CHAPTER- 1
INTRODUCTION

1.1 Background of the Study

Finance is a business term which deals with the study of fund management. If finance is to be accepted as weapon which enables an organization to pay its bills promptly it is necessarily linked with the flow of fund. The management may accept or reject a business provision on the basic of financial viabilities .It guides investment where opportunity is the greatest producing relatively uniform yard stick for judging most of a firms operations and projects and is continually concerned with achieving and adequate rate of return on investment as this is necessary for survival and the attracting of new capital.

The function of finance involves three major decisions which the firm must make the investment decision, financing decision and dividend decision. An optimum combination of the three will maximize the value of the firm. In other word entire activities relating the finance are done with the help of financial management. So in this area of management there are two main functions firstly to assemble the funds necessary to initiate a new business economically and secondly to provide the basis of continue new operation.

“Financial management may be defined as the part of management which is concerned mainly with raising funds in the most economic and suitable manner, using, these funds as profitable as possible, planning future operation, and controlling current performance and future developments through financial accounting cost accounting, budgeting, statistics, and other means. It guides investment where opportunity is the greatest producing relatively uniform yard stick for judging most of a firms operations and projects and is continually concerned with achieving an adequate rate of return on investment as this is necessary for survival and the attracting of new capital"(kulkarni, 1986: 76)

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

Thus the study of working capital is of prime importance to internal and external analysts because of its close relationship with the current day to day operations of a business enterprise. Management of working capital in a business enterprise is very important mainly for few reasons. Firstly, an enterprise, must determine the adequacy of investment in current assets, otherwise, it would seriously erode their liquidity base. Secondly, they must select the type of current asset suitable for investment so as to raise operational efficiency. Thirdly they are required to ascertain the turnover of current assets that greatly determine the profitability of the enterprise. Lastly they must find out the appropriate source of funds to finance current assets. It is therefore a recognized fact that any mistake made in management of working capital can lead to adverse affects in business and can reduce the liquidity turnover and profitability of the firms.

Working capital management is an important decision making area of financial management of an enterprises. It requires understanding for how to raise and allocated financial resources how to relate Short-term investments, financial decisions to the overall objectives of the firm and how to relate short-terms financial decisions to certain long term financial decision to certain long term financial decisions .(Upadhyay,1985:40)

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

There are two concept of working capital gross concept and net concept. Gross working capital simply called as working capital, refers to the firms investment in current asserts. Current assets are the assets which can be converted into cash within an accounting year and include cash, short-term securities, debits, bills receivables and stock. Net working capital refers to the difference between current assets and current liabilities current liabilities are those claims of outsiders which are expected to return for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. (Pandey; 1995: 665)

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

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

Meaning of Banks

Banks are very important financial intermediaries in financial market. “Financial intermediaries not only savers but also they create new financial products. They gain economics of scale in analysis of credit worthiness of potential borrowers in processing and collecting lone and minimize cost of information and make easy flow of transactions."(Peter, 1999: 4)

Banks are the principal source of credit to house hold, individuals and family business all forms and local units of government Furth more, they are the source of financial information, planning and controlling. “Banking institution is inevitable for resource mobilization and all-round development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people." (Ronald, 1993: p 87). Bank deal with money by accepting various type of deposits disbursing loans and investing in productive sectors and rendering other financial services as the primary function.

Banks are channels between saving surplus and saving deficit people and thus they are the bridge of utilize scatter fund to productive sectors. Hence, they represent a vital role in the transmission of government economic policies (especially monitory policies) to the economy. When bank credit is expensive, the investment slows down and unemployment rises. Bank deposit represents the most significant component of the money supply used by the public, commercial banks play an important role for economic development of the country as they provide capital for the development of industry trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and social life.

About Bank of Katmandu Ltd.

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

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

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

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

Capital Structure of Bank of Kathmandu

Authorized Capital	Rs.1,00,00,00,000.00
Issued Capital	Rs.60,61,73,300.00
Paid Up Capital	Rs.60,31,41,300.00

Shareholding Pattern

Promoters	42%
General Public	58%

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

1.2 Focus of the Study

Financial institutions assist in the economic development of the country. The concept of financial institution in Nepal was introduced when the first commercial bank, the Nepal Bank Limited, was established in 1994 B.S as a semi-government organization. In the fiscal year 2039/040, new banking policy was introduced for the establishment of new banks by the joint investment of foreign nations. The establishment of joint venture banks gave a new horizon to the financial sector of the country. Commercial banks are the heart of the financial system, which plays significant role by collecting scattered surplus fund and delaying these funds in the productive sectors as an investment. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and government establishments.

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

The working capital management of a bank is different from that of other business enterprises. A bank plays a significant role to fulfill the requirement of working capital of any other type of business enterprises. It also needs efficient management. Investment in working capital of other business enterprises is a part of current assets of banks working capital and we can consider deposits and short term borrowing as a part of current liabilities. So this study is a reference regarding the working capital management.

1.3 Statement of the Problem

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

An organization which is not willing to take more financial risks can go for more short term liquidity. The more of short term liquidity means more of current assets and less of current liabilities. The less current liabilities implies less short term financing heading to the lower returns resulting from the use of more high cost long term financing , so it is very essential to analysis and find out problems and it's solution to make efficient use for funds for minimizing the risk of loss to attain profit objective. Inadequate investments in working capital threaten the solvency of enterprise as well as effect its growth. On the other hand, excessive investments in working capital yield nothing. Therefore working capital should be determined in such a way that total cost of liquidity and cost of non liquidity is minimum. Hence the goal of working capital management is to manage the firm's current assets and current liabilities in such a way that it should maintain satisfactory level.

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

1. What are the major factors effecting the management of WC in BOK?
2. Which of the current assets are more problematic on BOK?
3. How have the firms been raising the required funds? Is the funds properly and productively utilized or not?
4. What are the components of WC which affect the operating income of BOK?
5. How have the bank been utilizing their debt capital.

1.4 Objective of the Study

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

1. To indicate liquidity position in current assets of bank of Kathmandu limited over the year.
2. To point out the position of current liabilities and assets of bank of Kathmandu limited over the year.
3. To analyze the need to control investment in working capital in bank of Kathmandu limited.
4. To make suggestion about removing any obstacle in making decision regarding management of working capital and to point out alternating solution for maximizing the profit .

1.5 Significance of the Study

Working capital is the size of investment in each type of current assets, each of the current assets should be managed efficiently an effectively. It is because decision regarding working capital affects not only the profit ability of the firm in the short term but also its very survival in the long run. The management of working capital should not be neglected by enterprises otherwise they will seriously erode their financial viability. As the commercial bank in Nepal are exacting greater and greater influence in the economy of the country and effective and efficient management of their current assets is needed to better the profitability of the firm.

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

1.6 Limitations of the Study

None of the study can go beyond the boundary of some limitations and this study is also not an exception. The scope of the present study has been limited in terms of period of study as well as sources and nature of data. The following are the major limitations of the study.

1. This study is considered only bank of Kathmandu limited and based on secondary data.
2. This study focused on working capital management of bank of Kathmandu limited only. Thus the findings of the study may not be applicable for other bank so the study cannot judge other financial aspects of the bank.
3. Only main financial tools and statistical tools are employed for analyzing the working capital management.
4. The study only covers the period of five fiscal years from 2059/060 to 2063/ 064.
5. This study is basically done as the requirement for the partial fulfillment of master's of Business studies (MBS) of Tribhuvan university (T.U.)

1.7 Organization of the Study

The study has been divided into five chapters.

They are as follows:-

1. Introduction

The first chapter deals with introduction, background of the study, limitations of the study and organization of the study. There fore, this chapter is for brief introduction of the topic and it highlights the fundamental objectives.

2. Review of literature

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

3. Research Methodology

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

4. Presentation and Analysis of Data

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

5. Summery, Conclusion and Recommendations

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

CHAPTER- 2
REVIEW OF LITERATURE

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

2.1 Conceptual Framework

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

The cash and marketable securities are respectively considered as purely liquid and near liquid assets where as the account receivable and inventories are not. However they can be liquidated as and when necessary within a period of less than one year. The capital invested on these assets is known as working capital. In short working capital is the sources of financing current assets and it includes shorts as well as long term financing.

Firms need cash to pay for all their day to day activities. They have to pay wages, pay for raw materials, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are short term assets that the firm can use to generate cash.

However the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has its disposal.

Working Capital is there fore:-

[Working Capital= Current Assets -current liabilities]
(WC) (CA) (C l)

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

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

"The objective of managing working capital is to aid in the value maximization of the firm by minimizing the cost of working capital. The level of working capital also differs by the types and nature of business. The cost of maintaining the working capital depends on the sources of finance used. The short-term sources generally cost less than the long term sources but they are riskier." (Pradhan, 1992: 148)

2.2 Concept of Working Capital

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

Gross Concept

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

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

Net Concept

Gross concept of W/C is the narrow concept which is only concerned with the study about total investment of current assets .In the other hands, net concept of W/C is a broad concept which focuses to long term view of working capital. under the concept of net W/C it studies current assets and current liabilities as differently. Today's market is heterogeneous every changed in environment and other factor's bring changes of demand needs and wants of customers at the same time so every business firms have to be made their W/C policies to fit the new environment thus, Net W/C concept should be studied to know the portion of current liabilities. How much current liabilities should be managed to how much current assets? Net W/C is an accounting concept, which represents the excess of current assets over its current liabilities. current assets consists of cash, bank balance , stock, debtors, bills receivables etc and current liabilities consists bills payable, creditors, outstanding expenses etc. Excess of current assets over current liabilities, thus, it indicates the liquidity position of an enterprises. From the view point of I .M pandey, the term net working capital refers to “the difference between current assets and current liabilities. Current liabilities are those claims outsiders which are expected to nature for payment within an accounting year and include creditors, bills payable and outstanding expenses. Net working capital can be negative or positive. A positive Net W/C will be arise when capital occurs when current liabilities are in excess of current assets” (Pandey;1995;p730)

2.3 Classification of Working Capital

Working capital can be classified into two types:-

1. Permanent or fixed working capital
2. Temporary or variable or fluctuating working capital

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

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

Like permanent working capital, temporary working capital also consists of current assets in a constantly changing form. However since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can it self be seasonal or temporary in nature. (Van Horn; 1996: 205)

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

2.4 Objectives of Working Capital

A bank undertakes many transactions daily. Sometimes, customers deposits large quantity and sometimes withdraw from their deposits in high quantity. Investment fund of banks is covered by deposit collections of different types of account holder. A bank should have to pay the money to depositors when they want to withdraw. For daily operation of office and to meet the administrative expenses, a bank should have certain level of working capital. Working capital is required to run the business smoothly and efficiently in the context of the set objective. It is no doubt that no company can achieve its goal without proper use of working capital. Therefore it can compare as lifeblood to the organization. The main objectives of arranging capital are as follows:-

1. To pay to depositors
2. To maintain cash reserve ratio (CRR) & statutory liquidity Ratio (SLR)
3. To satisfy the customers by granting loans promptly and increase the attraction of business etc.
4. To meet the administrative expenses, perform the task as per objectives of business and run the business smoothly.
5. To fulfill the present need of business as well as get ready for risk and economic fluctuation in future.

