

CASE STUDY
OF
LIQUIDITY & PROFITABILITY ANALYSIS OF JOINT
VENTURE COMMERCIAL BANK OF NEPAL
(With Reference of EBL, NBBL & NAIBL)

A THESIS

Submitted by:

Mandira Adhikari
Nepal Commerce Campus
Class Roll No – 971/065
M.B.S Exam Roll No – 250726
T.U. Regd. No – 7-1-38-273-2002

Submitted To:

Office of the Dean
Faculty of Management
Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree of
Master of Business Studies (MBS)

New Baneshwor, Kathmandu
September, 2012

RECOMMENDATION

This is to certify that the Thesis

Submitted by

Mandira Adhikari

Entitled

**CASE STUDY
OF
LIQUIDITY & PROFITABILITY ANALYSIS OF JOINT VENTURE COMMERCIAL
BANK OF NEPAL
(With Reference to Everest Bank, Nepal Bangladesh Bank and NABIL Bank Limited)**

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

.....
(Dr. Sushil Bhakta Mathema)
Head of Research Department

.....
(Mr. Balan Kumar Rajbanshi)
Thesis Supervisor

.....
(Mr. Madhav Prasad Neupane)
Campus Chief & Thesis Supervisor

Date: -

VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of thesis

Presented by:
Mandira Adhikari

Entitled

**CASE STUDY OF
LIQUIDITY & PROFITABILITY ANALYSIS OF JOINT VENTURE COMMERCIAL
BANK OF NEPAL
(With Reference to Everest Bank, Nepal Bangladesh Bank and NABIL Bank Limited)**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head of the Research Committee:

Member (Thesis Supervisor) :

Member (Thesis Supervisor) :

Member (External Expert) :

Date:.....

DECLARATION

I hereby declare that the thesis “**CASE STUDY OF LIQUIDITY & PROFITABILITY ANALYSIS OF JOINT VENTURE COMMERCIAL BANK OF NEPAL** ” submitted to, Nepal Commerce Campus the Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of requirements for the Master of Business Studies (M.B.S.) under the supervision of Mr. Madhav Prasad Neupane & Mr. Balan Kumar Rajbanshi of Nepal Commerce Campus.

Date:.....

Mandira Adhikari
Nepal Commerce Campus
Class Roll No – 971/065
M.B.S Exam Roll No – 250726
T.U. Regd. No – 7-1-38-273-2002

ACKNOWLEDGEMENTS

This research entitled “Case Study between Liquidity and Profitability of Joint Venture Banks in Nepal, With Reference To Everest Bank, Nepal Bangladesh Bank and Nabil Bank Limited” has been prepared for the partial fulfillment of the requirement for the Degree of Masters of Business Studies. The general purpose of the study is to discuss, examine and evaluate the trade off between liquidity and profitability position of the concerned joint venture banks of Nepal.

The Completion of the study is a result of help and support of several hands. Therefore, I would like to express my heartfelt gratitude to all those respondents for their help and support.

I am very much grateful to my thesis supervisor **Mr. Madhav Prasad Neupane and Mr. Balan Kumar Rajbanshi** . At the same time I would like to express my profound sense of gratitude to Lecturer and my other respected teachers of Nepal Commerce Campus, for providing me valuable suggestion, information and comments. And further more I would like to thanks chairperson of Research Committee, **Dr. Sushil Bhakta Mathema**.

I want to extend by debtness to respected companies who provided the reports and study materials. Likewise, I am thankful to the librarians of Nepal Commerce Campus, who helped me providing necessary information and suggestions.

Lastly, my heartiest thank goes to my family members and college staffs along with classmates who have supported me by providing consistent help and encouragement.

Mandira Adhikari

TABLE OF CONTENTS

VIVA-VOCE SHEET
RECOMMENDATION
DECLARATION
ACKNOWLEDGEMENT
TABLE OF CONTENTS
LIST OF TABLES
LIST OF FIGURES
ABBREVIATIONS

Chapter	Page No.
CHAPTER: I	
INTRODUCTION	1-14
1.1 Background of the Study	1
1.1.1 Development of Banking in Nepal	4
1.1.2 A Brief Profile of EBL	6
1.1.3 A Brief Profile of NBBL	7
1.1.4 A Brief Profile of NABIL	8
1.2 Focus of the Study	9
1.3 Statement of the Problem	9
1.4 Objectives of the Study	11
1.5 Significance of the Study	12
1.6 Limitations of the Study	12
1.7 Organization of the Study	13
CHAPTER: II	
REVIEW OF LITERATURE	15-30
2.1 Theoretical Review	15
2.1.1 Concept of Liquidity	15
2.1.2 Importance of Liquidity	17
2.1.3 Criteria for Measuring Liquidity Position of Bank	18
2.1.4 Concept of Profitability	20
2.1.5 Principle of Profitability	22
2.1.6 Trade-off between Liquidity and Profitability	22
2.2 Review of Related Studies	25
2.3 Research Gap	30

CHAPTER: III		
RESEARCH METHODOLOGY		31-40
3.1	Introduction	31
3.2	Research Design	32
3.3	Population and Sample	33
3.4	Sources of Data	34
3.5	Data Analysis Tools	34
CHAPTER: IV		
PRESENTATION AND ANALYSIS OF DATA		41-69
4.1	Introduction	41
4.2	Liquidity Ratio	42
4.3	Profitability Ratio	50
4.4	Trend Analysis	63
4.5	Correlation Co-efficient	66
4.6	Major Findings of the Study	67
CHAPTER: V		
SUMMARY, CONCLUSION AND RECOMMENDATIONS		70-74
5.1	Summary	70
5.2	Conclusions	72
5.3	Recommendations	73
BIBLIOGRAPHY		
APPENDIXES		

LIST OF TABLES

Table No.		Page No.
4.1	Current Ratio	42
4.2	Quick Ratio	44
4.3	Cash & Bank Balance to Current Deposit Ratio	46
4.4	Cash & Bank Balance to Total Deposit Ratio	48
4.5	Net Profit Ratio	50
4.6	Return on Equity (ROE)	52
4.7	Return on Assets (ROA)	54
4.8	Return on Capital Employed (ROCE)	56
4.9	Earning Per Share (EPS)	58
4.10	Dividend Per Share	60
4.11	Earning Yield Ratio	62
4.12	Trend Value of EPS	64
4.13	Trend Value of Net Profit	65
4.14	Correlation Co-efficient between Total Deposit and Cash & Bank Balance	66
4.15	Correlation Co-efficient between Total Deposit and Net Profit	67

LIST OF FIGURES

Figure No.		Page No.
4.1	Current Ratio	43
4.2	Quick Ratio	45
4.3	Cash & Bank Balance to Current Deposit Ratio	47
4.4	Cash & Bank Balance to Total Deposit Ratio	49
4.5	Net Profit Ratio	51
4.6	Return on Equity (ROE)	53
4.7	Return on Assets (ROA)	55
4.8	Return on Capital Employed (ROCE)	57
4.9	Earning Per Share (EPS)	59
4.10	Dividend Per Share (DPS)	61
4.11	Earning Yield Ratio	63
4.12	Trend Value of EPS	64
4.13	Trend Value of Net Profit	65

ABBREVIATIONS

ABBS	Any Branch Banking System
A/C	Account
ATM	Automated Teller Machine
C.V	Coefficient of Variation
d.f.	Degree of Freedom
DPS	Dividend per Share
EBL	Everest Bank Limited
EPS	Earning per Share
F/Y	Fiscal Year
NBBL	Nepal Bangladesh Bank Limited
i.e.	That is
JVBs	Joint Venture Banks
MPS	Market Price per Share
NABIL	Nabil Arab Bank Limited
NBL	Nepal Bank Limited
NRB	Nepal Rastra Bank
PNB	Punjab National Bank
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
SCT	Smart Choice Technology
SMEs	Small and Medium Sized Enterprises
SWOT	Strength, Weakness, Opportunities and Threats
UAE	United Arab Emirates
U.K.	United Kingdom
viz.	Namely

CHAPTER – 1

INTRODUCTION

1.1 Background of the Study

Simply Bank means a financial institution, which is engaged in monetary transaction. Basically, bank work as an institution which accepts deposits, disbursing loans and rendering other financial services. Banks render a wide range of services to the people of different walks of life. The concept of Banking has developed from the ancient history with the effort of ancient goldsmith who developed the practice of storing people's gold and valuables. The history reveals that it was the merchant Banker who first evolved the system of Banking by trading in commodities than money. Then they issued different documents as the near substitutes of money, called drafts or hundis in modern days.

Broadly speaking, a Bank draws surplus idle money in the hand of public in the form of deposits and supplies that money in the form of loans to those who are in a position to utilize the same for some productive uses. Bank provides benefits to depositors by paying fixed interest and borrower gets chance to improve business or other work by getting financial support. The bank helps people in every sector of economy like trade, industry, agriculture etc. Not only that now a days bank also helps in education sector too. Bank provides education loans in a reasonable interest rate. Therefore we call a bank as a social institution also. A bank simply carries out the work of exchanging money, providing loan, accepting deposits and transferring money.

An institution established by law, which deals with money and credit is called bank. When a bank performs multiple tasks, the efficiency and effectiveness of work becomes weak. Hence, different banks are established for different purposes. The commercial bank is the oldest form of bank. There is considerable change in the original form of commercial bank. In general, bank means the commercial banks. Hence, the definitions of bank are also equally applicable to commercial banks. Provide multiple services in a best manner and the profit maximization is the main objective of these banks.

Certainly, no comparison can be made between ancient and modern banks. In the ancient time, merchants, moneylenders and goldsmiths used to perform the work of banking in every

country. The merchants used to exchange the gold, silver and gems. The moneylenders were found lending and borrowing money even in quite primitive communities. Whereas, Goldsmiths became the precursor of the modern bank note and the forerunners of the modern banking institutions. Hence, the banks started to carry out the work of creating credit, issuing the notes, depositing, lending, transacting the bills of exchange and promissory note etc.

Banking sector plays a vital role for economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deal in the process of channeling the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or indirectly channeled through the Banks. People keep their surplus money as deposits in the Banks and hence Banks can provide such funds to finance the industrial activities in the form of loans and advances. So, bank is a resource mobilizing institution, which accepts deposit from various sources and invests such accumulated resources in the field of agriculture, trade, commerce, industry, tourism etc.

In our country, the development of Banking is relatively recent. However, some crude banking operations were in practice even in the ancient times. In Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Sankhadhar, a Sudra merchant of Kantipur in 879A.D or 880 A.D after having paid all the outstanding debts in the country. The establishment of the 'Tejarath Adda' during the year 1877A.D. was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. Hence, the establishment of 'Tejarath Adda' was running smoothly for the following decades.

Modern commercial banks are identified with different names such as Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, and Development Banks etc. No matter what name we give to banks, they all perform the same basic function i.e. they provide a link between lenders, those who have surplus money and do not wish to spend immediately, with borrowers and those who do not have surplus money but wish to borrow for investment in productive purpose. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the Banks make their profit. This is known as financial intermediation.

Banks are the most important sources of short-term working capital for businesses. They have become increasingly active in recent years in making long-term business loans for new plant and equipment. When businesses and consumers must make payments for purchase of goods and services, more often they use bank. Bank provides cheques, credit or debit cards, electronic accounts connected to a computer network for banking transactions. It is the banker to whom they turn most frequently for advice and counseling, when they need financial information and financial planning.

A Joint Venture is an association of two or more persons or parties, having mutual advantages in a specific operation, and is undertaken to make the operation highly remunerative with their collective efforts. Joint Venture Banks are partnering having alliance Banks with more than one nation. Joint Venture Banks (Joint Venture Banks) are financial intermediaries, financing deficit units with money deposited to them by surplus units. The financial system of a Banking industry in precise is a complex network embracing payments mechanisms and the borrowing and lending of funds. Though they have other important functions, the key role played by these Banks in the system is to act as financial intermediaries channeling funds from those with income in excess of their needs to those wishing to borrow.

According to Kent "A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure."

