysis. The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous finding. A lot of controversies exist with replace to the presence of economies of scale, role of capital cost, and capacity utilization rates and the speed with which actual cash and inventory are adjusted to desired cash and inventories respectively. That study paper had investigated these various issues in the context of manufacturing public corporation of Nepal. The pooled regression result showed the presence of economies of scale with respect to the demand of working capital and its various components. The regression results suggested strongly that the demand for working capital and its components is a function of both sales and their capital costs.

6. The article related to working capital management by Sushila Shrestha has conducted a research study on financial management of enterprises in Nepal at 1978, concluded that working capital was not properly managed. Most of the public enterprises are suffering from high liquidity ratio because of undesirable inventory, accumulation amount of debt and high cost balance. Similarly, she found that the management did not see seriously

about inventory and receivable management. Capital utilization of enterprise was very poor. In short working capital management had not taken as major part of functional management in Nepal PEs.

2.3 Concluding Remarks

In conclusion, it can be said that working capital management is the effective life blood of any business. Hence, the management of the working capital plays a vital role for existing of any public enterprises successfully while studying it. Different books, documents, journals, articles, bulletins, reports and previous studies are studied. After reviewing the related literature of working capital management, it is found that most of the public enterprises(PEs) are facing same kind of problems such as lack of appropriate financing planning, negligence of working capital management, lack of regular internal and external audit system as well as evaluation of financial results and deviation between liquidity and turnover to assets. To overcome these problems some suggestions such as identification of required funds, regular check of accounts, positive attitude towards risk and return, development of management information system and determination of right combination of source of funds (i.e. short term and long term funds) to finance and choose the appropriate working capital policy. Similarly, different management students conducted thesis in working capital management, it was found that most of the public enterprises and banks are unable to maintain the standard current and quick ratio i.e.2:1 and 1:1 respectively.

CHAPTER: 3

RESEARCH METHODOLOGY

3.1 Introduction

This is the third chapter of this thesis. This chapter is named as Research Methodology. Research Methodology is the way to solve the research problem systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. (P.R. Joshi, 2002)

This chapter describes the methodology employed in this study. It consists of research design, population and sample study, source of data, data processing procedure and techniques of analysis of data. This study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of concerned banks especially from profit and loss account, balance sheet and other publications made by the bank.

3.2 Research Design

Research design is a plan structure and strategy of investigation conceived so as to obtain answer question and to control variances (C.R. Kothari, 1984).

The study aims to portraying up on the working capital, (or current assets and current liabilities) and its impact on overall financial position of the bank. The research design followed for this study is basically a descriptive cum analytical research methodology is used.

3.3 Population and Sample

Among 17 commercial banks, Nepal Investment Bank Limited has been selected for the present study. Financial statements of latest seven years have been taken as sample for the comparative analysis of financial performance. The recommendation and suggestions, which are derived from the study, by taking the above commercial banks as samples, will equally useful for the other commercial banks in Nepal

3.4 Sources of Data

For the purpose of the study, following sources, which are secondary in their nature, has been used:

- Economic Survey, Published by Research Department, NRB
- Quarterly Economic Bulletin, Published by Nepal Rastra Bank

- Banking and Financial Statistics, published by Nepal Rastra Bank
- Previous Dissertations
- Other Publications
- Websites

Other than the above mentioned sources, the information collected through verbal communications with the staffs of the related bank has also been used in the research.

3.5 Data Processing Procedure

Data are analyzed by using simple methods so that everyone would easily understand it. The obtained data are presented in various tables, diagrams and other charts, which definitely helps to reach towards meaningful interpretation of the presented data. For the seek of convenience, the calculations that cannot be shown in the body part of the report are presented in the appendices section.

3.6 Tools and Techniques of Analysis

3.6.1. Financial Tools

The considerable assistance of financial ratios and Income and Expenditure analysis has been taken to measure the strength and weaknesses of Nepal Investment Bank Limited..

3.6.1.1. Ratio Analysis

Ratio Analysis is one of the most commonly used techniques in the analysis of the financial statements and evaluation of the managerial performance. “Ratios are relationships expressed in the mathematical terms between figures which have a cause effect relationship or which are connected with each other in some other manners.” Ratio analysis points out the problems in any operational areas and provides a basis to recommend corrective actions. The purpose of ratio analysis is also to satisfy the interest of shareholders to make them clear about the picture of the bank. Ratio Analysis satisfies the interests, creditors, government institutions and other to form their opinion or enable them to have guideline towards effective decision making.

“Financial statements are examined using various ratios to make sure that the business operation is carried out properly and results are within the expected range.” There is variety in ratio calculation. Data contained in financial statement as the requirement of the types of ratios are as follows:

- Liquidity Ratio
- Activity or Turnover Ratio
- Leverage or Capital Structure Ratio
- Profitability Ratio
- Valuation Ratio

Liquidity Ratio:

Liquidity ratio reflects the short term obligations of the firm. This ratio shows that if firm need cash amount in the short period without any notice, can firm fulfill its need or how it manage the need. Without liquidity, no firm can operate. Liquidity is compulsory for survival of the firm. Liquidity ratio measures the ability of firm to meet its current obligations. In fact, liquidity needs the preparation of cash budgets and funds flow statement, but liquidity ratios, by establishing a relationship between cash and other current assets to current obligation provide a quick measure of liquidity.

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements prescribed by the central bank. The following ratios are calculated under the liquidity ratios.

a) Current Ratio

This ratio is commonly used ratio to measure the liquidity position and short term solvency of the firm. It is the ratio of total current assets to current liability. Current assets are viewed as relatively liquid as they generate cash in relatively short term period. Current liabilities are debit that become due within a year. Lower current ratio creates difficulties in meeting short run commitments as they mature. If the ratio is too high, the bank has an excessive investment in current assets or is under utilizing short term credit current ratio can be computed by dividing current assets by current liability.

Symbolically,

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

Current assets include cash and bank balance, money at call on short notice, investment on government securities, account receivable, bills purchased and discounted, loans advances and overdraft and miscellaneous current assets.

Current liabilities include borrowing from other banks, current and saving deposits, bills payable, interest payable on deposits, accrued bonus payable, tax payable, dividend payable and miscellaneous current liabilities.

b) Quick Ratio

It measures the short term liquidity of the term but it emphasis the instant debt paying capacity of the firm. Liquidity refers to the ability of a concern to meet its current obligations as and when these become due. The short term obligations are met by realizing amount from current assets. The current assets should be either liquid or near liquidity. Liquid assets include current assets less stock and prepaid expenses. Liquid ratio is calculated by dividing liquid or quick assets by current liabilities and 1:1 is regarded as standard.

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

c) Cash and Bank Balance to current, margin and other Deposit Ratio
The proportion of the bank idle money with total funds collected is indicated by this ratio. High ratio means high idle money, which shows the inefficiency of management, as well as increased cost of capital. This ratio is determined by dividing cash and bank balance by total deposits.

$$\text{Cash and Bank balance to total deposits} = \frac{\text{Cash and bank balance}}{\text{Total Deposits (expected fixed deposit)}}$$

Cash and bank balance are the idle money kept for day to day payment. These are liquid current assets, which include loan and foreign currency on hand, cheques for clearing and other cash items; balance with NRB, other local banks and with foreign banks. The total deposits consist of current, saving, fixed others and margin deposits both on local and foreign currencies.

d) Saving Deposit to Total Deposit Ratio
The proportion of the bank idle money with total funds collected is indicated by this ratio. High ratio means high idle money, which shows the inefficiency of management, as well as increased cost of capital. This ratio is determined by dividing cash and bank balance by total deposits.

$$\text{Saving Deposit to total deposits ratio} = \frac{\text{saving Deposit}}{\text{Total Deposit}}$$

Saving Deposits are the idle money kept for day to day payment. These are liquid current assets, which include loan and foreign currency on hand, cheques for clearing and other cash items; balance with NRB, other local banks and with foreign banks. The total deposits consist of current, saving, fixed others and margin deposits both on local and foreign currencies.

3.6.1.2 Activity Ratio/ Turnover Ratio

Activity ratios are intended to measure the effectiveness to employment of the resources in a business concerns. Through these ratios it is known whether the funds employed have been used effectively in the business activities or not. The following are the ratios employed to analyze the activeness of the concerned joint venture.

a) Loans and Advances to total Deposit Ratio

Loan and Advances are the major resources of investment to generate income in the commercial banks. Deposits are used to grant loans and advances, therefore the bank should manage its deposits efficiently. This ratio is calculated to determine the utilization of deposits for profit generating purpose on the loans and advances. This ratio is calculated as

$$\text{Loans and Advances to total deposit ratio} = \frac{\text{loans and advances}}{\text{Total Deposit}}$$

b) Loans and Advances to fixed deposit ratio

This ratio is calculated to determine the utilization of fixed deposits (high interest bearing long term liabilities) in profit generating purpose on loans and advances. This ratio can be calculated as

$$\text{Loans and Advances to fixed deposit ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

c) Loans and Advances to Saving Deposits ratio

This ratio is calculated to determine the utilization of saving deposits (fixed interest bearing short term liabilities) in profit generating purpose. This ratio is calculated as

$$\text{Loans and Advances to saving deposit ratio} = \frac{\text{Loans and Advances}}{\text{Total Saving Deposit}}$$

3.6.1.3. Leverage/ Capital Structure ratio

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It judges the long term financial position of the firm. In financial terms, a large amount of debt capital related to equity is called High Capital Gearing, whereas a large amount of equity related to debt is called Low Capital Gearing. Shareholders stand to gain with high capital gearing during times of good profit as the debt capital is paid fixed interest and all balance of profit is available to equity shareholders. But in times of low profits, the payments of fixed interest on high debt capital may absurd all the profits leaving nothing for the shareholders. That's why at the time of high profits leverage is favorable and unfavorable when profits are low.
Hence the Leverage ratios are calculated to measure the financial risk and the firm's ability if using debt for the benefit for the shareholders. Following ratios are calculated here,

a) Long Term Debt to Net worth Ratio

Long term debt refers to the amount of fixed deposits and loans of the banks. The 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 owners claim. It is calculated as follows

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

b) 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

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

3.6.1.4 Profitability Ratio

This ratio measures the capacity of generating revenue and search for the incomes of the firm. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depends ultimately on the profits earned by the bank. It measures the success of the firm in terms of profit margin, return on equity, and return on total investment and reflects the overall efficiency and effectiveness of the management. To measure the efficiency of the banks following major profitability ratios are calculated.

a) 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 firms.