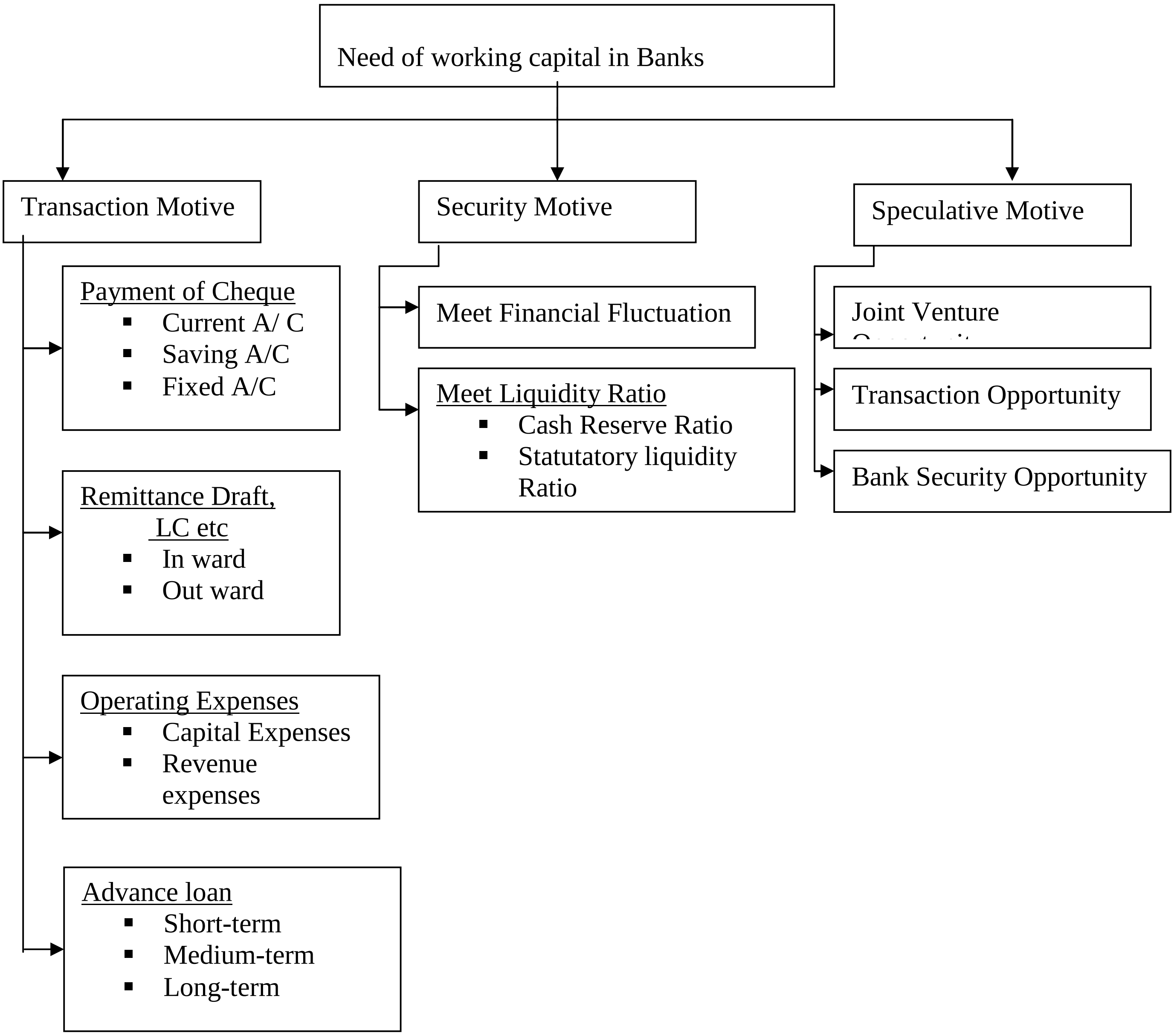
2.5 Need of Working Capital

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

1. Transaction Motive
2. Security Motive
3. Speculative Motive

Figure 2.2

Need of working capital



2.6 Determinants of Working Capital

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

1) Nature and Size of Business

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

2) Production Policy

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due to seasonal changes in the demand for the firm's product. A steady production policy will cause inventories to accumulate during the off season periods and the firm will be exposed to greater inventory costs and risks. Thus, if cost and risks of maintaining a constant production schedules in accordance with changing demand. Those firms, whose productive capacities can be utilized for manufacturing varied products can have the advantaged of diversified activities and solve their working capital problems. (Pandey; 1995: 675)

3) Operating Efficiency

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

4) Manufacturing Cycle

Manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle larger will be the firm's working capital requirements. An extended manufacturing time span means large tie-up funds in stocks. Thus if there are alternative way of manufacturing cycle should be chosen, once a manufacturing process has been selected , it should be ensured that manufacturing cycle is completed with in the specified period . This need proper planning and coordination at all levels of activity non manufacturing firm financial and service oriented enterprises do not have manufacturing cycle .(Pandey ; 1995: 674)

5) Profit Margin

The net profit is source of working capital to the extent that has been earned in cash. The earning capacity of the different firm can not be equal. In the words of I.M .Pandey "some firms enjoy a dominant position due to quality product or good marketing management or monopoly power in the market and earn a high profit margin." Higher profit margin contributes to more working capital. The level of working capital is determined not only by the profit margin , but also by the way of appropriation for taxations, dividends, reserves and depreciation only after providing for these items internal funds can be set a side for working capital . As the provisions' for these items are higher the amount of working capital will be lesser.

6) Level of Taxes

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

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

2.7 Working Capital Policy

Working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed .(Western and Brigham ; 1996 :333)

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

1) Working capital investment policies
2) Working capital financing policies

2.7.1 Working Capital Investment Policies

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

i) Fat Cat Policy

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

ii) Lean and mean policy

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

iii) Moderate Policy

In this policy investment in current assets should not be as maximum as in relaxed policy and it should not be as minimize as in restricted policy. Both, excess investment in current assets and inadequate investment in current assets are not good. Therefore, there should be optimum investment in current assets. Both risk and return are moderate in this policy.

2.7.2 Working Capital Financing Policies

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

i) Aggressive or non conservative policy

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

ii) Conservative Policy

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

iii) Matching Policy

In this policy, permanent current assets are financed with long term debt and equity and temporary current assets are financed with short term debt. According to this policy, source of short term financing should be determined according the maturity of current assets. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current assets and current liabilities.

2.8 Review of Related Articles/ Journals

Journals, articles and bulletins are of great significance for thesis writing. So, various published and unpublished articles by different experts and journals and bulletins relating to working capital have been revised.

Dr. Shrestha in his study “working capital management in public enterprises", based on ten selected public enterprises. The sample public enterprises are national trading ltd, Raghupati Jute Mills, Birgunj Sugar Factory, JanakPur cigarette Factory, Dairy Development Corporation, Royal Drugs Ltd, Harisiddhi Brick and Tire Factory, National Construction Co. of Nepal, Nepal Cheeuri Ghee Industry Ltd., and Chandeswory Textile Ltd. In his study, especially he focused on the liquidity turn over and profitability position of those enterprises. In this analysis, he found that four public enterprises have maintained adequate liquidity position, two public enterprises have excessive and other remaining four public enterprises failed to maintain desirable liquidity position. He had also found that out of ten public enterprises only four were settling some percentage of profit and remaining six public enterprises were operating in loss. With the reference of his findings, he had brought certain policy issues such as lack suitable financing planning, negligence of working capital management; deviation between liquidity and turnover of assets and inability to shows the positive relationship between turnovers and returned on net working capital. At the end, he has made some suggestive measures to overcome form the above policy issues. These are identification of management information system, positive attitude towards risk and profit and determination of right combination of short term and long terms sources of funds to finance working capital needs. (Shrestha; 1982,vol8)

Pradhan and Koirala had jointly conducted a study on "working capital management in Nepalese corporations". They had sampled five manufacturing and six non-manufacturing public companies. They had focused on evaluation of working capital of selected manufacturing and non manufacturing corporations of Nepal. This study was concentrated in the size of investment in current assets, significance of current assets management; the major findings of the study were as follows:

- Inventory management was of great significance in manufacturing corporations and the management of cash and receivables was great significance in non-manufacturing corporations.
- Investment on total assets had decline over a time period in both manufacturing and non-manufacturing corporations. However, the manufacturing corporations had consistently more investment in cash and receivables as compared to non-manufacturing corporations.
- Management of working capital is more difficult in non-manufacturing corporations. Management of working capital was more difficult than that of fixed capital and the major motive for holding cash in Nepalese corporation was to provide a reserve for routine net outflows of cash to keep on the production process. (Pradhan and Koirala, 1982,)

Dr. K Acharya has published an article relating to working capital management. He has defined the two major problems i.e. operational problem and organizational problem regarding the working capital management in Nepalese public enterprise. The operational problems ; he found were increase of current liabilities then current assets , not allowing the current ratio 2:1 and slow turnover of inventories .Similarly change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of working capital employed to sales , absent of apathetic management information system , Break – even analysis, funds flow analysis and ratio analysis were either under or ineffective for performance evaluation .Finally monitoring of the proper functioning of working capital management has never been considered as managerial job.

In the second part, he has listed the organizational problems in the public enterprises. In most of the public enterprises, there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly very few public enterprises have been able to present their capital requirement. Functioning of Finance department is not satisfactory and some public enterprises are even facing the underutilization of capacity. (Acharya; 1985,vol.10)

Dr. Pradhan has published another article relating to working capital management. He has studied on "The demand of working capital by Nepalese Corporation". For the analysis, he has selected nine manufacturing public corporation with the twelve year data from 1973-1984. He has been adopted regression equation for the analysis. His study has summarized that the earlier studies concerning about the demand for cash and inventories by business firm did not report unanimous Findings. A lot of controversies exist with respect to the presence of economies of scale, Capacity utilization rates, role of capital cost, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The regression results suggest strongly that the demand for working capital and its components is function of both sales and their capital cost. The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function of cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables and gross working capital is doubtful. (Pradhan ; 1988, vol.8,)

Mr. Mahat has published article relating to spontaneous resources working capital management. He had defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing includes short-term bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. Whereas spontaneous sources of working capital include trade credit, provision and accrued expenses. (Mahat;2004, Vol.12)

Mr. Mahat has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such an environment should be efficient enough to cope with the possible worst happenings future for working capital management. He has said that managing the working capital resources for a profit making industries are routine affairs of just making payment and arranging collection of debtors. In contrast, the company in debt trouble it is rather difficult to meet its working capital gap by way of debt financing, the company should have to bear interest, which may cause to increase in the percentage of operating expenses to the turnover and depletion in the profits. Therefore, spontaneous sources of working capital will be a better source for working capital in order to improve its performance.

2.9 Review of Related Thesis

Prior to this thesis, various students have carried out several thesis works on the related topic. Some of them are relevant for these study propose, which are presented below.

Mr. Narendra Bahadur Amatya in his thesis entitled "An Appraisal of financial position of Nepal Bank Limited" has analyzed, examined and interpreted the financial position of the bank from Fiscal year 1980/81 to 1989/90. In his study he has mentioned the following findings:

1. Regarding the liquidity management, the bank is in a better position.
2. The bank is successful in deposit collection but it has always adopted conservative and tradition credit policy to finance current assets.
3. The trade and commerce advances are playing major role in the credit composition of the bank. Although, the reserve of the bank is increasing gradually, the reserve plays a nominal role in the credit expansion control.
4. The major portion of investment of the bank is in Nepal Government's securities. And the volume of transaction is high in all respects but the bank does not show higher ratio of profit or it shows a decreasing trend of profit. (Amatya;1993, T.U. Theisi).

Mr. Reajendra sapkota in his study on “short term financing of Nepalese manufacturing companies” examined, the mix financing pattern has followed by Nepalese manufacturing companies. These companies have not planned how much funds to be raised from which resources. They did not care any other things regarding to this sources. The main findings of the study are as follows.

1. Nepalese manufacturing companies’ liquidity position is not good.
2. Working capital management of Nepalese manufacturing companies has to lower and most of the companies have negative working capital.
3. Cash and the ratio of inventory to short -term financing is widely varied among the manufacturing companies during the study period.
4. The account receivable is in increasing trend during the study period due to poor collection policy of Nepalese manufacturing companies.
5. Most of the companies have commonly usage the account payable in financing but they have not able to effective utilized the account payable (Sapkota;1998, T.U. Thesis)

Mr. Niraj K.C. in his thesis entitled, “comparative study of working capital management of NBL and NABIL”, aims to examine the management of working capital in NBL and NABIL. In his study he has mentioned the following Findings:

1. The average cash and bank balance and loan and advance are higher on NABIL than NBL. Management of loan and advances is more problematic is NBL than NABIL.
2. NBL interest incomes is better than NABIL.
3. NABIL has the better utilization of deposits in income generating activity than NBL. It also shows that NABIL has better investment efficiency in loan and advances.
4. Liquidity management policies of these two banks are significantly different.
5. Due to more conservative working capital policy, risk of insolvency is lesser but cost of funds is higher on NBL than NABIL.
6. NBL earned higher interest income than NABIL, but the profitability position of NABIL is better. (KC;2000, S.D.C. Thesis)

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

1. The DDC followed the conservative working capital policy and its investment in working capital has been increasing trend.
2. The investment in current assets is lower with respect to net fixed assets during the study period the DDC has no clear vision about the investment in current assets.
3. The major components of current assets i.e. cash, inventories and receivables are in fluctuating Trend. The Company do not follow credit sales policy.
4. The company has been able to maintain its current ratio in an average 1.78:1 during the study period which is also a satisfactory level.
5. The company bears the heavy loss during the study period.
6. The overall return position of DDC is negative, not in favorable condition .It is because of inefficient utilization of current assets, total assets and shareholders wealth. (Shrestha;2001, S.D.C. Thesis)

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

1. The liquidity position of the all banks was not satisfactory
2. The HBL was more efficient in utilizing the deposits in loan and advances or other more - profit- Generating sectors.
3. The banks did not do a lot of exercise in more credit creation and reducing the interest rate for loan and advances for more competitiveness.

5. The EPS of NB Bank and EBL had been increasing trend but the EPS of HBL had been rapidly decreasing over the period. (Ghimire;2003, TU. Thesis)

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

1 . The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.
2. EBL should be encouraging the small depositors for promoting small investors.
3. The EBL should utilize its risky assets and shareholder fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.
4. Return on equity is not satisfactory, as it has not efficiently utilized it's equity capital. (Gupta;2005, S.D.C. Thesis)

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

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

(Tuladhar;2007, S.D.C. Thesis)

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

CHAPTER-3
RESEARCH METHODOLOGY

Research methodology means the analysis of specific topic by using proper method. In other words research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection analysis and interpretation of the facts and figures, “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view.”(Kothari,1994; 19) Therefore we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem.

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

3.1 Research Design

Selection of appropriate research design is necessary to meet the study objectives of any research “Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variances. The plan is the overall scheme or program of the research. (Kerling: 1986: 275

Research design means a definite procedure and technique which guides the study and propounds ways for doing research. For the study of working capital management in BOKL, research design followed is an exploratory research approach. In this study descriptive and analytical survey is done. The justifications for the choice of these methods are many & various. The descriptive method is preferred because it includes reliable data and information covering a long time and avoids numerous complex variables operating into formulation and adoption of credit and investment policies.