In conclusion, we can say that banking is not static but a dynamic concept. It is a product of centuries and the development which has taken place is the product of a method of trial and error and experiences which were made and the results that followed relating to the acceptance of money and valuables as deposits, keeping them as such, lending them, whether to private individuals, to states or other bodies and for controlling the multifarious and multi-dimensional activities which in the beginning were only trivial and could be ignored but with the growth of time, become international in character and multi dimensional in nature. In this study, an attempt has been made to analyze and evaluate the trade off between liquidity and profitability of Joint Venture Banks (Joint Venture Banks) in Nepal. A bank has to perform several functions and among such, maintaining a balance between liquidity and profitability is also among one of the major function. In the absence of proper balance between liquidity

and profitability, a bank cannot function properly in the right direction. So, the bank is always found paying the due consideration in maintaining the appropriate balance between such. Many researches have revealed that Banks and economic condition are two wheels of the same chariot. Now a-days, banking activities are spreading all over the world.

1.1.1 Development of Banking in Nepal

In the context of Nepal, The history of banking sector is rather more slow evolution. Even now, the banking sector is still in the evolutionary phase. There are all together 32 Commercial Banks are established. The latest one was Sanima Bank Ltd. So, far as banking is concerned with debt, we may go back in the Nepalese history, where a merchant namely "Sankhdhar" was recorded. He was the person who alone paid all debts of the people existing in the country at that time. Since then he introduced a new era called "Nepal Sambat". This record proves the existence of money lending function at that time. During the course of development of borrowing, we further come across the term "Tanka Dhari" at the end of the 14th century meaning money lenders. They are one of the 64 castes classified on the basis of occupation.

In 1877 A.D. Tejaratha Adda was established by then government. The main purpose of this institution was to provide credit facilities for government staff and general public by collecting gold and silver at 5% rate of interest. Tejarath Adda did not use to accept deposit, it only provided credit facilities. So, we cannot say, it had performed fully banking transaction. But it played an important role towards the institutional development of banking system in Nepal.

On the course of development of bank, Nepal Bank Limited was established in 1994 B.S. under the Nepal Bank Act 1994 B.S. (1938 A.D.) as a commercial bank. NBL has been providing banking services and facilities from 1994 B.S. up to now. Really, NBL is the first modern bank in the history of banks in Nepal. Until mid 1940s, only metallic coins were used as medium of exchange. So, the government felt the need of separate institution or body to issue national currencies and promote financial organization in the country. Hence, the Nepal Rastra Bank (NRB) Act 1955 was formulated and was approved by the government. Accordingly, the Nepal Rastra Bank was established in 1956 A.D. as the central bank of Nepal. After the establishment of NRB, the first 5 years plan was introduced in the country.

The establishment of NRB set a milestone in the history of banking in Nepal. After this, a new way of thinking and a new sort of spirit arose in the field of banking. NRB was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Although NRB was established in 2012 B.S., it took entirely a decade to consolidate its powers as the banker's bank and controller of the credit. NRB for the first time issued the Nepali notes on 7th Falgun 2016 B.S.

In a view of the various development programs launched after the beginning of planned development in the country, government established another commercial bank Rastra Banijya Bank in Public sector on 23rd January 1966 A.D. to provide banking facilities and to help economic development.

The tasks of bank are very dynamic, complex and riskier. In this Context, only local commercial banks could not play their role in the development of modern banking. Realizing this fact, the government felt that joint venture banks could contribute significantly in the formation and mobilization of internal capital for trade and commerce. As management of Joint Venture Banks are mainly hold by foreign banks, it was felt some competitive advantages like increased skilled personal with modern banking knowledge, efficient banking services, advance management, skills and an international network of bank branches. Accordingly, government introduced new banking policy in 1980 A.D. That policy allowed foreign banks to operate as Joint Venture Banks, provide autonomy to fix interest rate to a certain limit and introduced auctioning of government securities. These reforms are considered partial liberalization and a way to open economic policy.

As a result, the first JVB, Nepal Arab Bank Limited was established in 2041B.S (1985 A.D.) under the Commercial Bank Act 2031 B.S. (1974 A.D.) and the Company Act 2021 B.S. (1965A.D.). In short form, it is called NABIL Bank. Nepal entered a new era of development following the historic political changes with the restoration of parliamentary system of government based on multi-party democracy in 1991 A.D. As an important strategy in resource mobilization, democratic elected government has given high priority to foreign investment, private sector participation and economic liberalization.

In this context, the government encouraged foreign investment in Nepal by providing attractive incentives and facilities with liberal economic policy. The importance attached to foreign investment was clearly reflected in the new constitution. In the directive principles of the constitution, it is stated that the policy of attracting foreign capital and technology will be adapted. When democratically elected government introduced liberalization and open economic policy, the number of Joint Venture Banks has increased rapidly. Apart from Joint Venture Banks, a number of other financial institutions also emerged in the country.

It is clear that the growth of banks in Nepal is satisfactory. Certainly, it is not enough satisfactory in comparison to other countries. The healthy competition is not found in banking functions. Similarly, the banks are increasing in urban areas only. Modern and joint investment banks are not established in rural areas. Hence, the rural people have no access over banking services. But now a days branches of commercial banks are started their banking activities in rural areas realizing its importance for the development of overall national economy.

1.1.2 A Brief Profile of Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operations in 1994 A.D. with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997 A.D. The bank is providing its services through a wide network of 38 branches across the nation and one representative office in New Delhi. All the major branches of the bank are connected through Any Branch Banking System (ABBS), a facility which enables a customer to do banking transactions from any of the branches irrespective of their having accounts in other branch.

The Bank is associated with Smart Choice Technology (SCT) to provide ATM services for its customers. EBL Debit Card can be accessed a more than 55 ATMs over 250 points of sales across the nation. The bank is also managing the SCT ATM at Tribhuvan International Airport for the convenience of the customers and the travelers, the first and the only bank in Nepal to place ATM outlet at the Airport.

EBL is playing a pivotal role in facilitating remittance to and from across the globe. Being the first Nepalese bank to open a representative office in New Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National bank and remit their savings economically through banking channels to Nepal. The bank has a Drafts Drawing Arrangement with 175 branches of PNB all over India.

With an aim to help Nepalese citizens working abroad, the bank has entered into agreements with banks and finance companies in different countries, which enables quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U.K.

The bank recognizes the value of offering a complete range of services. It is pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rentals), Home Equity Loan, Car Loan, Loan Against Shares, Loan Against Life Insurance Policies and Loan for Professionals.

1.1.3 A Brief Profile of Nepal Bangladesh Bank Limited (NBBL)

Nepal Bangladesh Bank (NB Bank) is the joint venture bank with our neighboring SAARC country, Bangladesh. It was established on 6th June 1994 A.D with an authorized capital of Rs.240million & paid up capital of Rs.60million. It is joint venture with IFIC (International Finance Investment & Commerce Bank Ltd). NB Bank started its banking operation through a single office that was situated at putalisadak, Kathmandu. But at present bank has been able to provide banking services from all together 19 branches and in a near future it will be extended.

NB Bank has been able to maintain a lead in the primary banking activities, loans and deposits. NB Bank is an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Product such as NB Saving Account, Employee Saving Account, Saving Plus Account ,16th Anniversary Saving Account and the most popular Saving Account for female which is known as Grihini Bachat . NB Bank recently presents the scheme of 100 Days, 200 Days, 300 Days Fixed Deposit with attractive interest rate. NB Bank try to cover the people of all economic group. So that it try to present the product which is favorable for all kind of people.

The bank is associated with Smart Choice Technology (SCT) to provide ATM facilities for its customers. NB Banks have 20 ATMs all over the nation and it is going to be increased in near future. The bank is also managing the ATM at Bhaktapur Cancer Hospital for the convenience of customers, patient and the visitors. The bank provides ABBS services from its all branches and it also provide the service of mobile and internet banking. Other financial institutions in the country have been following its lead by introducing similar products and services. Therefore, NBBL stands for the innovation that brings about in this country to help the customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under the credit standing with foreign correspondent banks, the bank believes, it obviously lead the banking sector of Nepal.

Nepal Bangladesh Bank Limited holds of a vision to become a "Bank for Everyone" by providing premium products and services to the customer, thus ensuring attractive and substantial returns to the stakeholders of the Bank. The Bank's mission is to become preferred provider of quality financial services in the country. The Bank always strives positioning itself in the hearts and minds of the customers. The Bank has always given due importance in harmonious relations amongst staff at all levels. There is also a registered authorized staff union in the Bank. The management and staff union are working closely in achieving the common goal of becoming the Bank for Everyone.

1.1.4 A Brief Profile of NABIL Bank Limited (NABIL)

Nabil Bank Limited, the first foreign joint venture bank of Nepal with Arab Bank International, started operations in July 1984 A.D. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society.

Pursuing its objective, Nabil provides a full range of commercial banking services through its 43 branches across the country and over 170 reputed correspondent banks across the globe. The bank has 29 ATM locations inside Kathmandu valley and 26 locations outside valley.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while

doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern and state-of-art technology which includes ATMs, credit cards, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system.

Today, Nabil Bank is in a unique position in the banking industry of Nepal. As the nation's first joint venture bank it has an unmatched 27 years of operational experience, giving it unparalleled insight into the market, risks, opportunities and customer needs. In conjunction to this, the bank today surges ahead in meeting its Mission to be the "Bank of First Choice" for all its stakeholders.

Nabil wants to be an actively participating 'good corporate citizen' in all the communities that the bank works in. And finally, the bank wants its high performing staff and the best people looking to build a career in banking to make Nabil Bank their first choice. The journey is hard and filled with challenges, but it is equally fulfilling and with a multitude of opportunities. To achieve this mission, the bank believes in delivering excellence to its stakeholders in an array of avenues, not just one parameter like profitability or market-share. The Bank has always given due importance in maintaining harmonious relations amongst staff at all levels. There is also a registered authorized staff union in the Bank.

The management and staff union are working closely in achieving the common goal of becoming the Bank of the first choice.

1.2 Focus of the Study

This study will focus on the trade off between liquidity and profitability of the three joint venture banks namely, Everest Bank Limited, Nepal Bangladesh Bank Limited and NABIL Bank Limited, from the period of 2006/07 to 2010/11. In this study, attempts will be made to get knowledge about the relationship between liquidity and profitability, operational efficiency of the management, efficient use of total assets by the management etc. by identifying the strengths and weakness of the three respective banks. For the purpose of the study, evaluation of the bank is made with respect to liquidity and profitability ratios.

1.3 Statement of the Problem

Due to the economic recession in the nation, there has been lower investment in the agriculture, manufacturing, industrial and finance sector which has caused lower growth of gross domestic product and hence foreign trade deficit is increasing day by day. Joint Venture Banks are also facing this economic chaos and difficulties in extending their loan and advances towards the profitable sectors. Because of economic recession, only few entrepreneurs are able to survive and others, who are less competitive, are backing out from the industry. In this situation, banks invest their surplus funds in non-risky portfolios like treasury bills, or government securities, which yield lower rate of return in comparison to credit to be in safer side.

Banking sector supports the economic growth of the country. Bank can also be termed as “an intermediary” which bridges the gap between the savers of the fund and the user of the funds. Banks are the custodians and distributors of liquid capital, which is lifeblood of commercial and industrial activities. According to Kent, "A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure.”

Liquidity is a business firm's ability to repay its short-term debts and obligations on time. Short-term usually means one year or less. It is also known as marketability. According to the principle of liquidity, banks should invest their funds in such sectors, where investment can be converted into cash easily and quickly without remarkable loss on their value. Therefore, banks must maintain liquidity to refund the deposit, when accountholders withdraw their deposits.

Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Liquidity and profitability management is an important function of any business because it is the determinant of whether the entity will be in operation in the foreseeable future or not. Liquidity management is even more crucial as the lifeline of banking itself is money. For a bank, liquidity means having sufficient funds to meet regulatory, contractual and relationship obligations when required and at a reasonable cost to the bank. However, more than enough liquidity is also harmful and thus invites profitability risk. Thus, proper liquidity and profitability management ensures that all of a bank's lending commitments are met. Assessing a liquidity position can be challenging. An adequate liquidity position for one bank

may not be sufficient for another. Therefore the liquidity and profitability are crucial for smooth operation of the bank. We cannot imagine profitability without liquidity; also, there is no growth in liquidity without profitability. So liquidity and profitability are correlated to each other.

In response to the economic liberalization policy of the government, establishment of private and Joint Venture Banks is continued. The tendency to concentrate these banks only in urban areas has raised certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where ninety percent of the population depends upon agriculture. These commercial banks are reluctant to extend their operation in rural areas. But these banks are inclined to pay fines rather than directing their resources to such less profitable sector. This problem remains to be solved.

