CHAPTER - I

INTRODUCTION

1.1 Background of the Study

A Bank is an institution, which deals in money , it on deposit from customers, honoring customer's drawing against such deposits on demands, collecting cheques for customers and lending or investing surplus deposits until they are required for repayment. In the present days various types of banks are established. For instance, Commercial Banks, Industrial Bank, Agricultural Bank, Joint Venture Bank, Cooperative Bank & Development Bank.

Modern banks are well equipped then the old banks this is because of the growth in population changes occurred in the industrial field & trade, they beginning of the competitive age & changes in the people's ideology and due to the dependence on each other.

According to the Thomson's Dictionary: Word 'Bank' is said to be derived from the Italian word 'Banco' a bench, the yearly bankers the Jews in Lombardy, transacted their business at benches in the market place.

In a common sense an institution involved in monetary transaction is called bank. A bank simply carries on the work of exchanging money, providing loan, accepting deposit and transferring the money. Nepal Rastra Bank Act 2058 section 2 (a) defines bank as follows: Bank means the Nepal Rastra Bank established under section of this act, likewise, according to section 2 (b) of the commercial Bank Act 2031 A commercial bank established under the Act. Though the Banks established by both of these acts are called bank. In addition of this, Section 2 (a) of the negotiable Instrument Act 2034 defines that a bank which established under the existing law shall be called bank.

The economic development of the country is not just happened, there should be establishment of various business and non/business organization for the purpose of contributing in economic development of the country both monetary and non/monetary sector should be established. Banks are the monitory unit of national economy. Bank of Kathmandu and Everest Bank limited are the most reputed banks operated in Nepal to perform the monetary activities under the regulation of central bank (NRB) .Organized banks are not the pioneer of financial transaction, there were lot of actors who contributed to this field. Even before the establishment of banking system in Nepal, financing transaction was in practice as under taken by some money lenders like Sahu/mahajan and Jamindars. The transaction that held during those days was not in organized manner. Such unorganized way of financial affair could not direct the nation towards the economic development. Hence, to fulfill the growing need of economy, Nepal Bank Ltd. came into existence in 1994 B.S. as a pioneer commercial bank of Nepal. Even central bank was established after the existence of Nepal Bank Ltd.

Nepal Bank Ltd established with Rs. 800000 paid up capital to consolidate scattered capital and to mobilize towards productive sectors. It developed the systematic tradition and culture of modern banking system in Nepal. Such system could able to establish a strong base for the upliftment of the national economy.

In the year 2013 Baisakh 14, Nepal Rastra Bank has been established under Nepal Rastra bank Act 2012. Nepal Rastra bank is a central bank of Nepal and also the bank of the other commercial bank. Keeping monetary stability, management of national currency, distribution and stabilize the exchange rate are the key function of NRB, NIDC, Rastriya Banijya Bank and Agriculture development bank are the other actor on financial transaction RBB is the second commercial bank established on the year 2024. Nepal Bank Ltd and Rastriya Banijya Bank have made a remarkable contribution by providing reliable banking service to the Nepalese people. Beside this, its contribution is well noted in terms of capital formation by converting the small dispersed saving into meaningful capital investment in order to flourish industry trade, agriculture and commercial sector in the economy.

In the year 2031 commercial bank act has been introduced in Nepal. This act has helped to emerge number of commercial bank with a view to maintain the economic interest and comfort of the public in general; facilitate to provide loan for agriculture; industry and trade and make available banking service to the country and the people. Now commercial banks are operated under the directive of NRB and NRB Act 2058. There is also existence of bank and financial institution ordinance (BAFIO) to operate commercial bank on the new climate. After the liberalization in the decade of 2050 various commercial bank started to provide the service in the field of monetary sector of nation. Number of finance company and saving and credit cooperative institution has been established to provide monetary service to the nation.

1.2 Nepalese Financial System

Financial Institutions perform their activities as intermediaries in the financial market. They cater the need of depositors and borrowers by efficiently channelizing the fund from surplus to deficit units. While satisfying various financial needs of customers, they offer proliferated financial services and thereby create economic value. Nepalese financial sector comprises of both banks and other non-bank financial institutions. Due to the liberal licensing policy adopted by Nepal Rastra Bank, there are growing numbers of development banks and finance companies. Besides, there are micro –credit development banks, NGOs and postal saving offices that undertake limited banking and near banking financial services. Non bank financial sector comprises saving funds and trusts like employee provident fund, Citizen Investment Trusts and Insurance Companies. Nepalese financial system is largely dominated by commercial banks. Financial sector in Nepal has shown better performance relative to other sectors in the economy. Despite the long socio –political imbalances in the country, financial sector has left with some landmarks in the overall development of the country. Furthermore, the economic reforms initiated by the Government in 1990s have changed the landscape of several sectors of the Nepalese economy. As a result, several banks and financial institutions have been providing financial services across the country. Eventually, Nepal's financial sector has become deeper and widened. In this period, the Nepalese financial sector has grown significantly both in terms of assets base, business volume and market size. Nepal has a reasonably diversified financial sector, as evidenced by the number and variety of institutions that play an active role in this sector, relative to Nepal's small and underdeveloped economic base.

Nepal Rastra Bank is the central bank of the country. It is an autonomous institution. Being the regulator and supervisor of banks and financial institutions, it has successfully carried the endeavor of maintaining financial stability in the country.

As evidence, financial sector has done tremendous achievement in employment generation and creating economic benefits. The prime challenge of Nepal Rastra Bank now, therefore, is to play catalystic role in developing other sectors of economy. It is possible only if fiscal policy and monetary policy both try to address this common agenda by reallocating the financial resources to productive sectors and to the areas where resources are under-exploited.

Nepal Rastra Bank as a Regulator and Supervisor

The NRB Act 2058 has empowered Nepal Rastra Bank to perform regulatory and supervisory activities for the development and sustainability of financial system. NRB issues license to banks and financial institutions to perform banking activities, supervises and monitors their performances, and enforces the actions based on the supervision of license as specified in NRB Act.

1.3 The Banking Sector

The banking sector is an important part of the national economy. Banks accept deposits, support the payment system and provide the largest source of funds in the market. Safe and sound banking is crucial for the financial stability and sustainable development.

Nepal has a special characteristic of bank dominated financial sector. As the domestic capital market is in the initial stage of development, the banking sector largely dominates the entire financial sector. The first conventional bank in Nepal was the Nepal Bank Limited, established in 1937A.D. followed by Rastriya Banijya Bank in 1966 A.D. These two banks are the pioneers of the Nepalese Banking industry. These banks hold the largest network and operate even in remote areas of the country. Rastriya Banijya Bank is fully owned by the Nepal Government while government is holding forty percent stakes of Nepal Bank Limited. As the financial market was barred for private investors till the mid 1980s, these two banks were the only players in the banking industry. The economic liberalization policy adopted in the mid 1980s brought about a surge in the banking industry. A large number of banks were established and the number continues to grow even today. There is a significant growth in the number of banks in Nepal in the last two decades.

During the last two and half decades the Nepalese Financial System has grown significantly. As stated above, at the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions in the country. Financial sector has made a progress both in term of the number of banks and their branches. The banks in Nepal have very unique characteristics. From an ownership standpoint, the commercial banks in Nepal can be broadly classified into two categories: Public Banks and Private Banks. The banks, which are owned or controlled by the government, are labeled as Public banks while the banks that are owned or controlled by the private sector are categorized as Private Banks. The Private Banks can be further re-grouped into the local private banks and Joint-Venture Banks. The banks with the local private investment are Local Private Banks whilst the banks with the Investment of Foreign Institutions along with the local investment are Joint-Venture Banks. Consequently, by the end of Mid – July 2009, altogether 242 banks and non- bank financial institutions licensed by Nepal Rastra Bank are in operation. Out of them, 26 are “A” class commercial banks, 63

"B" class development banks, 77 "C" class finance companies, 15 "D" class micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs as shown in table below;

Table 1.1

Growth of Financial Institutions

Financial Institutions	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009
Commercial banks	2	3	5	10	13	17	18	20	25	26
Developments Banks	2	2	2	3	7	26	28	38	58	63
Finance Companies				21	45	60	70	74	78	77
Micro Development Banks				4	7	11	11	12	12	15
Saving and Credit Cooperatives Limited (Banking Activities)				6	19	20	19	17	16	16
NGOs (Financial Intermediaries)					7	47	47	47	46	45
Total	4	5	7	44	98	181	193	208	235	242

Source: www.nrb.com.np

1.4 Need of Bank

The development of any country can't be imagined without economic activities. The development of the banking system is one of the grounds of economic development. In another word, there is no possibility of economic development of a country with out the development of banking system. So, we should take a bank as a strong means for the economic development. The development of a bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without the bank whether it is inside the nation or in foreign countries whether it is industrial development or business and whether it is for the people for the government. So, to solve problems relating to the economic development, development of banking system is need. Even in ancient time banking necessity was realized but today it is considered to be much more necessary. In other words, due to the following reasons the bank is necessary.

- To relieve people from financial exploitation
- To develop industry and commerce
- For economic development
- To provide security to valuable goods and property
- To transfer fund
- To create development and skilled
- To develop habit of saving
- For monetarism
- To develop agriculture and backwards area
- To balance economic development as a whole
- To exchange and control foreign countries
- To regulate and control money management credit and price stability
- To build capital
- To provide loan at lower rate
- To provide long term loan
- To uplift the poor people
- To develop country

1.5 Commercial Banks

Commercial bank are those financial institutions that accept the deposit from saver and provide short term loan and long term loan to productive sector or different forms. They purchase and discount the bills for exchange, promissory notes, exchange foreign currency, issue bank guarantee, bills of exchange, sales and purchase of shares etc. Commercial bank obtain deposit from customers as saving and distributes it to trade industry and agriculture a need of short-term finance. Principally commercial banks deposits and provide loans, primary to business firms, there by facilitating the transfer of funds in the economy.

Commercial bank is a corporation, which accepts demand deposits subjects to check and make short term loan to business entreaties regardless of the scope of its other services.

Unlike the past where major activities of banks were confined to accepting deposits and providing loans banks today offers a wide range of products and services to its clients like trade finance, remittances, and export credit, tele – banking, ATM debit cared, credit card etc. Banks have made significant stride in the use of modern technology to provide services to its clients. It also offers point of sales services and consulting services to its clients. Highly qualified, experienced and energetic management team managers banking operation including day –to- day- operations and risk management. They are established to improve people's economic welfare and facility, provide loan to the agriculture, industry and other sector. In Nepal, there are many commercial banks as: Nepal Bank limited, Rastriya Banijya Bank, Nabil Bank, Standard Chartered Bank, Investment Bank, SBI Bank, Everest Bank, Bank of Kathmandu, Nepal Credit and Commercial Bank, Himalayan Bank, Bangladesh Bank can be counted for an example. These banks have been playing a great role for the economic development of the country directly or indirectly. The services made by these banks are very important for example, the functions of banks are: to provide loan, to accept deposits, to perform task related to the agencies and the task concerned to the general utility. Generally, the commercial banks are opened by any name in every country of the world.

1.5.1 Commercial Banks in Nepal

Nepalese financial sectors were dominated by two commercials banks viz. Nepal Bank limited (semi Government) and Rastriya Banijya Bank (fully government owned) till 1984. Commercial banking act 1974 was amended in 1984 to increase competition between commercial banks. So, provision was made to allow private sector including foreign investment to open commercial banks. As a result, Nabil Bank ltd. the then Nepal Arab bank ltd. was established in July 12, 1984 with the partnership of Dubai Bank ltd., Dubai. Though the commercial banks were established with the concept of supplying short term credit and working capital need of the industries, they have been providing long term loans for up to 15 years. After the enforcement to lend to priority and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture and services. Presently, commercial banks must lend 5 percent of their total lending in priority and deprived sector. NRB has provision of refinance facility also for such loan provided and deprived sector including export credit.

The number of commercial bank branches operating in the country increased to 752 in Mid - July 2009 from 555 in mid July 2008. Among the total bank branches, 50.39 percent bank branches are concentrated in the central region alone. By the end of Mid - July 2009, total 379 branches are being operating in this region. However, in the western, eastern, mid-western and far- western region are 19.54 percent (147), 17.95 percent (135), 7.57 percent (57) and 4.52 percent (34) respectively (www.nrb.com.np).

1.6 Joint Venture Bank

A joint venture Bank an association of two or more persons or parties under taken to make the operation highly efficiency with their collective efforts. This short of financial institutions, under the combined capital of persons or between organizations is meant to work for the development of trade commerce & industry. Joint ventures means, a business contract of management effort between two person, company or organization involving risk & benefit sharing.

Joint Venture is a general model for direct foreign investment. A joint venture bank is the joining of forces between for the purpose of carrying out a specific operation. Joint Venture is a new organization two or more independent firms mutually decide to participate in a business by contribution their resources, capital establishes. The objective is fulfilling the shortage of funds required to investment in developments works and to make competence in the field of resources, they share new methods, new technology and services of management and get advantage from foreign investors. To establish a new bank requires capital, technology, experience and new market etc. For the purpose, a new bank and an established bank enters into technical services agreement in which all bank provides channel of global network deputes its experts to help the mew bank in technical aspects. Sometimes old bank provides management services and investment also. The joint Venture banks are playing, increasing dynamic and vital role in the economic development of the country. That will undoubtedly increase with time.

In Nepal, the history of joint venture bank is not so old. After the government followed mixed economy system, they started JV banking. These sectors are like the hotel, medicine, textile banking etc. Similarly, government of Nepal has been following liberalized economy policy in order to attract foreign capital/investors. Such short of policy was forwarded in 2039 BS (1982). As the history of foreign joint venture in Nepal, Nepal Arab Bank Ltd. Became Nabil Was the first joint venture bank established in 29th Ashad 2041 (1984). The 2nd joint venture bank of Nepal was Grindlays Bank Ltd. was established on 16th of Magh 2043 (1986). Similarly, the Nepal Indosuez Bank Ltd. was established in 6th Magh 2042 (1986) as 3rd joint venture bank in Nepal.

So, joint venture bank operating in Nepal have played important role in the economic development of the country. Besides they have also been creating competition for the local banks by making them alert to perform their operation smoothly.

1.7 General Information about Selective Commercial Bank

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. It has established its 6 new branches in the fiscal year 2065/066 at Bashisahar (Lampung), Golfutar (Kathmandu), Kirtipur (Kathmandu) Kushma (Parbat), Surkhet (Surkhet), Lagankhel (Lalitpur). In addition it has also extended its branches at Tulsipur (Dang), Maitidevi (Kathmandu) and Thamel (Kathmandu) at this current fiscal year 2066/067 which has finally increased numbers of branches of EBL to 35.

The bank is providing customer-friendly services through its branch network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account. Punjab National Bank (PNB), a join venture (holding 20%equity in the bank) is the largest bank in India having more than 112 years of banking history. With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK**. "**Same day remittance" facility started recently has made every Ebla customers to remit money from India to Nepal and vice-versa, on the same day, through more than 4000 Punjab national Bank throughout India.