3.2 Population and Sample

Until mid-oct, 2008, 25 commercial banks (Including government owned, private and joint ventures) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore sampling will be done selecting from population. Bank of Kathmandu limited is select as a sample for the study and analysis.

The main reason for the selection of bank of Kathmandu ltd is that the BOK is operated by the Nepalese investors and the BOK has continuously increased the net profit and also gives the regular dividend to its shareholder.

3.3 Nature and Sources of Data

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

3.4 Data Processing Procedure

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

3.5 Tools And Techniques Of Analysis

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

3.5.1 Financial Tools

In this research study various financial tools are employed for the Analysis. There are various ratios but in the study some important ratios among them are used. Ratio Analysis is the most important tools of the financial Analysis, which help to ascertain the financial conditions of the organizations. "Ratio analysis is such a powerful tool of financial analysis that thought the help of it economic and financial position of business unit can be fully x-rayed" (Kothari,1994:187). Ratios are calculated to obtain the better insight into real situation of working capital management of BOKL. Various ratios are employed and grouped for the Analysis of composition of working capital, liquidity position, activity or turnover position, profitability position and capital structure or leverage position.

a) Liquidity Position

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

i) Current Ratio

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

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

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

ii) Cash and Bank Balance to current Assets Ratio

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

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

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

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

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

$$\text{Cash and bank balance to total deposit} = \frac{\text{Cash and Bank balance}}{\text{Total Deposit (Excluding Fixed Deposit)}} \times 100\%$$

iv) Saving Deposit to Total Deposit Ratio

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

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

b) Activity or Turnover Position

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

i) Loan and Advance to Total Deposit Ratio

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

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

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

ii) Loan and Advance to Fixed Deposit Ratio

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

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

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

iii) Loan and Advance to Saving Deposit Ratio

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

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

c) Profitability Position

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

i) Interest Earned to Total Asset Ratio

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

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

ii) Net Profit to Total Assets Ratio

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

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

iii) Net Profit to Total Deposit Ratio

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

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

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

iv) Cost of Services To Total Assets Ratio

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

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

d) Capital Structure or Leverage Position

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

i) Long Term Debt to Net worth Ratio

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

$$\text{Long term Debt to net worth Ratio} = \frac{\text{Long term Debt}}{\text{Net Worth}}$$

ii) Net Fixed Assets to Long Term Debt Ratio

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

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

3.5.2 Statistical Tools

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

a) Trend Analysis

Trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratios lies in the fact that the analyst can know the direction of movement. Thus, the tools that are used to show grandly increase or decrease of variables over a period of time is known as trend analysis with the help of trend analysis the tendency of variables over the period can be seen clearly.

b) Correlation Analysis

Correlation is the measure of relationship between two or more characteristics of a population or a sample. It simply measures the change between the phenomenons. The correlation coefficient between two variables describes the degree of relationship between those two variables. It measures the increase or decrease in one variable due to increase or decrease in other variables .Simply stated, correlation is a statistical tool with the help of which we can determine whether or not two or more variables are correlated and if they are correlated, that is the degree and direction of correlation. Correlation analysis describes the relationship between variables i.e. positive and negative. It helps to determine the following:

- A positive or negative relationship exists
- The relationship is significant or insignificant
- Establish cause and effect relation if any

Karl Pearson's method, popularly known as Pearsonian coefficient of correlation is most widely used in practice. The Pearsonian coefficient of correlation is denoted by the symbol of 'r' and is calculated as follows:

$$r\,xy = \frac{\sum XY - \frac{\sum X . \sum Y}{N}}{\sqrt{\sum X^2 - \frac{\left(\sum X\right)^2}{N}}\sqrt{\sum Y^2 - \frac{\left(\sum Y\right)^2}{N}}}$$

Where,

N = No. of observation of X and Y

$\sum X$ = Sum of the observations in series X

$\sum Y$ = Sum of the observations in series Y

$\sum X2$ = Sum of the observations in series X

$\sum Y2$ = Sum of the observations in series Y

$\sum XY$ = Sum of the product of the observations in series X and Y

CHAPTER - FOUR
DATA PRESENTATION AND ANALYSIS

This Chapter deals with the presentation, analysis and interpretation of statistics evidence and face; to clarify the research works. Data of the year 059/060 to 063/64 have been presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital, which means current assets, current liabilities, liquidity, turnover, leverage and profitability of BOKL. It also uses correlation analysis, with the help of these analysis, we can know the working capital as well as financial position of BOKL.

4.1 Working Capital

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

Working capital = current Assets - currents liabilities.

4.1.1 Components of Current Assets

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

Table 4.1

Components of Current Assets of BOKL

Rs. in Million

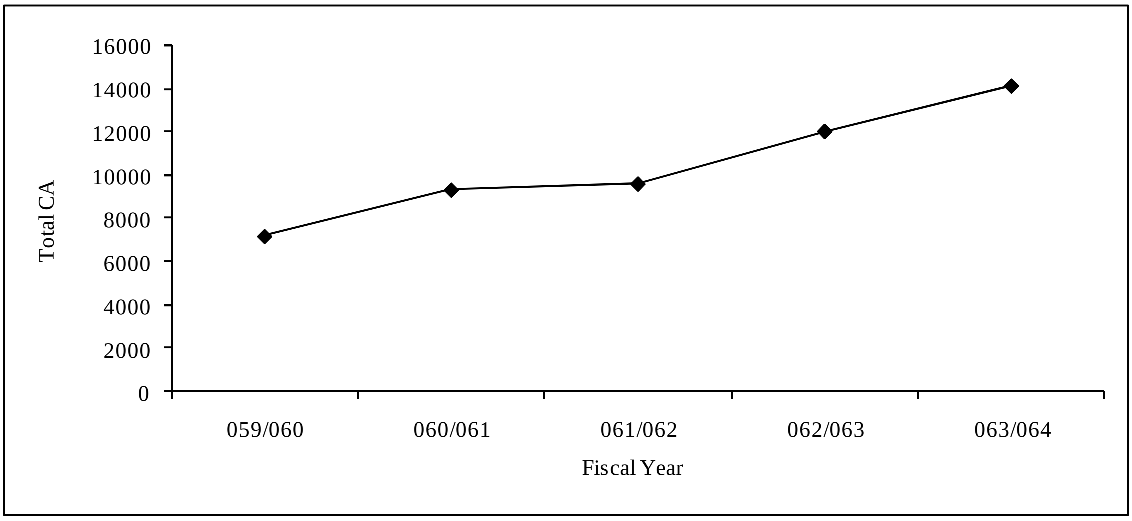
Fiscal year	Cash and bank balance	Loan and advances	Governments securities	Misc.CA	Total CA
059/060	692.71	4542.70	1510.71	478.54	7224.66
060/061	782.88	5646.70	2371.78	563.07	9364.43
061/062	740.52	5912.58	2146.62	845.42	9645.14
062/063	728.70	7259.08	2658.37	1420.63	12066.78
063/064	1315.91	9399.33	2332.03	1110.94	14158.21

Sources: Annual Report of BOKL from 059/060 to 063/064

Above table 4.1 depicts that the components of current assets of BOKL consists cash and bank balance, loan and advances, governments securities and miscellaneous current assets. In fiscal year (FY) 059/060, total current assets of the bank was amounted to Rs.7224.66 million which included Rs.692.71 million of cash and bank balance, Rs.4542.70 million of loan and advances, Rs.1510.72 million of Government securities and Rs.478.54 million of miscellaneous current assets. CA of the bank increases all the five year. In FY 063/64 it has reached to Rs.14158.21 million, which included Rs1315.91 million of cash and bank balance Rs.9399.33 million of loan and advances Rs2332.03 million of Government securities and Rs1110.94 million of miscellaneous current assets respectively.

Figure 4.1

Components of Current Assets of BOKL



As stated in above figure 4.1, the Current assets of the BOKL increases all the five year from FY 059/060 to 063/064. In the cash of FY 061/062 the increasing trend is low. from FY 061/062, the increasing trend of current assets is higher.

4.1.2 Component of Current Liabilities

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

Table 4.2

Components of Current Liabilities of BOKL

(Rs. in million)

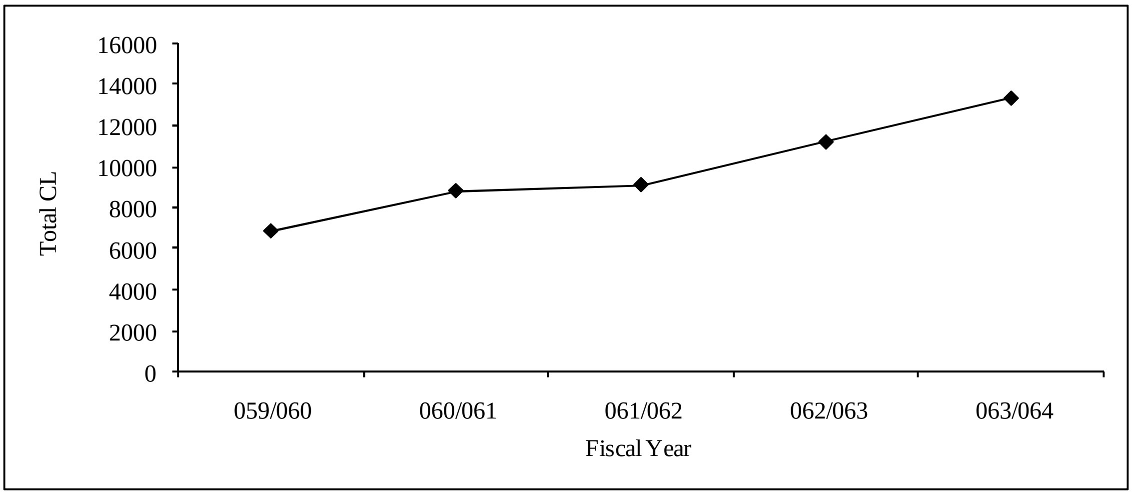
Fiscal year	Deposits and other A/c	Short term loans	Bills payable	Miscellaneous	Total CL
059/060	6170.71	498.24	35.14	161.59	6865.68
060/61	7741.65	912.15	38.71	153.09	8845.60
061/62	8942.75	6.00	19.87	167.77	9136.39
062/63	10485.36	553.18	11.62	188.43	11238.59
063/64	12388.93	730.00	25.78	243.42	13388.13

Sources: Annual Report of BOKL from 059/60 to 063/64.

In the above table, we can found that the component of currents liabilities which consists deposit and other Accounts. shorts-term loan, bills Payable and miscellaneous CL. The increasing trend of current liabilities is same as current assets. In fiscal year 059/060 the total amount of currents Assets is Rs.6865.68 million. For the increasing impact of Deposit and other A/C the total amount of current liabilities also be increased in all the five fiscal year. At the end of FY 063/64, the current liabilities of BOKL reached to Rs.13388.13 million, which included Rs.12388.93 million of Deposit and other Accounts, Rs.730.00 million of short term loans, Rs.25.78 million of Bills payable and Rs.243.42 million of miscellaneous current liabilities respectively .

Figure 4.2

Components of Currents Liabilities of BOKL



The above figure 4.2 shorts that the current liabilities of BOKL is in increasing trend. In the case of FY 061/62, the increasing trend of current liabilities is low.

4.1.3 Working Capital of BOKL

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

Table 4.3

Working Capital of BOKL

(Rs. in million)

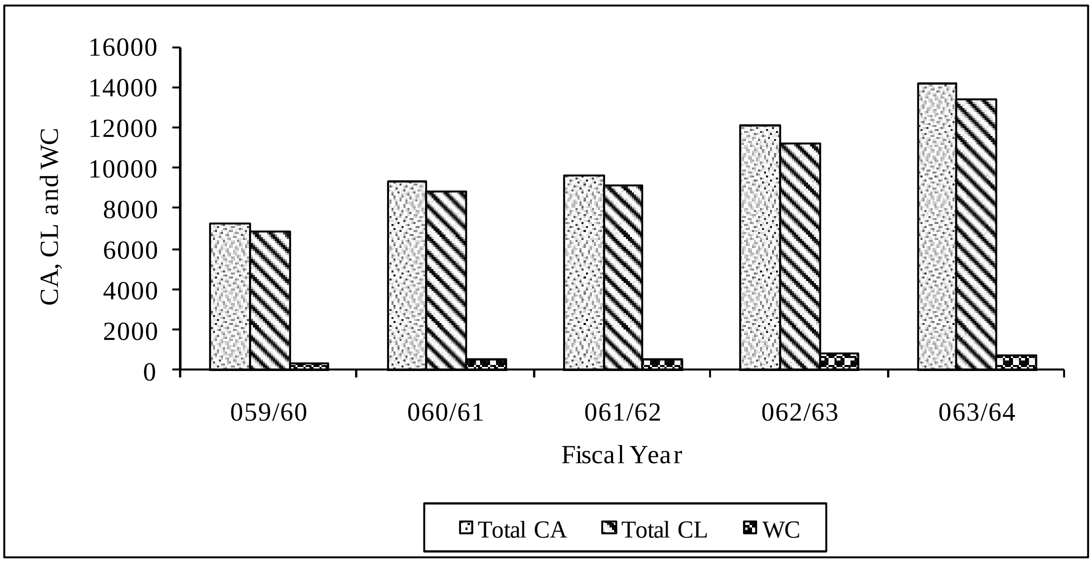
Fiscal year	Total CA	Total CL	WC =CA-CL
059/60	7224.66	6865.68	358.98
060/61	9364.43	8845.60	518.83
061/62	9645.14	9136.39	508.75
062/63	12066.78	11238.59	828.19
063/64	14158.21	13388.13	770.08

Sources:Annual report of BOKL from 059/60 to 063/64

In the above table, we clearly shows that the working capital condition of the bank from fiscal 059/60 to 063/64. The BOKL was able to increase working capital from Rs358.98 million to Rs770.08 million from the fiscal year 059/60 to 063/64. In FY 060/61. The bank increased its working capital from Rs358.98 million to Rs518.83 million. Similarly, in FY 061/62 the working capital decreased by 10.08 million But in FY 062/63 the working capital of the bank was highly increased and reached to Rs.828.19 million. At the end of study period, working capital of the bank was slightly decreased and amounted to Rs.770.08 million .