This study, basically focus its attention to reveal the struggle and success achieved by the Joint Venture Banks. Commercial banks main motive is to make profit by providing services to the customers. In Nepal, the profitability rate, operating expenses, dividend distribution among the shareholders etc have been found inconsistent. There must be some reasons behind such differences in performance. The problem of the study refers to the liquidity and profitability analysis of Joint Venture Banks.

In this study, attempts have also been made to sort out the answers to the following questions:

1. How efficiently Joint Venture Banks are managing their liquidity?
2. To what extent these banks have been able to raise their profitability?
3. Do they manage and utilize their assets efficiently?
4. Does the overall liquidity and profitability position indicate any special strength and weakness of these Joint Venture Banks?
5. Why the focus of joint venture banks is mainly in Central and Urban areas only?
6. How far the joint venture banks have contributed in the economic development of the country?

1.4 Objectives of the Study

A study is conducted and report is prepared with certain objectives keeping in mind. In the absence of specific objective, the study loss its value. The general purpose of the study is to discuss, examine and evaluate the tradeoff between liquidity and profitability position of the

concerned Joint Venture Banks in Nepal. Thus, this study has been conducted to achieve the following objectives:

1. To explore and examine the relationship between liquidity and profitability of Everest Bank Limited, Nepal Bangladesh Bank Limited, Nabil Arab Bank Limited .
2. To determine the operational efficiency of the management of the banks under study.
3. To evaluate assets utilization of EBL, NBBL, NAIBL.
4. To examine the link between total deposit and net profit of the banks.

1.5 Significance of the Study

The study of the analysis of liquidity and profitability position of joint venture banks in Nepal plays vital role in the managerial decision. Every organization has to analyze its financial performance in the every step of its operation, promotion, and expansion. There should be an appropriate equilibrium between the earning and non-earning assets. Commercial banks are always guided by the objective of profitability. All financial decisions of commercial banks are for the betterment of shareholder's wealth. There should be an effective system of funds allocation in order to safeguard the banks from the danger of illiquidity. An appropriate level must be achieved between them. The study ponders to find out whether commercial banks are alert or not in this regard.

This study will be helpful to enhance the financial performance of concern organization. This study will be usable and valuable for academicians, students, teachers and practitioners in the field of accounting and finance. This study enlightens the shareholders, financial agencies, stock exchange, stock trader, customers, depositors and debtors who can objectively identify the better banks to deal with.

Thus, this study analyses and states to maintain balance between principalities of liquidity and profitability. This study will be a helpful tool for the bank also in analyzing its practices on trade off between liquidity and profitability.

1.6 Limitations of the Study

In the context of Nepal, problem of reliable data is the major problem for research study. There is considerable place for arguing about its accuracy and reliability. Every study has

limitations due to different factors of institutions, time-period taken, reliability of statistical data, tools and variances. The following limitations are pointed out in this study of trade off between liquidity and profitability position of Joint Venture Banks:

1. The study analyzes only the relationship between liquidity and profitability of the selected joint venture banks and hence it does not cover the other aspects of the banks.
2. The study focuses only three joint venture banks viz Nabil, Nepal Bangladesh and Everest banks. So, the findings of this study can't be generalized to all banks.
3. This study is conducted on the basis of secondary data. Therefore, the study has inherent limitation of the secondary data.
4. This study covers the analysis of only five years data from FY 2006/07 to 2010/11; hence, the conclusion drawn confirms to the above periods only.
5. The ratios & tools that are going to be used in the study may vary due to different definition of terms given by different author.
6. In this study time & financial constraints is shown.
7. This study only based on Joint Venture Banks.

1.7 Organization of the Study

The study on trade off between liquidity and profitability of Joint Venture Banks has been divided into five chapters viz. Introduction, Review of Literature, Research Methodology, Presentation, and Analysis of Data and Summary, Conclusion and Recommendation.

Chapter-I Introduction

The introduction chapter deals with the general background and the subject matter of the study. It consists of introduction of research study, which explains the focus of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter – II Review of Literature

In the second chapter, the relevant and pertinent literature and various studies have been reviewed. The review has been made in terms of the theoretical background of banking principles that are relevant to this research work.

Chapter – III Research Methodology

The third chapter briefly explains about the research methodology, which has been used to evaluate the liquidity and profitability position of banks under consideration. This chapter consists of research design, sample and population, sources of data, and statistical and financial tools and techniques to measure the liquidity and profitability position of Joint Venture Banks.

Chapter – IV Presentation and Analysis of Data

In the fourth chapter, the data required for the study has been presented, analyzed and interpreted by using various tools and techniques of financial management and statistics to present the result relating to the study.

Chapter – V Summary, Conclusion and Recommendations

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to draw out a conclusion of the study and attempts to offer various suggestions and recommendations for the improvement of the future performance of the banks under review.

Finally, bibliography and appendices are also included at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

The review of literature is a very important aspect of the research. This chapter highlights upon the existing literature. For this, several books, dissertation, reports, handouts and articles published in journals and newspapers are reviewed.

2.1 Theoretical Review

2.1.1 Concept of Liquidity

"Liquidity is the status and part of the assets which can be used to meet the obligation. Liquidity can be viewed in terms of liquidity stored in the balance sheet and in terms of liquidity available through purchased funds. The degree of liquidity depends upon the relationship between cash assets plus those assets which can be quickly turned into cash and the liability awaiting payment. Generally, the definition of liquidity can't be found in the same way, in the countries of whole world. Because, it is known, as much as the development of the monetary sector take place or the use of monetary devices increases, so much the definition of it goes wider. Bhandari, (2003), "Liquidity means the whole money or stock of money."

According to D. W. Pearce, "Availability of cash, and of assets readily convertible into Cash, to meet immediate obligations, this means, process, time and cost of conversion of liquid assets should be little".

As per Manning Decay, "An asset is completely liquid, if its owner can count with absolute certainty on turning it into cash at a very short notice and without loss". This means, the asset should be easily converted into cash at a short notice without any loss of assets.

Shrestha, (2061), "Liquidity management is the part of risk management framework of the financial services industry, which concerns all financial institutions whether they are commercial banks or development banks or finance companies or other financial institutions."

Pandey, (2000), "Liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a ratio between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should

ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity will result in a poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's fund will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity."

The liquidity position of bank is very important to maintain the public faith upon banks. People deposit their precious assets and funds into bank with the faith that banks repay it with guarantee as agreed terms and conditions. So, bank must refund the public deposit on demand or on expiry of predetermined time period. When a bank fails to repay deposited money on time as per their demand, it tends to the loss of public faith upon banks. Then account holders rush into bank to withdraw their money deposited.

Lack of adequate liquidity is often one of the first signs that a bank is in serious financial trouble. Due to this bank usually begins to lose deposits. This erodes its supply of cash and forces the bank to dispose in more liquid assets. In this situation, other bank becomes more increasingly reluctant to lend the troubled bank any funds without additional security or a high rate of interest. This will further reduce the earnings of the bank and threatens it with failure.

Liquidity management is much more important than we may realize, because a bank can be closed if it cannot raise enough liquidity even though technically it may be still solvent. Many banks assume that liquid funds can be borrowed virtually without limiting any time they needed. Therefore, they notice little need to store liquidity in the form of easily marketed, stable-price assets. The enormous cash shortages experienced in recent years by banks make clear that liquidity needs cannot be ignored.

Singh, (2062), "Liquidity is an important principle of bank lending. According to the principle of liquidity, banks should invest their funds in such sectors, where investment can be converted into cash easily and quickly without remarkable loss on their value. Banks should invest majority of their funds in government securities and first class securities, which possess sufficient liquidity."

There are certain securities such as central, state and local government bonds, which are easily saleable without affecting their market prices. The shares and debentures of ordinary firms are not easily marketable. So, the banks should make investments in government securities and shares and debentures of reputed joint stock companies. This is the basic principle of liquidity.

Liquidity is the availability of cash at the time when needed at a reasonable cost. One of the most important tasks faced by the management of any bank is ensuring adequate liquidity. A bank is considered to be well liquidity maintaining bank if it has ready access to immediately spend able funds at reasonable cost precisely at the time when those funds are needed. This suggests that a well liquidity maintaining bank either has the right amount of immediately spend able funds on hand when they are required or can quickly raise liquid funds by borrowing or by selling assets.

The liquidity position of a firm would be satisfactory if it is able to meet its current obligations when they become due. A Firm can be said to have the ability to meet its short-term liabilities if it has sufficiently liquid funds to pay the interest on its short-maturing debt usually within a year as well as to repay the principal. This ability is reflected in the liquidity ratios of a firm. The liquidity ratios are particularly useful in credit analysis by banks and other suppliers for short-term loans.

2.1.2 Importance of Liquidity

A bank can't be run without liquidity. So, that the Nepal Rastra Bank from time to time changes the legal provision about the liquidity. The compulsion about the commercial banks should keep the cash in their various funds shows the importance of liquidity. The commercial banks and financial institutions should maintain the balance of cash fund in required quantity as per the law and the NRB. The importance of liquidity is considered very sensitive because if it can't maintain the liquidity, it has to pay fine.

The commercial banks and financial institutions should keep the stock of liquid assets in the ratio of their deposit liability, as determined by the NRB. The commercial banks and the financial institutions should keep the fund correctly to repay the liability of total deposit. If a commercial bank or a financial institution does not keep the stock of liquid property as per

the law and policy of the central bank, then there is a provision to fine them. So, there is no dispute that liquidity is the most important thing for a bank.

People deposit their savings into bank to safeguard them, earn interest and get back whenever they need. Therefore, banks must maintain liquidity to refund the deposit, when accountholders withdraw their deposits. Hence, Liquidity is the life-blood for bank, without which a bank cannot survive for long. Banking transactions are more dependent upon the mutual faith between bankers and customers. It is essential to maintain sufficient cash reserve in bank to maintain the public faith. The basic importance of bank liquidity can be presented as follows:

- a) Liquidity is essential for the payment of all sorts of deposits such as current, saving and fixed account of its customers.
- b) Liquidity is important to meet the daily expenses that are spent in the administrative functions.
- c) Liquidity is important to maintain statutory liquidity ratios in banks.
- d) Liquidity is important and inevitable factor to advance loan.
- e) Liquidity is needed to pay dividend to their shareholders.
- f) Liquidity is essential to face the economic rise and fall or in economic crisis.
- g) Liquidity is essential to gain trust from the public including other sectors.
- h) Liquidity is necessary for the efficient and healthy competition among banks.
- i) As a whole liquidity is life blood for the running and existing of the banks.

2.1.3 Criteria for Measuring Liquidity Position of Bank

The bank liquidity is the most important for a bank. If there is less bank liquidity, the bank can't be run. If there is much liquidity, the bank should bear great loss economically. Both high liquidity and low liquidity is not good sign for the bank. The bank should be able to keep the liquidity in balance. This is very difficult task. However, the bank liquidity can be measured by the following criteria:

- a) Deposit investment ratio

Liquidity can be measured by the deposit investment ratio. The depositors deposit the cash in the current, saving and fixed accounts. The bank receives the most liquidity as deposit. The bank invests the capital collected by deposit in various profitable and productive sectors in the form of loan. By earning much profit from it, the bank can get a lot of amount from the

amount of deposit. The bank has the nature of paying lower interest to the depositors and taking higher interest from the place it invested. And the bank doesn't invest all the cash as loan. A part from the deposit invested, the bank also has other cash. Thus, the criteria of liquidity can be found from it.

b) Investment in assets

The criteria of measuring liquidity in bank, depends on the type of asset which the bank has made investment. The bank doesn't waste cash stock received from different source of capital. The bank can invest the money, it possesses in different types of assets. In such condition, the bank has low liquidity because the investment made in such nature of assets need much cash. And the bank gains income very low from such nature of assets. But in contrast to it, if the bank has invested in the share of various companies, the investment in government securities and treasury bills and in the debentures of different business institutions, bank liquidity is abundant. In this way, the investment that the bank has done can be used as the criteria of measuring liquidity.

c) Cash reserve ratio

The cash reserve ratio also can be taken as criteria of measuring bank liquidity. The commercial bank should maintain the cash reserve ratio as fixed by the central bank by opening an account in central bank and also should maintain the statutory liquidity ratio, in its own treasury. It changes from time to time. Thus, bank liquidity can be measured from this also.

d) Profitability

The bank should be able to earn income from the medium of investment because it is a legal person. The objective of the bank is intensified with the concept of gaining profit. The bank should invest its money to gain the profit. The bank can invest in various ways. A great deal of cash is deposited in a bank from different accounts as deposit. The bank invests as loan, the cash fund and the cash collected from various other sources. In addition to it, the bank spreads its investments in various profitable sectors. The bank provides various banking services to its customers. The bank becomes successful if it generates income from such all investments and functions. But the bank certainly provides little interest to the account holders who deposit the money in the bank. Thus, the liquidity can be guessed from the profit of which a bank has gained.

e) Investment in loan

The bank distributes loans in different sectors. The source of loan investment is important for the various sources of income of the bank. It is an important to know what sort of loan and how much loans the bank has distributed, while the bank distributes the loan. If the bank is intensified with the concept of gaining profit, the bank disburse loan as a long term and mid term basis. If it has paid its attention to the safety, it invests in short term loan. If great deal of amount is invested in long term and mid term, then there is lower liquidity. Thus, loan investment also be the criteria of measuring the liquidity.

f) Structure of bank

The organizational structure of a bank also gives speculation of bank liquidity. If the structure of the bank is in single nature, there is higher liquidity in the bank. If the banks have many branches, liquidity is lower because the liquidity remains scattered in different branches and sub-branches. In this way, the bank liquidity can be found out from the organizational structure of a bank.

g) Position of business

If the business environment of the bank is good, then liquidity remains low. On the contrary, if the business environment is not good then liquidity remains high in the bank. In this way, the position of the business can be the medium to guess the criteria of measuring liquidity.