Recognizing the value of offerings a complete of services, the bans have pioneered in extending various customer friendly products such as Home Loan, Education loan , EBL flexi loan , EBL Property Plus(Future lease Rental), Home Equity Loan, Vehicle loan , loan against share, Loan against Life Insurance Policy and Loan for professionals. It is one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is first of its kind.

EBL is playing a pivotal role in facilitating to and from globe. The first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open in the designated branches of Punjab National Bank and remit their saving economically through banking channel of Nepal. The bank is also offering Cash Management System through HDFC Bank, India for managing the funds of corporate exporting to India by collecting fund.

The bank has also installed the Finacle Banking Software, of international standard so as to enhance its banking service. It has continuously been upgrading its computer technology for the proper communication of information within the branches, for the effective and efficient service provision to its customer, which has enabled its every customer to have their job done from any branches at any place. It has established its own ATM at 30 different places and also has been planning for its extension. In addition, the Banks ATM also can also be easily operated through more than 2000 branches of Punjab

National Bank, India. The facility of Smart Choice Technology (SCT) has also enabled this bank to increase its banking service effectiveness.

The company has recently operated the sms and Internet banking service for providing convenient service to its customers. This makes customers to know their balance in their account from any place or their home through use of cell phones and internet. The company has been operating its 365 days service, through Newroad Branch, Pokhara Branch and Many other branches in Kathmandu Valley too.

Corporate Vision & Mission

Vision

To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.

To integrate the frontiers of technology & serving the various segments of society.

To be committed to excellence in corporate values.

Mission

To provide excellent professional services & improve its position as a leader in the field of financial related services.

To build & maintain a team of motivated and committed workforce with high work ethos.

To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments (www.ebl.com.np).

Bank of Kathmandu

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. It is committed to delivering quality service to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor.

It has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

It started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.

To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost.

To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies.

To contribute to the overall social development of Nepal.

VISION

To become a significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe and top quality financial institution.

MISSION STATEMENT

To offer financial services and becoming the "Bank of Choice" by dedicating to the progress and growth of the institution for the community, customers, employees, supervisors and stockholders by:

Promoting economic growth and becoming a caring corporate citizen.

Providing excellent customer services by offering personalized quality products and services.

Inducing modern technologies of banking that adds value to customer service.
Following strict risk control mechanisms.

Enhancing shareholders value providing challenging career and learning opportunities for employees (www.bok.com.np).

1.8 Statement of the Problem

Being the reputed banking institution and having almost same organization structure, objectives and has came into operation from the same years, the banks are not providing same profit, cash flow and not able to meet the return on cash basis on equal manner and also the share price of these banks is in far distance. May be the limited investment bound and low banking attitude of customer are quite serious problem of these bank as like as other commercial bank. Government rules and regulation with competitive behavior of commercial bank is the barrier to meet their on going operating costs. Misused of loan and misguided is the main problem of banking sector in these days

The investment opportunities are declining due to the economic recession through the country. This may be the major reason that commercial banks have been found to be unable in utilizing its fund efficiently. Because of unfavorable present situation these banks are adopting new technique to discourage low scale depositors. Joint venture and other commercial bank are suffering from various problems which are the major causes to minimize cash inflow.

Rules and regulation as well as directives imposed by government and NRB providing both opportunity and threat to the commercial banks. The main problems of these two banks are mentioned in below:

- Why these two banks don't have same amount of cash flow?
- Why the cash flow from operating activities is differ in each other?
- Why the investment opportunities of these two banks are differs?
- What are the main sources of financing cash flow and why they are different from each other banks?
- Why are the causes they are affecting for interest income?
- What is the role of spread to generate positive cash flow from operating activities?
- Having the highest amount of annual operating profit and operating in the same year, what is the condition of cash flow?

1.9 Objectives of the Study

The main objective of the study is to evaluate the performance of the bank considering the cash flow in the banking environment of Nepal. Comparison of cash flow with two banks individually and yearly is the other objective of the study. Suitable and important advice will be recommended on the basis of finding from the study to the concerned authorities for their further enhancement. The specific goals of this study are mentioned below.

- To examine, analyze and compare the cash flow statement of these banks.
- To analyze trend of cash flow.
- To evaluate the cash from different activities of banks.
- To compare the cash flow performance.
- To recommend the appropriate suggestions to the concerned authorize for future improvement.

1.10 Limitations of the Study

- The study is mainly concerned only on study of Bank of Kathmandu and Everest bank limited.
- The study is basically based on the secondary data.
- The study covers the last five years data.

- This study shows only the comparative cash flow of operating, investing, financing and net cash flow of the selected banks rather than other components.
- There might be some error in calculation of data.

1.11 Organization of the Study

This study is organized into five chapters. Organizations are as follows:

Chapter-I Introduction

Introduction phase deals on the focus of the study, need of Bank, commercial Bank, important of joint venture Bank, information about the selective commercial banks, statements of the problem, objective of the study, limitation of the study and organization of the study.

Chapter –II Literature Review

It includes conceptual review, review of the books & reviews other relevant books; Bank reports and the previous thesis.

Chapter –III Research Methodology

To obtain the objectives of the study, research methodology is used, which includes research design, sample design, data processing & terms, tools, methods and techniques of analysis.

Chapter –IV Data presentation and Analysis

In the fourth chapter the data are presented, analyzed and interpreted using percentage using tabular and graphical presentation and findings of the study.

Chapter –V Summary, Conclusion and Recommendations

The final and last chapter contains the summary of the whole study. The conclusion or findings of the study have been presented and at last valuable and timing suggestion are suggested in the form of recommendations.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Review

Review of literature is a basically second stage and ongoing process of research process. As a matter of fact, review of literature begins with a research for a suitable topic and continuous through out the duration of the research work. That is when the topic is finalized, the related available materials like as published books, and journal, thesis or dissertation government publications, and business report (annual report of Bank / Finance /Companies) and so have to be reviewed. It is necessary to show how the research is related to previous one. It will give idea about the variables related in past studies and what difficulties previous researcher faced, so that you can take care on those points.

To the point, Literature Review needs to develop new research frame work which is based on past knowledge and experience from which hypothesis can be developed for testing and minimizing the risk pursuing (kill, catch , grab , review) the dead ends in research work.

The primary purpose of literature review i.e. it enables the researcher to know:

- What research has been done in the subject?
- What others have written about the topic?
- What theories have been advanced?
- Whether there are gaps that you can fill through the proposed research?

The approach taken by other researchers:

- Areas of agreement of disagreement.
- In addition, the benefit of a good research which was pointed out by Serekam is given below:
- Important variables that are likely to influence the problem situation are not left out the study.

- A clean idea emerges as to what variables would be most important to consider, why they would be considered important and how they should be investigated to solve the problems.
- Testability and reliability of the findings of the current research are enhanced (increased the quality, make look better).
- The problem statement can be made with greater precision and clarity.
- One does not run the risk of "reinventing the wheel" , that is wasting efforts on trying to rediscover something that is already known; and
- The problem investigated is perceived by the scientific community as relevant and of significance.

2.1.1 Financial Statement

Financial information's required for planning, analysis and decision making. Accounting system of a firm is the main source of financial information. The accounting system helps to accumulate measure and communicate financial information to various users for making economic decision. The users of financial information include owners, creditors, managers, employees, customers, suppliers, government and society. The two primary objective of every business are solvency and profitability. Solvency is the ability of a company to debts as they become due; it is reflected in the company's income statement. Generally, all those interested in the affairs of a company are especially interested in solvency and profitability. Financial statement are prepared for the purpose for presenting a periodical review or report on the progress by management and deal with

- The status of the investment in the business and
- The result achieved during the period under reviews. The statement which discloses the status of the investment is known as Balance Sheet and the statement which shows result achieved during the period is known as Profit and loss Account.

Thus, the financial statement represents two statements are- Balance sheet which is also called statement of financial position and profit and loss account or Income Statement. Balance sheet shows the financial condition or the state of firm at a particular point of time. More specifically, balance sheet contains details information about the firm's assets and liabilities. An asset represents economic resource possessed by a firm. Fixed are used in business for more than an accounting period of one year, while current assets are converted into cash within an accounting period. Liabilities are amounts payable by firm. Liabilities payable within an accounting period are called current liabilities and liabilities payable after a year or so called long-term liabilities. Funds contributed by the owners to the firm are called owners' equity**.** Thus the balance sheet gives a concise summary of the firms' resources and obligations, and measures the firms' liquidity and solvency.

The profit and loss account (or income statement) shows the profitability of the firm by giving details about the revenues and expenses. Revenues are the benefits which customer contributes to the firm in exchange for goods and services provided by the firm. The cost of the economic resources used in providing goods and services to the customers is called expense. Profit is the difference between revenues and expenses. Thus the basic purpose of the profit and loss account is to provide the concise summary of the firm's revenues and expenses during a period of time and measures its profitability.

Therefore the financial statement is an important tool which provides necessary and valuable information to the management for sound decision making. It helps to provide information about profitability, liquidity, operating activities of business organizations.

2.1.2 Funds Flow Analysis

The funds flow statement consists of two terms 'funds and 'flow'. The 'funds' refers to ass pecuniary resources that can be measured in term so money. It may be interpreted as cash or working capital or all financial resources. 'Flow' means change in amounts of funds between two periods. Thus, the statement designed to highlights the change in the financial position of business is known as funds Flow Statement (Dangol, 2064:360).

The balance sheet and income statement of a business shows the financial position at a given point of time and summary of revenue and expenses during the accounting period. But for evaluating the past performances, future potential of a business, a separate statement has to be prepared which is known as funds flow statement. For showing the changes in assets and liabilities from the end of one period of time to the end of another period of time a statement of changes in financial position or a funds flow statement has to be prepared. The comparatively study of two balance sheets of a company prepared for two different years for knowing the financial activities of a company is known as funds flow statement. Form where the funds have been obtained, which is known as sources and where the funds have been utilized, which is known as uses are shown by a funds flow statement.

Funds flow statement is the statement of sources and uses of fund. Funds flow statement shows the sources from which the funds are received and the areas to which the obtained funds have been utilized. Funds flow statement indicates various mean by which funds were received during a particular period and the ways in which theses funds were applied. Thus, the funds flow statement is an essential tool for financial analysis (Koirala et al, 2064:310).

It explains the sources from which additional fund i.e. working has been arrived and the uses to which the fund or working capital has been employed. Funds flow statement is prepared on the basis of two balance sheets of subsequent dates and highlights the changes in the financial position of a concern. The main purpose of funds flow analysis is to get clear information about the financial transactions that bring changes in the companies' resources. The objective of funds flow statement is to disclose the cause of changes in the assets, liabilities and equity capital between two balance sheet dates. It highlights the changes in financial position of a concern and indicates the various means by which funds were obtained during a particular period and the ways to where these funds were utilized. By comparing balance sheets of two different dates funds flow statement is prepared which shows the inflow and outflow of the funds. It is a kind of financial tools which answers the following questions.

"From which source fund were received?

How many funds were received?

For what purpose the fund is used?"(Lucy; 1998:125).

2.1.3 Cash Flow Analysis

Cash is the life blood of any business organization. Without cash no business activities can be taken place. It is the fuel that keeps a business alive. So a business must have an adequate amount of cash to operate. As such of the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis. How much cash is generated by business operation? How much cash is spent for current or non-current assets? What is income source of company for expenditure? How did company pay dividend? All these questions are raised by financial statement users. All these questions raised by the users of financial statement are now answered by Balance Sheet, Income statement or Statement of Shareholder's equity.

The statement of cash flows is a financial statement which explains the change in cash position from one balance sheet to next balance sheet date. It provides relevant information about cash receipts and payments of an enterprise during a period. Information about enterprises cash flows is useful in assessing its liquidity financial flexibility, profitability and risk. Cash flow information in widely used by investors, analysts, creditors, managers and others.

The balance sheet provides information about the assets of an enterprise and how these assets have been financed by owned and borrowed funds at a certain time but it does not explain the change during a period in assets, liabilities and owner's activities. The profit and loss statement provides information about an enterprise's financial performance during a specific period but earning is measured by accrual accounting, it does not show cash generated through its operations. Cash flow is calculated by making certain adjustments to net income by adding or Subtracting differences in revenue, expenses and credit transactions resulting from Transactions that occur from one period to the next. These adjustments are made because non-cash items are calculated into net income and total assets and liabilities. So, because not all transactions involve actual cash items, many items have to be reevaluated when calculating cash flow from operations. The other method of cash flow is calculated by different adjustments of operating activities, investing activities and financing activities within different operations.

2.1.4 Cash Flow and Profitability

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profits will not always result in higher stock prices. Profits of the firm depend on many factors such as method of depreciation; non operating gains; incomes, expenses and losses. People often mistakenly believe that a cash flow statement will show the profitability of a business or project. Although closely related, cash flow and profitability are different. A cash flow statement lists cash inflows and cash outflows while the income statement lists income and expenses. A cash flow statement shows liquidity while an income statement shows profitability. Many income items are also cash inflows. The sales of crops and livestock are usually both income and cash inflows. The timing is also usually the same as long as a check is received and deposited in to account at the time of the sale. Many expense items are also cash outflow items. The purchase of livestock feed (cash method of accounting) is both an expense and a cash outflow item. The timing is also the same if a check is written at the time of purchase. All the available cash not the profit determines the firms' future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions. Cash flow not the profit that determines the wealth.

2.1.5 Cash Flow Statements

A cash flow statement is one of the most important financial statements for a project or business. The statement can be as simple as a one page analysis or may involve several schedules that feed information into a central statement. A cash flow statement is a listing of the flows of cash into and out of the business or project. A cash flow statement is a listing of cash flows that occurred during the past accounting period. A projection of future flows of cash is called a cash flow budget. A cash flow statement is not only concerned with the amount of the cash flows but also the timing of the flows. Many cash flows are constructed with multiple time periods. For example, it may list monthly cash inflows and outflows over a year’s time. It not only projects the cash balance remaining at the end of the year but also the cash balance for each month. Working capital is also an important part of a cash flow analysis. It is defined as the amount of money needed to facilitate business operations and transactions, and is calculated as current assets less current liabilities. Computing the amount of working capital gives a quick analysis of the liquidity of the business over the future accounting period. If working capital appears to be sufficient, developing a cash flow budget may be not critical. But if working capital appears to be insufficient, a cash flow budget may highlight liquidity problems that may occur during the coming year.

Cash flows analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. A cash flows statement is defined as "a statement of company's ability to generate cash from various activities and their need of cash (Munakarmi, 2063: 13.9).

The cash flow analysis is an essential ingredient which has its own special technique. Moreover we should analyze cash flow ability of the firm to serve fixed charges. When the company issues the securities in greater amount with short maturity period, its fixed charges will be high. Fixed charges of any firm include principal plus interest payment on debt, lease payment and dividend on preferred stock. The firm should try to cover all fixed charges by analyzing expected future cash flows before assuming any fixed charges. The inability to meet the fixed charges may result in financial insolvency. Therefore the more stable future cash flow means the greater debt capacity of the company. Due to this reason, an analysis of the cash flow ability of the firm it's the best way to analyze its financial risk. As such an enterprise should prepare a cash flow statement and should present it as an integral part of its financial statement for each periods for which financial statement are presented.