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

b) 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. It is computed by dividing the net profit after tax by total assets. The formula used for computing this ratio is as follows:

$$\text{Net Profit to total assets ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

c) Net Profit to Total Deposit Ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed by dividing the net profit by total deposits. The following formula is used as:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits}}$$

d) Composition of Working Capital

Cash and Bank Balance
Loans and Advances
Government Securities
Other Current Assets

3.6.2 Statistical Tools

Various statistical tools may be used for the evaluation of financial performance of the banks such as Correlation Analysis, Measure of Central Tendency, Theory of Dispersion, and Estimation whatever is required. “Statistical Analysis is one particular language which describes the data and makes possible to talk about the relations and the difference of the variables. Without the adequate understanding of statistics, the investigator in social science may frequently be like a blind man groping in a dark closet for a black cat that is not there. The method of statistics is useful in an ever widening range of human activities in any field of thought in which numerical data may be held.

a) Trend Analysis

Trend Analysis is an analysis of financial ratio over time used to determine the improvement of deterioration of its financial situation. Trend Analysis informs about the expected future return, future achievement of the bank, future credit worthiness of the bank, financial capability of the bank and many other information which would be helpful to concerned parties of the bank such as shareholders, professional bankers, depositors and borrowers. In this study, the method of least square is selected as a statistical tool for the analysis of the selected banks. The formula of least square method for the straight line is represented by the equation.

$Yc = a + bX$
Where Yc = Trend Value
a = Y intercept or the computer trend figure of the Y variables when $X=0$
b = slope of the trend line of the amount of change in Y variables that is associated with the change in 1 unit in X variable
X = variables that represent time i.e., time variable

The value of the constraints a and b can be determined by solving the following two normal equations.

$\sum Y = Na + b\sum X$ --------------------- (i)

$\sum XY = a \sum X + b\sum X$ ----------------- (ii)

Where, N = number of years
But for simplification, if the time variable is measured as a deviation from its mean, i.e mid point is taken as the origin, the negative values in the first half of the series balance

out the positive values in the second half so that S=0. The values of the constant a and b can easily determined by using the following formula,

$$a = \frac{\sum X}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

After reviewing the relevant literatures and highlighting the research methodology now the analysis part of the research is going to be undertaken

b) Correlation Analysis

The term correlation analysis is the analysis, which reflect that the variables of the two different data are related or we can say that correlation is the analysis of relation between more than one variable. In this analysis we examine that the data are mutually dependent or not. "When the relation is of quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a belief formula is known as correlation. The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc.When both variables are moving upward or downward in the same proportion, it is said to be the condition of positive correlation and if the condition is vice versa then the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected ratios with each other over study period. To calculate correlation between variables, we use the following formula.

The widely used method of statistical tool Karl Person's Coefficient of Correlation has been adopted to measure the significance of the relation between deposit and loans and advances, total deposits and investments and total assets and net profit after tax of Nepal Investment Bank Limited.

"Karl usually denoted by r, which is the numerical measure of linear association between the variables."

Mathematically

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\ \sqrt{y^2}}$$

Where,
r= coefficient of correlation
$x = (x - \bar{x})$
$y = (y - \bar{y})$

The result of coefficient if always between -1 to +1, when r=+1, it means there is significant relationship between two variables and when r= -1, it means there is no significant relationship between two variables.

c) Multiple Regression Analysis

Regression is the estimation of unknown values or prediction of one variable from known values of other variables. Multiple regression analysis is a logical extension of the simple linear regression analysis. In multiple regression analysis, instead of a single independent variable, two or more independent variables are used to estimate the unknown values of dependent variables.

CHAPTER: 4

PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation and analysis of secondary and primary data related with different variables using both financial and statistical tools explained in third chapter, Research Methodology. The prime objective of the chapter is to achieve the objectives, which are set in the first chapter, Introduction. In order to achieve the objectives, the gathered data are presented, compared and analyzed with the help of different tools. To reach towards accurate interpretation, this study analyzes composition of current assets, different ratios such as liquidity, leverage and profitability, trend analysis as well as correlation analysis.

4.2 Composition of Working Capital

Business needs different types of assets to operate its activities. Few needed assets are for long term fulfillment of the business activities and few assets are needed to carry out the day to day operation of the business. The assets that are used to carry out day to day operation of the business are known as current assets. The compositions of current assets of the Nepal Investment Bank Ltd. are cash, loan and advances, government securities and other current assets.

The following table shows the amount of cash and bank balance, loan and advances, government securities and other current assets of Nepal Investment Bank Ltd. from 2000/01 to 2006/07.

Table 2
Current Assets Analysis of NIBL
(Rs in Millions)

Fiscal Year	Cash & Bank Balance	Index	Loan & Advances	Index	Govt. Securities	Index	Other Current Assets	Index	Total
2000/01	446.69	-	2429	-	300.00	-	53	-	3228.69
2001/02	338.92	0.76	2713.5	1.18	224.40	0.75	60.38	1.14	3337.2
2002/03	966.54	2.16	5921.79	2.44	400.00	1.33	72.9	1.36	7361.23
2003/04	1536.92	3.44	7338	3.02	2001.10	6.67	85.43	1.61	10961.45
2004/05	1480.48	3.31	10453	4.30	1948.50	6.49	127.58	2.41	14009.56
2005/06	2406.52	5.39	13178	5.43	2522.30	8.41	133.28	2.51	18240.1
2006/07	2804.48	6.28	17769	7.32	3256.40	10.85	139.37	2.63	23969.25
Total	9980.55		59802.29		10652.7		671.94		
Average	1425.79		8543.18		1521.81		95.99		
S.D	864.27		5209.02		1124.79		33.87		
C.V	0.61		0.61		0.74		0.35		

From the figures presented in the table, it has been observed that cash and bank balance of NIBL has a increasing trend except in the year 2001/02. Cash and Bank balance grew to 6.28 times of what existed in the year 2000/01. During the study period between 2000/01 and 2006/07, cash and bank balance averaged Rs 1425.79 millions and the variation occurred by 61%.

In the table Loans and advances of NIBL, it has increasing trend. Loans and Advances grew up to 7.32 times of what existed in the year 2000/01. Rom the fiscal year 2000/01 and 2006/07, loans and advances averaged Rs 8543.18 million and the variations occurred by 61%.

In the case of Government Securities, it has an increasing trend except in the year 2001/02. Government securities grew up to 10.85 times of what existed in the year 2000/01. The government securities averaged Rs 1521.81 million and the variation occurred by 74%.
In the case of other current assets, it has a continuous increasing trend. It grew up to 2.63 times in the fiscal year 2006/07 of what existed in the year 2000/01. Between the study period, the other current assets averaged to Rs 95.99 million and the variation occurred by 35%.

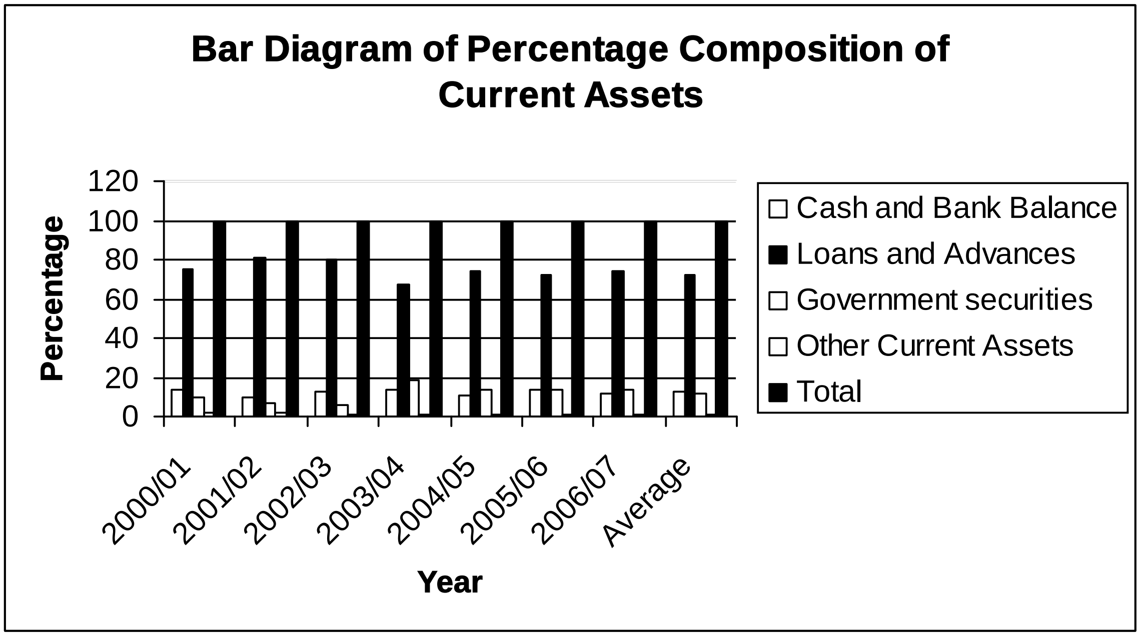
With regards the coefficient of variation of the different forms of current assets, the highest coefficient of variation is found in the government securities and the lowest in other current assets.