2.1.4 Concept of Profitability

"Profitability is the measurement of efficiency. Profitability also indicates public acceptance of the product and shows that the firm can produce competitively. Moreover, profit provides the money for repaying the debt incurred to finance the project and the resources for the internal financing expansion. The profitability of a firm can be measured by its profitability ratios. In other words, the profitability ratios are designed to provide answers to questions such as (i) Is the profit earned by the firm adequate? (ii) What rate of return does it represent? (iii) What is the rate of profit for various division and segments of the firm? (iv) What is the earning per share? (v) What amount was paid in dividends? (vi) What is the rate of return to equity-holders? and so on."

Khan and Jain, (1992), Profitability ratio indicates the degree of success in achieving desired profit. It furnishes answers to how efficiently the bank is being managed. Although

profitability ratio mainly studies the earning power of the bank, it depicts almost entire performance of the bank.

Saunders & Cornett, (2004), Business environment is full of risks and uncertainties. To grasp the global changing technologies, to stay in the market uncertainties, to replace acquire assets and enhancing business scope etc. required a profit margin.

Mishkin, (1998), Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.

Mishkin, (1998), Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends.

Panday, (2000), "Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits."

Commercial banks are established to earn profit. Without profit, they cannot survive for the long period of time. All the stakeholders of the bank put pressure on the bank management to earn profit for their own sake. Without profit these stakeholders cannot be satisfied and without them bank cannot exist. So, bank wants to invest all of its funds in those sectors which ensure higher return. Further more, there is always positive attitude of depositors and other lenders towards the highly profitable banks. As a result, bank can acquire funds easily and can spend in their transactions.

Profit is a reward for risk taking. Profit for a bank is the difference between borrowing rate of interest and lending rate of interest. Generally, an interest rate is the composite of liquidity

risk premium, default risk premium, inflation risk premium and risk free rate. Investments on liquid assets are free from liquidity risk and default risk. So, interest rates or rate of return from such investment are comparatively very low. Banks want to invest on those assets which ensure higher return rate. However, they cannot escape from the investment on liquid assets. So, appropriate investment portfolio which ensures both liquidity and profitability is essential.

2.1.5 Principle of Profitability

Commercial banks are the profit-oriented business organizations. They are established by issue of shares to general public, who purchase shares to earn profit in terms of dividends. Therefore, profitability should be the cardinal principle for making investment. According to principle of profitability, banks should invest their funds in such sectors, which ensure higher rate of return. Banks must earn sufficient profits to meet all expenses for daily administration, expansion and growth as well as payment of dividend to shareholders. That is why; it should invest in profitable sectors, which assure a fair and stable return on the funds invested.

Banks can either invest their funds in securities or advance loans to productive sectors to generate profit. The earning capacity of securities and share depends upon the interest rate, the dividend rate, and the tax benefits they carry. It is largely, the government securities that carry the exemption of taxes. The bank should invest more in such tax-free securities. But banks should not invest in the share of such new companies. New companies also carry tax exemption. This is because shares of new companies are not considered as safe investments.

In loan sectors, bank should grant loans to those sectors generating high rate of return. Still they cannot neglect the risk and liquidity factors. Higher return involves higher risk, thus, there should be a proper check and balance between risk and return for investment. Bank should select the loan proposal bearing high return with proportionately low risk.

2.1.6 Trade-off between Liquidity and Profitability

For a bank, the words liquidity and profitability come again and again. There is no possibility of profitability without liquidity. Also, there is no growth in liquidity without profitability. These are complement to each other. But these two also are opponent to each other. If there is high liquidity in bank, the bank can't gain profit. Because, most part of the liquidity is

reserved in the bank, it doesn't give profit to the bank. The bank can't invest the amount. It is not possible to hope profitability without investment.

For profitability, the bank has to keep liquidity low in the bank, invest the cash fund, it can gain profit after some time but it can invite a great accident to the bank. If there is no maintenance of liquidity in the bank as a balance form, the bank can't carry out its banking transaction. Different obstructions may come to banking transaction, not only the bank losses, its business, but also destroys the reputation of bank. Eventually, it becomes matter of great loss for the investors, creditors and the nation who invested the amount on it.

Of all fundamental and sound lending principles of the investment policy, the principality of liquidity and profitability are very much crucial. In the lack of liquidity the bank can't give payment to the depositors in the time of their demand, and can't pay the loan to the creditors. The bank's daily work can't be run. The bank, under the law can't keep and maintain the capital funds. Not only this much, the bank also becomes unable to face any economic rise and fall occurring in coming days. So, to keep liquidity is very important. If high liquidity is harmful to the bank, liquidity crisis too is malignant to the bank. To be free from both of these two conditions, the bank should be able to maintain balance of liquidity.

Similarly, the bank should keep in balance the principle of profitability. If there remains high liquidity in the bank, the bank will be successful in its goal. The commercial banks always are intensified with the concept of gaining profit. So, they are eager to invest in the profitable sectors. To gain much profit, they should be able to flow long term loan, short term and mid term loan which brings profit to the bank.

"The bank always follows the principle of profitability more carefully. Sometimes, the bank, with the view point of gaining profit and safety, invests in the sectors that are considered less important, from which it can earn much profit or loss. This is a matter which depends on time and situation. It is very difficult for the bank to discharge both of these function together, to keep liquidity and earn profit are compulsory for the bank. But if the bank without carrying both these principles moves forward, it becomes unsuccessful in its goal. The bank should not forget these two principles all the time. It should be able to maintain these principles in balance all the time. The bank should maintain understanding between these two principles.

If the bank attempts to run its transactions ignoring these two principles, certainly the bank will bear an economic disaster. Hence, the bank gives emphasis upon the necessity of internal co-ordination between liquidity and profitability due to following reasons:

- a) Liquidity is necessary to make payment of all sorts of deposits.
- b) Liquidity is necessary to save the bank from the economic rise and fall.
- c) The bank should not keep high (excess) liquidity to gain profit.
- d) In the lack of profitability, the bank can't be operated.
- e) Also, if there is liquidity crisis in the bank, it can't be run.
- f) Also, the bank should earn much profit to pay the shareholders, creditors and the employees of the bank.
- g) Also, for competition and exist in the market, the bank should gain profit.
- h) The bank can't manage its transactions without gaining profit.
- i) Liquidity is important for the extending of new branches.
- j) Efficient level of liquidity is necessary for the gaining of public faith.

With the above mentioned reasons, (Bhandari, 2003) the liquidity and the profitability have their peculiar importance in the bank. So, from business point of view, it is necessary to maintain balance, between principalities of liquidity and profitability."

The importance of liquidity and profitability in a bank is paramount. They are recognized as two wheels of a cart because in the absence of any of them, the bank cannot forgo ahead. However, there is a practice of treating them as antagonistic to each other because liquidity is maintained at the cost of profitability and vice-versa.

Similarly, a bank always puts in efforts to maximize its profitability. This is so because its shareholders expect fair rate of return, depositors expect better rate of interest and employees expect handsome salary and bonus. If the bank cannot satisfy either of these parties then the success of the bank is always questioned. And existents of bank in a competitive market is uncertain.

2.2 Review of Related Studies

Various studies have been conducted in different aspect of commercial banks and Joint Venture Banks. The conclusion of the previous studies on the different aspects of Joint Venture Banks is relevant to this study. Thus, the studies of previous articles, journals and thesis are reviewed in this regard.

Review of Journal and Articles

Kennon.J, (2005), Bizfinance.about.com, in the article "*The Importance of Liquidity and Liquid Assets; A Lesson from September 11th*" After the September 11th terrorist attacks, the American financial system was shut down for four days. With stock exchanges closed, investors learnt the importance of liquidity after they temporarily lost access to cash and investments. As we reflect on the tragedy, investors should remember one important lesson: at least some portion of our net worth should be liquid.

The term liquidity refers to how fast something can be turned into cold, hard cash. Liquid assets are those that are thought to be turned to cash immediately. These are the most liquid assets (meaning we can immediately spend them), but the least safe. On the other end of the scale are assets such as real estate, which can take months or even years to convert into cash.

In most cases, depositing the money in a bank is considered extremely safe. America's banks have not be frozen since 1933 when Roosevelt declared a "banking holiday" which lasted three days, and it seems relatively unlikely such an event would happen again in the near future. Money market funds can cause problems because, we may lose access to our cash if the financial markets shut down (which is precisely what happened to many investors on September 11th). For emergency purposes, we should not consider stocks, bonds, mutual funds, government treasuries, annuities, or insurance policies as liquid assets. In addition to normal market fluctuations, these investments may become completely illiquid if the exchanges are closed.

Even if we don't own any investments, we still need a cash reserve. Once Manhattan was shut down, many businesses could not operate. In some cases, employees were not paid for several weeks, leaving them without a source of income. What if there was a tragedy or extraordinary event in our area and we suddenly couldn't report to work? Taking the scenario one step further, what if such an event caused our company to run into tough financial times and it either closed its doors or started lying off most of the work force? How would we

survive? If we had realized the importance of liquidity, we would be able to stay afloat for at least several months using our cash reserves.

The article entitled “ *The Efficiency of Liquidity Monitoring and Forecasting Framework the Nepal Rastra Bank in the Context of Liquidity Management in the Nepalese Banking and Financial System*” by Shrestha in 2007 has stated liquidity management as the part of risk management framework of financial services industry. He found taking high liquidity risk as well as high credit risk are two main factors that cause banks to fail. Although high liquidity risk alone is not likely to cause banks failures, a liquidity crisis usually signals a need for change. The article concluded proper liquidity management ensures that banks and financial institutions' financial commitments and obligations are met. Maintaining adequate liquidity also helps in avoiding forced sale of assets. The need for bank liquidity stems from seasonal, cyclical trend and short-term irregular movements in deposits and loans. The different sources available to meet these liquidity needs were identified and grouped into asset and liability liquidity sources. The treasury manager must consider the purpose of the liquidity need, the length of time for which funds are needed, the access to liability markets, the cost and the characteristics of various liquidity sources and interest rate forecasts.

Walt, J. (2008) in the article “*Sound Practices for Managing Liquidity in Banking Organizations*” attributed *Liquidity, or the ability to fund increases in assets and meet obligations as they come due, is crucial to the ongoing viability of any banking organization. Sound liquidity management can reduce the probability of serious problems. Indeed, the importance of liquidity transcends the individual bank, since a liquidity shortfall at a single institution can have system wide repercussions. For this reason, the analysis of liquidity requires bank management not only to measure the liquidity position of the bank on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.*

Dr Khatiwoda.Y, *Annapurna Post (2010)*, the governor of Nepal Rastra Bank accused commercial banks, "At present situation Nepalese banking sector is facing liquidity problem due to their own causes" such as high investment on unproductive sector i.e. real state, involve in competition to increase market share and in bonus distribution" he adds "directors

of commercial banks creates big problem but the situation is in controllable, NRB is going to make policy to solve it".