2.1.6 Cash Flow Vs Accounting Profit

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profits will not always result in higher stock prices. Profits of the firm depend on many factors such as method of depreciation, non operating gains incomes expenses and losses.

Cash flow analysis not only recognize the profit but it goes a little further and measures the actual cash available for the firm. It is after all the available cash not the profit that determines the firm's future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions. Cash flow not the profit that determines the wealth. "The use of NPV value in investment decisions requires information about cash flows. It is the inflow and outflow of cash which matters in practice. It is cash which a firm can invest, or pay to creditors to discharge its obligations or distribute to shareholders as dividends. Cash flow is a simple and objectively defined concept. It is simply the difference between rupees received and rupees paid out. Cash flows should not be confused with profit. Changes in profits do not necessarily mean changes in cash flows. It is not difficult to final examples of firms in practice which experience cash shortages in spite of increasing profit. Cash flow is not the same things as profit, at least, for two reasons. First, profit as measured by an accountant is based on accrual concept revenue (Sales) is recognized when it is earned, rather than when cash is received, and expenses is recognized when it is incurred rather than when cash expenses as well payable. Second for computing profit, expenditures are arbitrarily dividend into revenue and capital expenditures. Revenue expenditures are entirely changed to profits while capital expenditures are not. Capital expenditures are capitalized as assets, and depreciated over their economic life. Only annual depreciation is charged to profit depreciation is an accounting entry and does not involved any cash flow. Thus, the measurement of profit excludes some cash flows such as capital expenditures and includes some non-cash items such as depreciation" (Pandey, 1999: 451).

"Capital budgeting is concerned with investment decisions which yield return over a period of time in future. The foremost requirement for evaluation of any investment proposal is to estimate the future benefits accruing from the investment proposal. Theoretically two alternative criteria are available to quantity the benefits: 1) Accounting profit and 2) Cash flows. The basic difference between them is primarily due to the inclusion of certain non cash expenses in the profit and loss account, for instance depreciation. Therefore, the accounting profit is to be adjusted for non-cash expenditures to determine the actual cash inflow. The cash flow approach of measuring future benefits of a project is superior to the accounting approach as cash flows are theoretically better measures of the net economic benefits of cast associated with a proposed project" (Khan & Jain, 1999: 3.35).

2.1.7 Importance of Cash Flow Statement

The importance and usefulness of cash flow management is increasing day by day. Recognizing its importance, business nowadays manage cash effectively that can be benefitted in numerous ways, international accounting standards has also given direction to its members to prepare cash flow statement along with balance sheet and profit and loss account. According to sec. 83 of Nepal Company Act 2053, the company the company should prepare cash flow statement along with profit and balance sheet at the end of the financial year. The information in the statement of cash flow provides a basis for analyzing financial results. By accurately forecasting the amount and timing of cash flows, managers minimize loan draws, thus lessening interest expenses. In addition, improving the amount of cash internally generally decreases the need for soliciting external financing, thus preserving, proportionate shareholders value and unused debt capacity.

The importance of cash flow statement can be presented in following ways: -

- The cash flow statement is prepared on cash basis. Hence, cash position of a firm can be can be easily evaluated.
- Cash flow statement is helpful to a firm for planning and coordinating financial operation properly for short term and long term financing.
- Cash flow statement also provides important insights regarding a company's continuity investment in productive assets and assessing its quality of its earnings.
- It is also important in planning for the repayment of loan, replacement of fixed assets and other long term cash planning.
- It also plays vital role for the preparation of cash budget for the specific future period for future reference.
- The statement can provide the concerned organization the necessary assistance for the effective steps to strengthen the internal financial position.
- It is useful for both internal and external users. The external users refer to the bank and other financial institutions.

In other words the cash flow statement may help to answer the following:

- If a company operates at a profit why is it continually short of cash? How can a company operate at a loss and still generate huge inflows of cash from operations?
- How was the company's growth and expansion financed?
- Was financing obtained during the period through issuance of debt or equity securities? If so what were the amount of cash obtained?
- Did the company use cash to retire any long term debt or equity securities during the period?
- Are the company's incomes producing activities using more cash than they are generating?
- Do operating activities consistently generate enough cash to assure prompt payment of operating expenses maturing liabilities interest obligation and dividends?

2.1.8 Objectives of Cash Flow Statement: -

The primary objective of preparing cash flow statement is to understand the relationship between accrual accounting events and their cash impact. A second goal is to classify cash flow among operating, investing and financing activities. Precisely speaking a statement of cash flow helps users of financial statements evaluate a company's ability to have sufficient cash- both in short term and in a long term basis.

The main objectives of cash flow statement are as follows: -

- To provide information about a cash receipt and payment of a company during an accounting period.
- To provide information about a company's operating, investing and financing activities during accounting period.
- To provide information about the changes in the cash position of the company.
- To evaluate the financial policies of the company.
- To help in understanding liquidity positions of the firm. To locate the reasons for variations in cash position.
- To assist the firm in short term cash planning.

2.1.9 Difference between Cash Flow Statement and Income Statement

Cash flow statement is prepared to portray a complete picture of cash movement in the business. It is not a substitute for a income statement; and it can also not be equated with income statement. Both these statements differ on the following counts:

- The purpose of preparing cash flow statement is to provide a full and complete picture of cash incomings and outgoings for the accounting period. But an income statement is prepared to disclose the net result of the performance of the business concern.
- The profit as disclosed by the income statement is determined to convey something about the fact of concern's overall investment. But in the case of cash flow statement, a cash outflow represents the investments. But in the case of cash flow

statement, cash outflows represents the investments as they are sound or not; but in the cash inflows, they do not tell us whether the inflow is beneficial or not.

- Income statement matches costs with revenue on accrual basis but a cash floe statement record the matching of cash receipts with cash disbursements.
- Income Statement measures the net result of the business operations on accrual basis but the Cash Flow Statement puts the results of operations on cash basis.

2.1.10 Difference between Cash flow Statement and Receipt and Payment Account

There appear to be many common points in cash flow statement and Receipts and Payments Account. Cash Flow Statement virtually takes the nature and character of Cash Receipts and Cash Payments Account. But there are two basic differences between the two:-

- Basic information used in the preparation of Cash Flow Statement differs from that which is used in recording Receipts and Payments Accounts, cash Receipts and Cash Payments cannot be prepared form the Balance Sheet of two dates , while Cash Flows Statements can be prepared.
- A receipt and Payment Account contains cash receipts of both revenue and capital and payments of revenue and capital nature. The Cash Flow statement is prepared to disclose the amount generated from operations and from other sources and the amount of outflow being cash payments during the year.

2.1.11 Difference between Cash Flow and Funds Flow Statement

As pointed out elsewhere, the term ‘Fund’ is used to denote ‘Cash’ or ‘Working Capital’ or ‘Total Resources’. In a narrow sense, it indicates ‘cash’ and the statement of changes in financial position prepared on cash basis are called Cash Flow Statement. Similarly, a statement of changes basis are called Cash Flow Statement. Similarly, a statement of changes in financial position prepared on the basis of working capital concept of fund is known as Fund Flow Statement. From this point of view, both statements are similar in nature and purpose. However, there are some basic differences between the row and following points indicate such as differences.

Concept: Funds flow statement is based on working capital and cash flow is based on cash.

Accounting: Funds flow statement is based on accrual basis of accounting and cash flow statement is based on cash basis of accounting.

Preparation: Funds flow statement reveals the sources and application of funds and any difference represents net increase or decrease of working capital. Cash flow statement reveals the inflow and outflows of cash and difference represents the closing cash balance.

Purpose: Funds flow statement shows the causes of changes in working capital position of a firm between two balance sheets dates. Cash flow statement shows the causes of changes in cash position of a firm between two balance sheet dates.

Usefulness: Funds flow statement is useful in planning intermediate and long term financing. Cash flow statement is more useful for short term analysis and cash planning of the business.

Schedule of changes in working capital: To get information about current assets and liabilities it is necessary to prepare the schedule of changes in working capital before preparing funds flow statement whereas in cash flow statement it is not necessary to prepare the schedule of changes in working capital.

2.1.12 Financial Results: Accrual Vs Cash Basis

Whether we are an investor or a manager or a taxpayer we need to understand the difference between cash flow and the accrual basis of accounting. Accrual based information is used in determining the profitability and the financial position of the business specially a business of considerable financial strength. But in evaluating such factor as solvency, the prospects for short-term survival and the ability of a business to seize investment opportunities, cash flow may be more relevant than accrual based.

One important matter to be understood is that in business a high turnover or a high profit shown by the income statement should not viewed as a high sign of growth. Suppose a new manager comes and allows a relaxed credit policy, sales and consequently the profit also would surprisingly jump upward during this fiscal year**.** But in future if the account receivable becomes uncollectible all of the hopes will vanish. Therefore, just to generate adequate sales revenue is not enough. Collection of the cash flow from the customers matter more otherwise one should announce a credit sale to everybody and have a queue of customers in the shop waiting for goods. What's there in salesmanship? We got surprise market share just by adopting a liberal credit policy.

Therefore, the information of income statement cannot depict the operating performance of the firm unless we tally it with the information in the cash flow statement of cash flow statement. The statement of cash flow gives the amount of cash actually received during the period as a result of sales activities is that, it overstate the gross profit as well as net profit figures and it is the pessimistic forms of accounting.

We must also adjust the balance sheet and income statement accounts when information is available to do so, for example, some companies include depreciation expense in cost of goods sold (COGS) by the amount of depreciation expenses and create a depreciable expenses account and correctly show the cash invest in properly. The reported depreciation expenses should also verified by reference. These references provide details of the components of the change in the accumulated depreciation of the period, including effects of acquisitions, investments and foreign data provide breakdown of aggregated balance sheet accounts, performing final breakdown of assets and liabilities.

2.1.13 Preparation of Cash Flow Statement

The cash flow statement is prepared on the basis of cash basis accounting. While calculating operating profits for cash flow statement, adjustment for prepaid and outstanding expenses and incomes are made to convert the data from accrual basis to cash basis. The statement is prepared by taking the opening balance of cash, adding to this all the inflows of cash and deducting all the outflows of cash from the total. The statement is more useful for short term analysis and cash planning of the business. Cash flows statement shows the sources and application of cash. Following are the major sources and use of cash.

Sources of Cash:

- Cash from operation
- Sales of fixed assets
- Issues of shares
- Issue of debentures
- Raising long term loan
- Decrease in working capital

Uses of Cash:

- Cash loss from operation
- Purchase of fixed assets
- Redemption of redeemable preference shares
- Redemption of debentures
- Payment of dividend and income tax and
- Increase in working capital or

The following are the sources of cash:

- The profitable operation of the firm.
- Decrease in assets(except cash)
- Increase in liabilities(Including debentures or bonds), and
- Sale proceeds from an ordinary or preference share issue.

The uses of cash are:

- The loss from operation
- Increase in assets (except cash)
- Decrease in liabilities (Including redemption of debentures or bonds)
- Redemption of redeemable preference shares, and Cash dividend (Pandey, 1999:76).

As per the FASB's statement no. 9 the cash flows statement should be presented under informative approach in activity format. Under informative approach the cash flow statement may be presented using.

1. Indirect Method

2. Direct Method

1. Indirect Approach to Cash flow Statement

Under indirect approach, net profit or loss is adjusted for the effects of transaction of a non cash nature, any deferrals or accruals of past or future operating cash receipts of payments and items of income or expense associated with investing or financing cash flows. Operating activities relate to a company's primary revenue generating activities. It is the single major continuing source of cash. Operating activities are always within the management control and they provide base for management estimation of funds needed to rise from available sources. Cash flows from operating activities are generally the cash effects of transaction and economic events included in the determination of income.

Operating activities

Under indirect method the net cash flow from operating activities is determined by adjusting net profit or loss for the effect of : -

- Changes during the period in inventory and operating receivables and payables.
- Non/cash items such as depreciation, provisions, deferred taxes and unrealized gains or losses and
- All other items for which the cash effects are investing or financing cash flows.

  Alternatively the net cash flows from operating activities under indirect method may be present showing operating revenues and expenses, excluding non/cash items disclosed in the statement of Profit and loss and the changes in inventories and operating receivable and payables during the period. Operating activities are
- Non/cash and non/operating gain/loss/expenses
- Depreciation/loss on sales of assets provision for taxes
- Gain on sales of assets
- Operating profit before working capital changes
- Increase/decrease in current assets and current liabilities

Investing Activities

It include lending money (investment) and collecting on those loan, buying and selling productive assets that are expected to generate revenue in future periods and buying and selling securities not classified as cash equivalents. Investment activities are: -

- Cash payments to acquire the fixed assets
- Cash receipts from disposal of fixed assts
- Cash payments to acquire shares, warrants or debt instrument of other companies
- Cash advances and loan made to other parties
- Cash receipts from the repayment of advances and loans made to third parties

Financing activities

It include borrowing money from creditors and repaying the amounts to borrower and obtaining resources from owners repayment of borrowed funds/amount and payment of dividend to owners. The separate disclosures of cash flows arising from financing activities is important, because it is useful in predict claims on future cash flow by providers of funds. Financing activities are

- Cash proceeds from issuing shares or other similar instrument
- Cash proceeds from issuing debenture, loan notes, bond and other short or long term borrowings and
- Cash repayments of amount borrowed.

Cash Flow Format Under Indirect Approach

(Subedi, et al., 2004:11.6)

A. Cash flow from Operating Activities		
Net income/Profit for the period………………..		………
Add: Non cash / Non–operating loss and expenses		…........
Depreciation for the period	……	
Amortization of goodwill	……	
Amortization of patents/ copy right	…….	
Amortization of trade mark/ investment	……	
General reserve maintained	…….	
Discount on sale of share and debenture	…….	
Premium on redemption of share and debenture	…….	
Loss on sale of fixed assets	…….	………
Preliminary expenses written off	…….	………
. Provision for taxation	…….	………
. Provision for dividend	…….	………
Less: Non operating incomes	……	
Appreciation on fixed assets	…..	
Premium on issue of Share and Debenture	……	
Discount on redemption of preference shares and	…….	………
debentures	…….	
Profit on sale of fixed asset	…….	………
Dividend received	…….	………
Refund of tax	…….	
Funds from operation	…….	
Add: increase in current liabilities(item wise)	…….	
Decrease in current assets (except cash)	…….	
Less : decrease in current liabilities(item wise)	……	
Increase in current assets (except cash)	…….	……….
Net cash available from operating activities before tax	…….	………..

Tax paid	…….	
Net Cash available from Operating activities	…….	
B. Cash flow from Investing Activities		………
Purchase of Share and debenture	…….	
Sale of Share and debenture of other company	…….	
Sale of investment	…….	………
Purchase of investment	..…...	………
Purchase of assets	…….	
Sale of fixed assets	…….	
Net cash available from investing activities		………
C. Cash flow from financing activities	…….	
Issue of share and debenture with share and discount	…….	
Redemption of preference share and debenture with	……	
premium and discount	……	
Issues of loan term loan	…….	
Dividend paid	…….	
Net cash available from financing activities		……..