Table No. 3
Percentage composition of current assets of Nepal Investment Bank Ltd.
(Rs. In Million)

Fiscal Year	Cash and Bank Balance	Loans and Advances	Government securities	Other Current Assets	Total
2000/01	13.84	75.23	9.29	1.64	100.00
2001/02	10.16	81.31	6.72	1.81	100.00
2002/03	13.13	80.45	5.43	0.99	100.00
2003/04	14.02	66.94	18.26	0.78	100.00
2004/05	10.57	74.61	13.91	0.91	100.00
2005/06	13.19	72.24	13.83	0.73	100.00
2006/07	11.70	74.13	13.59	0.58	100.00
Average	12.37	71.99	11.58	1.06	100.00

The above percentage composition of current assets to total assets has also been plotted in graph in bar diagram for the easier understanding of the given data.

Figure 1



In the figure, cash and bank balance, loan and advances, government securities and other current assets are the components of current assets. Among these components loan and advances covers the large portion and then after comes cash and bank balance then comes government securities and at last other current assets.

From the above analysis, it has been clear that loan and advances covers the highest proportion in total current assets than after cash and bank balance. Government securities holds third place and at last the other current assets comes.

4.3 Composition of current Liabilities

Current liabilities are equally important as current assets. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payable and outstanding expenses. In case of commercial banks their current liabilities are slightly different than manufacturing company. The components of current liabilities are as follows.

Table 4
Current Liabilities Analysis of NIBL
(In Rs Millions)

Fiscal Year	Saving Deposit	Index	Current & other Deposit	Index	Bills payable	Index	Staff Bonus	Index	Tax Provision	Index	Other Current Lbt.	index
2000/01	1259.57	-	769.01	-	5.18	-	10.4	-	325.24	-	40.16	-
2001/02	1278.79	1.02	785.4	1.02	6.82	1.32	8.6	0.83	275.58	0.85	88.02	2.19
2002/03	2434.05	1.93	979.01	1.27	31.63	6.11	18.9`	1.82	332.67	1.02	248.93	6.19
2003/04	4886.1	3.88	1500.11	1.95	57.84	11.17	25.7	2.47	82.405	0.25	387.24	9.64
2004/05	6703.5	5.32	1583.03	2.06	15.01	2.89	37.1	3.57	185.11	0.56	231.49	5.76
2005/06	8081.98	6.42	1705.67	2.22	18.82	3.63	50.49	4.85	-	-	127.11	3.43
2006/07	10742.33	8.53	2175.03	2.83	32.4	6.25	72.34	6.95	-	-	137.9	3.43
Total	35386.32		9497.26		167.7		223.53		1201.005		1260.85	
Average	5055.19		1356.75		23.96		31.93		240.201		180.12	
S.D	3376.15		489.56		17.03		21.45		94.84		108.85	
C.V	0.668		0.36		0.71		0.67		0.39		0.60	

From the figures presented in the table, it has been observed that Saving Deposit of NIBL has a increasing trend and grew upto 8.35 times of what existed in the year 2000/01. During the study period between 2000/01 and 2006/07, saving deposit averaged Rs 5055.19 millions and the variations occurred by 66.8%

In the case of Current and other deposits, it has been observed that it has also the increasing trend and grew up to 2.83 times of what existed in the year 2000/01. Current and other deposits averaged Rs 1356.75 millions and the variations occurred by 36%

In the case of Bills Payable, it has increasing trend except in the year 2004/05. Bills payable grew up to 6.25 times of what existed in the year 2000/01. During the study period between 2000/01 and 2006/07, bills payable averaged Rs 23.96 millions and the variations occurred by 71%.

In staff bonus of NIBL, it has a increasing trend except in the year 2001/02. Staff bonus grew up to 6.95 times of what it existed in the year 2000/01. During the period between 2000/01 and 2006/07 staff bonus averaged Rs 31.93 millions and the variations occurred by 67%.

In Tax Provision of NIBL, it has a decreasing trend except in the year 2002/03. Tax Provision decreased up to 0.56 times of what existed in the year 2000/01. During the study period between 2000/01 and 2006/07, tax provision averaged Rs 240.201 and the variations occurred by 39%.

In Other Current Liabilities of NIBL, it has a increasing trend up to 2003/04 and thereafter it has a decreasing trend and decreased up to 3.43 times of what it existed in the year 2000/01. During the study period between 2000/01 and 2006/07 tax provision averaged Rs 180.12 and the variations occurred by 60%.

With regards the coefficient of variation of the different forms of current liabilities, the highest coefficient of variation is found in bills payable and the lowest in current and other deposits.

4.4. Ratio Analysis

As mentioned in research methodology, liquidity, turnover, capital structure and profitability ratios are calculated. To find the overall performance as well as general movement of important ratios, trend analysis is used.

4.4.1 Liquidity Ratios

A liquidity ratio is employed to measure the company's ability to meet short-term obligations. This ratio provides insight into the present cash solvency in the event of adverse financial condition. To measure the bank's liquidity position, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major liquidity ratios has been considered.

4.4.1.1 Current Ratio

This ratio measures the short term solvency, i.e. its ability to meet short term obligations. As a measure of creditors versus current assets, it indicates each rupee of current assets availability by dividing current assets by current liabilities.
The following table shows the current ratio of Nepal Investment Bank Limited.

Table 5
Current Ratio (Times)

(Rs. In Millions)

Year	Current Assets	Current Liabilities	Ratio(times)	Average Ratio(times)
2001/01	3228.69	2409.56	1.3	
2001/02	3337.2	2443.21	1.4	
2002/03	7361.23	4045.19	1.8	
2003/04	10961.45	6939.395	1.6	1.6
2004/05	14009.56	8755.24	1.6	
2005/06	18240.1	9984.07	1.8	
2006/07	23969.25	13160	1.8	
Total	81107.48	47736.67		
Average	11586.78	6819.52		
S.D	7167.60	3784.82		
C.V	0.62	0.55		
Growth Rate			0.086	

The table shows that the current assets of Nepal Investment Bank Ltd. are increasing over the study period. Likewise a current liability is also increasing in all the study period. In the context of current ratio, it is always fluctuating. It is 1.3 times in the first and 1.4 times in second year, 1.8 times in the third year but in fourth and fifth year it is decreasing to 1.6 times then after it is increasing continuously up to the last year. The ratio is highest in the year third, sixth and seventh with 1.8 times and lowest in the year first, second with 1.3 times, 1.4 times and fourth and fifth year with 1.6 times. The average current ratio is 1.6 times which is equal to fourth and fifth year. During the study period between year 2000/01 and 2006/07 the CA and CL averaged Rs 11586.78 & 6819.52 resp. and the variations occurred by 62%& 55% resp. The growth rate of current ratio is 0.086.

From the above analysis, it is concluded that although the bank is not meeting the standard ratio i.e. 2:1. Its current ratio can be considered good, as its current assets excess current liabilities. There is a decreasing trend of current ratio which implies that the bank is trying to utilize its idle money in income generating sector to increase its profitability. For the commercial banks liquid funds are essential but it should not keep huge amount of its funds in idle state rather it should employed such fund in earning extra profits.

4.4.1.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. For this study, cash and bank balance and government securities are included in quick assets.

The following table shows the quick ratio of Nepal Investment Bank Limited.

Table: 6

Quick Ratio (Times)

(Rs. In Millions)

Year	Quick Assets	Current Liabilities	Ratio(times)	Average Ratio(times)
2001/01	746.69	2409.56	0.3	
2001/02	563.32	2443.21	0.2	
2002/03	1366.54	4045.19	0.3	
2003/04	3538.02	6939.395	0.5	0.4
2004/05	3428.98	8755.24	0.4	
2005/06	4928.82	9984.07	0.5	
2006/07	6060.88	13160	0.5	
Total	20633.25	47736.67		
Average	2947.61	6819.52		
S.D	1971.71	3784.82		
C.V	0.68	0.55		
Growth Rate			0.13	

The above table depicts that the quick ratio of Nepal Investment Bank is always fluctuating over the study period. The ratio is highest in the fourth, sixth and seventh year with 0.5 times and lowest in the second year with 0.2 times. The average quick ratio is 0.4 times. In the fourth, sixth and seventh year the yearly quick ratio are lower than the average ratios. During the study period between 2000/01 to 2006/07 the quick assets and current liabilities averaged to Rs 2947.61 & 6819.52 resp. and the variations occurred by 68% &55% resp. The growth rate of quick ratio is 0.13.

The above analysis helps to conclude that the bank's yearly quick ratios are not meeting the standard ratio neither the average ratio is meeting the standard ratio. Even though this ratio can be regarded well because only keeping larger quick assets cannot help in the bank profitability.

4.4.1.3 Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposit)

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

Table: 7

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

(Rs. In Millions)

Fiscal year	Cash and Bank Balance	Deposit	Ratio(times)	Average Ratio(times)
2000/01	446.69	2597.55	0.17	
2001/02	338.92	3228.83	0.10	
2002/03	966.54	6249.95	0.15	
2003/04	1536.92	9230.32	0.17	0.14
2004/05	1480.48	11042.73	0.13	
2005/06	2406.52	13514.03	0.18	
2006/07	2804.48	20074.31	0.14	
Total	9980.55	65937.72		
Average	1425.79	9419.67		
S.D	864.27	5705.51		
C.V	0.61	0.61		
Growth Rate			0.02	

The table depicts that the ratio of Nepal Investment Bank is decreased in the study period. In the year 2005/06, the ratio is 0.18 times which highest ratio is and in the year 2001/02, the ratio is 0.10 times which the lowest ratio is. In the year 2000/01 and year 2003/04 the ratios are 0.17 times. In the year 2004/05 and the year 2006/07 the ratios are respectively 0.13 times and 0.14 times. During the study period between 2000/01 and 2006/07, the cash & bank balance and deposits averaged to Rs 1425.79 & 9419.67 resp. and the variations occurred by 61% on both . The growth rate of cash and bank balance to deposit ratio(excluding fixed deposit) is 0.02.