Review of Related Studies

A study done by Mr. Gumanju (2004), entitled with "*A Comparative Study of Financial Performance Analysis of HBL and NIB*".

Objectives:

- Examining & evaluating the financial performance of HBL & NIB.

Major Findings:

- The analysis of leverage ratio shows that HBL has higher ability in utilizing debts than NIB in terms of total debt to total equity, total assets and total capital ratio,
- The liquidity as well as profitability position of NIB is better than HBL in terms of ROA,
- The EPS and DPS of HBL are better than NIB,
- The correlation co-efficient showed the positive relationship between total debt and net profit of HBL and NIB, etc.

Recommendation:

- Mr. Gumanju recommended that both the banks should maintain standard current ratio.
- Both the banks should enhance their capacity by effective organization structure & controlling capital structure.

A research carried out by Mr. Paudel(2006) entitled with "*Liquidity Management of Commercial Banks in Nepal with reference to Bank of Kathmandu (BOK), Nepal Industrial and Commercial Bank (NIC), HBL, EBL and NABIL*",

Objectives:

- Examining & analyzing the liquidity position and its management in Nepalese commercial banks.

Major Findings:

- The liquidity position of NIC is strong, EBL is poor and BOK, HBL and NABIL are moderate in terms of cash and bank balance to current deposit ratio,
- The liquidity position of EBL, NIC and BOK are proportionately better than NABIL and HBL in terms of short-term investment to total investment ratio,

- The efficient deposit utilization in investment of NABIL is good, BOK is poor and NIC, HBL and EBL are moderate and so on.

Recommendation:

- Mr. Paudel recommended that all the commercial banks should maintain the strong liquidity position.
- For liquidity commercial bank should focus on short term deposit as well as current deposit.

Mrs. Dhungana (2006) made the thesis report entitled "*Liquidity Position of Commercial Banks of Nepal With reference to BOK, HBL, Standard Chartered Bank (SCB), Nepal Bank Limited (NBL), NIB and EBL*"

Objectives:

- Examining the relationship between liquidity and profitability.

Major Findings:

- The banks under study are maintaining very high level of liquidity than the rate imposed by the NRB,
- Saving and fixed deposits are in higher proportion as the major sources of funds for each bank,
- There is positive correlation between change in deposit and change in total liquid fund of the banks and so on.

Recommendation:

- Mrs. Dhungana recommended that performance of stated banks are quite satisfactory and they should find new investment sector for long lasting profitability

Mr. Shrestha (2007) done a research entitled with "*Performance Measurement of Joint Venture Banks in Nepal with reference to EBL, SCB, Nepal State Bank of India (NSBI) and NABIL*".

Objectives:

- The main objective of the study was to access the investment policy and strategies followed by the banks

Major Findings:

- SCB has the highest mean current ratio whereas, NABIL has the poorest,

- NABIL has maintained highest cash and bank balance to total deposit ratio among all the banks under study,
- The condition of the entire banks are moderate to maintain investment to total deposit ratio,
- EBL has the highest earning power capacity than the other banks under study etc.

Recommendations:

- He recommended that all the banks under study should collect more amounts of deposits through variety of deposit schemes and facilities.
- He also suggested EBL to keep wide vision in investment.
- Lastly, he strongly recommended all the banks to invest its more funds in shares and debentures.

Mr. Tamang (2009) conducted Master's thesis entitled "*Financial Performance Analysis of Commercial Banks of Nepal with reference to NIB and NABIL*",

Objectives:

- The main objective of the study is to measure the operating efficiency, stability and profitability of NIB and NABIL along with their financial strength and weakness.

Major Findings:

- The liquidity position of NIB is better than that of NABIL,
- NABIL has utilized more debt than NIB,
- The profitability ratio of NABIL is better than the of NIB in terms of ROA,
- The EPS and DPS of NABIL are better than that of NIB,
- There is positive correlation between total debt and net profit for both the banks etc.

Recommendations:

- On the basis of his findings, he recommended that both the banks should review their overall capital structure and investment portfolio to make better mix in capital structure.
- Moreover, he also suggested that both the banks should also give due consideration in improving their liquidity position.

Mrs. Karki (2010) made thesis report entitled with "*Liquidity and Profitability Position of Commercial Banks of Nepal*" which included SCBL, NABIL, HBL, EBL; NIBL.

Objectives:

- Main objective of the research is to examine the liquidity and profitability position of the commercial banks of Nepal.

Major Findings:

- The liquid asset of SCBL is highest among the above mentioned banks.
- In terms of cash reserve ratio liquidity position of NIBL is most satisfactory.
- The average net profit made by SCBL is highest. In terms of net profit margin SCBL is most efficient.

Recommendations:

- According to the thesis it would be better if EBL increases the liquid assets considering the short-term liabilities requirement.
- NABIL and EBL should be careful enough while maintaining CRR and thus should not jeopardize the credibility of the bank.
- Lastly she suggests that banks should reengineer the portfolio of its investment to achieve higher higher profit.

2.3 Research Gap

The relationship between liquidity and profitability of joint ventures banks in Nepal has been conducted by few researchers. However the comparative study between EBL NBBL and NABIL has not been carried out till date. The research has taken into consideration the Liquidity and Profitability Position of JVB's of Nepal which included SCBL, NABIL, NBBL, EBL; NIBL on the basis of research conducted by Lok Bahadur Karki of Shanker Dev Campus. In global context various related research between banks of different nations has been taken into consideration.

The previous research is only limited to financial and statistical analysis of commercial banks of Nepal. The previous researchers has been incomplete to show the impact of profitability over the maintained liquidity it has only explained the trend that has been established between the liquidity and profitability, it has become incomplete to explain the impact over the operational efficiency and the specific problems faced by the banks due to conflicting impact of profitability over liquidity. Therefore, this research is broader and is aimed to analyze the impact of profitability and liquidity by analyzing their trends and using hypothesis to draw the effective conclusion.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

In the modern world, research has become an indispensable in all spheres of human activity. Research is essentially systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws. It is really a method of critically thinking by defining and redefining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making deductions and making conclusions to determine whether they fit the formulated hypothesis.

Research is a systematic method to find out the solution to a problem where as research methodology refers to various sequential steps to be adopted by a research in studying a problem with certain objectives in view. In other words, research methodology describes the methods, techniques and process applied in the entire aspects of the study. It is a sequential procedure and method to be adopted in a systematic study.

It has been clear that research methodology is a systematic and scientific method of identifying problems, collecting facts and information tabulating and recording the data, setting hypothesis, analyzing the facts and researching certain conclusion with a view of findings answer to the problems. In fact, research methodology is one of the crucial aspects of the thesis writing. So the presented chapters outline the entire research methodology used and followed in this study.

This study is basically focused on liquidity and profitability on the selected period to know its impact on the national economy as a whole. The financial performance of Banks can be evaluated on the basis of meeting of their objectives and fulfilling of their function.

3.2 Research Design

Basically, Research design refers to the conceptual structure within which the research is conducted. It is the plan, structure and strategy of investigation conceived so as to obtain a number of research questions and to control variance. It is essential for the whole study and helps in finding out deficiency in expectation of the starting of work. The study is based on two types of research design i.e. descriptive research design & analytical research design. The descriptive research design describe about the pattern of the Nepalese investor, structure of the company etc. The analytical research design makes analysis of collected information & data as well as make a critical evaluation of its.

The research design is the outline of a plan to test the hypothesis and should include all the procedures that follow. It is said that the formidable problem that follows in task of defining the research is the preparation of design of the research project, popularly known as research design. Basically, the research design has two purposes. The first purpose is to answer the research question or test the research hypothesis. The second purpose of research design is to control variance.

Joshi, (2008)," A research design is a plan for the collection and analysis of data. It presents a series of guideposts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the research process. These steps include the selection of a research problem, presentation of the problem, formulation of hypothesis, conceptual clarity, Methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) Selection of problem (ii) Methodology (iii) Data gathering (iv) Data analysis and (v) Report writing."

Kothari, (1999),"Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximum information with minimum expenditure of effort, time and money. Research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis, keeping in view the objective of the research and the availability of the staff, time and money. Research design, in fact, has a great

bearing on the reliability of the results arrived at and as such constitutes the firm foundation of the entire edifice of the research work."

The main objective of this study is to analyze and evaluate the relationship between liquidity and profitability position of the selected Joint Venture Banks and provide suggestions on the basis of the evaluation. To accomplish this objective, analytical and descriptive research design has been adopted. It tries to describe and analyze all these facts that have been collected for the purpose of the study.

In this research, the trade off between liquidity and profitability positions of the Joint Venture Banks is analyzed. Mostly the secondary data have been used for the research study. The data are collected from the various websites, annual reports of the respective banks, personal visits opinion survey etc. Hence, the research design is made by collecting the information from the different source and data have been tabulated and analyzed by using various financial and statistical tools. The financial tools include liquidity and profitability ratios. Similarly, the statistical tools include average or mean, standard deviation, coefficient of variation, trend analysis. This study tries to make comparison and establishes relationship between two or more variables. At the end, summary, conclusion and recommendations are set for the purpose of the study.

3.3 Population and Sample

The term "population" used in statistics denotes the aggregate from which the sample is to be taken and the term "sample" is that part of the population, which we select for the purpose of investigation. Population is also known as universe. Sample refers to a part chosen from the population. Thus, in statistics, population means whole & sample means the part of the whole.

Since, this study is focused on the Joint Venture Banks, thus, here the population encompasses all the 6 Joint Venture Banks functioning its operation within the country. Since, study of whole population may not be possible due to several factors, thus, sampling becomes essential to draw inference for the population. So, among 6 Joint Venture Banks, three Joint Venture Banks have been selected by using convenient sampling methods

3.4 Sources of Data

Analysis of data means to study the tabulated material in order to determine inherent facts or meanings. It involves breaking down the existing complex factors into simpler parts and putting them together in new arrangements for interpretation. A plan of analysis should be prepared in advance before the actual collection of the material. A preliminary analysis plan for investigation process requires detailed information about similarities, differences, trends, outstanding factors etc.

Basically, this research includes secondary data and such data have been collected from the respective banks. Moreover, several books, journals, articles and magazines and various websites have also been consider.

3.5 Data Analysis Tools

The collected data will be analyzed with the help of different financial and statistical tools.

Financial Tools

Financial tools are those which are used for the analysis and interpretation of financial data.

Here in this study, the financial tools will include:

- (A) Liquidity Ratio
- (B) Profitability Ratio

(A) Liquidity Ratio

Bank is an institution which deals with money. Cash is the most liquid fund and it is considered as the defense of banks. The bank should maintain certain amount of cash in order to meet its cash requirements of the depositors. The structure of cash will be in the form of cash in it vault and the cash kept in other banks as well as in central bank of the country. The central bank, NRB also directs all the commercial banks to maintain certain percentage of cash and bank balance for the purpose of maintenance of liquidity.

(a) Current Ratio

The current ratio is a measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for every one rupee of current liability. Current ratio establishes a relationship between current assets and current liabilities. The current ratio is found out by dividing current assets by current liabilities. Current assets include cash and those assets

which can be converted into cash within a year, such as cash and bank balance, money at call and short notice, and other assets. Whereas, all obligations maturing within a year are included in current liabilities. Current liabilities include bills payable and other liabilities.

As a conventional rule, a current ratio of 2 to 1 or more is considered satisfactory. This rule is based on the logic that in a worse situation even if the value of current assets becomes half, the firm will be able to meet its obligation. The current ratio represents a margin of safety for creditors. The higher the current ratio, the greater the margin of safety; the larger the amount of current assets in relation to current liabilities, the more the firm's ability to meet its current obligations.

Pandey, (2000), "However, an arbitrary standard of 2 to 1 should not be followed blindly. Firms with less than 2 to 1 current ratio may be doing well, while firms with 2 to 1 or even higher current ratios may be struggling to meet their obligations. This is so because the current ratio is a test of quantity, not quality. The current ratio measures only 'total rupees' worth of current assets and 'total rupees' worth of current liabilities. It does not measure the quality of assets. Liabilities are not subject to any fall in value; they have to be paid. But current assets can decline in value. If the firm's current assets consist of doubtful and slow-paying debtors or slow-moving and obsolete stock of goods, then the firm's ability to pay bills is impaired; its short-term solvency is threatened. Thus, too much reliance should not be placed on the current ratio; further investigations about the quality of the items of current assets are necessary. However, the current ratio is crude-and quick measure of the firm's liquidity."