2. Direct Approach to Cash Flow Statement

When the direct method is used the cash flow statement does not begin with net income, rather, it shows cash collected from customer and deducted cash used for various expenses. That is major class of gross cash receipt and gross cash payments are disclosed. Under direct approach, operating activity only include transaction that return to the calculation of net income. It involves the production or purchase and the sales of goods and services to customers. Cash flow from operating activities includes all cash flows from transaction that are not defined as investing or financing activities.

The cash flows from operating activities are primarily derived from the principal revenue producing activity of the enterprise. Examples of cash flows from operating activities are:

- Cash receipts from the sales of goods and the rendering of services
- Cash receipts from royalty, fees, commission and other revenue
- Cash payments to suppliers of goods and services
- Cash payments to and on behalf of employees
- Cash receipts and cash payments of an insurance company for premium and claim and other policy benefits
- Cash payments or refunds of income taxes

  The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method under direct method information about major classes of gross receipts and gross payments may be obtained either.

- From the accounting records of the firms or
- By adjusting sales cost of sales and other items in the statement of profit and loss for:
- Changes during the period in inventories and operating receivables and payables
- Other non cash items and
- Other items for which the cash effects are investing or financing cash flows

  Determination of cash flow from investing activity

  Determination of cash flows from investing activities requires analyzing the non/operating incomes and expenses in income statement.

- Productive assets
- Investment in share and debentures
- Intangible assets
- Short term investments other than cash equivalents

  Determination of cash flow from financing activity

  A company's transactions with its owners and long term creditors are typically called financing activities also financing activities include borrowing cash on short term basis for determination of cash flows from financing activities items relating to;

- Equity Share capital
- Share premium
- Debenture
- Dividend proposed

And comparative balance sheets should be analyzed by preparing necessary accounts.

Cash Flow Format Under Direct Approach:

Operating Activities Cash sales and collection from customers: Net sales (sales less return) +/- Opening debtors / account receivable / closing debtors/ receivable + Bad debt recovered +/- Current year's doubtful debts/last year doubtful debts - Current year bad debts Cash purchase and payment to suppliers: Net purchase (merchandise/material/suppliers/supplies/cost of goods sold) +/- Closing inventories/opening inventories +/- Ending creditors/bills payable/Closing creditors/bills payable + Purchase related expenses Payment to employees and other operating expenses: Direct labor + Manufacturing overhead + General expenses + Selling expenses + Opening outstanding expenses//closing outstanding expenses + Closing prepayment//opening prepayment Payment for interest: Interest paid +/- Opening outstanding/Ending outstanding Payment for income tax:	

+/- Opening tax payable/Ending tax payable Interest and dividend received: Interest/dividend received +/- Opening interest receivable/Closing interest receivable Operating cash flow before extra ordinary items Extra ordinary items short-term borrowing: Closing bank overdraft +/- Ending bank overdraft/Opening bank loan and overdraft **Net Cash Flow from Operating Activity** **B. Investing Activities** Purchase of plant and other productive assets Purchase of investment Short term investment purchased (Other than cash equivalents) Making loan Sales of assets and investment Sales of short term investment Collection of principal amount of loan **Net Cash Provided or used by Investing Activities** **C. Financing Activities** Cash from issue of share and debenture (less discount) Cash from short & long term loan Share premium Retirement of debentures Payment of dividend Repayment of short term loan/long term loan Net cash provided or used in financing activity Net increase/decrease in cash and cash equivalent Add opening and cash equivalents cash Cash and cash equivalent at the end	

2.1.14 Cash Flow Statement for Financial Institution under NRB Directives

Nepal Rastra bank issues different directive to the commercial bank in order to regulate their function. It also provide different format to the commercial bank to make transparent accounting data. The new format of Cash Flows statement for the financial

Institutions enterprises prescribed by NRB under direct method is prepared in the following format:

………..………..Limited

Cash Flow Statement

Date ……. From …………

Previous year(Rs)	Particulars	This year(Rs)
………………	**A. Cash flow from Operating Activities**	………………
………………	1. Cash Receipts	………………
………………	Interest income	………………
………………	1.2 Commission and Discount	………………
………………	1.3 Exchange Gain from Foreign Transactions	………………
………………	1.4 Recoveries of Loans Previously written off	………………
………………	1.5 Other income	………………
………………	2. Cash Payments	………………
………………	2.1 Interest expense	………………
………………	2.2 Staff expenses	………………
………………	2.3 Office overhead expenses	………………
………………	2.4 Income Tax Payment	………………
………………	2.5 Other Expenses	………………
………………		………………
………………	Cash Flows before adjustment of working Capital	……………..
………………	Decrease /(Increase) in operating current Assets	………………
………………	Decrease /(Increase) in Money at Call and Short Notice	………………
………………	Decrease /(Increase) in Other short term investment	………………
………………	Decrease /(Increase) in in loans and bills	………………
………………	Decrease /(Increase) in Other Assets	………………
	Increase/ (Decrease) in operating current liabilities	………………
………………	Increase/ (Decrease) in Deposits	………………
………………	Increase/ (Decrease)) in Certificated of Deposits	………………
………………	Increase/ (Decrease) in short term Borrowings	………………
………………	Increase/ (Decrease)) in other Liabilities	………………

……………… ……………… ……………… ……………… ………………	Cash Flow form Investing Activities Decrease /(Increase) in Long –term Investments Decrease /(Increase) in Fixed Assets Interest received from Long –term Investments Dividend received	……………… ……………… ……………… ……………… ………………
……………… ……………… ……………… ……………… ………………	Cash Flow form financing Activities Increase/ (Decrease) in Long term Loan (Bond, Debenture etc) Increase/ (Decrease) in Share Capital Increase/ (Decrease) in other liabilities Increase/ (Decrease) in Subsidy/ Refinance obtained from NRB	……………… ……………… ……………… ……………… ………………
……………….	Income / Expensed due to the effects of Exchange rate on cash and Bank Balances	……………….
……………….	Net Cash Flow For the year	……………….
……………….	Opening Cash and Bank balances	……………….
……………….	Closing Cash and bank balances	……………….

(Sources: NRB Directives for Financial Institution, 2062)

The format of cash Flow Statement prescribed by NRB for the commercial banks up to the year 2061/2062 is given below:

……..………..Limited

Cash Flow Statement

Date ……. From …………

Previous year(Rs)	Particulars	This Year(Rs)
……………	**Cash flow from Operating Activities**	……………
…………….	1. Cash Receipts	…………….
…………….	1.1 Interest income	…………….
…………….	1.2 Commission and Discount	…………….
…………….	1.3 Exchange Gain from Foreign Transactions	…………….
…………….	1.4 Recoveries of Loans Previously written off	…………….
…………….	1.5 other income	…………….
…………….	2. Cash Payments	…………….
…………….	.1 Interest expense	…………….
…………….	.2 Staff expenses	…………….
…………….	.3 Office overhead expenses	…………….
…………….	.5 Exchange Loss	…………….
……………..	.5 Non operating expenses	…………….
	6 Other Expenses	
…………….	**B. Cash Flow form Investing Activities**	……………
…………….	**1.** Decrease /(Increase) in Balance with Banks	…………….
…………….	**2.** Decrease /(Increase) in Money at call and short Notice	…………….
…………….	3.Decrease /(Increase) in Investments	…………….
…………….	4.Decrease /(Increase) in Loan advances and Bills Purchased	…………….
…………….	. Decrease /(Increase) in Fixed Assets	…………….
…………….	. Decrease /(Increase) in other Assets	…………….

…………….	**C. Cash Flow form financing Activities**	……………
…………….	1. Decrease /(Increase) in Borrowings	…………….
…………….	2. Decrease /(Increase) in Deposits	…………….
…………….	3. Decrease /(Increase) in Bills Payable	…………….
…………….	4. Decrease /(Increase) in Other Liabilities	…………….
…………….	D. Net Cash Flow for the year	……………
……………	E. opening Cash balances	……………
……………	F. closing Cash Balances	……………

Source: NRB directives for Financial Institution, 2058

2.2 Review of Policies Related to Commercial Banks

Nepal Rastra Bank is the apex authority responsible fore financial stability of the country. NRB is authorized and also responsible for the supervision of commercial banks and similar financial institutions. For the establishment and operation of commercial banks smoothly legal provisions for commercial banks at the country should be reviewed.

2.2.1 Review of Nepal Rastra Bank Act 2058

All the financial institutions undertaking banking activities are licensed and supervised by NRB. Among the financial intermediaries, commercial banks, development banks, finance companies, micro-finance development banks and other micro-finance institutions that are license to perform limited banking activities are under the supervision of NRB. To ensure that the overall financial system in the country is sage and sound and threats to financial stability are identified and reduced, NRB is currently using CAMELS based approach for supervision. Similarly, CAMELS based offsite surveillance with early warning measures is also adopted to meet the supervisory objectives. NRB is conducting risk assessment and risk reduction approaches to ensure financial stability. NRB is gradually moving towards risk-based approach for supervision, NRB has initiated the implementation of Basel II.

All these plans and programs are initiated by the NRV falls under the objectives of the Nepal Rastra Bank Act, 2002. The act has specified the objectives of NRB as: to formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for sustainable development of economy, and manage it; to promote stability and liquidity required in banking and financial sector; to develop a secure, healthy and efficient system of payment; to regulate, inspect, supervise and monitor the banking and financial system; and to promote entire banking and financial system of Nepal and to enhance its public credibility.

NRB act, 2002 chapter-9 has specified the regulation, inspectors and supervisory role for the Nepal Rastra Bank. It consists that the commercial banks must obtain a license form NRB in order to conduct banking and financial transaction while issuing license the NRB may fix necessary terms and conditions. NRB's approval is required for commercial banks to accept deposits or giving credits.

In the regulatory part the NRB have full powers to regulate the functions and activities of commercial banks and financial institutions. For the purpose of the regulation the NRB may frame rules and bye-laws on the matters which the NRB deems appropriate and issue necessary order, directives and circular and it shall be the duty of the concerned commercial bank and financial institution to obey by such rules, bye-laws, order, directives and circular. The NRB can issue appropriate directives to commercial banks and require them to submit the following particulars: its balance sheet accounts, off balance sheet commitment, statements of income and expenditures and their ratio among accounts or items; prohibitions, restriction of conditions concerning specific types or forms of credit or investments, form of commitments of risk bearing nature which are not matching as to maturity of assets and liabilities and off-balance-sheet items, foreign currency, spot or advance, swap, option or similar instruments or access to the payment system through electronic or other means; other particulars and documents prescribed by the NRB. In addition, NRB may issue necessary directives to commercial banks on the following subjects and require to submit particulars on the following subjects: books and accounts, profit and loss account, balance sheet and off-balance-sheet transaction and commitments, statements of income and expenses and their accounts ratio; prohibitions, restrictions or conditions concerning specific types of forms of credit of investments, loan and investment in excess of the ceiling prescribed by the bank, risk bearing commitment, position of foreign exchange, payment and electronic payment and other process; other statement and documents prescribed by the NRB.

Moreover, the NRB have the following powers with regard to commercial banks and financial institutions:

- To enforce authority and responsibility granted under this act any other act enacted for licensing, supervising and regulating commercial banks and financial institutions and to revoke the license of commercial banks and financial institutions and to take over or to five in trusteeship the commercial banks or financial institutions which have been declared insolvent or are on the verge of insolvency;
- To investigate or inspect, or supervise or to cause to investigate, inspect or supervise by any official of the NRB or the person designated by the NRB the books and account, records, document or register of commercial banks or financial institutions has conducted business and transaction in accordance with the provision made under this Act or the rules, bye-laws framed there under and an order of directive issued there under;
- To give order to the member of the board of directors, official or employee of a commercial bank or financial institution to provide necessary information about the bank or institution incases where it is necessary to inspect and supervise the transaction of such bank or financial institution.

The Nepal Rastra Bank act, 2002 has also given a power for Nepal Rastra Bank to control over commercial banks and financial institutions, when necessary. The NRB may take such commercial bank or financial institution under its control after suspending the board of directors of such commercial bank or financial institution where the bank is convinced that any commercial bank or financial institutions has violated this Act or Rules and bye-laws framed there under or orders or directives issued there under or from the Bank's inspection and supervision report, any commercial bank or financial institution has failed to honor its liability or there are probability of such failure or it has been properly operated or has acted prejudicial to the interest of shareholders or depositors.

In addition, the Nepal Rastra Bank has also authority to declare problematic commercial bank and financial institution. NRB can declare any commercial bank or financial institution problematic by providing written notice to it when bank is convinced that the following conditions are prevailing in any commercial bank or financial institution on the basis of information received under section 86A or from the report of inspection and supervision conducted under section 84 or from any other means:

- In case of any action which is against the interest of the depositors, shareholders, creditors, or general public,
- In case of not fulfillment of any financial liabilities or not having probability to do that or not payment of due amount,
- In case of insolvency or going to fall under insolvency or facing material financial difficulties,
- In case of discredit or breach of this Act, prevailing law related to bank and financial institutions, other prevailing law, terms of license or regulation, directives or order of bank,
- In case of the license obtained on the basis of submitting false, fraudulent, wrong document or data,
- In case of unable to maintain the capital fund as per this Act, prevailing law related to bank and financial institution and directives issued by NBR at time to time,
- In case of the initiation of the process of liquidation or insolvency of any commercial bank or financial institution under the prevailing law,
- In case of undue delay in the process of voluntary liquidation,
- For the commercial bank or financial institution established with the joint venture of the foreign commercial bank or financial institutions while such foreign commercial bank and financial institution is in insolvent or liquidator is appointed

for the liquidation or the license of such commercial bank or financial institution is terminated under the provision of the law of respective country or transaction is banned either full or partial or in case of operation of banking transaction being involved with such commercial bank or financial institution, or

- If NRB is convince that commercial bank or financial institution is unable to pay its due or can make negative effect in its liability or duties, which it has to perform.

Moreover, the NRB can take action against problematic commercial bank or financial institution. Whatever may be mentioned in the companies Act or other prevailing law, NRB can take any or all of the actions specified in section 47 against the commercial bank or financial institution, which is declared problematic under the provision of section 86B. Furthermore, for the problematic commercial banks, the act has provided NRB or the official appointed by NRB can use the reformative measures and rights; right for NRB for corrective action authority to application for the dissolution, authority to decrease of the capital of problematic commercial bank or financial institution, authority to transfer the assets and liabilities of the problematic commercial bank or financial institutions.

NRB has also authority to application for the dissolution in case NRB is convinced that any problematic commercial bank or financial institutions even after the action under section 86C, reformative action under section 86E, or corrective action under section 86F, such commercial bank or financial institution is unable to discharge its liabilities or there is no possibility to operate in healthy way, can apply to the Appellate Court for the dissolution of such commercial bank or financial institution. However, there is a provision. However, the commercial banks and financial institutions have a right to appeal against the order of NRB, under the given conditions.