The above analysis helps to conclude that the bank's cash and bank balance is decreasing year by year which it is good as it can utilize idle balance into income generating sectors.

An idle cash and bank balance badly affects the profitability of bank as well. So this decreasing trend can be considered as a plus point of the bank but at the same time low cash and bank balance reduces the promptness of bank to repay its current margin call and saving deposits whenever demanded by its customers. This is the one thing the bank has to be careful about.

4.4.1.4 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 term in nature. It is find out by dividing the total amount of saving deposit by the amount of total deposit.

The following table shows the bank's saving deposit to total deposit ratio

Table: 8
Saving Deposit to Total Deposit Ratio

(Rs. In Millions)

Fiscal Year	Saving Deposit	Total Deposit	Ratio(times)	Average Ratio(times)
2000/01	1259.57	4256.21	0.30	
2001/02	1278.79	4174.76	0.31	
2002/03	2434.05	7922.77	0.31	
2003/04	4886.1	11525	0.42	0.37
2004/05	6703.51	14255	0.47	
2005/06	8081.98	18927	0.43	
2006/07	10742.33	27591	0.39	
Total	35386.33	88651.74		
Average	5055.19	12664.53		
S.D	3376.15	7847.72		
C.V	0.67	0.62		
Growth Rate			0.046	

The above table depicts that he amount of saving deposit is gradually increasing during the study period. The saving deposit to total deposit ratio is constant in second and third year but fifth year it increases than fifth year. The average ratio is 0.37 in the year 2003/04 to 2006/07 the ratios are highest than average. In the year 2000/01 to 2002/03 the ratio are lowest than average and the ratio is highest in the year 2004/05 i.e. fifth year with 0.47 and the lowest in the year 2000/01 i.e. the first year with 0.30. From the study the saving deposit and total deposit averaged to Rs 5055.19 &12664.53 resp. and the variations occurred by 67% & 62% resp. The growth rate of saving deposit to total deposit ratio is 0.046.

In compare to current, margin and other deposit, saving deposit is long term deposit. So the large amount of saving deposit in total deposit shows the high liquidity of the bank. For saving deposit bank has to pay interest but current margin and other deposit are non interest bearing deposits. That's why they are called nominal cost fund. As the bank has to pay interest on saving deposit, higher amount of saving deposit to total deposit increases the burden of interest payment of the bank, which may affect the profitability of the bank.

4.4.2 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 utilize their available resources.

4.4.2.1 Loan and Advances to Total Deposit Ratio

This ratio measures the extend to which banks are successful in utilizing the profit generating purpose. In other words how quickly collected total deposits are converted into loan and advances given to the clients to earn income. It is calculated as follows.

The following table shows the bank's loan and advances to total deposit ratio

Table: 9
Loans and Advances to Total Deposit Ratio

(Rs. In Millions)

Fiscal Year	Loans and Advances	Total Deposits	Ratio(times)	Average Ratio(times)
2000/01	2429	4256.21	0.57	
2001/02	2713.5	4174.76	0.65	
2002/03	5921.79	7922.77	0.75	
2003/04	7338	11525	0.64	0.67
2004/05	10453	14255	0.73	
2005/06	13178	18927	0.70	
2006/07	17769	27591	0.64	
Total	59802.29	88651.74		
Average	8543.18	12664.53		
S.D	5209.02	7847.72		
C.V	0.61	0.62		
Growth rate			0.02	

The above table depicts that the amount of loan and advances is increasing continuously over the study period. The average ratio is 0.67, which is higher than the year 2000/01, 2001/02, 2003/04 and 2006/07. In the year 2002/03, 2004/05 and 2005/06 the ratio is the highest than the average i.e. 0.75, 0.73 and 0.70 times. During the study period the loans and advances and total deposits averaged to Rs. 8543.18 &12664.53 resp. and the variations occurred by 61% & 62% resp. The growth rate of loan and advances to total deposit ratio is 0.02.

The above analysis helps to conclude that loan and advances to total deposit ratio or total deposit turnover ratio is satisfactory. It is employing its funds in income providing sectors.

4.4.2.2 Loans and Advances to Fixed Deposit Ratio

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

The following table shows the effective loans and advances to fixed deposit ratio

Table: 10
Loans and Advances to Fixed Deposit Ratio

(Rs. In Millions)

Fiscal Year	Loans and Advances	Fixed Deposits	Ratio(times)	Average Ratio(times)
2000/01	2429	1658.66	1.46	
2001/02	2713.5	945.93	2.87	
2002/03	5921.79	1672.82	3.55	
2003/04	7338	2294.68	3.20	2.73
2004/05	10453	3212.27	3.25	
2005/06	13178	5412.97	2.43	
2006/07	17769	7516.69	2.36	
Total	59802.29	22714.02		
Average	8543.18	3244.86		
S.D	5209.02	2207.96		
C.V	0.61	0.68		
Growth Rate			0.12	

The above table shows that the loan and advances to fixed deposit ratio is increasing till fifth year but after then it started to decrease. The ratio is the highest in the year 2002/03 i.e. third year with 3.55 and the lowest in the year 2000/01 i.e. in the first year with 1.46 times. The average ratio is 2.73 times which is higher than first sixth and seventh years but lowest in rest of the years. During the study period the loans & advances and fixed deposits averaged to Rs 8543.18 &3244.86 resp. and the variations occurred by 61% &68% resp. The growth rate of loans and advances to fixed deposit ratio is 0.12.

The above analysis helps to conclude that the bank is efficiently utilizing its fixed deposit in loans and advances so that it could earn more profit and reduces its idle balances.

4.4.2.3 Loan and Advances to Saving Deposit Ratio

This ratio is employed for the purpose of measuring the utilization of saving deposits in generating revenue by giving loans and advances to the client i.e. to what extent collected saving deposit amount is deploying in providing loans and advances to generate income. Saving deposit are interest bearing obligations for short term purpose whereas loans and advances are the short term investment for revenue income. This ratio indicates how many times short term interest bearing deposits for income generating purpose.
The following table shows the loans and advances to saving deposit ratio

Table: 11
Loans and Advances to Saving Deposit Ratio

(Rs. In Millions)

Fiscal Year	Loans and Advances	Saving Deposits	Ratio(times)	Average Ratio(times)
2000/01	2429	1259.57	1.93	
2001/02	2713.5	1278.79	2.12	
2002/03	5921.79	2434.05	2.43	
2003/04	7338	4886.1	1.50	1.83
2004/05	10453	6703.51	1.56	
2005/06	13178	8081.98	1.63	
2006/07	17769	10742.33	1.65	
Total	59802.29	35386.33		
Average	8543.18	5055.19		
S.D	5209.02	3376.15		
C.V	0.67	0.61		
Growth Rate			-0.22	

The above table depicts that the ratios of Nepal Investment Bank are fluctuating over the study period. The loans and advances to saving deposit ratio is 1.93 times in the first year i.e.2000/01 but it is increasing in the second and third year. In the fourth year it is tremendously decreasing then after it is increasing slightly. The highest ratio is 2.43 in the year 2002/03. The average ratio is 1.83 which is higher than fourth, fifth, sixth and seventh years, but it is lowest than in the first, second and third year. During the study period the loans & advances and savings deposits averaged to Rs 8543.18 &5055.19 resp. and the variations occurred by 67% &61% resp. The growth rate of loans and advances to saving deposit ratio is -0.22.

From the above analysis it can be concluded that the bank is utilizing short term of outsiders effectively

4.4.3 Capital Structure or Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long term obligations and remaining parts in the liabilities side of the balance sheet are termed as short term obligations. Both types of obligations are required in forming the capital structure of the firm. The long term financial position forms the capital structure of the firm. The long term financial of the firm is determined by the leverage or capital used by the firm.

4.4.3.1 Long Term Debt to Net worth Ratio

This ratio measures the proportion of outsiders and owners in the capitalization of bank. In the study amount of fixed deposit of the bank is considered as long term debt. It is calculated by dividing the fixed obligations of the banks by owners claim. The following table shows the long term debt to net worth ratio.

Table: 12
Long Term to Net worth Ratio

(Rs. In Millions)

Fiscal Year	Long Term Debt	Net Worth	Ratio(times)	Average Ratio(times)
2000/01	193.65	469.09	0.41	
2002/02	1658.66	523.47	3.17	
2002/03	945.66	638.54	1.48	
2003/04	1672.82	729.05	2.29	1.76
2004/05	2294.68	1180.17	1.94	
2005/06	2487.98	1415.44	1.76	
2006/07	2354.32	1878.12	1.25	
Total	11607.77	6833.88		
Average	1658.25	976.27		
S.D	777.45	490.66		
C.V	0.47	0.50		
Growth Rate			0.89	

The above table depicts that the long term debt to net worth ratio of the bank is the highest in the second year i.e. 2001/02 with 3.17 then after it falls down to 1.48 and again in 2003/04 it increases to 2.29 times and then starts to decrease till seventh year. The average ratio is 1.76 which is higher than first, third and seventh year and lower than second, fourth and fifth year. In the sixth year the ratio is equal to average ratio. During the study period the long term debt and net worth averaged to Rs 1658.25 &976.27 resp. and the variations occurred by 47% & 50% resp. The growth rate long term debt to net worth is 0.89.

From the above analysis, it is concluded that the long term debt to net worth ratios are little high which implies that the proportion of outsiders claim in total capitalization is high. The larger amount of fixed deposit makes ratios higher and it increases the cost also as the bank has to pay large amount of money as interest to fixed deposits. So, if the bank does not have the profitable and secured sectors to invest the collect funds, it should reduce to accept the fixed deposits.