(b) Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are debtors and bills receivables and marketable securities. Inventories are considered to be less liquid. Inventories normally require some time for realizing into cash; their value also has a tendency to fluctuate. Thus, quick asset equals current assets minus pre-paid and inventories. The quick ratio is found out by dividing quick assets by current liabilities.

Generally, a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition. Although quick ratio is a more penetrating test of liquidity than the current ratio, yet it should be used carefully. A quick ratio of 1 to 1 more does not necessarily imply sound liquid position. It should be remembered that all debtors may not be liquid, and cash may be immediately needed to pay operating expenses. It should also be noted that inventories are not absolutely non-liquid. To a measurable extent, inventories are available to meet current obligations. Thus, a company with a high value of quick ratio can suffer from the shortage of funds if it has slow-paying, doubtful and long-duration outstanding debtors. On the other hand, a company with a low value of quick ratio may really be prospering and paying its current obligation in time if it has been turning over its inventories efficiently. Nevertheless, the quick ratio remains an important index of the firm's liquidity.

(c) Cash and Bank Balance to Current Deposit Ratio

This ratio is designed to measure the bank's ability to meet the immediate obligations. It is employed to measure whether cash and bank balance is sufficient to cover its current calls margin including deposits. Current deposit must be paid when depositors demand their deposit. The higher ratio indicates the bank is in high liquid and the lower ratio indicates the bank is in less liquid. This ratio is computed as, dividing cash and bank balance by current deposit.

(d) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio measures the availability of bank highly liquid funds to meet its unanticipated calls on different types of deposits. This ratio indicates the ability of banks funds to cover their saving, fixed call and other deposit. This ratio also access that what proportion of cash and bank balance remains with the bank. This ratio is computed as, dividing cash and bank balance by total deposit.

(B) Profitability Ratio

Each and every firm has been established to earn profit by fulfilling human needs and wants. Profit is a kind of fuel for business enterprise or firms. Without profit no firm can survive. Therefore, profit is essential for a firm's survival and future growth. Hence, management of the firm is interested in the operating efficiency of the firm. Profitability ratio is one of the important indicators of operating efficiency. One of the focus of commercial banks is to be

enough profitable so as to meet a variety of objectives like achieving a desirable liquidity position, meet fixed interest obligation, overcome the future contingencies, explicit hidden investment opportunities, encourage branch expansion etc. Profitability ratio, as a matter of fact, is the best indicator of overall efficiency of the bank.

(a) Net Profit Ratio

Net profit ratio shows the relationship between net profit and operating income. The purpose of net profit is to show the overall profitability i.e., efficiency of the bank. Higher the net profit ratio, the better it is considered. This ratio is also useful in making inter-firm comparison of the profitability. Net profit ratio is computed as, dividing net profit by operating income.

Where,

Operating Income = Interest Income + commission and Discount + Exchange Gain

(b) Return on Equity (ROE)

Equity shareholders are the real owners of a company and are the risk-bearers and are entitled to total profits earned by the company after preference dividend. Return on equity relates the profitability of a company to equity shareholders' equity. ROE measures the company's profitability in terms of return to equity shareholders. It is calculated as, dividing net profit after tax by shareholder's equity.

Where, Shareholder's Equity = Share Capital + Reserve & Surplus

(c) Return on Total Assets (ROA)

Return on total assets or simply return on assets, measures the productivity of the assets. It is measured in terms of relationship between net profit and assets. Munankarmi, (2000) "This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in the business thereby, indicating effective use of the resources available and vice-versa." ROA is calculated as, net profit after tax divided by total assets.

Sharma (1998), total assets include "both fixed and current assets. However, assets that is not productive like goodwill should be excluded. It is needless to add that fictitious assets and accumulated loss shown on the assets side are also excluded in this case. Here investments are included as they are productive, in the sense that they are capable of earning interest."

(d) Return on Capital Employed (ROCE)

Return on capital employed is an overall profitability ratio. This ratio establishes relationship between profit earned and capital employed ROCE indicates the overall return on the capital employed in the business. It points out whether the capital employed is being profitably and efficiently used in the business or not. Higher the ratio better is the profit earning capacity of the enterprise. ROCE is calculated as, net profit after tax divided by capital employed.

Where, Capital Employed = Shareholder's Equity + Debenture & Bonds + Loan & Borrowings

(e) Earning Per Share (EPS)

Earning per share is the ratio, which is calculated to assess the availability of total profits per share. It is a very important ratio for equity shareholders to assess the return on equity share. More the EPS better is the performance of the company.

The increasing tendency of EPS enhances the possibility of more dividend and bonus shares. EPS only shows how much 'theoretically' belongs to the ordinary shareholders. It does not reveal how much is paid to the owners as dividends nor how much of the earnings are retained in the business. It is calculated as, net profit after preference dividend divided by number of equity shares.

(f) Dividend Per Share (DPS)

Dividend per share measures the dividend distributed among the equity shareholders on a per share basis. The objective of computing this ratio is to know what an equity shareholder by way of dividend exactly receives. There are two components of this ratio; Amount of earnings, distributed as dividend and, number of equity shares. DPS should not be taken at its face value as the increased DPS may not be reliable measure of the profitability as the equity base may have increased due to increased retention without any change in the number of outstanding shares. It is calculated as, dividend paid to shareholders divided by number of equity shares.

(g) Earning Yield Ratio

Earning yield ratio shows the relationship between earning per share and market value of share. Wagle and Dahal, (2008) "In general, higher ratio tells the story of success and lower ratio signifies the insufficiency of return on investment made on shares as compared to

market price." It is calculated as, Earning Per share (EPS) divided by Market Per Share (MPS).

Statistical Tools

Statistical tools are the measures or the instruments to analyze the collected data from the different sources. In statistics, there are numerous statistical tools to analyze the data of various natures. In this study, the following statistical tools have been used to analyze the data:

(a) Average (\bar{X})

The term 'average' is referred as a measure of central tendency. The average is the measure, which condense a huge data into a single value, which represents the entire data and generally located at the central part. There are different types of averages but only arithmetic mean is used for this study. Arithmetic mean is the most popular and frequently used measure of central tendency. It is the sum of all observations to the number of observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observations.

(b) Standard Deviation

Elhance and B.M. Agarwal, (2000) "Standard deviation is the square root of the arithmetic average of the squares of the deviations measured from the mean. Thus, in the calculation of standard deviation, first the arithmetic average is calculated and the deviation of various items from the arithmetic average are squared. The squared deviations are totaled and the sum is divided by the number of items. The square root of the resulting figure is the standard deviation of the series." The standard deviation is conventionally represented by the Greek letter sigma (σ).

(c) Coefficient of Variation (C.V.)

Coefficient of variation is computed for comparing the variability of two distributions. A distribution with smaller C.V. is said to be more homogeneous or uniform or less variable than the other, and the series with greater C.V. is said to be more heterogeneous or more variable than the other.

(d) Trend Analysis

A general tendency of the time series data to increase or decrease or stagnate during a long period of time is called the secular trend or simple trend. Trend is the general, smooth, long-term average tendency. Gupta,(2001), "It is not necessary that the increase or decline should be in the same direction throughout the given period. It may be possible that different tendencies of increase, decrease or stability are observed in different sections of time. However, the overall tendency may be upward, downward or stable. Such tendencies are the result of the forces which are more or less constant for a long time or which change very gradually and continuously over a long period of time. Such as the change in the population, tastes, habits and customs of the people in a society, and so on. They operate in an evolutionary manner and do not reflect sudden changes."

The study of the data over a long period of time enables to have a general idea about the pattern of the behavior of the phenomenon under consideration. By isolating trend values from the given time series, the short-term and irregular movements can be studied. Moreover, trend analysis enables to compare two or more time series over different periods of time and draws important conclusions about them. Least square is one of the best ways of obtaining the trend values. The principle of least squares provide an analytical or mathematical device to obtain an objective fit to the trend of the given time series.

The equation of a straight line is $Y = a + bX$, where a and b are constants

(e) Coefficient of correlation (r)

The correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves methods and techniques used for studying and measuring the extent of the relationship between the two variables.

Correlation analysis enables to have an idea about the degree and direction of the relationship between the two variables under study. However, it fails to reflect upon the cause and effect relationship between the variables. The coefficient of correlation, denoted by r.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter entitled “Presentation and Analysis of Data” is a crucial chapter and has been organized to present the result and analyze them accordingly. The basic objective of this study is to observe and analyze the trade off between liquidity and profitability position of Everest Bank Limited (EBL), Nepal Bangladesh Bank Limited (NBBL) and NABIL Bank Limited (NABIL). The presentation and analysis of data in this study have been done through the help of financial statements of the year from FY 2006/07 to 2010/11.

This chapter provides a mechanism for meeting the basic objectives as stated earlier in the first chapter of the study. The study has followed the methodology as described in the third chapter in order to attain the objectives. Data collected for the analysis of trade off between liquidity and profitability position of EBL, NBBL and NABIL are presented in the form of tabular and diagrammatic form and are analyzed with the help of widely accepted tools of financial ratios. But it is notable that all types of financial ratios are not studied under this chapter. Only those ratios are calculated, analyzed and presented which are very significant to pasteurize the study. Moreover, statistical tools such as, average mean, standard deviation, co-efficient of variation, trend analysis, correlation co-efficient have been used to analyze the data.

A bank basically deals with two conflicting goals namely, liquidity and profitability. Managers of bank can obtain the trade off between liquidity and profitability by following the method of cash planning, managing cash flow, managing optimum cash level and investing idle funds in shift able assets. Since, liquidity and profitability both are important aspect for the bank, thus, bank can't ignore any of them, In fact, the bank should go side by side with both the concept.

A balance should always be maintained between liquidity and profitability hence, the bank should follow certain principles of liquidity and profitability.

4.2 Liquidity Ratio

(a) Current Ratio

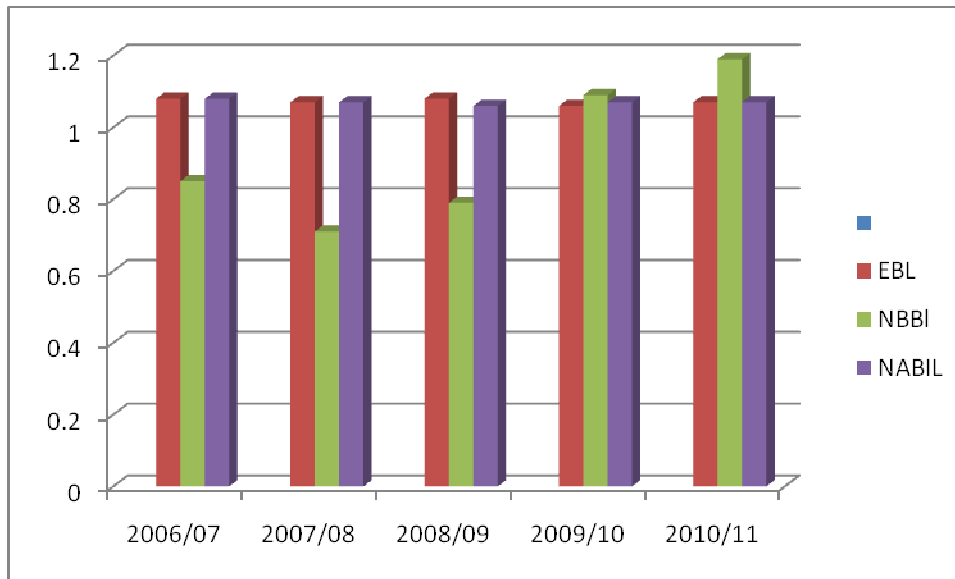
Current ratio establishes the relationship between current assets and current liabilities. It is computed as under:

Table 4.1
Current Ratios of JVB

Year	Current Assets	Current Liabilities	Ratio
Everest Bank Limited (EBL)			
2006/07	15,799,758,240	14,696,476,386	1.08
2007/08	21,262,476,848	19,931,059,034	1.07
2008/09	26,788,830,404	24,928,105,304	1.08
2009/10	36,489,691,203	34,413,223,599	1.06
2010/11	40,919,666,320	38,323,622,856	1.07
Average Mean			1.072
Standard Deviation			0.75
Co-efficient of Variation			69.96%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	11,331,492,646	13,271,864,820	0.85
2007/08	7,001,816,392	9,878,711,293	0.71
2008/09	9,206,192,377	11,582,474,889	0.79
2009/10	11,825,353,718	10,852,310,137	1.09
2010/11	12,375,715,235	10,397,469,864	1.19
Average Mean			0.93
Standard Deviation			0.18
Co-efficient of Variation			19.35%
NABIL Bank Limited (NABIL)			
2006/07	22,010,884,931	20,454,976,661	1.08
2007/08	26,966,497,784	25,196,343,293	1.07
2008/09	36,534,720,151	34,455,560,160	1.06
2009/10	43,206,408,518	40,437,156,867	1.07
2010/11	51,298,245,300	47,945,499,768	1.07
Average Mean			1.07
Standard Deviation			0.63
Co-efficient of Variation			58.87%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.1
Current Ratios of JVB



The table 4.1, shows that the current ratio of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 1.08times, 1.07times, 1.08times, 1.06times and 1.07 times respectively. Its average current ratio is 1.072, Standard deviation is 0.75 and Co-efficient of variation is 69.96%.The current ratio of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 0.85 times, 0.71 times, 0.79 times, 1.09 times and 1.19 times respectively. Its average current ratio is 0.93, Standard deviation is 0.18 and co-efficient of variation is 19.35% Similarly, and The current ratio of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 1.08 times, 1.07 times, 1.06 times, 1.07 times and 1.07 times respectively. Its average current ratio is 1.07, standard deviation is 0.63 and co-efficient of variation is 58.87%.