2.2.2. Review of NRB Directives

Among NRB directives to bank and financial institutions major directives are as follows: The new licensing policy in place requires having paid-up capital of Rs. 2 billion to open new commercial banks (Class A finance Institutions). The concept of regional banks has

been eliminated. Paid-up capital base for development banks and finance companies has also been raised. Such capital requirement for micro-finance companies to open however has not been changed with a view to encourage micro finance companies to expand.
According to the new licensing policy, providing proof of mandatory paid-up capital base by June/July 2010 is a pre-condition for those that have submitted proposals to open new finance institutions. In case of operating financial institutions, they are required to comply with this provision by June/July 2013. Provisions such as, individual intending to invest in these institutions requires producing proof of tax clearance, and they are not blacklisted by the Credit Information Center have also been made effective. Accordingly, the banks and finance institutions are required to maintain capital adequacy at 11 percent starting from FY 2005/2006.

The licensed banks and financial institutions deal with the financial statement. Starting from FY 2005/06, they are required to open capital adjustment fund to meet mandatory minimum paid-up capital by allocating a minimum of 10 percent of paid-up capital from their profit. For financial institutions not earning profit, they are required to comply with this provision by managing resources from whatsoever sources at their disposal.
To open a new branch in the Kathmandu valley is required to add Rs. 20 million/ branch and Rs. 5 million/branch to open a branch outside the Valley. Furthermore, the directive include the provision of amount so required to be added not to be counted towards capital adjustment fund, amount so added is to be counted for branch opening purpose only after the paid-up capital reaches the minimum of Rs. 50 million, and that the inactive loan ratio to be maintained at less than 5 percent level.

Based on the aging of overdue loan of commercial banks, loan has been classified into four groups and according to loan classification, necessary provisions is required to maintain annually as in the following percentage.

Table 2.2

Loan Classification and Provision for Doubtful Loan

Loan Classification	Basis of Classification	Provision required percent of the loan
Pass	No overdue and overdue by 3 months	1
Sub standard	Above 3 months to 6 months overdue	25
Doubtful	Above 6 months to 1 year overdue	50
Loss	Overdue by above 1 year	100

Source: NRB directives

2.2.3 Review of Bank and Financial Institutions Act 2063

Bank and Financial Institution act, 2063, which is popularly known as Umbrella Act, has recently been enacted. The act governs the functional aspect of banks and financial institutions. Some of the important provisions in the act regarding the banking sector have been analyzed in this chapter as follows.

Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the act. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary examination and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with the Nepali citizen or as a subsidiary company with 100% share is eligible to furnish the application to establish a bank or financial institution.

However, the act is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75%. The prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution; if the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this and its regulation, directives, order or provisions of Memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction.

The NRB will classify the Institutions into "A" "B" "C" "D" groups on the basis of the minimum paid-up capital and provide the suitable license to the bank or financial institution. The authorized, issued and paid up capital of a license holder institution will be as prescribed by NRB from time to time. The NRB can issue directives to the license holder entity to increase its authorized, issued and paid-up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB base on the basis of its total asset or risk weighted assets, and other transactions. At the same time, the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to borne form off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity. The bank or financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing asset is within the prescribed limit. Similarly, the bank or financial institution can be degrade if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management Fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions.

The NRB is in full power to deny license for financial transaction if the conditions stipulated in are not met and it is also authorized to impose necessary conditions taking into account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase, decrease or modify the terms and conditions time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act 2002, or the regulation made there under of fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this to carry on the financial transactions of the license holder under the certain circumstances as stipulated in the act.

A foreign bank or financial institution desiring to open its office within Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open an office within/of Nepal taking into account the situation of competition existing in the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign, bank or financial institution. The NRB may specify necessary terms and conditions in the course of granting transaction license and it shall be the duty of the foreign bank or financial institution to comply with such terms and conditions. The section 34(4) of the reiterates that the provisions of to be complied by such foreign bank or financial institution. The foreign bank or financial institution, which has been issued to operate financial transaction by opening its office the country, can not open another bank or financial institution in joint venture with the country. However, the provision for the contact or representative office of any foreign bank or financial institution will be as prescribed by NRB. Some of the important issued such as relationship with parent bank in case of liquidation and supervisory role of the different institutions (parent bank and parent bank's supervisory authority) have not been adequately addressed in this. Provisions relating to capital requirement are also silent. As per Nepal's commitments foreign bank branches are only allowed for wholesale banking functions. So all of the provisions stipulated in subsection (1) will not be relevant to the foreign bank branches. According to the subsection, NRB has authority to make necessary regulation in this aspect.

2.2.4 Review of Company Act 2063

Commercial banks including JVBs in Nepal can be established only as a company with limited liability under the company act 2063. The provisions existed in the act regulate the commercial banks in all aspects. The section 3 of the act explains about establishment of company as follows:

- Any person who wants to undertake any enterprise with the motive of earning profits may establish a company with one or more objectives as mentioned in the memorandum of association, personally or along with others.
- Any foreigner who has obtained permission according to current law to undertake any enterprise with the motive of earning profits by making investment within Nepal may also establish a company as mentioned in sub section (1).
- There must be at least seven promoters for the establishment of public company.

  The commercial banks have to register in company's registrar office as per the section (4) of the act. If promoters are Nepali they have to submit citizenship, for company; certificate of registration and for foreigner; produce their proof of citizenship be acquainted with country from where they are. Application should submit to registrar's office enclosing proposed company's memorandum, bylaws, and agreement of promoters if they have done for public company.

2.3 A Brief Review of Previous Research Work

Few of the researchers in the area of cash flow analysis for non Joint venture bank and joint venture bank starting its operation from the same year in Nepalese context are made but many of the researchers have been made in the area of financial performance and Profitability situation of a single bank as well as comparative studies between joint venture commercial banks and non joint venture commercial banks. Various studies related to cash flow analysis have been focused on the study on non-joint venture banks. Few of them have focused on comparative study between Non-joint venture and Joint venture bank. In this chapter an attempt is made here to review some of the researchers, which have been submitted in cash flow analysis, financial performance, Profit Planning, Cash Flow Budget Analysis. Reviewing of previous studies will definitely avoid from the present study and some newness can be created in this field of study.

2.3.1 Hari Prasad Neupane (2006), *"A Study of Cash Flows Analysis of Commercial Banks in Nepal, Comparative Study of Himalayan Bank and Nabil Bank Ltd."* The study covered the period of five years, i.e. fiscal year 2002 to 2006. The study is mostly based on secondary sources of data.

His Main Objectives

- To analyze the cash flow statement i.e. operating, investing and financing activities of those two joint venture commercial Bank.
- To examine the liquidity position of HBL and Nabil Bank Ltd.
- To analyze the profitability results of those two commercial Bank.
- To find out the stage of lifecycle of HBL and Nabil Bank Ltd.with the help of cash flow statement.
- To examine the cash flow statement of Nabil and HBL at par of Nepal Accounting Standard (NAS).
- To provide the package of constructive suggestion and recommendation for improving cash.

His Major Findings

- The need for working capital to run date to date business activities cannot be overemphasized. Working capital requirements are basically influenced by the nature of business. Obviously, the requirements of working capital manufacturing sectors business. From the study both these banks had negative working capital figures. Working capital should be managed efficiently for safeguarding the banks against the danger of liquidity and insolvency. Therefore, promote and timely action should be taken by the management of HBL And Nabil to improve and correct the regarding amount of working capital.
- Business organization is the product of their environment. To adopt in changing environmental forces these banks are recommended to study and predict the business environment continuously as well as should take SWOT analysis so that the activities can be adjusted according to the changing environment.
- In order to increase the cash flows from operating activities for the future period Nabil should operate growth stage of its life cycle.
- These banks should accurately forecast the amount and timing of cash flows so that borrowings can be minimized and thus lessening interest expenses.
- No business can run without cash and making default on its obligations. Even being a few days late in meeting payrolls or paying suppliers or creditors should be cut business relationships. In addition to cash flows statement, cash budget should also be included in the directives issued by NRB for financial institution. Cash flows reports the cash activities of the past period. In reflects the actual results of past cash transaction. To know the expected cash amount for future period, cash budget should be prepared.
- Both these banks should follow the strict investment policy to avoid the nonperforming assets.
- One of the management basic responsibilities is to ensure that the business has enough cash to meet its obligation as they became due. Therefore, in order to improve cash flows, both these banks are recommended to collect several strategies

like deferring income taxes , peak pricing and developing are effective product mix in both the short and long terms .

2.3.2 Mr. Sushank Kharel (2008) had conducted a research in the topic "Profit Planning of Commercial Banks in Nepal-A Comparative Study of Everest Bank Limited, Nabil Bank Limited and Bank of Kathmandu Limited". The study covered the period of five years, i.e. fiscal year 2002 to 2006. The study is mostly based on secondary sources of data.

His Main Objectives

To analyze the profit planning policy of commercial banks with reference to EBL, NABIL and BOK.

His Major Findings

- In commercial banks the liquidity position affects external and internal factors such as saving for investment situations, central banks requirements, the leading policies management capacity etc. Current ratio of all three banks is not satisfactory. It is below its standard rate 2:1. The ratio of cash and bank balance to total deposit and current assets of EBL is higher than that of NABIL and BOK. It means EBL has higher cash and bank balance which decrease profit of bank.
- From the study it is found that NABIL has not invested funds in government securities than that of other banks. NABIL liquidity position shows that it has kept relatively funds as cash and bank balance which doesn't earn any return. This ultimately affects profitability of bank.
- In practice joint ventured banks are urban based; service quite a few elite, a fluent big customer are heavily dependent on free based activities.
- EBL has invested its more of the funds that is total investment on total deposit ratio but the percentages of investment on share and debenture is nominal.
- NABIL loan and advances to total deposit ratio is lowest in compared to other banks. EBL and BOK's loan loss ratio is increased year by year.

- It is seen that EBL has invested much of its fund in total outside assets but it has not achieved the desired result.
- NABIL has taken the low credit risk as NABIL is one of the largest commercial bank in Nepal. The risk taken by EBL from the angle of credit risk and capital risk are in an average but the consistencies of the same are highly volatile which may result higher loss.

2.3.3 Mr. Nikesh Prasad Gautam (2010) had conducted a research in the topic “A study of investment policy of commercial banks in Nepal (with reference to NBBL & EBL). The time period coursed by this research was from fiscal year 2061/062 to 2065/066. The data and other information’s were collected from secondary sources.

His Main Objectives

- Compare and evaluate the projection the profitability and risk position, liquidity assets management efficient of NBBl and EBL.
- To analyze deposit utilization and its projection for next five years of NBBl and EBl.

His Major Findings

- Cash and bank balance to current assets ratio ob both banks indicates the bank’s ability to meet the daily cash requirement.
- Comparison between cash and bank balance to total deposit ration of EBL & NBBL, EBL is slightly better position than that of NBBL.
- The data of loan and advance to total deposit ration of EBL & NBBL indicates towards fact that, in average of five years period EBL has mobilize its almost one third of its total deposit as loan and advances.
- The total investment to total deposit ratio NBBL and EBL show us that both banks are not much success to utilize its total deposit as investment. The investment policy of both banks is not satisfactory.

- Credit risk ratio shows the risk percentage of both bank while lending loan and advances. And the data shows us that NBBL has slightly lower risk to lending loan than of EBL.

2.3.4 Mr. Om Prakash Aryal (2008) had conducted a research in the topic "Financial Performance of Everest Bank limited". The time period coursed by this research was five years period from fiscal year 2000/01 to 2005/06. The data and other information's were collected from secondary sources

His main Objectives

- To evaluate Financial Performance of EBL with the help of ratio Analysis and other portfolios.
- To analyze the operating, investing and financing activities of these sample finance companies.

His Major Findings

- Although EBL could not maintain conventional standard 2:1, current ration seems to be satisfactory. In the final years of the study period it was more close to the conventional standard. EBL has made enough investment in Nepal Governments securities like Treasury bond, development bond and shares and debenture in the final years of study period.
- Cash and Bank balances to the current and saving deposit ration seems to be inconsistent. In the year 2003/04 the ratio was 12.23%. This exhibit that EBL may not be meeting its immediate obligation as the bank balance is much lower than current and saving deposit.
- Nearly 50% of total deposit is occupied by fixed deposit. In later years 2003/04 to 2006/07 the ratio fixed deposit to total deposit is less than the earlier period.
- Interest coverage ration of EBL seems to be lower in all period. This indicates that there is excessive use of debt for which interest are to be paid.
- EBL has been successful in utilizing its deposit on loan and advances which is depicted by loan and advances to total deposit ratio.

- EBL has efficiently utilized the high interest bearing fixed deposit.
- Loan and advances to total deposit ratio fixed deposit was inconsistent during the study period. Overall rate can be satisfactory.

2.4 Research Gap

There is gap between the present research and the previous research in terms of some objectives, tools for analysis, period of data and the organization. The main issue of this study is to analyze the comparative cash flow between BOK and EBL. This study has used financial and statistical tool for cash flow analysis. The data is taken in between FY 2004/05 to 2008/09. Most of the researchers conducted previously were in financial performance and profitability positions mainly based on secondary data.

This study has been done to analyze the trend of cash flow of selected organization, to examine, analyze and compare the cash flow, to identify the strengths and weaknesses of cash management of BOK and EBL and to provide recommendations to the concerned organization for future improvement on the basis of this study.

CHAPTER-III
RESEARCH METHODOLOGY

3.1. Introduction

Research Methodology is composed of two words “Research” and “Methodology”. Research is a systematic and organized effort to investigate specific problem that needs a solution. Whereas methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. Research Methodology describes the methods and procedures applied in the entire aspect of the study.

In the last two chapters, background of the joint venture as well as non-joint venture commercial banks has already been streamlined and the review of literature with possible review of theories and findings also has been discussed. As a result, I have felt very comfortable to come to the choice of research Methodology. It is framework or a general plan for the study guiding the collection and analysis of data.

In this study research methodology describe the methods and processes applied in the entire aspect of the study. Further efforts have been made to presents and explain the specific research design for the sake of attaining the research objectives. It includes research design, nature of data, data gathering procedure, population & sample and data processing procedures.

3.2 Research Design

Research design is the plan, structure and strategies of investigation conceived so as to obtain answer to research questions and to control variation. Research design helps the investigator for obtaining answers to questions of research and also helps him to control the experimental, extraneous and error variance of the particular research problem under study.

“A research design is the logical and systematic planning and directing of piece of research” – P.Vayoung.

“A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure ’’- Kothari 1992

Thus a research design is research plan or structure which is path for conducting research work. Without research design it is not possible to conduct a research. The analysis of this study is based on certain research design keeping in mind on the objective of the study. From concerned bank different information and necessary data are collected such as annual reports and financial statement published by related bank. The data are collected form year 2005/06 to 2008/09.

3.3 Sample and Population

Twenty six banks are operating in Nepal out of which six are joint venture commercial banks and twenty-two are non joint venture commercial banks. Nepal Rastra Bank being the central Bank of Nepal recommends, directs and controls the establishment, operations and dissolution of all commercial banks in Nepal. The population for this study of all joint venture and non joint venture banks. All the banks are performing banking function of commercial banks under rules, regulations and directive of Nepal Rastra Bank. As it is not possible to analyze the performance of all the banks in limited time. So, Everest Bank Limited and Bank of Kathmandu are taken for sample in this study. Population of this study is as follows;

Population:

- Nepal bank Limited
- Rastriya Banijya Bank
- Agriculture Development Bank Ltd.
- Nabil Bank Limited
- Nepal Investment Bank Limited
- Standard Chartered bank Nepal Ltd.