4.4.3.2 Net Fixed Assets to Long Term Debt Ratio

This ratio is calculated to find out how many times net fixed assets are in comparison to the fixed liabilities. Here a net fixed asset consists of both physical and financial assets and long term debt consists of fixed deposits.
The following table shows the net fixed assets to long term debt ratio

Table: 13
Net Fixed Assets to Long Term Debt Ratio

(Rs. In Millions)

Fiscal Year	Net Fixed Assets	Long Term Debt	Ratio(times)	Average Ratio(times)
2000/01	33.97	193.65	0.18	
2001/02	35.88	1658.66	0.02	
2002/03	191.12	945.66	0.20	
2003/04	249.79	1672.82	0.15	0.16
2004/05	320.59	2294.68	0.14	
2005/06	343.45	2487.98	0.14	
2006/07	759.46	2354.32	0.32	
Total	1934.26	11607.77		
Average	276.32	1658.25		
S.D	228.16	777.45		
C.V	0.83	0.47		
Growth Rate			1.29	

The table depicts that the ratio are fluctuating over the study period. The ratios are increasing up to second year then after it is up and down. The highest ratio is in the year 2006/07 i.e. 0.32 and the lowest ratio is in the year 2001/02 i.e. 0.02. The average ratio is 0.16 which is highest than second, fourth, fifth and sixth year and lower than first, third and seventh. During the study period the net fixed assets and long term debt averaged to Rs 276.32 & 1658.25 resp. and the variations occurred by 83% &47% resp. The growth rate of net fixed assets and long term debt ratio is 1.29.

From the above analysis, it is concluded that net fixed assets covers very low portion of long term debt. It means large portion of long term debt is used in the capital formation of the bank.

4.4.4 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. Through profitability ratios the lender and investors want to decide whether to invest to in a particular business or not. Some of the important profitability ratios used is as follows.

4.4.4.1 Interest Earned to Total Assets Ratio

This ratio helps to find out how much a firm has earned interest from its investment with reference to its total assets. This is derived by dividing the amount of interest earned (Income from Interest) by the total assets of the firm.

The following table shows the interest earned to total assets ratio of Nepal Investment Bank Limited.

Table: 14
Interest Earned to Total Assets Ratio

(Rs. In Millions)

Fiscal Year	Interest Earned	Total Assets	Ratio(times)	Average Ratio(times)
`2000/01	186.33	5017.17	0.037	
2001/02	195.79	4973.81	0.039	
2002/03	270.3	9014	0.030	
2003/04	405.2	13255	0.031	0.033
2004/05	532.25	16274	0.033	
2005/06	681.8	21330	0.032	
2006/07	899.46	27591	0.033	
Total	3171.13	97454.98		
Average	453.02	13922.14		
S.D	248.10	7848.12		
C.V	0.55	0.56		
Growth Rate			-0.011	

The table shows that the ratio is fluctuating over the study period. In the second year ratio is increasing as compare to first year. In the third year it is decreasing to 0.30. The highest ratio is in the second year 2001/02 with 0.039 times and the lowest is in the year 2002/03 with 0.030 times. The average ratio is 0.033 times which is equal to year fifth and the seventh. During the study period the interest earned and total assets averaged to Rs 453.02 &13922.14 resp. and the variations occurred by 55% &56% resp. The growth rate of interest earned to total assets ratio is -0.011.

The above analysis helps to conclude that the bank is mobilizing its total assets (funds) to earn interest income by providing loan and advances to its different types of customers.

4.4.4.2 Net Profit to Total Assets Ratios

This ratio helps to find out the profitability of all financial resources invested in the firm's assets. The return on assets or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets employed.

The following table shows the net profit to total assets ratio

Table: 15
Net Profit to Total Assets Ratio (%)

(Rs. In Million)

Fiscal Year	Net Profit	Total Assets	Ratio(times)	Average(times)
2000/01	52.32	5017.17	0.010	
2001/02	57.11	4973.81	0.011	
2002/03	116.82	9014	0.013	
2003/04	152.67	13255	0.012	0.013
2004/05	232.15	16274	0.014	
2005/06	350	21330	0.016	
2006/07	501	27591	0.018	
Total	1462.07	97454.98		
Average	208.87	13922.14		
S.D	153.52	7848.12		
C.V	0.73	0.56		
Growth Rate			0.09	

The table depicts that the overall profitability ratio or net profit to total assets ratio is low. In the study period, the highest ratio is in the year 2006/07 i.e. with 1.8% and the lowest ratio is in the year 2000/01 with 1%. The average ratio is 1.4% which is higher in first, second, third and fourth year and lower in sixth and seventh year. In the fifth year the ratio is equal to average ratio. During the study period the net profit and total assets averaged to Rs 208.87 &13922.14 resp. and the variations occurred by 73% &56% resp. The growth rate of net profit to total assets ratio is 0.09.

The above analysis helps to conclude that the profitability is not satisfactory. The bank should use its working fund efficiently to earn higher rates of profit. Increasing and decreasing ratios indicate that the growth rate of the firm is not stable.

4.4.4.3 Net Profit to Total Deposit Ratio

Collected deposits are mobilized by the bank through giving loan and advances to different individual's and institutions with a purpose to earn revenue. The ratio measures the percentage of profit earned from the utilization of the total deposits. It is calculated as follows.

The following table shows the net profit to total deposit ratio

Table: 16
Net Profit to Total Deposit Ratio (%)

(Rs. In Millions)

Fiscal Year	Net Profit	Total Deposit	Ratio(times)	Average Ratio(times)
2000/01	52.32	4256.21	0.012	
2001/02	57.11	4174.76	0.013	
2002/03	116.82	7922.77	0.015	
2003/04	152.67	11525	0.013	0.015
2004/05	232.15	14255	0.016	
2005/06	350	18927	0.018	
2006/07	501	27591	0.018	
Total	1462.07	88651.74		
Average	208.87	12664.53		
S.D	153.52	7847.72		
C.V	0.73	0.62		
Growth Rate			0.065	

The table depicts that the ratios are up and down. In the year 2000/01 the ratio is 0.012 and it increases up to third year and then decreases from onward to seventh year. The average ratio is 0.015 which is higher than first, second and fourth. In third year the ratio is equal to average. In the fifth, sixth and the seventh year the ratios are lower than average. During the study period the net profit and total deposit averaged to Rs 208.87 &12664.53 resp. and the variations occurred by 73% &62% resp. The growth rate of net profit to total deposit ratio is 0.065.

The above analysis helps to conclude that the bank has improved its net profit to total deposit in last and it must give continuity to this step. For any commercial bank mobilization of outsiders fund is very crucial to earn profit.

4.5 Trend Analysis

The tools that are used to show grandly increase or decrease of variables over a period of time is known as Trend Analysis. With the help of trend analysis the tendency of variable over the period can be seen clearly.

4.5.1 Trend Analysis of Cash and Bank Balance

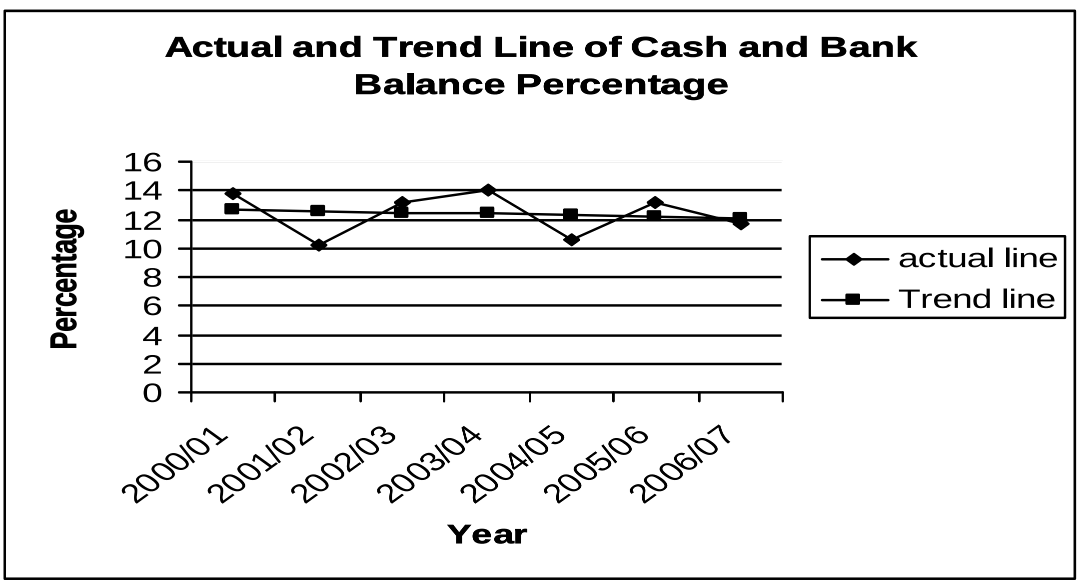
From the above calculations of cash and bank balance percentage trend as per appendix 5, the value of the constraints ‘a’ and ‘b’ are as follows:

a= 12.79

b= -0.104

The rate of change on cash and bank balance percentage ‘b’ is negative which implies that the bank has decreasing trend of cash and bank balance percentage to total current and bank balance and vice versa. Greater the negative value of ‘b’ faster the decline in cash and bank balance and vice versa. Higher negative trend value of cash and bank balance percentage indicates the better utilization of cash on productive field.

Figure 2



(Source: Appendix 1)

In the figure, downward sloping trend line depicts that the cash and bank balance percentage to total current assets is decreasing. Comparing the actual and trend line, we can find out the trend line is higher in the first year. In the first, third, fourth and sixth years the actual line is higher than trend line. In the second and fifth year, the actual is lower than trend line.