Similarly, the figure 4.1 also shows that the higher average current ratio of EBL shows that it has good liquidity within the bank in terms of current ratio as compared to NBBL and NABIL. On the other hand, the lower C.V. of NBBL shows that it is more consistent in maintaining the funds within the bank than EBL and NABIL.

b) Quick Ratio

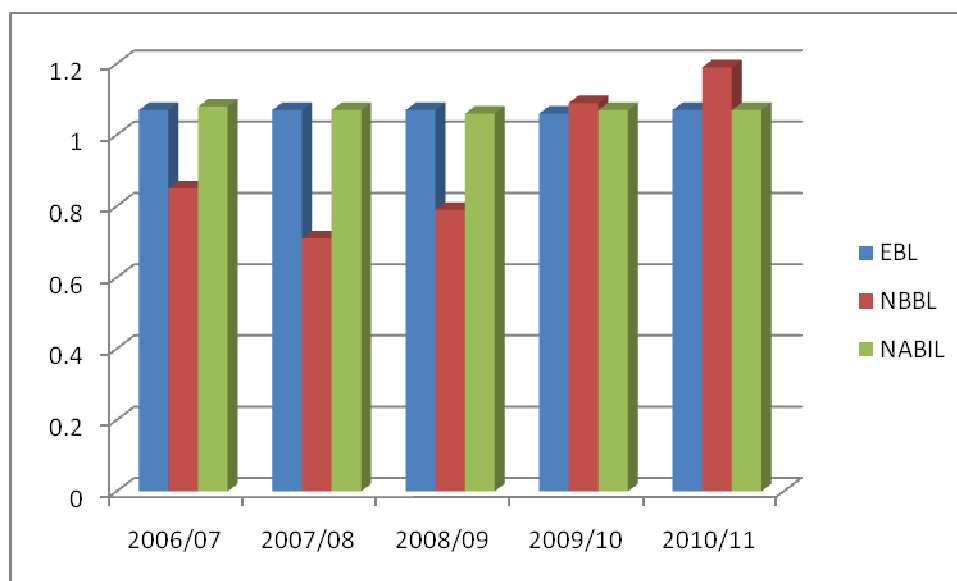
Quick ratio establishes the relationship between quick assets and current liabilities. It is computed as under:

Table 4.2
Quick Ratio of JVB

Year	Quick Assets	Current Liabilities	Ratio
Everest Bank Limited (EBL)			
2006/07	15,790,312,391	14,696,476,386	1.07
2007/08	21,253,753,340	19,931,059,034	1.07
2008/09	26,780,733,011	24,928,105,304	1.07
2009/10	36,474,122,772	34,413,223,599	1.06
2010/11	40,902,453,464	38,323,622,856	1.07
Average Mean			1.07
Standard Deviation			0.45
Co-efficient of Variation			41.80%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	11,328,864,899	13,271,864,820	0.85
2007/08	6,997,499,657	9,878,711,293	0.71
2008/09	9,198,032,539	11,582,474,889	0.79
2009/10	11,818,547,380	10,852,310,137	1.09
2010/11	12,369,864,705	10,397,469,864	1.19
Average Mean			0.93
Standard Deviation			0.18
Co-efficient of Variation			19.35%
NABIL Bank Limited (NABIL)			
2006/07	21,992,124,781	20,454,976,661	1.08
2007/08	26,942,065,286	25,196,343,293	1.07
2008/09	36,511,559,848	34,455,560,160	1.06
2009/10	43,171,107,837	40,437,156,867	1.07
2010/11	51,243,178,616	47,945,499,768	1.07
Average Mean			1.07
Standard Deviation			0.63
Co-efficient of Variation			58.87%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.2
Quick Ratio of JVB



From the computation it can be seen that the quick ratio of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 1.07 times, 1.07 times, 1.07 times, 1.06 times and 1.07 times respectively. Its average quick ratio is 1.07, Standard deviation is 0.45 and Co-efficient of variation is 41.80%. The quick ratio of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 0.85 times, 0.71 times, 0.79 times, 1.09 times and 1.19 times respectively. Its average quick ratio is 0.93, Standard deviation is 0.18 and co-efficient of variation is 19.35%. The quick ratio of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 1.08 times, 1.07 times, 1.06 times, 1.07 times and 1.07 times respectively. Its average current ratio is 1.07, standard deviation is 0.63 and co-efficient of variation is 58.87%.

The figure 4.2 also indicates that higher average quick ratio of EBL & NABIL shows that both have good liquidity within the bank in terms of quick ratio as compared to NBBL. On the other hand, the lower C.V. of NBBL shows that it is more consistent in maintaining the funds within the bank than EBL and NABIL.

(c) Cash and Bank Balance to Current Deposit Ratio

Cash and bank balance to current deposit ratio establishes the relationship between cash & bank balance and current deposits. It is computed as under

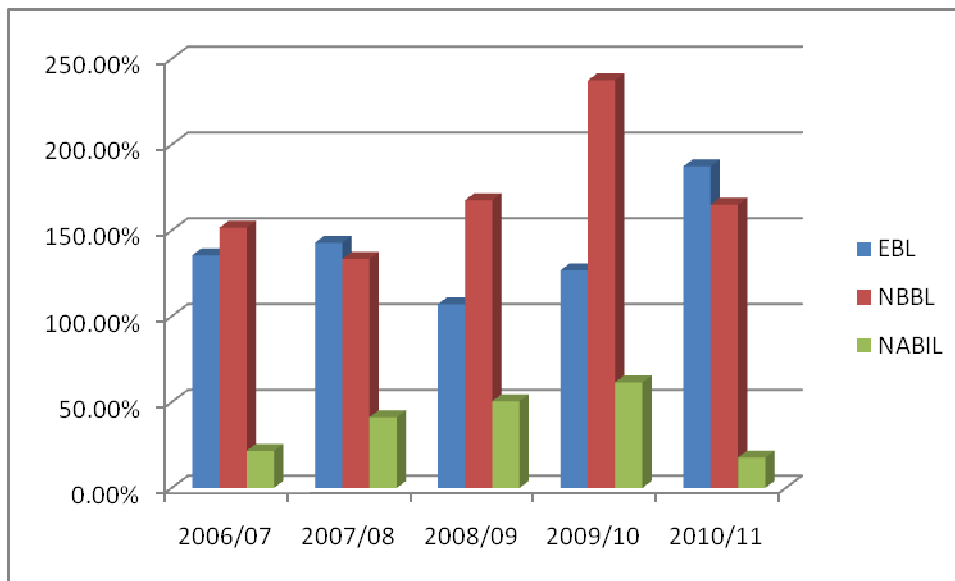
Table 4.3**Cash and Bank Balance to Current Deposit Ratio**

Year	Cash and Bank Balance	Current Deposit	Ratio
Everest Bank Limited (EBL)			
2006/07	1,552,967,494	1,145,794,695	135.54%
2007/08	2,391,420,594	1,673,983,140	142.86%
2008/09	2,667,971,830	2,492,346,111	107.05%
2009/10	6,164,371,163	4,859,946,758	126.84%
2010/11	7,818,815,003	4,173,319,653	187.35%
Average Mean			139.93%
Standard Deviation			26.57
Co-efficient of Variation			18.99%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	1,694,684,884	1,117,821,558	151.61%
2007/08	1,164,053,123	872,535,302	133.41%
2008/09	1,922,848,348	1,147,053,451	167.63%
2009/10	2,571,417,193	1,082,919,320	237.45%
2010/11	2,058,298,795	1,247,576,919	164.98%
Average Mean			171.02%
Standard Deviation			46.10
Co-efficient of Variation			26.96%
NABIL Bank Limited (NABIL)			
2006/07	630,238,588	2,910,589,772	21.65%
2007/08	1,399,825,851	3,395,239,772	41.23%
2008/09	2,671,141,055	5,284,368,064	50.55%
2009/10	3,372,512,471	5,480,533,468	61.54%
2010/11	1,400,097,804	7,904,619,852	17.71%
Average Mean			38.54%
Standard Deviation			16.73
Co-efficient of Variation			43.41%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.3

Cash and Bank Balance to Current Deposit Ratio



The relation between cash and bank balance to current deposit ratio of three Joint Venture Banks can be seen from the table no 4.3. The cash and bank balance to current deposit ratio of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 135.54%, 142.86%, 107.05%, 126.84% and 187.35% respectively. Its average cash & bank to current deposit ratio is 139.93%, Standard deviation is 26.57 and Co-efficient of variation is 18.99%. The cash & bank balance to current of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 151.61%, 133.41%, 167.63%, 237.45% and 164.98% respectively. Its average cash & bank balance to current deposit ratio is 171.02%, Standard deviation is 46.10 and co-efficient of variation is 26.96%. The cash & bank balance to current deposit ratio of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 21.65%, 41.23%, 50.55%, 61.54% and 17.71% respectively. Its average cash & bank balance to current deposit ratio is 38.54%, standard deviation is 16.73 and co-efficient of variation is 43.41%.

Similarly the figure 4.3 depicts that higher average cash & bank balance to current deposit ratio of NBBL shows that it is comparatively in better position to pay the customers current deposits as compared to EBL and NABIL. However, the lower C.V. of EBL reveals that it is more consistent in maintaining the cash and bank balance to pay the current deposits of the customers.