- Himalayan Bank limited
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank Limited
- Everest Bank Limited
- Bank of Kathmandu Limited
- Nepal Commerce and Credit Bank
- Lumbini Bank Limited
- Nepal Industrial and Credit Bank Limited
- Machhapuchhre Bank Limited
- Kumari Bank Limited
- Lumbini Bank Limited
- Siddhartha Bank Limited
- Global Bank Limited
- Citizen Bank International Limited
- Prime Bank Limited
- Sunrise Bank limited
- Bank of Asia Nepal Limited
- Development Credit Bank Limited
- NMB Bank Limit
- Kist Bank Limited

Sample of this Study

- Everest Bank Limited and Bank of Kathmandu Limited

3.4 Sources of Data

This study is mostly based on secondary data. However, required and necessary information have been obtained through informal discussions and telephone calls with the staffs of the banks. The sources of data collection are:-

- Financial Statements, annual reports provided by bank
- Telephone inquiries

- Articles and other related materials published in news paper
- News letter of the bank
- Related web site
- Textbooks, Handbooks, Magazines and Other related Books
- Library findings

3.5 Data Collection Technique

The study has been conducted to examine and evaluate the cash flow performance of Everest Bank Limited and Bank of Kathmandu limited. For this purpose various data are required. The researcher made visit to Everest Bank Limited and Bank of Kathmandu Limited head office for the collection of Data. The annual report of the last five yeas was provided by the banks. Confusion regarding the financials was solved by the staffs of both of the banks.

Various websites were surfed to gather relevant information. Reference material was collected form libraries of Shanker Dev Campus and Central Library, Tribhuvan University that helped a lot in conduction this study. Besides the above stated source of data detailed reviews of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from libraries of Shanker Dev Campus. The data information, facts and figures have been edited tabulated and calculated before analysis. Information and major findings collected in this way was note down to use during analysis and interpretation of data.

3.6 Data Processing

Data collected from concerned Banks annual reports, financial statements , relevant information and findings were in raw form. According to the nature of data they were classified and been inserted into meaningful related tables. Using financial and statistical tools, data have been analyzed and interpreted.

3.7 Data Analysis Tools Methods & Techniques

Analysis is the careful study of available facts so that one can understand and drew conclusion from them on the basis of established principles and sound logic. This study mostly based the analysis of secondary data with the help of different statistical tools. Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data.

Cash Flow Analysis

Cash is the heart of the business organization. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

Trend Analyses

The trend analysis is performed to check whether the cash position of the concerned organization are improving or deteriorating over the study period. In this study, an attempt has been made to observe the financial trends maintained by selected Banks on the basis of computed data derived from the annual report.

Statistical Tool

Percentage is the tools to analyze cash flow statement. Also the simple bar diagram is used for cash flow analysis.

CHAPTER-IV

Analysis and Presentation of Data

4.1 Analysis and Presentation of Data

In this chapter, the researcher analyzed five year's data of selected joint venture bank and non joint venture Bank according to research methodology as mentioned in chapter three. Just the Balance sheet, income statements are not sufficient enough to answer the question raised by the users of financial statement. Cash flow statement answers those questions raised by users of financial statement. Cash flow statement answers those questions through informative accounting. For these purpose, two commercials banks; one is joint venture whereas another is non joint venture has taken for the analysis. Before starting the presentation and analysis of the data let's have short look at the main items included in the cash flow statement.

4.1.1 Cash Flow from Operating Activities

Those transactions which are considered in the determination of net income are known as operating activities. According to NAS -03 (sec-6) "operating activities are the principal revenue-producing activities of the enterprises and other activities that are not investing or financing activities." Thus it can be stated that the cash flows other than those related with financing and investing are classified as operating activities.

According to NAS-03 (sec.14), examples of cash flow from operating activities are:

- Cash receipts from sale of goods and the rendering of services.
- Cash receipts from royalties, fees, commissions and other revenues.
- Cash payments to suppliers for goods and services.
- Cash payment to and on behalf of employees.
- Cash receipt and cash payments of insurance enterprises for premiums and claims, annuities and other policy benefits.
- Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities, and
- Cash receipts and payments from contracts held for dealing of trading purposes.

This chapter dealt with cash flow analyze with reference to selected joint venture bank . so under the NRB directive following are the items.

- Interest income
- Commission and discount income
- Exchange gain
- Non operating income
- Other income related with main business
- Interest expenses
- Exchange loss
- Non/operating expenses
- Other expenses

According to NAS /03 (sec.14) cash flow from operating activities items identified same as international accounting standard.

4.1.2 Cash from Investing Activities

Investing activities are related with long term assets which are shown in the balance sheet. “Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents”. The cash flow from investing activities can be determined by considering the changes in related assets account during the year. Example of cash flows from investing activities is:

- Cash payment to acquire property, plan and equipment, intangible and other long term assets.
- Cash payment to acquire equity or debt instrument of other enterprises.
- Cash advances and loans made to other parties
- Cash payment to future contracts, forward contracts, option contract and swap contract.
- Cash receipt for sale of property
- Cash receipt from sale of equity or debt instrument of other enterprises.

- Cash receipt from repayment of advances and loans made to other parties.
- Cash receipt from future contract.
- As far as commercial banks investing activities include
- Change in balance with bank
- Change in money at call and short notice
- Change in investment
- Change in loans , advances and bills purchase
    - Change in fixed assets
    - Change in other assets

4.1.3 Cash from Financing Activities

Financing activities are related to the long term liability and shareholder's equity. NAS /03 define "Financing activities are activities that result in changes in the size and composition of the equity, capital and borrowing of the enterprise.

To get the claim of investor in the future, it is compulsory to determine cash flows from financing activities. It is determined by analyzing the debit and credit changes recorded during the periods in the related liability and shareholder's equity.

Examples of cash flows arising from financing activities are;

- Cash proceeds form issuing shares, debentures, loans, notes, bonds and mortgages and other short or long term borrowing.
- Cash payment to owners to redeem the shares, repayment of borrowed and for the reduction of outstanding liability related to a finance lease.
- Cash payment for dividend
- Similarly under the directive of NRB these are the financing activities for commercial bank.
    - Change in borrowing
    - Change in deposit
    - Change in bills payable
    - Change in other liability

4.1.4 Cash Equivalent

It is the main part of cash flow statement, which describes cash position of the organization from different activities. Cash equivalent define as short term, highly liquid investment that are readily convertible to amount of cash and must be sufficiently close to it maturity. Treasury bill and commercial paper are the example of cash equivalent.

Now it is necessary to pest cash flow statement of selected commercial banks and their analyses. Analysis of the data is dome on the following way.

Comparisons with five year data individually

Comparison with every year data between two banks.

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4.2 Cash Flow Statement of Bank of Kathmandu.

Table 4.1

Cash Flow Statement for the F.Y 2004/05 to 2008/09 (Bank of Kathmandu)

Particulars	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
(A)Cash from operation	**(78,837,413)**	**354,767,832**	**1,196,283,528**	**141,243,496**	**443,842,418**
1. Cash receipt	733,732,511	839,758,005	957,003,987	1,223,855,327	1,689,754,289
1.1 interest income	589,725,336	682,260,740	771,065,694	976,838,292	1,306,619,495
1.2 Commission and discount income	72,351,675	70,776,158	97,431,129	129,415,582	196,942,020
1.3 Foreign exchange income	67,188,214	68,887,323	72,774,174	93,765,039	136,036,316
1.4 Recovery off written off Loan	-			6,000	6,934,365
1.5 Non operating income	-	866,239	(3,269,907)	662,690	(2,027,469)
1.6 Other income	4467,286	16,967,545	19,002,897	23,167,724	45,249,562
2. Cash payment	**455,169,919**	**570,866,447**	**664,951,336**	**829,126,260**	**1,143,218,634**
2.1 Interest expenses	241,639,309	308,155,647	339,181,011	417,543,432	537,538,772
2.2 Employee expenses	53,822,309	59,119,564	69,740,384	90,601,920	146,494,578
2.3 office overhead expenses	99,190,178	117,591,235	138,429,941	170,480,908	184,113,467
2.4 exchange loss	-	-	-	-	-
2.5 Income Tax Payment	6,000,000	8,600,000	117,600,000	150,500,000	197,475,219
2.6 non- operating expenses	-	-	-	-	-
2.7 Other expenses	518,267				77,596,598
Cash flow before working	27,8562,593	268,891,558	292,052,651	394,729,067	546535655

Capital					
Changes in current assets	(485,193,627)	(1,772,590,684)	(920,919,694)	(2,795,185,864)	(2359794479)
1.Changes in Money at Call and Short Notice	(56,552,857)	(265,173,522)	3,347,687,750	186,598,792	(170671664)
2.Changes in Other short term investment	(274,495,094)	(248,943,941)	838,219,860	(203,913,475)	61914604
3.Changes in loans, advances purchased and bills	(265,881,028)	(1,346,503,107)	(214,024,503)	3,063,309,924	(2197998161)
4. Changes in Other Assets	117,735,352	88,029,886	46,336,734	285,438,743	(53,039,258)
Changes in current liabilities	127,793,621	1,858,466,958	1,825,150,571	2,541,700,293	2,257,101,242
1.Changes in deposits	1,201,103,174	1,509,578,372	1,903,568,055	3,444,810,505	2,250,242,467
2.Changes in certificate of deposit	-				
3.Changes in short term borrowings	(912,150,000)	547,180,000	176,819,999	(630,000,000)	
4.Changes in other liabilities	(161,159,553)	(198,291,414)	(255,237,483)	(273,110,212)	6,858,775
(B) **Cash Flow from investing activities**	**159,465,198**	**(506,944,334)**	**(617,614,646)**	**(16,680,494)**	**327,492,345**
1.Changes in Long –term Investments	153,651,311	(527,514,615)	455,941,759	(7,720,377)	358,554,548
2. Changes in Fixed Assets	(11,605,935)	(15,514,256)	210,101,197	(66427757)	(72,449,532)
3. Interest income from Long –term Investments	17370326	35860637	47938252	57,319,582 148,058	41,051,267
4. Dividend income	49,496	223,900	490,058	-	363,062
5. Others					
(C) **Cash flow from financing activities**	**(127,916,898)**	**130,284,939**	**486,130**	**-**	**(29,689,870)**
1. changes in long term debt bond, debenture	-	200,000,000			(12,000,343)
2. changes in Share Capital	-		139,560,400		80
3.Changes in other liabilities	(133,916,898)	(69,715,061)	(139,074,270)		(17,689,607)
4.Changes in subsidies / refinance from NRB	6,000,000				

(D) Income / expenses from changes in exchange rate	4,926,654	10,068,172	8,051,839		
(E) Current's year Cash flow from all activities	42362459	(1,1823,392)	587,206,851	124,563,002	741,644,893
(F) Opening Cash and Bank Balance	782,882,941	740,520,482	728,697,090	131,590,3941	1,440,466,943
(G) Closing Cash and Bank Balance	740,520,482	728,697,090	1,315,903,941	1,440,466,943	2,182,111,836

(Source: Annual Report of BOK)

4.2.1 Cash Flow from Operating Activities

Total cash flow from operating activities of BOK for the base year i.e 2004/05 is negative whereas there is continuously increment in next following four years.

Table 4.2

Cash Flow from Operating Activities

Fiscal years	2004/05	2005/06	2006/07	2007/08	2008/09
Cash flow	(78,837,413)	354,767,832	1,196,283,528	141,243,496	443,842,418
% change		549.99↑	1617.40↑	279.15↑	662.98↑

From the table presented above, the total cash flow of the bank is in increasing as compared to base year 2004/05. There is a heavy increment in cash from operating activities for the year 2006/07 in comparisons with other years.

The graphic presentation of above reality could be done in the following manner through simple bar diagram.

Diagram: 4.1

Comparative Study of Cash Flow from Operation of Different Years

The total cash flow from operating activities is the combination of cash receipt , cash payment , change in current assets and change in current liabilities . The cash receipt of the bank is the combination of:-

- Interest income
- Commission and discounts income
- Foreign exchange income
- Recovery of written off loan
- Non operating income
- Other income

Table 4.3

Cash Receipt of Bank of Kathmandu

Fiscal years	2004/05	2005/06	2006/07	2007/08	2008/09
Cash flow	733,732,511	839,758,005	957,003,987	1,223,855,327	1,689,754,289
% change		14.45↑	30.42↑	66.80↑	13.29↑

The cash receipt section of the bank is in increasing trend, which is positive aspect of the bank. The increasing in cash flow is 130.298% as compare to base year 2004/05.

Diagram 4.2

Cash receipt of BOK

The graphical representation of cash receipt for the different years is given as ;

Table 4.4

Cash Inflow from Various Sources of BOK

Fiscal Year	Interest Income	Commission and Discount Income	Foreing Exchange Income	Recovery off Written off Loan	Non Operating Income	Other Income
2004/05	589,725,336	72,351,675	67,188,214			4,467,286
2005/06	682,260,740	70,776,158	68,887,323		866,239	16,967,545
2006/07	771,065,694	97,431,129	72,774,174		(3,269,907)	19,002,897
2007/08	976,838,292	12,941,5582	93,765,039	6,000	662,690	23,167,724
2008/09	1,306,619,495	19,694,2020	136,036,316	6,934,365	(2,027,469)	45,249,562

From the above given table we can conclude that main source of cash form operation section is cash from interest income. Cash from commission and discount and foreign exchange income are the rest of cash source of the bank.

The reality is made clearer from below diagram:-

Diagram 4.3

Cash Inflow from Various Sources of BOK

On the other hand total cash payment from operating activities is the combination of :-

- Interest expenses
- Employee expenses
- Office overhead expenses
- Exchange loss
- Income tax payment
- Other expenses

Total Cash outflow for the bank is:-

Table 4.5

Cash Flow to Operating (Payment) Section

Fiscal years	2004/05	2005/06	2006/07	2007/08	2008/09
Cash outflow	455,169,919	570,866,447	664,951,336	829,126,260	1,143,218,634
% change		25.41↑	46.09↑	82.16↑	151.16↑

The operating cash payment of the bank has risen in increasing trend. In the fiscal year 2005/06 and 2006/07, the cash payment has raised by 25.41% and 46.09% where as the cash payment has increased by 82.16% and 151.16% in 2007/08 and 2008/09 respectively. The base year for the comparison is 2004/05.

The above trend of cash payment is diagram meted as follows:-

Diagram 4.4

Cash Flow to Operating (Payment) Section

Similarly, the total cash payment is studied by dividing into various subheadings as stated above. The various subs –sectors for the cash payment is presented as follows:-

Table 4.6

Composition of Cash Outflow in Operation Section

F/Y	Interest Expenses	Staff Expenses	Office Overhead Expenses	Exchange Loss	Income Tax Paid	Non Operating Expenses	Other Expenses
2004/05	241,639,164	53,822,309	99,190,178		60,000,000	518,267	
2005/06	308,155,647	59,119,564	117,591,235		86,000,000		
2006/07	339,181,011	69,740,384	138,429,941		117,600,000		
2007/08	417,543,432	90,601,920	170,480,908		150,500,000		
2008/09	537,538,772	146,494,578	184,113,467		197,475,219		77,596,598

Interest payments are increasing in increasing trend. Interest payment is increased by 27.52%, 40.38%, 72.80% and 122.45% in year 2005/06 to 2008/09 as compared to the base year 2004/05. It is clear from the table that interest income is greater than interest expenses of the bank for last five years. Staff expenses, office overhead expenses and tax paid amount are also in increasing trend. Exchange loss is not beard by the bank whereas other expense is only incurred by the bank in year 208/09 and a non operating expense is only incurred in the year 2004/05.