Figure 4.3

Working capital of BOKL



In the above figure we clearly shows the current assets, current liabilities and working capital condition of the BOKL from fiscal year 059/60 to063/64. Working capital condition of the bank is satisfactory level. All the year of the study period the working capital of the bank is positive. Working capital of the bank is in increasing tread, In fiscal year 059/60 the working capital was Rs.358.98 similarly at the end of study period it reached to Rs.770.08 million. The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa .

4.2 Liquidity Ratio

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

4.2.1 Current Ratio

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

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

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

Table 4.4

Current Ratios of BOKL

(Rs. in million)

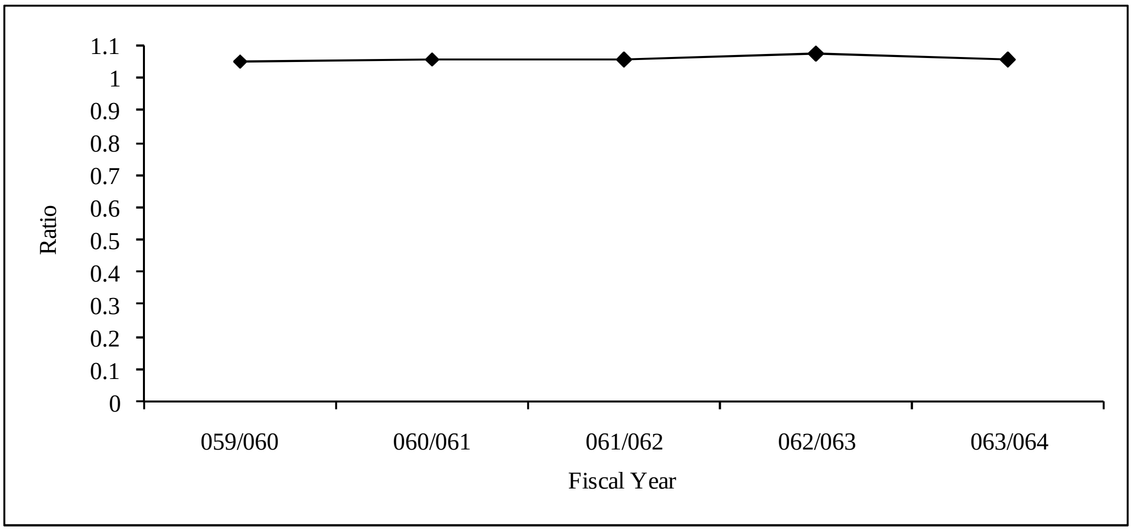
Fiscal year	Total CA	Total CL	Current Ratio (Times)
059/60	7224.66	6865.68	1.05
060/61	9364.43	8845.60	1.06
061/62	9645.14	9136.39	1.06
062/63	12066.78	11238.59	1.07
063/64	14158.21	13388.13	1.06
		Average	1.06

Sources: Annual report of BOKL from 059/60 to 063/64.

The above table 4.4 shows the CA, CL and current ratio of the BOKL. The current ratio of the BOKL is not fluctuating over the year. The highest current ratio is 1.07 in the fiscal year 062/63 and lowest current ratio is 1.05 in the fiscal year 059/60. The average current ratio of BOKL is 1.06.

Figure 4.4

Current Ratio of BOKL



The above figure 4.4 depicts that the trend line of BOKL increasing slowly in the fiscal year 060/61 and constant in the fiscal year 061/62 but in the fiscal year 062/63. It has slightly increases and in the last year it goes down. We can clearly should that the trend of increasing and decreasing is not more.

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

4.2.2 Cash and Bank Balance to Current Assets Ratio

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

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

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

Table 4.5

Cash and Bank Balance to Current Assets Ratio Of BOKL

Rs in million

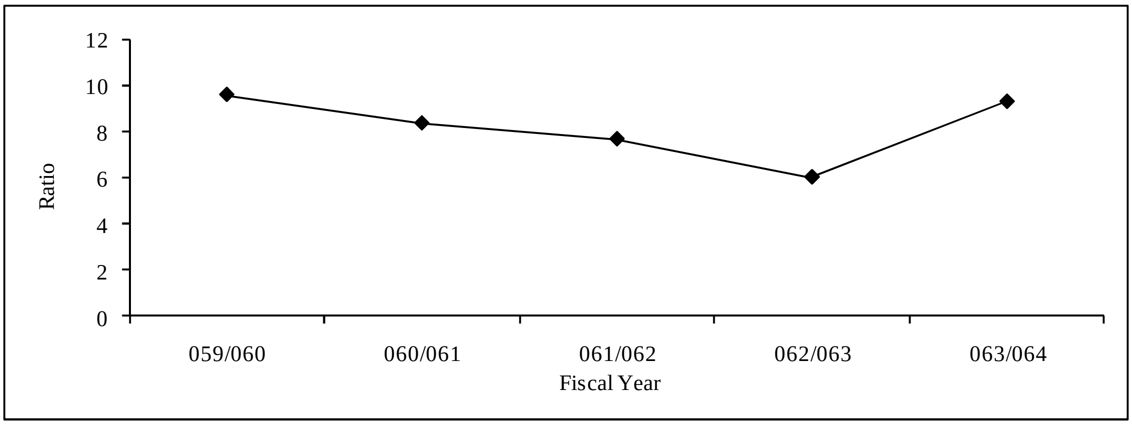
Fiscal Year	Cash and Bank	Current Assets	Ratio(%)
059/60	692.71	7224.66	9.59
060/61	782.88	9364.43	8.36
061/62	740.5	9645.14	7.68
062/63	728.70	12066.78	6.04
063/64	1315.91	14158.21	9.29
		Average	8.19

Sources: Annual Report of BOKL from 059/60 to 063/64.

The above table 4-5 depicts that the amount of cash and bank balance was Rs.692.71 million fiscal year 059/60. After the fiscal year 060/61 it was continuously decreased upto fiscal year 062/63. But at the end of fiscal year 063/64 it was increased and Reached to Rs.1315.91 million on the other hand current assets of BOKL has been gradually increasing over the study period. In the same way cash and bank balance to current Assets ratio of BOKL was decreased in fiscal year 060/61, 061/62, and 062/63 but at the end of fiscal year it was increased and reached to 9.29 %

Figure 4.5

Cash and bank Balance to current Assets Ratio of BOKL



The above figure 4.5 clearly shows the cash and bank balance to currents ratio of BOKL has been slightly decreased up to Fiscal year 062/63 and increasing in fiscal year 063/64.

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

4.2.3 Cash and bank Balance to Total Deposit Ratio (Excluding Fixed Deposit

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

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

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

Table 4.6

Cash and Bank Balance to Total Deposit Ratio Of BOKL

Rs in million

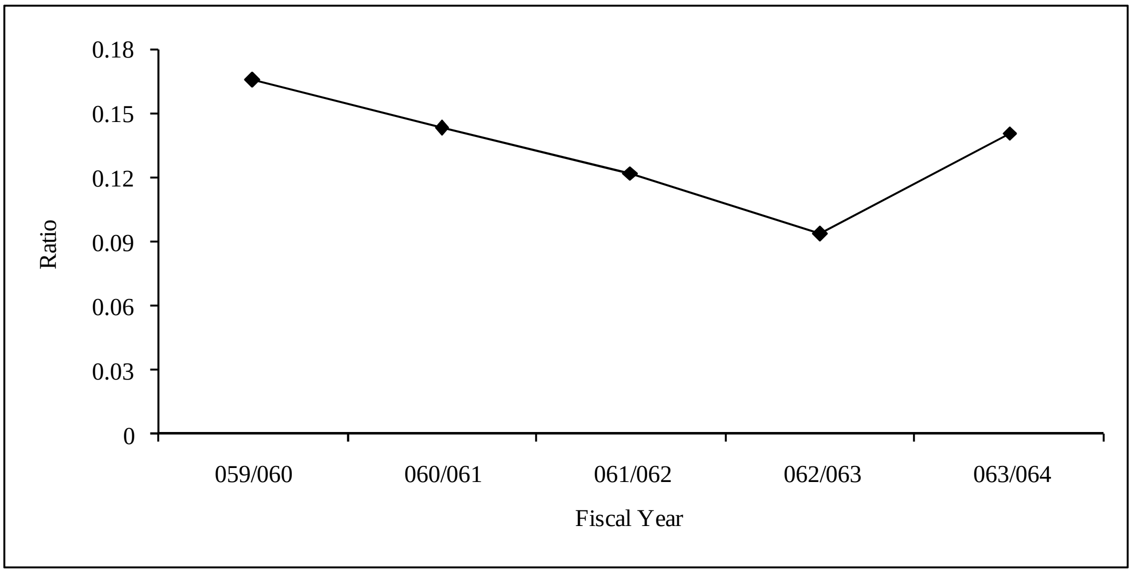
Fiscal Year	Cash and Bank	Total Deposit	Ratio (%)
059/60	692.71	4179.77	16.57
060/61	782.88	5461.94	14.33
061/62	740.52	6063.88	12.21
062/63	728.70	7775.61	9.37
063/64	1315.91	9351.76	14.07
		Average	13.31

Sources: Annual Report of BOKL from 059/60 to 063/64.

The above table depicts that the cash and bank balance to deposit (except fixed deposit) of BOKL has been slightly decreasing first four year of the study periods and increasing gradually in the fiscal year 063/64. Cash and bank balance of the bank is fluctuating over the study period. Similarly, there is no consistency in total deposit of the bank. The bank has average ratio of 13.31 percent.

Figure 4.6

Cash and Bank Balance to Total Deposit Ratio of BOKL



The above figure 4.6 clearly shows the cash and bank balance to deposit ratio (excluding fixed deposit) has been slightly decreasing up to fiscal year 062/63 and increasing in fiscal year 063/64.

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

4.2.4 Saving Deposit to Total Deposit Ratio

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

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

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

Table 4.7

Saving Deposit to Total Deposit Ratio of BOKL

Rs in million

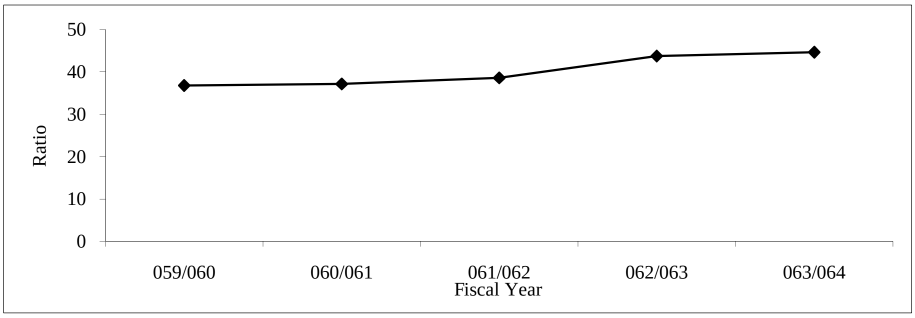
Fiscal Year	Saving Deposit	Total Deposit	Ratio (%)
059/60	2268.55	6170.71	36.76
060/61	2873.81	7741.65	37.12
061/62	3447.45	8942.75	38.55
062/63	4581.96	10485.36	43.70
063/64	5527.29	12388.93	44.61
		Average	40.15

Sources: Annual Report of BOKL from 059/60 to 063/64.

The above table 4.7 depicts that the amount of saving deposit has been gradually increasing during the study period. Similarly, the total deposit of BOKL also be increasing during the study period. Likewise, the saving deposit to total deposit ratio of BOKL is also in increasing trend. In the fiscal year 059/60 the saving deposit to total deposit ratio was 36.76% but at the end of the study period it reached to 44.62%. The average ratio stands at 40.15%.

Figure 4.7

Saving Deposit to Total Deposit Ratio of BOKL



As stated in above figure, the saving deposit to total deposit ratio is smoothly increasing all over the five year. In the fiscal year 062/63, the increasing trend is higher than other fiscal year.