4.5.2 Trend of Loan and Advance

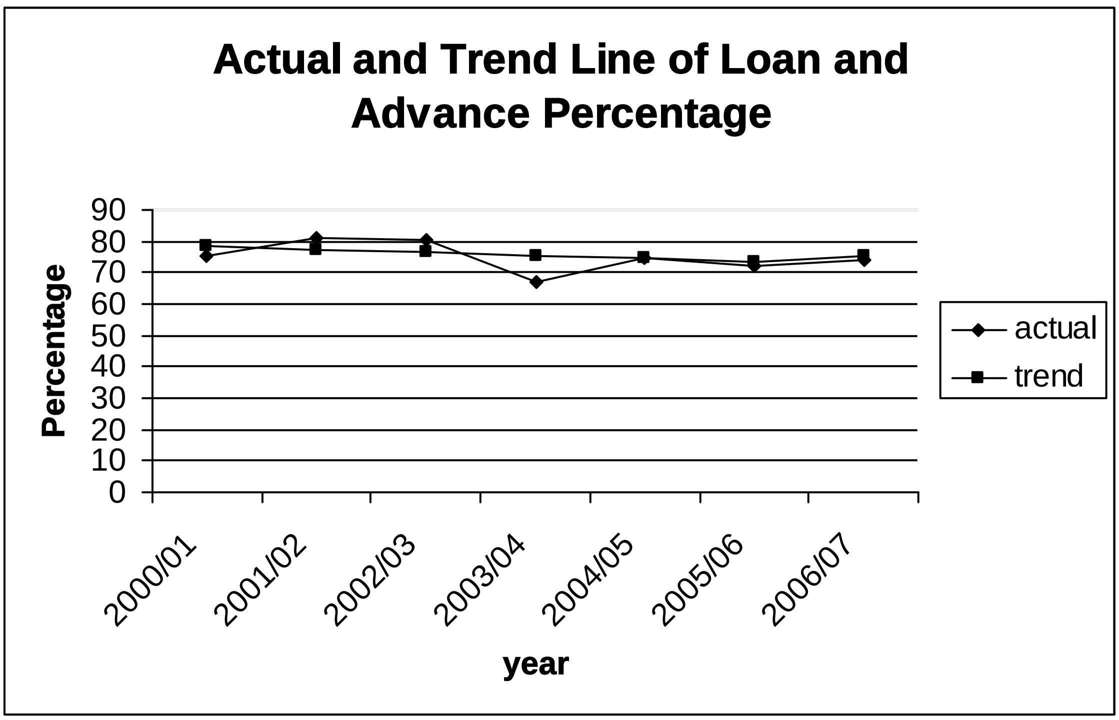
From the calculations of loan and advances percentage trend as per appendix 6, the value of the constraints 'a' and 'b' are as follows:

a= 79.30

b= -0.97

The rate of change on loan and advances percentage 'b' is positive which implies increasing loan and advances percentage to total assets.

Figure 3



(Source: Appendix 2)

The figure shows that the trend line is straightly decreasing and the actual line is sometimes decreasing and sometimes increasing. The trend line is higher in the first and fourth year than actual line. In the fifth, sixth and seventh years, trend line is seem to be equal with actual line. In the second and third year trend line is lower than actual line. Increasing trend of loan and advances shows the positive sign that bank is utilizing more of its current assets in income generating sector. Decreasing trend shows the bank is not utilizing more its current assets in income generating sector.

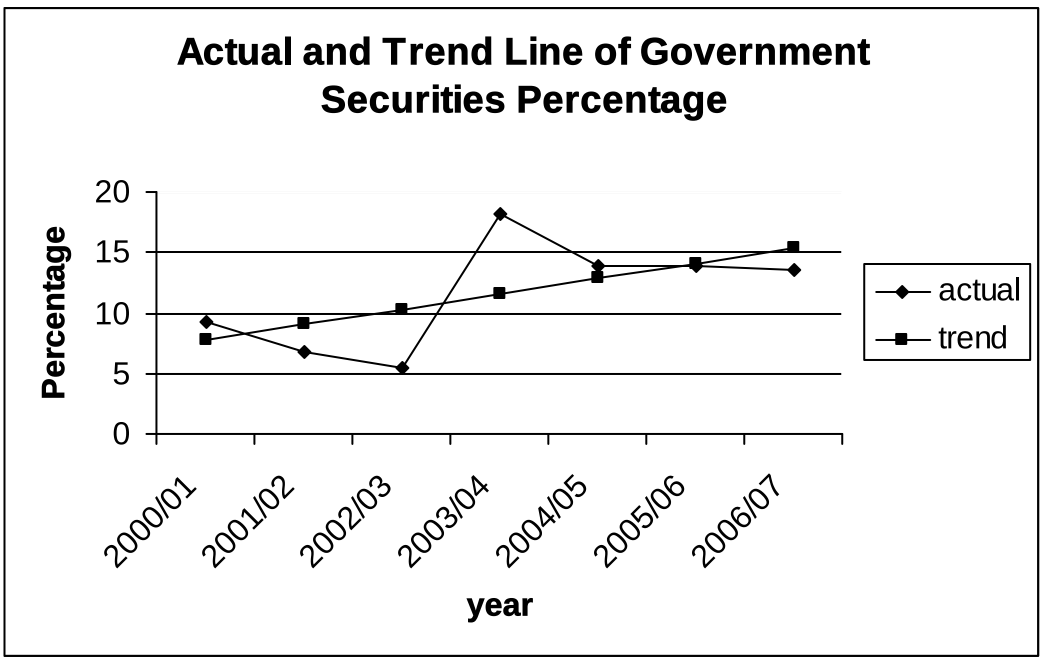
4.5.3 Trend of Government Securities

From the calculations of government securities percentage trend as per appendix 7, the value of constant 'a' and 'b' are as follows

a= 6.50
b= 1.27

The rate of change on government securities percentage 'b' is positive which implies increasing government securities percentage to total current assets.

Figure 4



(Source: Appendix 3)

The figure depicts that the trend line of government securities is upward sloping, which indicates increase investment in government securities, but actual line is fluctuating over the study period. Government securities are the fastest source of current assets. It has got high liquidity and zero risk so the bank should give priority to invest in government securities rather than loan and advances because it has high risk of bad debt.

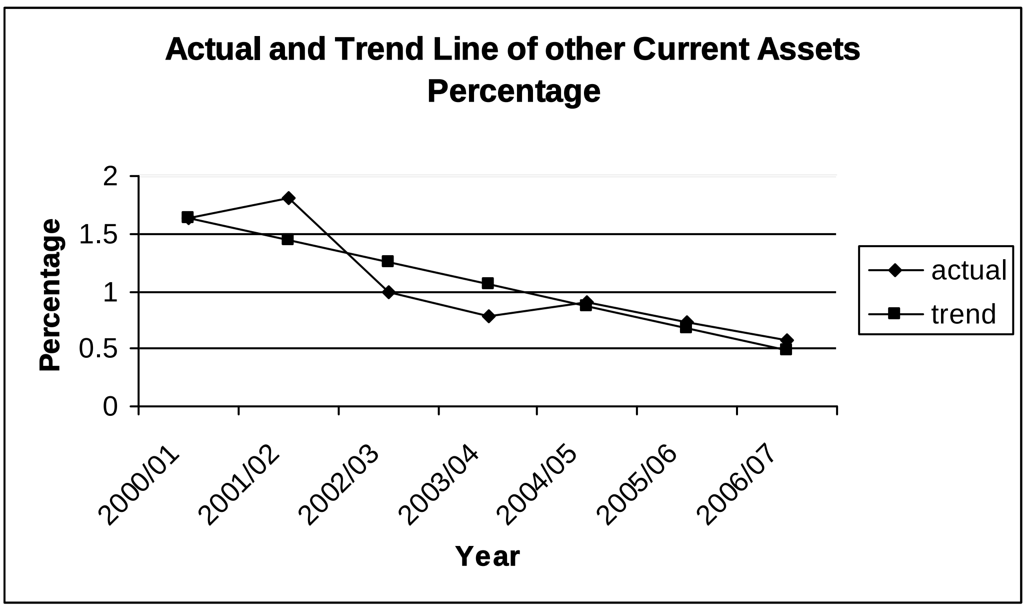
4.5.4 Trend of Other Current Assets

From the calculation of other current assets percentage trend as per appendix 8, the value of constant ‘a’ and ‘b’ are as follows:

a= 1.82
b= -0.19

The rate of change on other current assets percentage ‘b’ is negative which implies that the bank has decreasing trend of other current assets percentage to total assets. Greater the negative value of ‘b’ faster the decline in other current assets and vice versa. Higher negative trend value of other current assets percentage indicates the better utilization of other current assets on productive field.

Figure 5



(Source: Appendix 4)

In the figure, downward sloping trend line depicts that the other current assets percentage to total current assets is decreasing. Comparing the actual and trend line, we can find out that the trend line is higher in the third year and the fourth year and in the fifth, sixth and seventh year trend lines seem equal to actual line. In the rest of the year the actual line is higher to trend line which indicates Nepal Investment Bank can still reduce its other current assets percentage on total current assets so it will be able to utilize its resources in profit earning areas.