The composition of the cash payment of the bank in various sections could be presented in a bar diagram as follows:-

Diagram 4.5

Composition of Cash Payment Outflow in Operation Section.

4.2.2 Cash Flow From Investing Activities

Investment activities are related to long term assets which are in shown in balance sheet. Investing activities are acquisition and disposal of long-term assets are other investment not included in cash equivalents. Positive cash flow from investing activities represents sale of investment and fixed assets. Similarly, negative cash flow means the Bank made investment for internal and external fixed assets, securities, loan and advances.

The total cash from investing activities could be figured out through tabulation method as follows: -

Table 4.7

Cash from Investing Activities

Fiscal years	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash outflow	159,465,198	(506,944,334)	(617,614,646)	(16,680,494)	327,492,345
% change		417.91↓	487.30↓	110.46↓	105.37↑

The table says that the bank has negative cash flow from investing activities in its fiscal year 2005/06 to 2007/08. That may be because of extension of infrastructure in the context of economic globalization, technology change and market competition. The trend of cash from investing activities for different five fiscal years is figured out in the following bar diagram: -

Diagram 4.6

Cash from Investing Activities

The composition of cash from investing activities can be presented as below: -

- Changes in long term investment
- Change in fixed assets
- Interest income from long term investment
- Dividend income
- Other income

From the cash flow statement for BOK, it can be said that, cash flow from investing activities in fiscal year 2004/05 and 2008/09 is positive because of low investment.

4.2.3 Cash Flow From Financing Activity

Financing activities are related to the long term liability and shareholder’s equity financing activities are activities that result in change in size and composition of the equity, capital and borrowing of the enterprises.

To get claim from the investor in future it in compulsory to determine cash flows from financing activities. Generally financing sources refer debenture, share and retained earning plaguing back. But the bank has other sources of financing rather than mentioned above. They are collection of deposit through different account like current, saving and fixed deposit as well as margin deposit and others. Cash flow from financing activities of different fiscal year under studies has been tabulated as below: -

Table 4.8

Cash from Financing Activities

Fiscal years	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash outflow	(127,916,898)	130,284,939	486,130	-	(29,689,870)
% change		201.85↑	100.3↑	100↓	123.21↓

Cash flow financing activities for BOK has been decreased in last two years whereas it is increased in the fiscal year 2005/06 and 2006/07.

Diagram 4.7

Cash Flow from Financing Activities

From the above bar diagram, we can see that the cash flow from financing activities has been decreased in higher amount in fiscal year 2006/07 whereas cash flow from financing activities in fiscal year 2007/08 is Nil. It shows that there is no any activity done by bank that appears in financing activities.

4.2.4 Net Cash Flow for the Year

After determining the net cash from operating activities, financing activities and investing activities, these three amounts are combined for ascertainment of Net Cash Flow. The net cash flows of the bank under different fiscal years are presented in following table: -

Table 4.9

Net cash Flow for the Year

Fiscal years	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash outflow	(42,362,459)	(11,823,392)	587,206,851	124,563,002	741,644,893
% change		72.09↑	1486.15↑	394.04↑	1850.71↑

The net cash flow of the bank for the preceding fiscal years are in ascending order where as net cash flow for the last three fiscal years is positive and negative for the following two years. The reality could be made clear from the following diagram:

Diagram 4.8

Net cash flow for the year

4.2 Cash Flow Statement of Everest Bank Limited.

Table 4.10

Cash Flow statement for the F.Y 2004/05 to 2008/09(Everest Bank Limited)

Particulars	2004/05	2005/06	2006/07	2007/08	2008/09
(A)Cash from operation	311,508,176	561,765,203	935,776,872	1,618,856,981	3695545034
1. Cash receipt	864,481,382	1,119,894,353	1,372,775,899	1764,958,356	2,440,224,660
1.1 interest income	725,011,927	960,914,386	1,157,394,126	1,480,965,056	2,071,386,385
1.2 Commission and discount income	78,130,046	88,163,454	117,718,162	150,264,074	202,094,446
1.3 Foreign exchange income	27,077,784	19,770,383	27,129,990	50,815,249 -	55,861,850
1.4 Recovery off written off Loan	-	-	-	-	-
1.6 Other income	34,261,625	51,046,130	70,533,621	82,913,977	11,088,1979
2. Cash payment	(594,602,963)	(704,261,899)	(892,082,135)	(829,126,260)	(1,744,322,546)
2.1 Interest expenses	(312,880,500)	(378,626,864)	(492,278,489)	(612,862,000)	(102,376,829)
2.2 Staff expenses	(84,054,864)	(68,377,635)	(78,118,226)	(127,972,593)	(163,027,617)
2.3 office administration	(105,223,110)	(115,090,880)	(146,568,951)	(177,576,476)	(215,578,404)
2.5 Income Tax Paid	(92,444,489)	(114,086,267)	(140,556,436)	(191,048,302)	(297,471,016)
2.7 Other expenses	-	(28,080,253)	(34,560,033)	(45,470,846)	(65,868,680)
Cash flow before Changes working capital	269,878,419	415,632,454	480,693,764	610,028,139	695,902,114
Changes in current assets					
1.Changes in Money at Call and Short Notice	(382,555,000)	503,040,000	66,960,000	(346,000,000)	346,000,000
2.Changes in Other short term investment	561,253,842	(2,072,294,406)	80,118,131	498,762,587	(697,050.061)
3.Changes in loans, advances purchased and BP	(1,828,256,187)	(2,236,164,177)	(3,947,226,863)	(4,772,744,402)	(5,638,672,934)
4. Changes in Other Assets	(35,437,629)	(39,027,236)	(72,378,997)	(134,857,710)	(67,616,369)
1.Changes in deposits	2,033,788,903	3,704,753,999	4,383,808,553	5,790,044,994	9346545034
2.Changes in certificate of deposit	-	-	-	-	
3.Changes in short term				-	

borrowings 4.Changes in other liabilities	(307,164,172)	- 285,824,569	- (56,197,716)	(26,376,627)	(289,665,427)
(B) Cash flow from investing activities	193,323,899	32,504,016	888,791,146	(761,829,891)	(240,569,259)
1. Purchase in Shares and Debentures 2. Proceed from Sale of Shares & Debenture 3. Purchase of Fixed Assets 4. Proceed from sale of Fixed Assets 5. Increase/(Decrease) in Government Securities 6. Proceed from sale of Non Banking Assets 7. Interest income from Long –term Investments 8. Dividend income 9. Others	- (154,528,000) (38,820,899)	(500,00) - (47,368,367) 875,368 406,198 1,655,343 12,265,942 161,500 -	- - (49,934,128) 949,783 (863,917,497) 11,580,378 12,276,398 253,920 -	(94,679,000) 13,414,000 (248,462,452) 1,845,299 (493,535,705) 397,500 58,439,435 751,032 -	(882,500) (144,259,524) 2,016,538 (190,990,168) 2,025,555 91,372,640 148,200
(C) Cash flow from financing activities	300,000,000	(29,586,298)	790,192,820	-	34,758,588
1. changes in long term debt bond, debenture 2. changes in Share Capital 3. Changes in Share Premium 4. Share Application Money 5. Dividend paid 6 Interest in Borrowing Paid 7. Changes in subsidies / refinance from NRB	300,000,000 -	- (15,960,630) (13,625,668) -	- - - - (104,222,751) (17,096,429) -	(511,512,000) (58,852,252) (23,748,730) -	312,000,000 - (140,000,000) - (126,611,886) (10,629,526) -
(D) Income / expenses from changes in exchange rate	-	3,303,397	1,274,554	13,637,129	6,664,969
(E) Current's year Cash flow from all activities	418,184,277	502,978,286	838,453,100	276,551,237	3,469,399,332
(F) Opening Cash and Bank Balance	631,804,931	1,049,989,208	1,552,967,494	2,391,420,594	2,667,971,831
(G) Closing Cash and Bank Balance	1,049,989,208	1,552,967,494	2,391,420,594	2,667,971,831	6,164,371,163

Total cash flow from operating activities of the bank under the different fiscal years are in creasing order. To make this reality clearer, the cash flow is tabulated as follows:

4.3.1 Cash Flow from Operating Activities

Table 4.11

Cash Flow from Operating Activity

Fiscal Year	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash Flow	311,508,176	561,765,203	935,776,872	1,618,856,981	3,695,545,034
% change	-	80.34%↑	200.407%↑	419.068%↑	1086.34%↑

From the above table we conclude that the cash flow from operating activities is in increasing trend. To beautify this reality, the following simple bar diagram is presented as below:

Diagram 4.9

Cash from Operating Activities

Hence, the cash flow from operation of the bank is in increasing trend which has clearly been shown in the diagram above.

As per the component of cash inflow of BOK, EBL‘s cash flow also includes the very headings. The following section of this deals the same matter for the bank;

Table 4.12

Cash Inflow of Various Sources of EBL

Fiscal year	Interest income	Commission and disc. Income(CDI)	Exchange gain	Recovery of loan written off	Other income
2004/05	725,011,927	78,130,046	27,077,784	-	34,261,625
2005/06	960,914,386	88,163,454	19,770,383	-	51,046,130
2006/07	1,157,394,129	117,718,162	27,129,990	-	70,533,621
2007/08	1,480,965,056	150,264,074	50,815,249	-	82,13,977
2008/09	2,071,386,385	202,094,446	55,861,850	-	110,881,979

The main source of the cash receipt in operating activities is interest income. Cash receipt is increasing in fiscal year which is very good to company. The component of cash receipt of EBL is as same as BOK, they are:

- Interest income
- Commission and discount income
- Income from foreign exchange transactions
- Recovery of loan written off
- Other income

So, their second large receipt source under operating activities is commission and discount. However, there is no any receipt under heading recovery of loan written off.
The figure in the above table could be present in the following simple bar diagram as;

Diagram 4.10

Compositions of Cash from Operating Activities

The following section deals the cash to operating section

Table 4.13

Cash to Operating Section

Fiscal Year	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash Outflow	594,602,963	704,261,899	892,083,135	1,154,930,217	1,744,322,546
% change	**-**	**18.42%↑**	**50.30%↑**	**94.24%↑**	**193.359%↑**

The cash payment of the base year is increasing in increasing trend as compared with the fiscal year 2004/05.

To beautify this reality the following simple bar diagram is used as

Diagram 4.11

Cash to Operation

As per the discussion made above on cash outflow of previous bank, this bank also includes the very headings under this section.

Following table is presented for the purpose:

Table 4.14

Composition of Cash outflow in Operation Section

Fiscal year	Interest Expenses	Staff Expenses	Office and Administrative expenses	Income tax paid	Other expenses
2004/05	312,880,500	84,054,864	105,223,110	92,444,489	-
2005/06	378,626,864	68,377,635	115,090,880	114,086,267	28,080,253
2006/07	492,278,489	78,118,226	146,568,951	140,556,436	34,560,033
2007/08	612,862,000	127,972,593	177,576,476	191,048,032	45,470,846
2008/09	1,002,376,829	163,027,617	215,578,404	297,471,016	65,868,680

The bank's cash payment includes interest expenses, payment to human resources, office administration expenses and other's expenses.

Diagram 4.12

Composition of Cash Outflow in Operating Section

From the diagram, it is clear that the leading expense is interest expenses. The second highest interest expenses is office and administration expenses for fiscal year 2004/05 to 2006/07 whereas income tax leads as second highest expenses for fiscal year 2007/08 and 2008/09. However the staff expense is seen under management control efficiently for first 3 years whereas there is drastic increment in staff expenses of the fiscal year 2007/08 and 2008/09.

4.3.2 Cash Flow from Investing Activities

Table 4.15

Cash from Investing Activities

Fiscal Year	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash Flow	(193,323,899)	32,504,016	888,791,146	(761,829,891)	(240,569,259)
% change		116.81	560	(494)	(433)

To make this reality more clear we need to plot it into simple bar diagram in the following bar diagram as

Diagram 4.13

Cash Flow from Investing Activities

From the diagram it is clear itself that bank has mad considerable huge amount of investment in fiscal year 2004/05, 2007/08 and 2008/09. But in 2005/06 and 2006/07 the bank has surplus amount of cash from investing activities.

4.3.3 Cash from Financing Activities

Financing means way of capitalization in general case. It may be on the form of share and debenture issue, retained earning and preference capital. But financial institution is the trader of money. They purchase money as deposit liability with paying interest and invest them into public as a loan. Bank financing includes borrowing deposit, bills payable and other liabilities. Cash flow from financing activities for EBL has been tabulated for different fiscal year as follows.

Table 4.16

Cash from Financing Activities

Fiscal Year	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash Flow	300,000,000	(29,586,298)	790,192,820	(594,112,982)	34,758,588
% change		(9)	26.33	(29.8)	(8.87)

The cash flow from financing activities in the fiscal year under study is fluctuating. There is negative cash flow in the fiscal year 2005/06 and 2007/08 where as positive in other remaining year.

The reality could be made clear from the following graph as

Diagram 4.14

Cash from Financing Activities

4.3.4 Net Cash Flow for the year

Net Cash flow of the bank in different fiscal years is the combination of net cash from operating activities, net cash from financing activities and net cash from investing activities. The net cash flows of the bank under study are presented in the following table:

Table 4.17

Net Cash Flow for the year

Fiscal Year	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Cash Flow	418,184,272	502,978,286	838,453,100	276,551,237	3,496,399,332
% Change		20.09	100.47	(33.97)	736.36

Diagram 4.15

Net Cash Flow of the Bank

4.4 Comparative Study of Cash Flow Statement between Banks Under Study

4.4.1 Comparative Study of Cash Flow from Operating Activities

Total cash flow from operating activities of the bank includes the same cash receipt and payment headings. It is because; the Banks under study fall in the same industry i.e. commercial banking industry. They are similar in most of the aspects in the angel of socio- economic development of the nation.

Following section shows the comparative picture of cash flow from operation under different fiscal years under study.

Table 4.18

Comparative Study of Cash Flow from Operating Activities between Banks

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
BOK	(78,837,413)	354,767,832	1,196,283,528	141,243,496	443,842,418
EBL	311,508,176	561,765,203	935,776,872	1,618,856,981	3,695,545,034

A bank's operating activities include the transactions associated with the bank's products and services. From the above table, it was seen that the amount of CFOA was positive in all the fiscal years of both the banks except in the year 2004/05 for BOK. The figure is in increasing trend for EBL. To visualize the summarization, it is better to show this fact in the simple bar diagram as follows: -

Diagram 4.16

Comparative Study of Cash Flow from Operating Activities

From the diagram shown in above section, EBL shows the strong position in cash from operating activities. It may be due to sound operation of management as compared with BOK. But in the fiscal year 2006/07 BOK has overtaken the position. It shows EBL was competent for the generation of more amount of CFOA.