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

4.3 Activity or Turnover Ratio

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

4.3.1 Loan and Advances to Total Deposit Ratio

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

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

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

Table 4.8

Loan and Advances to Total Deposit Ratio of BOKL

Rs in million

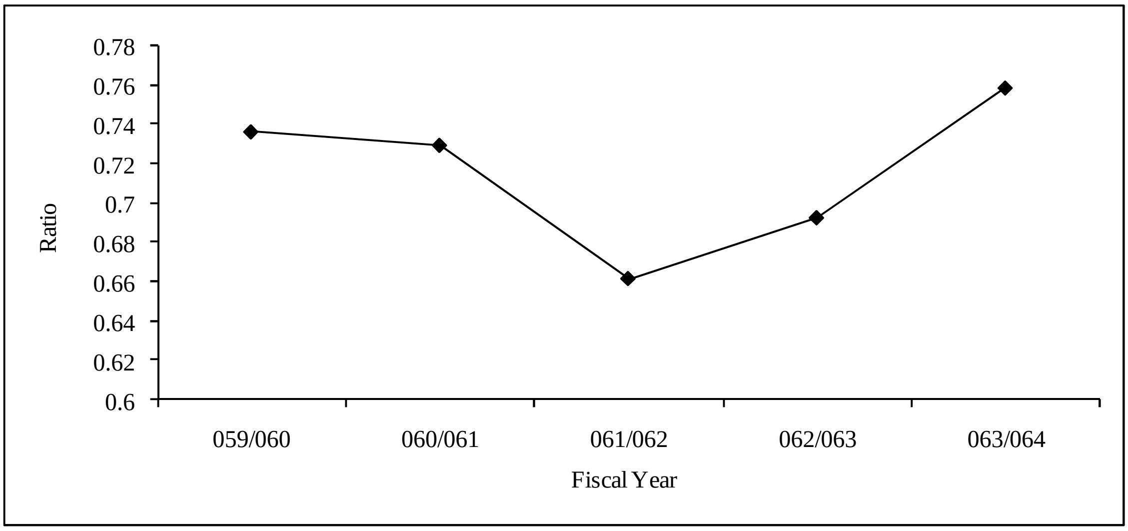
Fiscal Year	Loan and Advance	Total Deposit	Ratio (Times)
059/60	4542.70	6170.71	0.74
060/61	5646.70	7741.65	0.73
061/62	5912.58	8942.75	0.66
062/63	7259.08	10485.36	0.69
063/64	9399.33	12388.93	0.76
		Average	0.72

Sources: Annual Report of BOKL from 059/60 to 063/64

The above table shows the position and ratio of loan and advances and total deposit of BOKL from fiscal year 059/60 to 063/64. The loan and advances of the bank has been gradually increasing all the five fiscal year. Similarly total deposit of the bank also be increasing in five fiscal year. Likewise, the loan and Advance to total deposit ratio was decreased in fiscal year 060/61 and 061/62 and after the fiscal year 061/62 the ratio is in increasing trend. The average ratio stands at 0.72.

Figure 4.8

Loan and Advances to Total Deposit Ratio of BOKL



Above figure 4.8 shows that the loan and advances to total deposit ratio was 73.62 in fiscal year 059/60, which slightly decreased up to fiscal year 061/62 and thereafter it was increased and reached to 0.76 in fiscal year 063/64.

From the above analysis, loan and advances to total deposit ratio clearly shows the low capacity of the bank to mobilize its deposit. The bank has the responsibility of collecting a huge amount of deposit for the purpose of lending a great amount of it to needy people. It's collect money not for keeping it idle, but for using it in a creative work. If it can not utilize it's deposit more profitability, it is better to reduce the volume of deposits. So, the volume of deposits has some limit which is affected by loans. But there is no limit to the volume of loans. However, the rate of interest as well as the volume of deposits highly affects the volume of loans. Once the deposit is more than sufficient, there is no need to pay higher rate of interest on it. On the contrary, if the volume of deposits is insufficient for meeting the need of borrowers the interest rate should be increased.

4.3.2 Loan and Advances to Fixed Deposit Ratio

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

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

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

Table 4.9

Loan and Advances to Fixed Deposit Ratio of BOKL

Rs in million

Fiscal Year	Loan and Advance	Fixed Deposit	Ratio (Times)
059/60	4542.70	1990.94	2.28
060/61	5646.70	2279.71	2.48
061/62	5912.58	2878.87	2.05
062/63	7259.08	2709.75	2.68
063/64	9399.33	3037.17	3.09
		Average	2.52

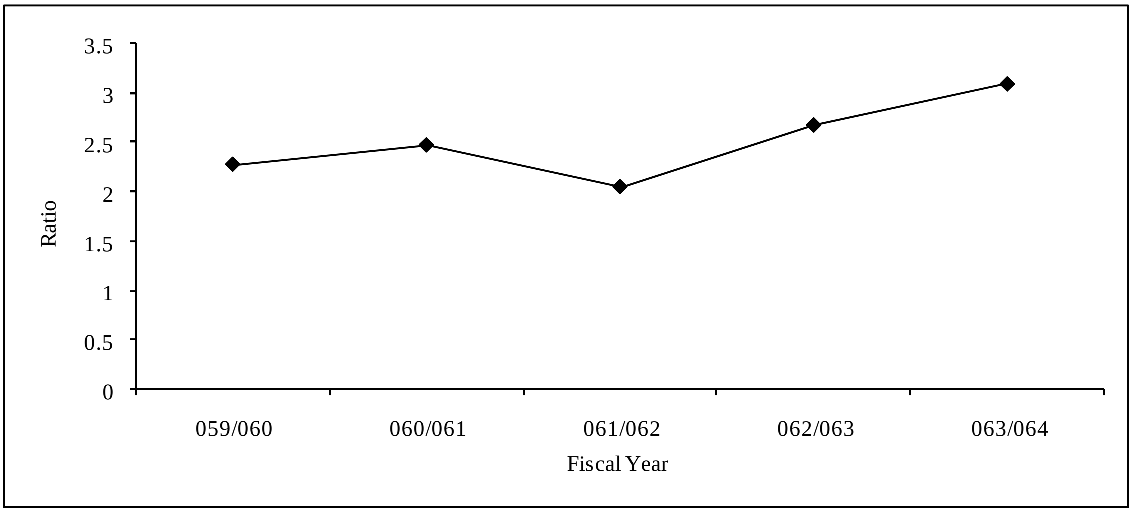
Sources: Annual Report of BOKL from 059/60 to 063/64

In the above table depicts that the loan and advances to fixed deposit ratio of BOKL was increased in fiscal year 060/61 than previous year 059/60. In fiscal year 061/62, it decreased and reached to 2.05. In the fiscal year 062/63 it was increased and reached to 2.68. It was further increased and reached up to 3.09 at the end of fiscal year 063/64. It indicates that the loan and advances to fixed deposit ratio of BOKL is fluctuating.

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

Figure 4.9

Loan and Advances to Fixed Deposit Ratio of BOKL



The above figure 4.9 clearly shows that the loan and advance to fixed deposit of BOKL was increased in fiscal year 060/61. In fiscal year 061/62 it was slightly decreased but in fiscal year 062/63 and 063/64 it was gradually increased.

The above analysis implies that the utilization of fixed deposit in loan and advances efficiently or not. The higher ratio implies the efficient mobilization of fixed deposit and vice versa. From the above trend analysis we can conclude that the BOKL has been mobilizing its fixed deposit quite satisfactory.

4.3.3 Loan and Advance to Saving Deposit Ratio

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

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

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

Table 4.10

Loan and Advance to Saving Deposit Ratio of BOKL

(Rs. in million)

Fiscal year	Loan and Advance	Saving Deposit	Ratios (Times)
059/60	4542.70	2268.55	2.00
060/61	5646.70	2873.81	1.96
061/62	5912.58	3447.45	1.72
062/63	7259.08	4581.96	1.58
063/64	9399.33	5527.29	1.70
		Average	1.79

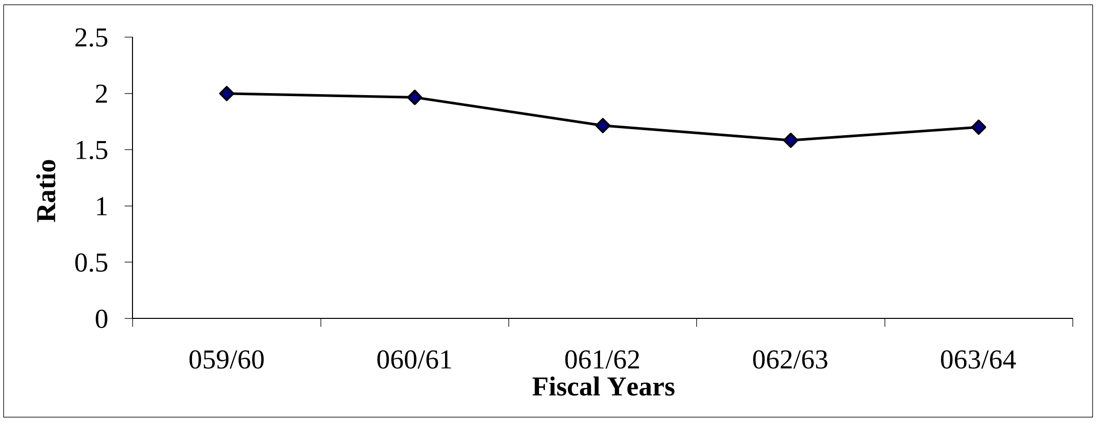
Sources: Annual Report of BOKL from the year 059/60 to 063/64

In the above table we clearly shows that the saving deposit of the bank has been gradually increasing from the fiscal year 059/60 to 063/64. Likewise the ratio of loan and advance to saving deposit is seems quit fluctuating. It was 2.00 at the end of 059/60 but at the end of 062/63 it reached to 1.58.

The first four year ratio is in decreasing trend. In fiscal year 063/64 it slightly increased and reached to 1.70. It is also lesser than the fiscal year 059/60. The average ratio stands at 1.79.

Figure 4.10

Loan and Advances to Saving Deposit Ratio of BOKL



Above figure 4.10 states that the loan and advance to saving deposit ratio was 2.00 in fiscal year 059/60, which slightly decreases upto fiscal year 062/63 and then it was increased and reached to 1.70 in fiscal year 063/64.

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

4.4 Profitability Ratios

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

4.4.1 Interest Earned to Total Assets Ratio

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

$$= \frac{\text{Interest earned}}{\text{Tota assets}}$$

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

Table 4.11

Interest Earned to Total Assets Ratio of BOKL

(Rs. in million)

Fiscal year	Interest Earned	Total assets	Ratios (%)
059/60	496.81	7444.82	6.67
060/61	567.10	9496.34	5.97
061/62	607.10	9857.13	6.16
062/63	718.12	12278.33	5.85
063/64	819.00	14570.10	5.62
		Average	6.05

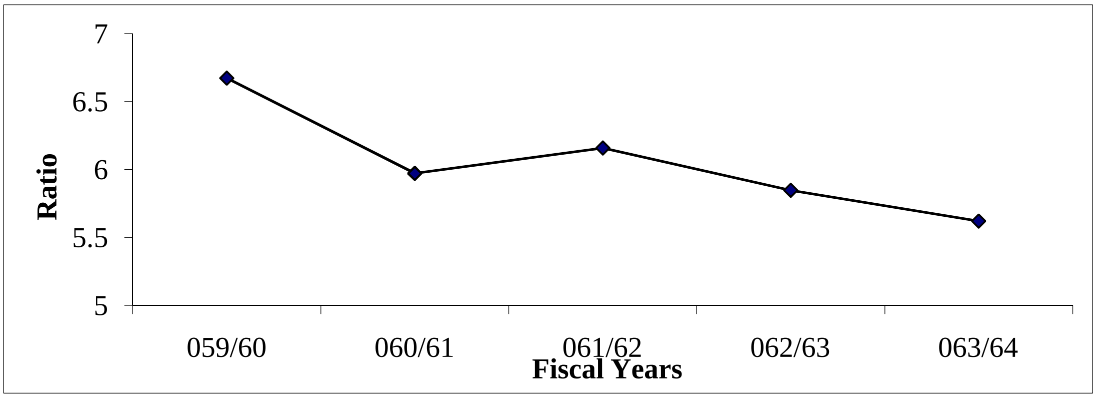
Sources: Annual Report of BOKL from the year 059/60 to 063/64.

BOKL interest earned and total assets both are in increasing trend. In the fiscal year 059/60 the interest earned was Rs.496.81 million but in the fiscal year 063/64 it reached to Rs.819.00 million. Likewise, at the end of fiscal year 059/60 the total assets was Rs.7444.82 million but at the end of fiscal year 063/64 it reached to

Rs.14570.10 million. Interest earned to total assets ratio of the bank was quit fluctuating. It was stands at 6.67% in fiscal year 059/60. It was slightly decreased in fiscal year 060/61 but in the fiscal year 061/62 it slightly increased and reached to 6.16%. After the end of fiscal yea 061/62 the ratio falls down and the end of fiscal year 063/64 it stands at 5.62%. The average ratio of BOKL stands at 6.05% over the study period.

Figure 4.11

Interest Earned to Total Assets Ratio of BOKL



The above figure depicts that the interest earned to total assets ratio of BOKL seems quite fluctuating over the study period. From fiscal year 059/60 to 060/61 the trend line of the bank was in declining position. But at the end of fiscal year 061/62 it seems to in growing position, after the end of fiscal year 061/62 it started to decline and reached to 5.62 percent at the end of fiscal year 063/064.