4.5.5 Trend of Current Ratio

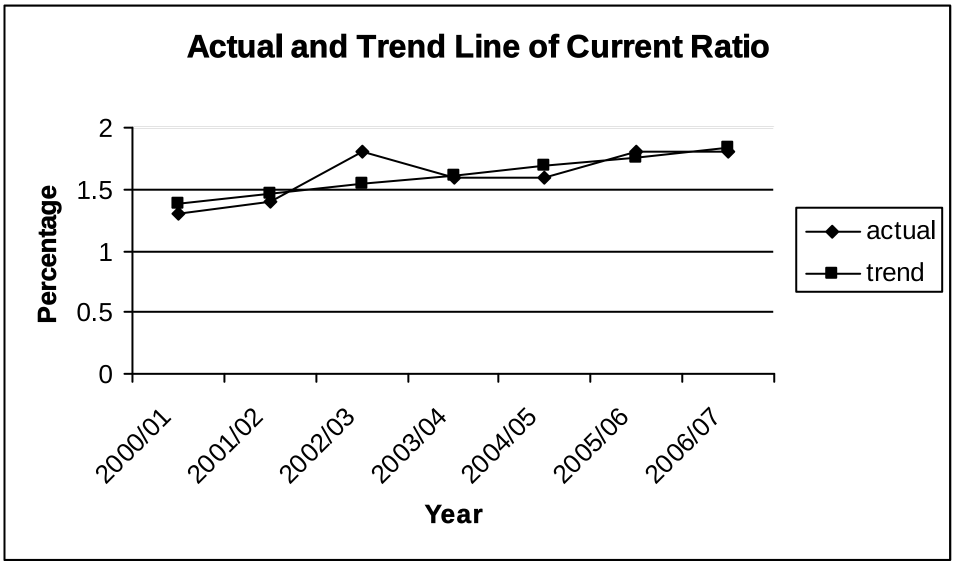
From the calculations of current ratio trend as per the appendix 9, the value of the constraints ‘a’ and ‘b’ are as follows:

a= 1.31

b= 0.075

The rate of change in current ratio 'b' of the bank is positive which implies the increasing trend of current ratio.

Figure 6



(Source: Appendix 5)

The figure depicts that the trend line of the bank is slightly increasing and at the third year, the trend line is lower than actual line. In first, second and fifth year the trend line is higher than actual line. In the fourth, six and seventh year trend line is equal to actual line and rest of the years trend line is lower than actual line. The above analysis helps to conclude that the liquidity position of Nepal Investment Bank is not meeting standard i.e. 2:1 time's ratio but the ratio are close to standard ratio.

4.5.6 Trend of Quick Ratio

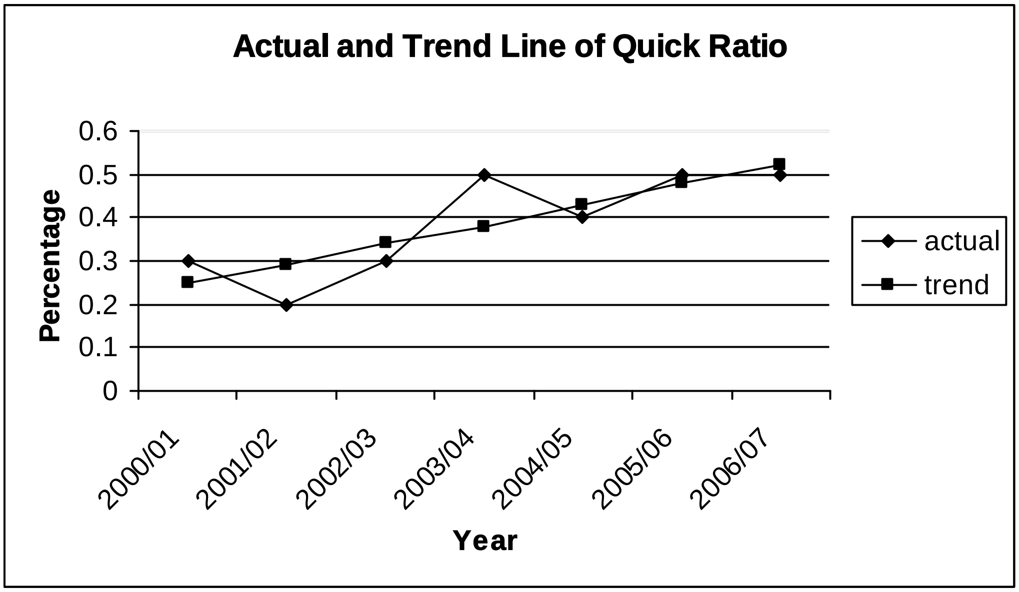
From the calculation of quick ratio trend as per the appendix 10, the value of the constant 'a' and 'b' are as follows:

a= 0.20

b= 0.046

The rate of change in current ratio 'b' of the bank is positive which implies the increasing trend of quick ratio.

Figure 7



(Source: Appendix 6)

The figure depicts that the trend line is slowly but continuously increasing and the actual line is fluctuating over the study period. The above analysis helps to conclude that the bank is not meeting the standard ratio even though the ratios are satisfactory.

4.6 Correlation Analysis

Correlation Analysis is the statistical tool, which measures the relationship between two or more characteristics of a population or a sample. In other words, it describes the degree of relationship between two variables (i.e. independent and dependent) is calculated. Under this chapter the mostly used method in practice is Karl Pearson's correlation coefficient for calculation the degree of relationship between two variables. This correlation coefficient is calculated directly using the Microsoft Excel. It is calculated by inputting the data directly in two ways of command.

Using Standard Error (S. Er) where,

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

$$P.E.\ (r) = 0.6745 \times S.E\ (r)$$

The Probable Error is used to test whether the calculated value of sample correlation coefficient is significant or not. A few rules for the interpretation of the significance of correlation coefficient are as follows:

i. If r <P.E.(r), then the value of ‘r’ is not significant (i.e. insignificant)
ii. If r > P.E. (r), then r is definitely significant.
iii. In other situations, nothing can be calculated with certainty.

4.6.1 Co-efficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and Bank balances are most liquid component of current assets. This is required to meet the unexpected short term obligations i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are done.

The following table shows the coefficient of correlation between cash and bank balance and current liabilities.

Table 17
Result of Co-efficient Correlation

Correlation (r)	R2	PEr	6PEr
0.97	0.9409	0.01504	0.090

(Sources: Appendix 7)

The table shows that the correlation between cash and bank balance and current liabilities is 0.97. It shows positive relationship between these two variables. By considering the probable error, since the value of ‘r’ i.e. 0.97 is greater than six times of PEr i.e. 0.090, so it can be concluded that there is significant difference between cash and bank balance and current liabilities.

4.6.2 Co-efficient of Correlation between Investment on Government Security and Total Deposit

The coefficient of correlation between investment on government security and total deposit is to measure the degree of relationship between government security and total deposit. Bank utilizes its collected deposit loans and advances as well as in government securities. But commercial banks uses larger amount of deposits on loans and advances. Only the idle deposits 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 whether there is any relationship between these two variables. The table shows the coefficient of between these two variables. The following table shows the coefficient of correlation between deposits and government securities i.e. Correlation (r), Probable Error (PEr), 6PEr.

Table No. 18
Result of Coefficient Correlation

Correlation (r)	R^2	PEr	6PEr
0.95	0.9025	0.0248	0.12

(Sources: Appendix 8)

The above table depicts that the coefficient of correlation between government securities and total deposit value ‘r’ is 0.95. It shows positive relation between these two variables. By considering the probable error, since the value of ‘r’ i.e. 0.95 is higher than six times of PEr i.e. 0.12, so it can be said that there is significant relationship between investment of government securities and total deposits.

4.6.3 Coefficient of correlation between loan and advances 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 deposits. In correlation analysis, a deposit is independent variable (Y) and loan and advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits are significant 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 advances and total deposits.

Table 19
Result of Coefficient Correlation

Correlation (r)	R^2	PEr	6PEr
0.99	0.9801	0.0051	0.031

(Sources: Appendix 9)

The above table depicts that the correlation coefficient between loan and advances and total deposits ‘r’ is 0.99, which shows highly positive relationship between these two variables. By considering the probable error, since the value of ‘r’ i.e. 0.99 is higher than six times of PEr i.e. 0.031, it can be concluded that there is significant relationship between total deposits and loans and advances.

4.6.4 Coefficient of correlation between Loans and Advances and Net Profit

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

The following table shows the coefficient of correlation between loans and advances and Net Profit.

Table 20
Result of Coefficient Correlation

Correlation (r)	R^2	PEr	6PEr
0.99	0.9801	0.0051	0.031

(Sources: Appendix 10)
The table shows that the coefficient of correlation between loans and advances and net profit 'r' is 0.99, which shows the positive relationship between loan and advances and net profit. By considering the probable error, since the value of 'r' i.e. 0.99 is higher than 6PEr i.e. 0.031, it can be concluded that there is significant relation between loan and advances and net profit.

4.7 Multiple Regressions of Cash and Bank Balance on Total Deposit and Loan and Advances

Regression is the estimation of unknown values or prediction of one variable from known values of other variables. Multiple regression analysis is a logical extension of the simple independent variable; two or more independent variable is used to estimate the unknown values of a dependent variables.
The multiple regression equation of dependent variable Y on two independent variables X1 and X2 is given by

Y = a + b1X1 +b2X2 ……………………. (1)

Where,
Y = Cash and Bank Balance (Dependent Variable)
X1 = Total Deposits (Independent Variable)
X2 = Loan and Advance (Independent Variable)
A = Constant Value
b1 =Coefficient of Total Deposit
b2 = Coefficient of Loan and Advance

The result of the regression equation is shown as follows:

a= 0.06

b1= 0.044

b2= 0.095

Now substituting these values in equation (1), we get estimated regression equation of Y on X1 and X2

$$Y = 0.06 + 0.044X1 + 0.095X2$$

The standard error of estimated measure the variability or scattered of the observed value around the multiple regression line. The reliability of the estimates obtained through regression equation is studied through the calculation of standard error of estimate. The standard error estimate of dependent variable Y on two independent variables X1 and X2 is 0.21.

4.8 Major Findings

The major findings of this study during the period of seven years in Nepal Investment Bank Limited from the analysis are summarized below:-

1. The major components of current assets in Nepal Investment Bank Limited are cash and bank balance, loans and advances, and government securities, other current assets and are also the components of the current assets. The average percentage covered by these components during the study are cash and bank balance is 12.37%, loans and advances is 71.99%, government securities is 11.58%, and other current assets is 1.06%. It shows that the average percentage of loans and advances is higher and then in the second place comes cash and bank balance after those come government securities. Other current assets hold very little percentage of total current assets. The trend value of loans and advances and government securities proportion are positive and trend value of cash and bank balance and other current assets is negative, which implies that Nepal Investment Bank Limited is investing its current assets in income generating sectors. The trend value shows that the management of loan and advances is problematic in the bank's current assets management.