4.4.2 Comparative Study of Cash from Investing Activities

This section of the cash flow statement shows the amount of cash firms spent on investments. Investing activities generally use cash because

Banks is a business entity. It collects money as deposit and sells for the customer, which called investment. Investment may be in terms of bank balance, money at call and short notice, loan, fixed assets or other assets.

How far the banks have utilized funds in their fixed income yielding securities? Following section is all about the cash from investing activities in comparative form

Table 4.19

Comparative Study of Cash Flow from Investing Activities

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
BOK	159,465,198	(506,944,334)	(617,614,646)	(16,680,494)	327,492,345
EBL	(193,323,899)	32,504,016	888,791,146	(761,829,891)	(240,569,259)

In case of CFIA, BOK was not in a position to invest in the year 2004/05 and 2008/09 while EBL has not made investment in year 2005/06 and 2006/07. Similarly it is clearly shown from the data that the amount of investing activities of EBL was more than BOK in last two years. From this information we predict that EBL will be in position to earn more amount of net income than it will be for BOK.

The above given information about the comparative study of cash flow of Investing Activities between the two banks can be shown as below.

Diagram 4.17

Comparative study of Cash flow from Investing Activities

4.4.3 Comparative Study of Cash flow From Financing Activities

Financing means raise of capital form different sources in order to operate the company effectively. Generally financing sources refers debenture, share and retained earning plaguing back. But the bank has other sources of financing rather than mentioned above. They are collection of deposit through different account like current, saving and fixed deposit as well as margin deposit and others.

Table 4.20

Comparative Study of Cash Flow from Financing Activities

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
BOK	(127,916,898)	130,284,939	486,130	0	(29,689,870)
EBL	300,000,000	(29,586,298)	790,192,820	(594,112,982)	(240,569,259)

To illustrate this reality, we simply present the figure in the diagram followed by this section: -

Diagram 4.18

Comparative Study of Cash flow from Financing Activities

The EBL has the highest fluctuation in CFFA where as BOK has minimum amount of fluctuation in comparison to EBL. Both the bank, BOK and EBL has positive and negative amount of CFFA in the years under study.

4.5 Major Findings of the Study

Comparative Cash Flow from Operating Activities

- Total operating cash flow of EBL is in progressive trend.
- But total cash flow from operating activities of BOK is in volatile in nature. They are in increasing/decreasing trend.
- Cash flow from operating activities is only negative of Bok for the year 2004/2005.
- Everest Bank Limited has excess positive cash flow from operating activities than BOK due to highest interest income and commission & discount income.
- Everest Bank Limited has strong international network to do agency work and to earn commission discount income.
- Significant amount of cash receipt from exchange gain for these two banks. But BOK has highest amount of exchange gain due to highest amount of foreign currency transaction.
- Total cash payments for both banks are in increasing trend but trend EBL is little bit higher than BOK.
- Total cash payments for both banks are in increasing trend but trend of EBL is little bit higher than BOK.
- Total Interest Expenses for both banks are in increasing trend.
- Staff expenses of BOK is in increasing trend for all the fiscal years whereas EBL's Staff expensed is reduced for f/y 2005/06 and 2006/07 as compare to 2004/05.
- In a comprehensive analysis CFOA is the main source to operate banks. Open market policy to the bank to charge interest rate is being reason to reduce spread rate. Interest income is the main source of revenue .whereas interest expenses is also the main source of cash payment. Due to liquidity crisis and cut throat competition between financial institutions bans are paying high interest for deposit.

Comparative Cash Flow from Investing Activities

- Cash flow from investing activities is not in increasing or decreasing trend. They are volatile in nature.

- Only fixed assets are not major parts of investing because they are very small with comparative to the total investing activities.
- Interest income from long term investment is highest in 2008/09 of EBL due to safety deposit and lack of improper credit product.
- EBL has highest amount of investment of fixed assets than BOK in year 2007/08.
- Sales of fixed assets have no significant contribution on cash flow from investing activities.
- In the year, 2007/2008 both Bank has negative CF of investment due to high amount for investment.
- Due to safety of deposit and lack of improper credit facility credit product, EBL has invested significant amount on government Treasury bill and debenture in year 2006/07.
- Only operating cash flow are not sufficient to make investment so cash should be taken from financing activities.

Comparative Cash Flow from Financing Activities

- Total cash flow from investing activities is in increase /decrease trend.
- EBL has issue huge amount of share in year 2006/2007.
- From the analysis it was found that for the banks and financial institutions, because of nature of transaction in banking sector, increase/(decrease) in short term borrowing are taken for working capital purpose to run day to day operation of banking business. Actually, it is borrowed to finance the activities i.e. financing if operating activities treatment for this item.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary 5.1

In Nepal the first commercial bank was established in 1937 under the name of Nepal Bank Limited under the Government and private sector joint ownership. Realizing the insufficiency of Nepal Bank Ltd, government established Rastriya Banijya Bank in 1966 as a fully government owned bank.

For this purpose the researchers selected two commercial banks: -

They are

Bank of Kathmandu

Everest Bank Limited

To prepare the cash flow statement annual report of the bank and their annex are studied. Basically profit and loss account, balance sheet and cash flow statement presented by the bank are viewed for the analysis purpose. Directives of Nepal Rastra Bank, company Act and NRB Act are studied through out period of Research. Books related with cash flow and Accounting written by Nepalese & foreign writers is studied. Then the research is analyzed Five years cash flow position of the banks from different activities are studied based on chart and trend analysis summary the study are.

5.2 Conclusion

- Cash is the basic input needed to keep the operations of the business going on a continuing basis: it is also the final output expected to be realized by rendering the services sector business.

- Sometimes, it so happens that a business unit earns sufficient profit, but in spite of, is not able to pay its liabilities when they become due. The analysis of cash flows statement helps to conclude that the normal business operation of the banks were satisfactory. As per the directives given by NRB, these banks prepare the other financial statements i.e. profit and loss A/C, Balance Sheet etc. on cash basis similarly; the volume of transactions of both these banks was greatly affected by economic activities of the economy. Effective cash management objectives implies a proper balancing between the two conflicting case of liquidity and profitability. So these banks couldn't threaten the liquidity and solvency position.

- In order to find out the true figure of any financial institution from operations , accounting methods and practices should be uniform and systematic .However these two banks has taken into considerations that the old format of Cash flows statement prescribed bye NRB for commercial banks/ financial institution was not the reliable format to calculate the CFOA, CFIA and CFFA .

- Selective joint venture and non-joint venture banks have good performance in the competitive market. Because of the conflict of the entire economic sector had affected. However, bank has trying to serve their customer. EBL has great network and customers that's why activities have also large against BOK. An analysis shows that cash flow from operating activities of EBL is too much lager than BOK. EBL and Bok are both pioneer banks. From the analysis and study it comes to know that more invest more profit is no truer.

- EBL and BOK are the main money market. They are operating in high amount operating profit. They are paying tax revenue to the government and facilitating people by providing new and latest banking services in this competitive environment. Profit and Loss A/C and Balance sheet of these banks are strong.

- But now day's cash flow statement is being mandatory to submit for annual report and cash flow is being a key financial indicator to analyze the strength and weakness of the firm. Only profit making on accrual basis doesn't not provide the real figure of the firm so income should be treated on cash basis according to the NRB directive for financial institution. If profit is negative but cash flow is positive then stakeholder believes to that institution. So cash flow analysis is necessary. By analyzing the five –year cash flow statement following conclusion are found and recommend for improvement.

5.3 Recommendation

Based on the analysis, interpretation & conclusion, some recommendations are made here so that the concerned authorities s, future researchers, academicians, banker can get some insights on the present conditions on above topics. It is assumed that this research will be profitable to improve the current situation as well as for the grounding of further researches.

On the basis of major findings some important suggestions have been forwarded so that they might help the sample banks to strengthen weaker aspects of the financial activities.

- Operating cash flow of BOK and EBL are positive and the trend is increasing but lunching new sector should enhance this source.
- Commission and discount are in good position but lower than EBL so agency work should be done properly.
- One of the main problems of the bank is increasing staff burden and operating cost. However, staff expenses of EBL seems higher than BOK. It should be minimized by increasing the efficiency of the staffs.
- Commission and discount income are also in good position but lower than EBL so agency work should be done properly.
- Due to strong wide networking fund transfer is accessible so it should be managed properly.
- Net cash flow for the year 2004/05 and 2005/06 is negative. It is not good for the bank and investors. However the bank has positive net cash flow for last three years.

- Deposit are in increasing trend of BOK as well as EBL , which is very good but considering the cut throat competition of attracting customers , it should focus on attracting customers by launching new products.
- Commission and Discount has played significant role in generating the operating income, which is positive and bank should emphasize more in it.
- Foreign exchange income is very low as compared to BOK, so it would be profitable for the bank if it would give emphasis on strong world wide networking.
- Main source of interest income is Loan and advance so it should be keep it up by investing in productive sector. However; alternative approach for income can play significant role in income.
- Recognizing the human capital is the most important asset of a business entity, the banks have to reward people. Bank should implement the new method for the staffs and employees.
- These banks need to focus on alternative ways of delivering financial services, especially using technology as a delivery channel.
- Increasing loans and deposits portfolios are necessary, but no longer sufficient mediums to be successful in industry. Banks need to take a strategic shift in the form of delivering services and in the use of technology as well.
- Today is the age of competition; banks have to survive within these competitions. Therefore for the attraction of the general public, there should be attractive programs, facilities, technologies.
- The bank has good public faith so deposit are increasing but both bank has to manage it deposit mix by reducing interest bearing deposit.
- Main source of income is loan and advance. However; BOK and earning in low volume as compare to EBL. So, new area of investment is to find out.
- If these banks produce quantifiable client through the growth initiatives, it would definitely make a great year for both of these banks.

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Balance Sheet

From the year 2004/05 to 2008/09 of EBL

Share Capital and Liabilities	2004/05	2005/06	2006/07	2007/08	2008/09
Share Capital	518000000	518000000	518000000	831400000	838821000
Reserve & Surplus	314617365	444808301	683515266	1089837580	1364804055
Debenture and Bond	300000000	300000000	300000000	300000000	300000000
Loan And Borrowings					312000000
Deposit Liabilities	10097690989	13802444988	18186253541	23976298535	33322946246
Bills Payable	17777860	15805995	26776480	49429700	148655592
Proposed and unpaid Dividend	23527388	114666758	68146323	140790370	230524766
Income Tax Liabilities			15278110	41143107	20522280
Other Liabilities	763558645	763558645	1634604580	720443592	378574715
Total Liabilities	**11732516418**	**15959284687**	**21432574300**	**27149342884**	**36916848654**
Assets					
Cash in Hand	192590297	259347645	534996791	822989425	944695793
Balance with Nepal Rastra Bank	779669004	1139514873	1178198197	1080914554	4787163541
Balance with other Banks & Financial Instituions	77729907	154104976	678225606	764067851	432511829
Money at	570000000	66960000		346000000	

Call and Short Notice					
Investments	2128931852	4200515220	4984314586	5059557544	5948480273
Loan, Advances and Bills Purchased	7618671476	9801307676	13664081664	18339085562	23884673616
Fixed Assets	134068090	152089805	170097452	360512480	427157451
Non Banking Assets	24570614	7436642			
Other Assets	206285178	178007850	222660004	376215468	492166151
Total Assets	**11732516418**	**15959284687**	**21432574300**	**27149342884**	**36916848654**

Profit and Loss Account

From the year 2004/05 to 2008/09 of EBL

Particulars	2004/05	2005/06	2006/07	2007/08	2008/09
1.Interest Income	719297855	903411137	1144408308	1548657132	2186814992
2.Interest Expenses	299565269	401397351	517166241	632609264	1012874353
Net Interest Income	419732586	502013786	627242067	916047868	1173940639
3.Commission and Discount	78130046	88163454	117718162	150264074	202094446
4.Other Operating income	31479208	48902681	67967525	79133767	106403694
5.Exchange income	27077784	23073780	28404544	64452378	62526819
Total Operating income	556419624	662153401	841332298	1209898087	1544965598
6.Staff expenses	60597367	70924675	86118226	157957084	186919870
7.Other operating expenses	129067225	143562167	177545649	236766654	292010522
8.Exchange Loss					
Operating Profit before Provision for possible loss	366755032	447666559	577668423	818174358	1066035206
9.Provision for Possible losses	(88926593)	(70465665)	(89695764)	(99340505)	(93084880)
Operating Profit	277828439	377200894	487972659	718833853	972950326
10.Non Operating Income/loss	2974088	2959467	1315211	4519287	5005256

11.Write back from loan loss provision	5252936		11686657	20201067	8044170
Profit from regular activities	286055463	380160361	500974527	743554208	985999752
12.profit/loss from transaction of extraordinary nature	(5252936)		(795224)	(18998727)	(5549170)
Profit after inclusion of al types of transaction	280,802,527	380160361	500179303	724555481	980450582
13.Provision for staff bonus	28080253	34560033	45470846	65868681	89131871
14.Provision for income tax					
This year	81914477	106753311	(144368164)	216913302	276864301
Up to last year	2593186	1556081	(13931012)	(9445115)	(24278347)
Net profit	168214611	237290936	296409281	451218613	638732757

Share Capital and Liabilities	2004/05	2005/06	2006/07	2007/08	2008/09
Share Capital	463580900	463580900	603141300	603141300	844397900
Reserve & Surplus	643662038	376152981	378837432	738932488	897192236
Debenture and Bond		200000000	200000000	200000000	200000000
Loan And Borrowings	6000000	553180000	730000000	100000000	100000000
Deposit Liabilities	8942748598	10485359239	12388927294	15833737799	18083980266
Bills Payable	19873927	11621657	25776722	51576245	51124559
Proposed and unpaid Dividend		98711520	135575231	32804204	77333212
Income Tax Liabilities					
Other Liabilities	167770123	89723005	107840825	131733151	241977283
Total Liabilities	**9857130464**	**12278329302**	**14570098804**	**17721925187**	**20496005483**
Assets					
Cash in Hand	161469654	184019718	219042572	536747143	565065889
Balance with Nepal Rastra Bank		349295702	883495841	606049072	1324108341

Balance with other Banks & Financial Instituions	579050828	195318672	213365528	297670728	292937606
Money at Call and Short Notice	328873857	594047379	259278628	72679836	243351500
Investments	2598253410	3374711966	2992433866	3204067718	2783598566
Loan, Advances and Bills Purchased	5912579472	7259082579	9399327617	12462637541	14647296987
Fixed Assets	95230942	110745198	320846395	327274153	417040587
Non Banking Assets		7356136	3625715	452978	
Other Assets	181672301	203688954	278682642	154346018	222606007
Total Assets	**9857130464**	**12278329302**	**14570098804**	**17721925187**	**20496005483**

Balance Sheet

From the year 2004/05 to 2008/09 of Bank of Kathmandu