From the above analysis we can conclude that the interest earned to total assets of the BOKL is not so satisfactory. It implies that the bank might not be able to use its total assets of funds to earned interest.

4.4.2 Net Profit to Total Assets Ratio

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

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

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

Table 4.12

Net Profit to Total Assets Ratio of BOKL

(Rs. in million)

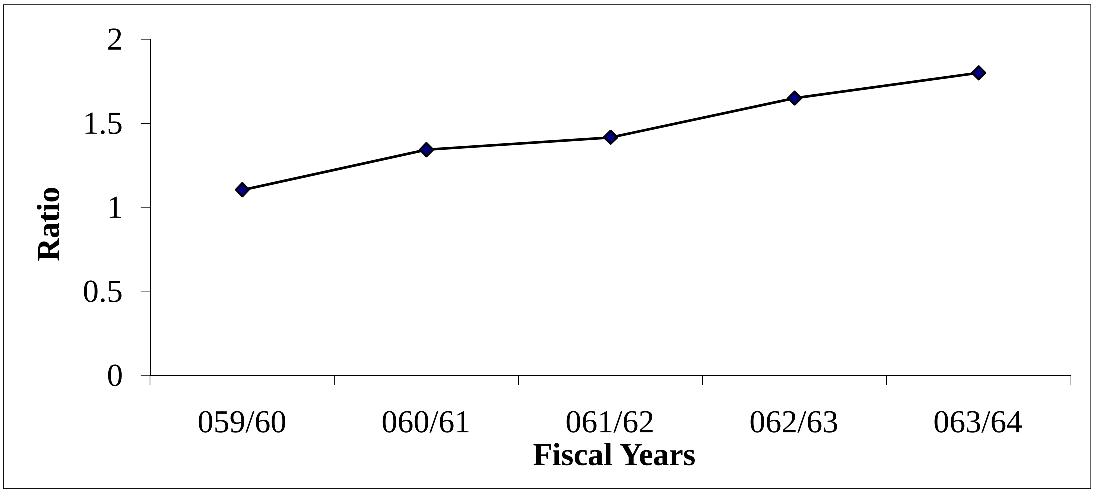
Fiscal year	Net profit	Total assets	Ratios (%)
059/60	82.13	7444.82	1.10
060/61	127.47	9496.34	1.34
061/62	139.53	9857.13	1.42
062/63	202.44	12278.33	1.65
063/64	262.39	14570.10	1.80
		Average	1.46

Sources: Annual Report of BOKL from the year 059/60 to 063/64.

As shown in the above table 4-12 the net profit of the bank was Rs.82.13 million in FY 059/60, Rs.127.47 million in FY 060/61, Rs.139.53 million in FY 061/62, Rs.202.44 million in FY 062/63 and Rs.262.39 million in FY 063/64. The Net profit of the BOKL is in increasing trend. In the same way total assets of the bank also be increasing trend. Likewise, the ratio of net profit to total assets is also raising. In the fiscal year 059/60, the ratio was 1.10%. After that all the years, the ratio is in increasing smoothly and at the end of fiscal year 063/64 it reached to 1.80%. The average ratio stands at 1.46% over the study period.

Figure 4.12

Net Profit to Total Assets Ratio of BOKL



The above figure, we clearly shows that the net profit to total asset ratio is in increasing trend.

Above analysis helps to find out whether the bank efficiently used its working funds or total assets to earned higher rate of profit or not. The ratio of net profit to total assets of BOKL implies that the bank could not able to used its available working funds effectively over the studY period which signify toward3 the smooth growth of the bank.

4.4.3 Net Profit to Tntal Deposit ↨ atio

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

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

The following table and &igures shows the net profit to total deposit ratio of BOKL

Table 4.13

Net Profit to Total Deposit Ratio of BOKL

(Rs. in million)

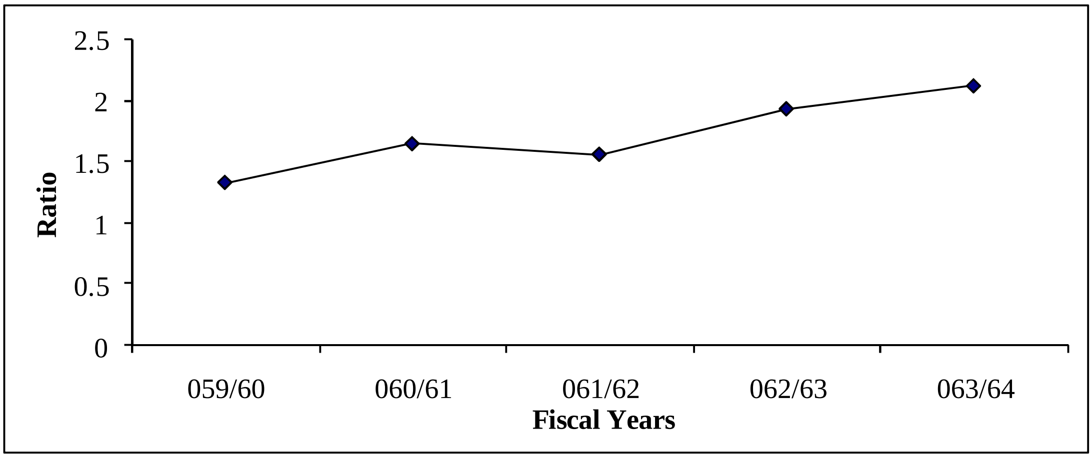
Fiscal year	Net profit	Total Deposit	Ratios (%)
059.40	82.13	6170.72	1*33
060/61	127.47	7741.65	1.65
061/62	139.53	8942.75	1.56
062/63	202.44	10485.36	1.93
063/64	260.39	12388.93	2.12
		Average	1.72

Sources: Annual Report of BOKL frgm the year 058/60 to 063/64.

The above table shows that the total deposit and net profit of BOKL both `as been gradually increasing over the study period. In the same way, net profit to total deposit ratio has been gradually increased in all the five fiscal year except 061/62. At the end of fiscal year 059/60, it stands at 1.33. Likewise, at the end of fiscal year 063/64 it reached to 2.12 which is maximum and the average of net profit to total deposit ratio is 1.72 over the study period.

Figure 4.13

Net Profit to Total Deposit Ratio of BOKL



In the above figure 4.13 we clearly shows that the net profit to total deposit ratio is in increasing trend. Unfortunately at the end of fiscal year 061/62 it was decreased by 0.09%.

Above analysis helps to find out whether the bank could able to mobilize of outsiders funds properly or not. The mobhlization of outsiders funds is very important to earn profit for a commercial banks. Therefore, the b`nk mobilized it's deposit as efficiently as possible. As shosn in above table we caj easaly conclude that the bank could not able to mobilized its deposit or outsiders funds effi#iently. The bank should mobilized its deposi4s properly to increase profit.

4.4.4 Net Profit to Shareholders Equity Ratio

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

$$= \frac{\text{Net Profit After Tax}}{\text{Net Worth}}$$

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

Table 4.14

Net Profit to Shareholders Equity Ratio of BOKL

(Rs. in million)

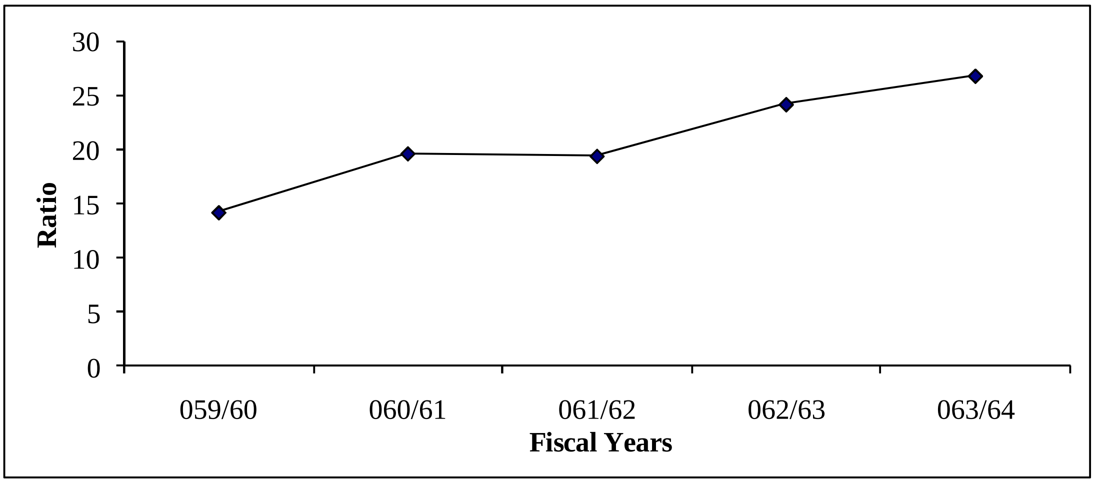
Fiscal year	Net profit	Net Worth	Ratios (%)
059/60	82.13	579.13	14.18
060/61	127.47	650.74	19.59
061/62	139.53	720.74	19.36
062/63	202.44	839.73	24.11
063/64	262.39	981.98	26.72
		Average	20.79

Sources: Annual Report of BOKL from the year 059/60 to 063/64.

As shown in the above table 4.14 the net worth of the bank was Rs.579.13 million in fiscal year 059/60, Rs.650.74 million in FY 060/61, Rs.720.74 million in FY 061/62 Rs.839.73 in FY 062.63 and Rs.981.98 million in FY 063/64. Both the net profit and net worth of the bank is in increasing trend. Likewise the ratio of Net profit to shareholder's equity is also raising. At the end of fiscal year 059/60, the ratio was 14.18%. At the end of FY 061/62 it was slightly decreased and reached to 19.36%, before the FY 061/62 the ratio was 19.59. But at the end of FY 062/63 it was increased and stands at 24.11 also in FY 063/64 it was increased and reached to 26.72. The average ratio stands at 20.79.

Figure 4.14

Net Profit to Shareholders Equity Ratio of BOKL



In the above figure 4.14 we clearly shows that the ratio is in increasing trend. Unfortunately in FY 061/62 the ratio was slightly decreased.

This ratio is calculated to evaluate the effectiveness of the owners investment, which indicated how well the firm has used the resource of the owners. It is an important ratio, which helps to maximize the shareholders welfare and is an important indicator of financial performance. From the above analysis we can conclude that the net profit to shareholderS equity of the BOKL hs in satisfactory level.

4.4.5 Cost of Service to Total Assets Ratio

A s/und management always tries to utilize its larger amount nf assets with minimum costs

This ratio is useful in measurIng the assets utilization with cost of services. The ratio can be expressed as below:

$$= \frac{\text{Cost of services}}{\text{Total assets}}$$

The following table shows the cost of bearing of services taking by bank oF Kathmandu Limited.

Table 4.15

Cost of Service to Total Assets Ratio of BOKL

(Rs. in million)

Fiscal year	Cost of service	Total assets	Ratios (%)
059/60	328.39 7444.8"	4.41	
060/61	334.03	9496.34	3.52
061/62	295.46	9857.13	3.00
062/62	267.28	12278.33	2.99
063/64	408.92	14570.10	2.81
		Average	3.34

Sources: Annual Report of BOKL from the ye!r 059/60 to 063/64.

From the above table 4.15 shows that the total asset kf the BOKL has been ifcreasing gradually over the study pepiod. THe aost of service included interest paid on borrowings and onÈdeposit as well aq salaries, allouances and provadent fund. The cost of service of the BOKL has been gradually increased inôall the year except FY 061/62. The cost of service to total assets ratio has been gradually decreased over the study period, which was 4.41% in fiscal year 059/60, it's reac(ed to 2.81% at the end of fiscal year 063/64. The avepage ratio of ckst of services to total assets ratio is stands at 3.24.

From the above% analysis we can conclude that thÞ ratio of aost of services to total assets of BOKL has been 'radually ddcreasing, which indicates that phe bank could able to debrease it's cost of services. It is not doubt that bank can able to decreased total cost which resulted in maximizing the profit.

4.5 Capital Structure or Leverage Ratio

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

4.5.1 Long-term Debt to Net Worth Ratio

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

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

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

Table 4.16

Long-term Debt to Net Worth Ratio of BOKL

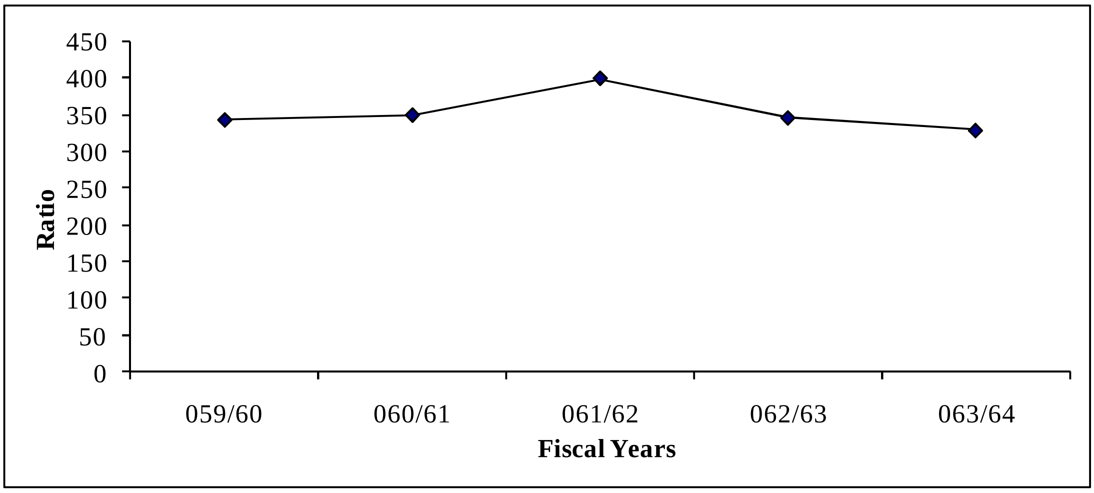
Fiscal year	Long term debt	Net worth	Ratios (%)
059/60	1990.94	579.13	343.78
060/61	2279.72	650.74	350.33
061/62	2878.87	720.74	399.43
062/63	2909.75	839.73	346.51
063/64	3237.17	981.98	329.66
		Average	353.99

Sources: Annual Report of BOKL from the year 059/60 to 063/64.