2. Among the major four current assets components, government securities hold the smallest portion and it is fluctuating every year with in the study period. The ratios range from 18.23% to 5.43%. The total average percentage of loan and advances and government securities are 71.99% and 11.58% respectively. It shows that the interest income is satisfactory.

3. The liquidity position of bank is analyzed with the current ratio, quick ratio, cash and bank balance to deposit ratio and cash bank balance to current margin and other deposit ratio. The current ratio is ranging from 1.8 to 1.3. Nepal Investment Bank Limited has maintained its current ratio of 1.6 is an average over the study period. The current assets ratio trend is negative. The average quick ratio is 0.4. So, it is found that the current ratio and quick ratio of the bank can be considered good but still it is not meeting the standard

ratio i.e.2:1 and 1:1 respectively. The trend of quick ratio and current ratio are decreasing which shows that the bank is trying to reduce its idle cash and bank balance. Therefore higher liquidity is not always the cause of lower profitability.

4. Saving deposit to total ratios are ranging in between 47% to 49% with an average ratio is 37%. It shows that the bank has only 37% deposit on saving account out of total deposit which can be considered little low because saving deposit are less costly than fixed deposit.

5. The average value of loan and advance to total deposit ratio, loan and advances to fixed deposit ratio and loan and advances to saving deposit ratio are 0.67, 2.73 and 1.83 respectively. The trend of these ratios are either fluctuating or decreasing. From the analysis of turnover it is found that the bank is utilizing its deposit in income generating activities and it shows that the bank has better investment efficiency on loans and advances.

6. The average long term debt to net worth and net fixed assets ratio to long term debt ratio are 1.76 and 0.16 respectively. It shows that the net fixed assets covers very low portion of long term debt. So, it is found that the large portion of long term debt is used in current assets of the bank. It also shows that the bank follows the conservative working capital policy. Due to conservative working capital policy risk of insolvency is lesser but cost of fund is higher.

7. Profitability is the measure of efficiency. The profitability position of Nepal Investment Bank Limited is analyzed from various angles. The average value of interest earned to total assets ratio is 3.3%. The trend value of interest earned is fluctuating. The average net profit to total assets, net profit to total deposit ratio, and is 1.4% and 1.5% respectively.

8. Coefficient correlation between cash and bank balance and current liabilities is 0.97. It shows that the holding of cash and bank balance is not related with current liabilities.

9. Correlation between investment on government security and total deposit are significant. It shows that there is close relationship between investment on government securities and total deposits. This significant correlation between government securities and total deposits shows that the cash balances are invested on government securities there are more opportunities to invest on loan and advances. Loan and advances and total deposits are significantly correlated with coefficient value r = 0.99. It shows that the bank utilizes its total deposit on loan and advances affectively.

10. Coefficient of correlation between loan and advances and net profit is 0.99 which is more than 6PEr. It shows that the net profit is significantly related with loan and advances. It shows that the change on loan and advances change the amount of profit significantly.

11. The standard error of estimates measure the closeness of estimates derived from the regression equation to actual observed value. From above regression analysis, standard error of dependent variable cash and bank balance on two independent variable total deposit and loan advances is 0.21.

CHAPTER 5

SUMMARY, CONCLUSION, AND RECOMMENDATION

5.1. Summary

This Chapter highlights some summary, conclusion and recommendation on the basis of the major findings of the study. This chapter includes two aspects of the study. A first aspect of the study focuses on the summary and making conclusion, the second aspects of the study focuses on making some useful suggestion and recommendations.

Financial institutions like banks are the replica of modernization of the society and play the vital role in the development of the economic development of the country; economic activity could not survive without the continuing flow of money and credit in the market. The economy of all market oriented nations depends on the efficient operations of complex and delicately balanced system of money and credit. Banks are indispensable element in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bulk of the money supply as well as the primary means of facilitating the flow of credit.

Success of the bank is guided by the performance by the bank. The effective performance in every aspects of banking helps the bank to be efficient and profitable by minimizing the inherent risk. A healthy development of any commercial banks depends upon its high quality performance. A good performance attracts both borrowers and lender, which helps to increase the volume and quality of deposit, loans and investment.

A commercial bank should mobilize its deposits and other funds to secured, profitable and marketable sector so that it can be easily liquidated when necessary. Therefore when loan investments are made, it should analyze all the aspects of good lending practices so that it would gain profit on the transaction of loan. Investment policy provides guidelines to handle their investment operation smoothly ensuring maximum return with minimum exposure towards.

The main purpose of this study is to make familiar about the working capital management as well as financial performance of Nepal Investment Bank Limited to the readers. Among many joint ventures banks, Nepal Investment Bank Limited is one of them. To make this thesis more understandable to the readers available data and information are presented in different suitable table, diagrams with appropriate analysis and interpretations. This thesis work has been divided into five chapters. They are : Introduction, Review of Literature, Research Methodology, Presentation and Data Analysis and finally Summary, Findings and Recommendations. To carry out thesis work secondary data have been used. The necessary data are derived from the balance sheet and profit and loss account of Nepal Investment Bank Limited for the period of seven years from the year 2000/01 to 2006/07.

To fulfill the objectives mentioned in chapter one, a suitable research methodology has been developed, which includes the ratio analysis as a financial tool and trend analysis and correlation as statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity position, turnover position, capital structure position and profitability position. Under these main ratios, their trend values are also studied in the chapter four. In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient 'r' is calculated and analyzed. And in this chapter findings of the whole study and some suggestions and recommendations, which can be used by the concerned bank to improve its present situation, has been presented.

5.2 Conclusion

In conclusion, it can be said that two or more persons are required to direct the joint venture banks. It is mutual agreement, which operate under the supervision and direction of the two or more persons. Joint venture banks are financial intermediaries, financing deficits units with money deposited with them by surplus units. Banks should have optimal policy to collect the deposit in various accounts. Deposits are the major organ of the joint venture bank to live in the industry.

Higher the deposit higher will be the chance to operate day to day transaction and make profit there on. Banks should not invest their fund haphazardly. It should be careful while advancing loan because loan is the blood of joint venture banks for survival. If joint venture bank does not apply sound working capital management it will be in the great problem in future to operate day to day transaction, hence the possible of bankruptcy there on. Bank should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate on their working capital in little organization there is the high chance of default risk. Diversification is indeed need to all the business houses but it has seen immense importance to joint venture banks. Diversification of working capital is very much important to joint venture banks than other business houses because bank use the money of other people for the benefit of its own. And lastly it can be said that banks are important for the nation. It helps in the capital formation to the nation, which is the most important for the nation. It helps in the capital formation to the nation, which is the most important element for the economic growth of the country. Capital helps to solve the various problems arising in the country. In overall it can be concluded that the working capital management have both positive and negative impacts. The conclusions of analysis are as follows:

1. The liquidity position of Nepal Investment Bank Limited is not meeting the standard ratio i.e. 2:1 its current ratio and 1:1 in quick ratio it can be considered good, as its current assets excess current liabilities. There is decreasing trend of quick ratio, current ratio which implies that the bank is trying to utilize its idle money in income generating sector to increase its profitability.
2. The activity position of Nepal Investment Bank Limited is satisfactory. It is employing its funds in income providing sectors. There is efficiency utilizing of its fixed deposit in loan and advances so that it could earn more profit and reduce its idle balances.

3. The profitability position of Nepal Investment Bank Limited is not satisfactory. The bank should use its working fund efficiently to earn higher rate of profit. The bank has improved its net profit to total deposit ratio in last and it must give continuity to this step.

4. The capital structure position of Nepal Investment Bank Limited is high in fixed deposit. Net fixed assets cover the low portion of long term debt.

5. There is increasing trend of loan and advance and government securities and decreasing trend of cash and bank balance and other current assets.

6. The coefficient of correlation between investment in government securities and total deposit and between loans and advances and total deposits and between cash and bank balance and current liabilities is significant. Also loan and advance and net profit is significant.

7. The multiple regressions in between cash and bank balance, loans and advances and total deposits are satisfactory and its standard error is 0.21.

5.3 Recommendations

On the basis of the above study, following recommendations are being made:

1. Out of the total current assets, proportion of loan and advances is more than 50% in average, which can be considered as good but this proportion is fluctuating over the study period. Bank should give first priority to invest its fund on loan and advances to get higher return. So, the bank in any case should not decrease its investment in loans and advances below 50% of total current assets.

2. Total deposit turnover position of bank is less than one. Fixed deposits and saving deposits turnover are also not satisfactory. Due to the poor turnover position the chances of bad debt and non earning idle funds are high. So, the bank should give proper attention on collection of over dated loans and advances and utilization of idle funds in more productive sectors.

3. Although interest earned to total assets ratio is higher but net profit ratio is less. It is due to higher cost of fund used by bank so the bank should reduce its cost through reducing high cost deposit and operating in proper way so that it can have least operating cost which further maximize its profitability and maximize shareholders return.

4. By adopting the matching working capital management policy instead of adopting conservative working capital policy, the bank can improve in its profitability in the short run as well as in the long run.

5. Proportion of saving deposit to total deposit is less than 50%. Due to less costly sources of funds in saving deposit than fixed deposit, the bank should try to increase its saving deposit accounts balance than other account.

6. Although the bank has almost 28 branches, all branches are operating in the major cities of kingdom. Nepal Investment Bank Limited should implement government plan and policies and share social responsibility. So, Nepal Investment Bank should expand its operation on villages as well as in remote areas of the country to provide banking services with a purpose to enhance economic condition of people all over Nepal.

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