From the above table 4.16 shows that the long term debt and net worth both are increasing gradually over the study period. At the end of fiscal year 059/60 the long term debt was Rs.1990.94 million, but at the end of FY 063/64 it reached to Rs.3237.17. Likewise, at the end of FY 059/60 the net worth was Rs.579.13 million, but at the end of FY 063/64 it reached to Rs.981.98. On the other hand long-term debt to net worth ratio of BOKL was increased up to the FY 061/62 first three year and gradually decreased there after. The average ratio stands at 353.98%.

Figure 4.15

Long-term Debt to Net Worth Ratio of BOKL



In the above figure 4.15, we clearly shows that the long-term debt to net worth ratio of BOKL was increased in fiscal year 060/61 and 061/62. But at the end of fiscal year 062/63 and 063/64 it was in decreasing trend.

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

4.5.2 Net Fixed Assets to Long-term Debt Ratio

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

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

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

Table 4.17

Net Fixed Assets to Long-term Debt Ratio of BOKL

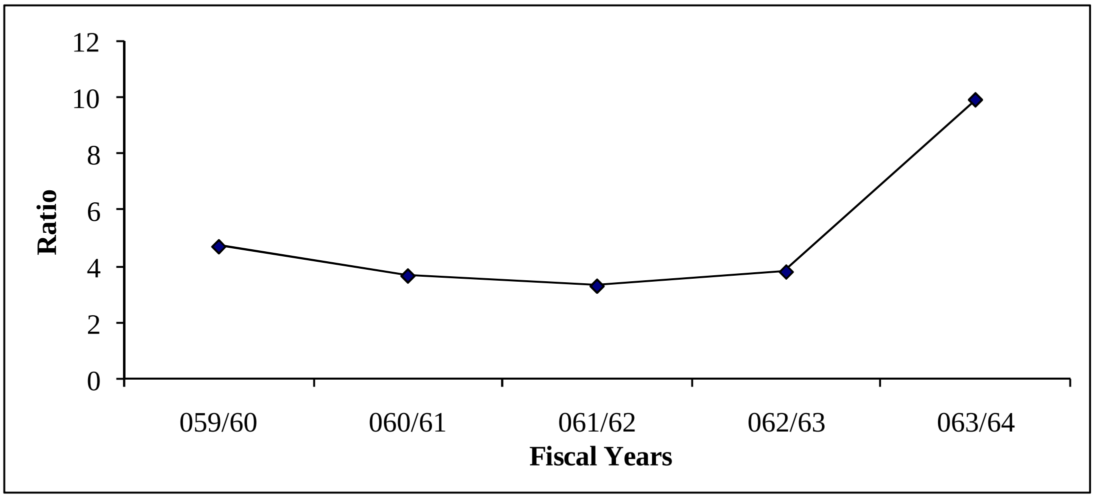
Fiscal year	Net fixed assets	Long term debt	Ratios (%)
059/60	93.64	1990.94	4.70
060/61	83.63	2279.71	3.67
061/62	95.23	2878.87	3.31
062/63	110.75	2909.75	3.81
063/64	320.85	3237.17	9.89
		Average	5.07

Sources: Annual Report of BOKL from the year 059/60 to 063/64.

The above table 4.17 shows that the Net fixed assets of BOKL has been gradually increasing over the study period except the fiscal year 060/61. Long-term debt of BOKL also be in increasing trend. Net fixed assets to long term debt ratio of BOKL was decreased in fiscal year 060/61 then previous year 059/60. In fiscal year 061/62 it also decreased and reached to 3.31%. But at the end of fiscal year 062/63, it was slightly increased. In the same way at the end of fiscal year 063/64 the percentage of increasing rate is high and reached to 9.89%.

Figure 4.16

Net Fixed Assets to Long Term Debt Ratio of BOKL



Above figure 4.16 states that the net fixed assets to long term debt ratio was 4.70 in fiscal year 059/60. Which slightly decreased up to fiscal year 061/62 and than it was increased and reached to 9.89 in fiscal year 063/64.

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

4.6 Correlation Analysis

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

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

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

Table 4.18

Coefficient of Correlation between Investment on Government Securities and Total Deposit

Name of bank	Correlation (r)	PEr	6PEr
BOKL	0.69	0.16	0.96

Source: Appendix-1.

From the above table 4.18, we can find the coefficient of correlation between government securities and total deposits of BOKL value 'r' is 0.69. It shows that the positive relationship between these two variables. By considering the probable error, since the value of r of BOKL is not more than six times of PEr, the value of r is not significant i.e. there is no significant relationship between government securities and total deposit of the bank.

4.6.2 Coefficient of Correlation between Loan and Advance and Total Deposits

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

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

Table 4.19

Coefficient of Correlation between Loan and Advance and Total Deposit

Name of bank	Correlation (r)	PEr	6PEr
BOKL	0.98	0.01	0.06

Source: Appendix-2.

From the above table 4.19 depicts that the coefficient of correlation between loan and advances and total deposit value 'r' of BOKL is 0.98. It shows highly positive relationship between two variables loan and advance and total deposit of BOKL. By considering the probable error. Since the value of 'r' i.e. 0.98 is more than six times of probable error i.e. 0.06, so we can say that the value of r is highly significant, i.e. there is significant relationship between total deposits and loan and advance.

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

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

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

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

Table 4.20

Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Name of bank	Correlation (r)	PEr	6PEr
BOKL	0.80	0.11	0.66

Source: Appendix-3.

As stated in above table 4.20, we can find out coefficient of correlation between cash and bank balance to current liabilities of BOKL is 0.80: which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the probable error. Since the value of 'r' i.e. 0.80 is more than six times of PEr i.e. 0.66, we can say that the value of 'r' is highly significant.

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

4.6.4 Coefficient of Correlation between Loan and Advance and Net Profit

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

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

Table 4.21

Coefficient of Correlation between Loan and Advance and Net Profit

Name of bank	Correlation (r)	PEr	6PEr
BOKL	0.99	0.006	0.036

Source: Appendix-4.

As stated in above table 4.21, the coefficient of correlation between loan and advances and net profit of BOKL over the study period is 0.99. It shows the highly positive relationship between these two variables loan and advances and net profit. Similarly, considering the value of probable error, the value of 'r' is 0.99 is more than six times of PEr i.e. 0.036, so we can say that the value of 'r' is highly significant.

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

4.7 Major Findings of the Study

The following are the major findings of the study:

1. All the year of study period, the working capital of BOKL is positive. The working capital depicts the liquidity position of the organization. It means higher

the working capital higher the liquidity of the firm and vice versa. The working capital level of the bank is not constant. Total working capital of the bank was limited to Rs.358.98 million, Rs.518.83 million, Rs.508.75 million, Rs.828.19 million and Rs.770.08 million at the end of FY 059/60, 060/61, 061/62, 062/63 and 063/64 respectively.

2. The current ratio of the bank is not so fluctuating which stands 1.0523 at FY 059/60, 1.0587 at FY 060/61, 1.0557 at FY 061/62, 1.0737 at 062/63 and 1.0575 at 063/64 respectively. The average CR of the bank stands at 1.0596 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 1.0523.:1, which is minimum in FY 059/60. In this case, the bank has enough idle money which can not generate inflow to the bank.
3. Cash and bank balance to current assets ratio of the bank was 9.59 in FY 059/60. After that it started to decreased and reached to 6.04 at the end of FY 062/63 but at the end of FY 063/64 it was increased and reached to 9.29. High ratio indicates the idle amount, it is not so good for the profit oriented organization.
4. The cash and bank balance to total deposit ratio excluding fixed deposit of the bank slightly decreases up to FY 062/63 and it was slightly increased at the end of FY 063/64. It indicates that how much funds available with the bank to cover it's current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.1331 over the study period, which means bank is not so satisfactory level.
5. The saving deposit to total deposit ratio of the bank has been gradually increasing over the study period. It stands at 40.15% over the study period. This ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. Firm profitability point of view, the bank should minimize the ratio. As depicted by the study BOKL's position seems satisfactory level over the study period.
6. The loan and advance to total deposit ratio of BOKL was quite fluctuating. The ratio stands 0.7362 in FY 059/60, 0.7294 in FY 060/61, 0.6612 in FY 061/62, 0.6923 in FY 062/63 and 0.7587 in FY 063/64. Te ratio indicates the capacity of the bank to mobilization its deposit. As stated by the study the mobilization of deposit of the bank is not satisfactory level over the study period.

7. The loan and advance to fixed deposit ratio of BOKL was slightly increased over the study period except the FY 061/62. It stands at 3.0948 at the end of study period. These ratios indicates the capacity of mobilizing its fixed deposit to loan and advance. From the study, it is fund that the bank has been mobilizing it's fixed deposit quite satisfactory.
8. The loan and advance to saving deposit ratio of the bank was slightly decreased up to the FY 062/63. But at the end of FY 063/64 it was slightly increased and reached to 1.7006. These ratios implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.
9. Interest earned to total assets ratio of any organizations indicates the profitability ratio. This ratio of the bank is quite fluctuating. It was 6.6732% at FY 059/60, which is maximum and 5.6211 at FY 063/64, which is minimum. It stands at average 6.05 over the study period. From the study, it is concluded that the interest earned to total assets ratio of BOKL is not so much satisfactory. It means, the bank could not be able to use its total assets properly to earn interest.
10. Net profit to total assets ratio of BOKL is in increasing trend over the study period. It was 1.1032% in the beginning of the study period. But at the end of FY 063/64 it reached to 1.80%. It stands at average 1.4621 over the study period. The study shows that the bank could not able to utilized its total assets to generate profit.
11. Net profit to total deposit ratio of the bank was also fluctuating. It stands at 1.3310% at the end of FY 059/60. It stands at 1.3310% at the end of FY 059/60, which is minimum and 2.1179% at the ed of FY 063/64, which is maximum. It stands at average 1.7173 over the study period. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposits as efficiently as possible. But for the analysis of BOKL, we can easily found that the bank could not able to mobilized its total deposit efficiently.
12. Net profit to shareholders equity ratio is in increasing trend over the study period except the FY 061/62. The average ratio stands at 20.7915%. This ratio is calculated to evaluate the effectiveness of the owners investment, which indicates how well the firm has used the resources of the owners. Fort he study, it can be

conclude that the net profit to shareholders equity of the BOKL is in satisfactory level.

13. Cast of services to total assets ratio of the bank has been gradually decreasing over the study period. It was 4.4110% at the end of FY 059/60. But at the end of FY 063/64 it is limited to 2.8066%. It stands at average 3.3448% over the study period. From the above study we can easily found tat the bank has been given effort to decreased its cost of service. There is not doubt that, the decrement of cost of service will result in maximizing profit of the bank. It is quite satisfactory but the bank has to give attention towards further decline of the cost of service.
14. Long term debt to net worth ratio of BOKL was increased upto the FY 061/62 and gradually decreased thereafter. The average ratio stands at 353.9414 over the study period. If the ratio is high, it indicates the risky and aggressive capital structure for the study, it can be easily shows that the proportion of outsiders claim in total capitalization is higher in BOKL.
15. Net fixed assets to long term debt ratio of BOKL was decreased upto the fiscal year 061/62 and than it was increased in FY 062/63 and 063/64 and reached to 9.8852% at the end of study period. The average ratio stands at 5.0742% over the study period. For the consideration of these ratio, it can be concluded that the BOKL net fixed assets covers very low portion of long term debt. In other words, large portion of long term debt is used in current assets of the bank.
16. The coefficient of correlation between investment on government securities and total deposit is 0.69, which is insignificant over the study period.
17. The coefficient of correlation between loan and advance and total deposit stands at 0.98, which is significant. It means there is positive relationship between loan and advances and total deposit of the bank i.e. perfectly correlated.
18. The coefficient of correlation between cash and bank balance and current liabilities of BOKL is 0.80. Which shows the positive relationship between the factor. By considering the probable error (PEr). We can say that the value of 'r' is highly significant.
19. The coefficient of correlation between loan and advance and net profit is 0.99. It means high degree of positive relationship between the loan and advance and net profit, which is highly significant.

CHAPTER -FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

Commercial banks are established to improve people's economic welfare and facility, to provide lone to the agriculture, industry and commerce and to offer banking services to the people and the country. The modern banking system that we have today has passed the several stages before reaching the present stage. Because of the liberal economic policy adopted by the Nepalese government a number of commercial banks are operating today in Nepal. Until mid Oct 2007, 23 commercial banks (including government owned, private and joint venture) are operating in Nepal. Among various commercial banks established in Nepal, Bank of Kathmandu Limited is one of them.

The main objective of the study was to evaluate the working capital position as well as financial performance of Bank of Kathmandu Ltd. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to manage working capital of bank of Kathmandu limited from the long range view point. Commercial bank is income oriented, thus proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of a bank are concerned with current assets and current liabilities. Working capital management is concerned with current assets and current liabilities. Generally, working capital refers to the difference between current assets and current liabilities. Thus, working capital management has been regarded as one of the conditioning factor in the decision making issue of commercial banks. The term working capital management closely relates with short term financing; it is concerned with collection and allocation of resources. Working capital management relates to problems that arise in attempting to manage the current assets, the current liabilities and interrelationships that exist between them.

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

The necessary data are derived from the balance sheet and profit and loss A/C of the bank for the period of five years from fiscal years 2059/60 to 2063/64. Now in, this chapter an attempt has been made to present summary, conclusions and some suggestions and recommendations.

5.2 Conclusion

On the basis of the research, the researcher came to the conclusion that the interest was the major sources of income. From the analysis of the financial position of the BOKL from the year 2059/60 to 2063/64 the collection of deposits and loan investment are increasing satisfactorily and there are also increasing in operating profit.

The CR of the bank over the five year is 1.06 times on an average. It indicates that the margin for safety for customers has been maintained satisfactorily. The average of the cash and bank balance to current assets ratio is 8.19 percent which indicates that the cash and bank balance proportion with respect to the current assets is moderate. The average cash and bank balance to total deposit ratio stands at 13.32 percent. It is not so satisfactory level over the study period. The saving deposit to total deposit ratio of bank over the five year period is 40.15. This ratio is in increasing trend. So, this ratio of BOKL seems satisfactory level over the study period. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation.

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

The researcher found that the operating efficiency of the bank is in satisfactory condition. Interest earned in comparison to total assets is not fair enough. Net profit earned in comparison to the total assets and total deposit is relatively low. The bank has been earning 1.46 percent on its total assets during the study period. The researcher found that the EPS of the bank is quite good as its average stands at 20.79 percent during the study period.

5.2 Recommendations

1. The services provided by BOKL are similar to those provided by other commercial banks. Therefore, it is recommended to BOKL to formulate new schemes and techniques in order to attract more and more people towards the bank.
2. Working capital is essential to meet short-term obligation. But high level of working capital increased idle fund which affects the profitability of the bank. Therefore, the bank should maintain sound working capital position. It means neither more nor less. The working capital of BOKL has been following increasing trend. Thus, the bank should try to maintain sound working capital.
3. The current ratio of the bank is more than one. It means the bank has sufficient liquidity to remain solvent. It is true that such higher ratios supposed by the greater ability of bank to pay its bills. But if a bank has more than sufficient current assets is indication of unfavorable of distribution of current assets than current liabilities. Therefore, there is quite higher idle fund which may result unproductive for bank. Thus, the bank should try to reduce its current assets to increase its profitability.
4. The loan and advances to total deposit ratio indicates the capacity of bank to mobilize its deposit into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the bank could not able to mobilize its total deposit through loan and advances.

Therefore, the bank should disburse its total deposit as much as possible by means of loan and advances.

5. From the above study the researcher easily found that the bank's interest earned to total assets ratio is not satisfactory so far. It indicates the bank could not able to utilize its total assets to earned interest. Therefore, the bank should utilize its available assets as properly as possible to earned interest.
6. The net profit to total assets ratio of the banks is not also satisfactory, from the above study it is easily found that the bank could not able to utilized its available sources properly to earn profit. Therefore, the bank should utilize its total assets as possible as much.
7. Although, the cost of services to total assets ratio has been decreasing, it is not in so satisfactory level. Therefore, the bank should try to decline its cost of services as possible as it can.
8. Expansion of more branches is necessary to collect more deposit. If the services are expanded in most part of the nation, it can collect deposits from different area and can invest that funds in productive sector for generating income. So, BOKL should also expand its branches in rural and urban area as it is doing so that it can provide its services to the people of the different part of the county as well as it is benefit for the bank also.

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Appendix - 1

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

GS (X)	TD (Y)	$x = (X-\bar{X})$	x^2	$x = (Y-\bar{Y})$	y^2	xy
1510.71	6170.71	(693.19)	480512.38	(2975.17)	8851636.53	2062358.09
2371.78	7741.65	167.88	28183.69	(1404.23)	1971861.89	(235742.13)
2346.62	8942.75	(57.28)	3281.00	(203.13)	41261.80	11635.22
2658.37	10485.36	454.47	206542.98	1339.48	1794206.67	608753.48
2332.03	12388.93	128.13	16417.30	3243.05	10517373.3	415531.99
ΣX =11019.51	ΣY = 45729.40		Σx^2 = 734937.35		Σy^2 = 23176340.19	Σxy = 2862536.7

$$\bar{X} = \frac{\Sigma X}{N}$$

$$= \frac{11019.51}{5}$$

$$= 2203.90$$

$$\bar{X} = \frac{\Sigma Y}{N}$$

$$= \frac{45729.40}{5}$$

9145.88

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

$$= \frac{2862536.73}{\sqrt{734937.35 \times 23176340.19}}$$

$$PEr = 0.6745\frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745\frac{1-(0.69)^2}{\sqrt{5}}$$

$$= 0.16$$

$$6PEr = 6 \times 0.16$$

$$= 0.96$$

$= 0.69$

Appendix - 2

Calculation of Coefficient of Correlation between LOan and Advance and Total Deposit

LA (X)	TD (Y)	x = (X- $\overline{X}$)	x^2	x = (Y- $\overline{Y}$)	y^2	xy
4542.70	6170.71	(2009.38)	4037607.98	(2975.17)	8851636.53	5978247.1
5646.70	7741.65	(905.38)	819712.94	(1404.23)	1971861.89	1271361.76
5912.58	8942.75	(639.5)	408960.25	(203.13)	41261.80	129901.64
7259.08	10485.36	707	499849	1339.48	1794206.67	947012.36
1399.33	12388.93	2847.25	8106832.56	3243.05	10517373.3	9233774.11
ΣX =32760.39	ΣY = 45729.40		Σx^2 = 13872962.73		Σy^2 = 23176340.19	Σxy = 17560296.97

$$\overline{X} = \frac{\Sigma X}{N} = \frac{32760.39}{5} = 6552.08$$

$$PEr = 0.6745\,\frac{1-r^2}{\sqrt{N}} = 0.6745\,\frac{1-(0.98)^2}{\sqrt{5}} = 0.01$$

$$\overline{X} = \frac{\Sigma Y}{N} = \frac{45729.40}{5} = 9145.88$$

$$6PEr = 6\times0.01 = 0.06$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2 \Sigma y^2}} = \frac{17560296.97}{\sqrt{13872962.73\times23176340.19}} = 0.98$$

Appendix - 3

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

C & B (X)	CL (Y)	$x = (X-\bar{X})$	x^2	$x = (Y-\bar{Y})$	y^2	xy
692.71	6865.68	(159.43)	25417.92	(3029.20)	9176052.64	482945.36
782.88	8845.60	(69.26)	4796.95	(1049.28)	1100988.52	72673.13
740.52	9136.39	(111.62)	12459.02	(758.49)	575307.08	84662.65
728.70	11238.13	(123.44)	15237.43	1343.71	1805556.56	(165867.56)
1315.91	13388.13	463.77	215082.61	3493.25	12202795.56	1620064.55
$\Sigma X = 4260.72$	$\Sigma Y = 49474.39$		$\Sigma x^2 = 272993.93$		$\Sigma y^2 = 24860700.36$	$\Sigma xy = 2094478.13$

$$\bar{X} = \frac{\Sigma X}{N}$$

$$= \frac{4260.72}{5}$$

$$= 852.24$$

$$\bar{X} = \frac{\Sigma Y}{N}$$

$$= \frac{49474.39}{5}$$

$$= 9894.88$$

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

$$= \frac{2094478.13}{\sqrt{272993.93 \times 24860700.36}}$$

$$= 0.80$$

$$PEr = 0.6745\,\frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745\,\frac{1-(0.80)^2}{\sqrt{5}}$$

$$= 0.11$$

$$6PEr = 6 \times 0.11$$

$$= 0.66$$

Appendix - 4

Calculation of Coefficient of Correlation between LOan and Advances and Net Profit

LA (X)	NP (Y)	x = (X- $\overline{X}$)	x^2	x = (Y- $\overline{Y}$)	y^2	xy
4542.70	82.13	(2009.38)	4037607.98	(80.66)	6506.04	162076.59
5646.70	127.47	(905.38)	819712.94	(35.32)	1247.50	31978.02
5912.58	139.53	(639.5)	408960.25	(23.26)	541.03	14874.77
7259.08	202.44	707	499849	39.65	1572.12	28032.55
9399.33	262.39	2847.25	8106832.56	99.6	9920.16	283586.1
ΣX =32760.39	ΣY = 813.96		Σx^2 = 13872962.73		Σy^2 = 19786.85	Σxy = 520548.03

$$\overline{X} = \frac{\Sigma X}{N}$$

$$= \frac{32760.39}{5}$$

$$= 6552.08$$

$$\overline{X} = \frac{\Sigma Y}{N}$$

$$= \frac{813.96}{5}$$

$$= 162.79$$

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

$$= \frac{520548.03}{\sqrt{13872962.73 \times 19786.85}}$$

$$= 0.99$$

$$PEr = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1-(0.99)^2}{\sqrt{5}}$$

$$= 0.006$$

$$6PEr = 6 \times 0.06$$

$$= 0.036$$

Appendix-5

Balance Sheet of BOKL

S. No.	Capital and liabilities	2059/60	2060/61	2061/62	2062/63	2063/64
1	Share capital	463580900	463580900	463580900	463580900	603141300
2	Reserves and funds	115552336	187164330	257156916	376152981	378837432
3	Debentures and bonds	-	-	-	200000000	200000000
4	Borrowing	498235860	912150000	6000000	553180000	730000000
5	Deposits	6170711570	7741645424	8942748598	10485359239	12388927298
6	Proposed and dividend payable	27096534	54935329	81476450	98711520	135575231
7	Bills payable	35144115	38709420	19873927	11621657	25776722
8	Income tax payable	-	-	-	-	-
9	Other liabilities	134495634	98159269	86293673	89723005	107840825
	Total	**7444816949**	**9496344672**	**9857130464**	**12278329302**	**14570098804**
S. No.	**Assets**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**
1	Cash balance	157400326	139220903	161469654	184019718	219042572
2	Balance with Nepal Rastra Bank	362393281	449863861	417867022	349295702	883495814
3	Balance with banks/financial institution	172918503	193798177	161183806	195381672	213365528
4	Money at call and short notice	30350300	272321000	328873857	594047379	259278628
5	Investment	1816148858	2477409627	2598253410	3374711966	2992433866
6	Loans, advance and bills purchase	4542700201	5646698444	5912579472	7259082579	9399327617
7	Fixed assets	93641781	83625007	95230942	110745198	320846394
8	Non banking assets	88501743	25482996	24087543	7356136	3625715
9	Other assets	180761956	207924657	157584758	203688954	278682642
	Total	**7444816949**	**9496344672**	**9857130464**	**12278329302**	**14570098804**

Profit and Loss Account of BOKL

S. No.	Assets	2059/60	2060/61	2061/62	2062/63	2063/64
1	Interest income	496808827	567096226	607095662	718121378	819003947
2	Interest expenses	276705159	286297050	241639164	308155647	339181011
	Net interest income	220103668	280799176	365456498	409965730	479822936
3	Commission and discount	60745881	77707811	72351675	70776158	97431129
4	Other operating income	1236710	1966448	4467286	16967545	19002897
5	Exchange fluctuation income	67443873	64046314	72114868	78955495	80826013
	Total operating income	349530132	424519749	514390327	576664929	677082975
6	Staff expenses	51681518	47726373	53822309	59119564	69740384
7	Other overhead expenses	89546626	85828545	99190178	117591235	138429941
8	Exchange fluctuating loss	-	-	-	-	-
	Operating profit before provision for possible losses	208301988	290964831	361377840	399954129	468912650
9	Provision for possible loss	82611649	101263085	133916808	78381056	81894981
	Operating profit	125690339	189701746	227460942	321573073	387017669
10	Non operating income/loss	23053	15459800	(468771)	1090139	(2779849)
11	Provision for possible losses written back	10000000	-	209128717	103871477	37103885
	Profit from regular operations	135713392	205161546	436120889	426534689	421341705
12	P/L from extra ordinary activities	-	-	(209128717)	(95205482)	411150
	Net profit after considering all activities	135713392	205161546	226992171	331329207	421752885
13	Provision for staff bonus	13571339	20516155	22699217	30120837	38341169
14	Provision for income tax	40014391	57172203	64763233	98767743	121024706
	Net profit/loss	**82127662**	**127473189**	**139529721**	**202440627**	**262386980**