(d) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio establishes the relationship between cash & bank balance and total deposits. It is computed as under:

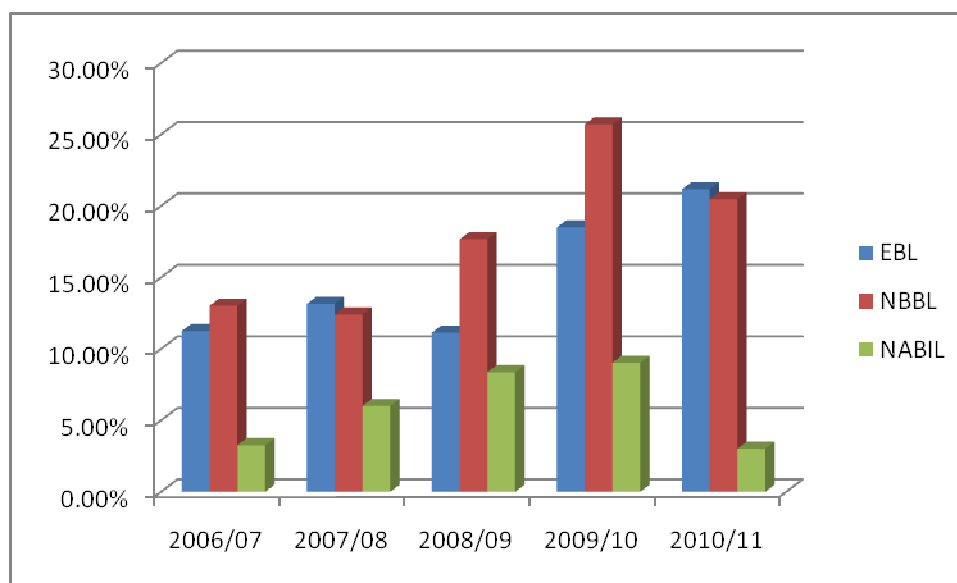
Table 4.4
Cash and Bank Balance to Total Deposit Ratio

Year	Cash and Bank Balance	Total Deposit	Ratio
Everest Bank Limited (EBL)			
2006/07	1,552,967,494	13,802,444,988	11.25%
2007/08	2,391,420,594	18,186,253,541	13.15%
2008/09	2,667,971,830	23,976,298,535	11.13%
2009/10	6,164,371,163	33,322,946,246	18.50%
2010/11	7,818,815,003	36,932,310,008	21.17%
Average Mean			15.04%
Standard Deviation			4.07
Co-efficient of Variation			27.06%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	1,694,684,884	13,015,136,113	13.02%
2007/08	1,164,053,123	9,385,949,552	12.40%
2008/09	1,922,848,348	10,883,652,582	17.67%
2009/10	2,571,417,193	9,997,697,430	25.72%
2010/11	2,058,298,795	10,052,182,377	20.47%
Average Mean			17.86%
Standard Deviation			4.94
Co-efficient of Variation			27.66%
NABIL Bank Limited (NABIL)			
2006/07	630,238,588	19,347,399,440	3.26%
2007/08	1,399,825,851	23,342,285,327	6.00%
2008/09	2,671,141,055	31,915,047,467	8.37%
2009/10	3,372,512,471	37,348,255,840	9.03%
2010/11	1,400,097,804	46,410,700,628	3.02%
Average Mean			5.94%
Standard Deviation			2.50
Co-efficient of Variation			42.08%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.4

Cash and Bank Balance to Total Deposit Ratio



The above table 4.4 illustrates the cash and bank balance of different years and its proportion with regards to total deposit. The table shows that the cash & bank balance to total deposit ratio of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 11.25%, 13.15%, 11.13%, 18.50% and 21.17 % respectively. Its average cash & bank balance to total deposit ratio is 15.04%, standard deviation is 4.07 and co-efficient of variation is 27.06%.

The cash & bank balance to total deposit ratio of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 13.02%, 12.40%, 17.67%, 25.72% and 20.47 % respectively. Its average cash & bank balance to total deposit ratio is 17.86%, standard deviation is 4.94 and co-efficient of variation is 27.66%.The cash & bank balance to total deposit ratio of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 3.26%, 6.00%, 8.37%, 9.03% and 3.02 % respectively. Its average cash & bank balance to total deposit ratio is 5.94%, standard deviation is 2.50 and co-efficient of variation is 42.08%.

The figure 4.4 also illustrates that the higher average cash & bank balance to total deposit ratio of NBBL shows that it has been maintaining comparatively high cash and bank balance from the total deposit as compared to EBL and NABIL. However, the lower C.V. of EBL reveals that it is more consistent in maintaining the cash and bank balance from total deposit.

4.3 Profitability Ratio

(a) Net Profit Ratio

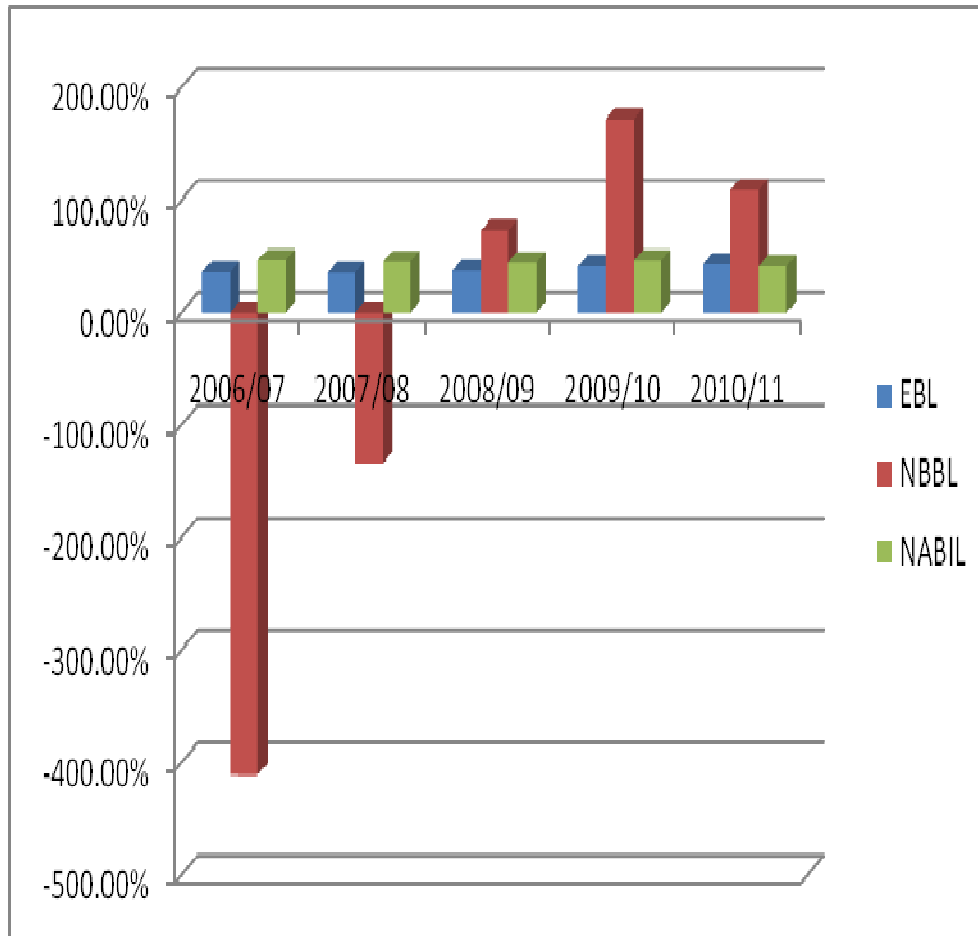
Net profit ratio establishes the relationship between net profit and operating income. It is computed as under:

Table 4.5
Net Profit Ratios of JVB

Year	Net Profit	Operating Income	Ratio
Everest Bank Limited (EBL)			
2006/07	237,290,936	662,153,401	35.84%
2007/08	296,409,281	841,332,298	35.23%
2008/09	451,218,613	1,209,898,087	37.29%
2009/10	638,732,757	1,544,965,598	41.34%
2010/11	831,765,632	1,927,976,053	43.14%
Average Mean			38.57%
Standard Deviation			3.12
Co-efficient of Variation			8.09%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	(1,797,159,374)	437,139,419	-411.12%
2007/08	(1,061,579,502)	793,812,763	-133.73%
2008/09	596,487,029	816,458,570	73.06%
2009/10	2,158,104,141	1,255,351,559	171.91%
2010/11	1,021,380,061	936,972,686	109.01%
Average Mean			-38.17%
Standard Deviation			212.79
Co-efficient of Variation			-557.47%
NABIL Bank Limited (NABIL)			
2006/07	635,262,349	1,359,512,633	46.73%
2007/08	673,959,698	1,480,157,875	45.53%
2008/09	746,468,394	1,670,427,262	44.69%
2009/10	1,031,053,098	2,220,983,026	46.42%
2010/11	1,139,099,399	2,764,088,060	41.21%
Average Mean			44.92%
Standard Deviation			1.98
Co-efficient of Variation			4.42%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.5
Net Profit Ratios of JVB



According to the table 4.5 and figure 4.5, the higher average net profit ratio of NABIL shows that it has been earning high rate of profit continuously in the successive fiscal years as compared to EBL and NBBL. However, the lower C.V. of NBBL reveals that it is more consistent in earning the profit than EBL and NABIL.

(b) Return on Equity (ROE)

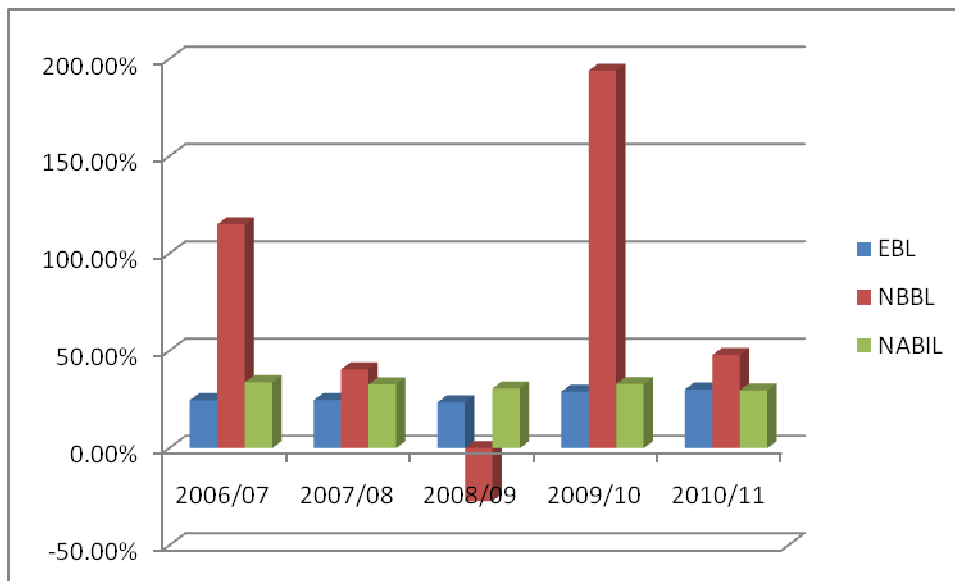
Return on equity establishes the relationship between net profit after tax and shareholder's equity. It is computed as under:

Table 4.6
ROE of EBL, NBBL and NABIL Banks

Year	Net Profit after Tax	Shareholder's Equity	Ratio
Everest Bank Limited (EBL)			
2006/07	237,290,936	962,808,301	24.65%
2007/08	296,409,281	1,201,515,266	24.67%
2008/09	451,218,613	1,921,237,580	23.49%
2009/10	638,732,757	2,203,625,055	28.99%
2010/11	831,765,632	2,759,137,855	30.15%
Average Mean			26.39%
Standard Deviation			2.66
Co-efficient of Variation			10.08%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	(1,797,159,374)	(1,562,583,547)	115.01%
2007/08	(1,061,579,502)	(2,624,163,050)	40.45%
2008/09	596,487,029	(2,191,448,295)	-27.22%
2009/10	2,158,104,141	1,112,242,484	194.03%
2010/11	1,021,380,061	2,133,590,976	47.87%
Average Mean			74.03%
Standard Deviation			75.02
Co-efficient of Variation			101.33%
NABIL Bank Limited (NABIL)			
2006/07	635,262,349	1,874,994,417	33.88%
2007/08	673,959,698	2,057,049,715	32.76%
2008/09	746,468,394	2,437,198,989	30.63%
2009/10	1,031,053,098	3,130,240,637	32.94%
2010/11	1,139,099,399	3,834,754,525	29.70%
Average Mean			31.98%
Standard Deviation			1.56
Co-efficient of Variation			4.88%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.6
ROE of EBL, NBBL and NABIL Banks



The above table 4.6 depicts that the ROE of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 24.65%, 24.67%, 23.49%, 28.99% and 30.15% respectively. Its average ROE is 26.39%, standard deviation is 2.66 and co-efficient of variation is 10.08%. The ROE of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 115.01%, 40.45%, -27.22%, 194.03% and 47.87% respectively. Its average ROE is 74.03%, standard deviation is 75.02 and co-efficient of variation is 101.33%. The ROE of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 33.88%, 32.76%, 30.63%, 32.94% and 29.70% respectively. Its average ROE is 31.98%, standard deviation is 1.56 and co-efficient of variation is 4.88%.

The figure 4.6 also indicates that the higher average ROE of NBBL reveals that NBBL has been efficiently utilizing the owners' investment comparatively better than EBL and NABIL. Moreover, the lower C.V. of NABIL also suggests that it is more consistent in utilizing the owners' investment efficiently.

(c) Return on Assets (ROA)

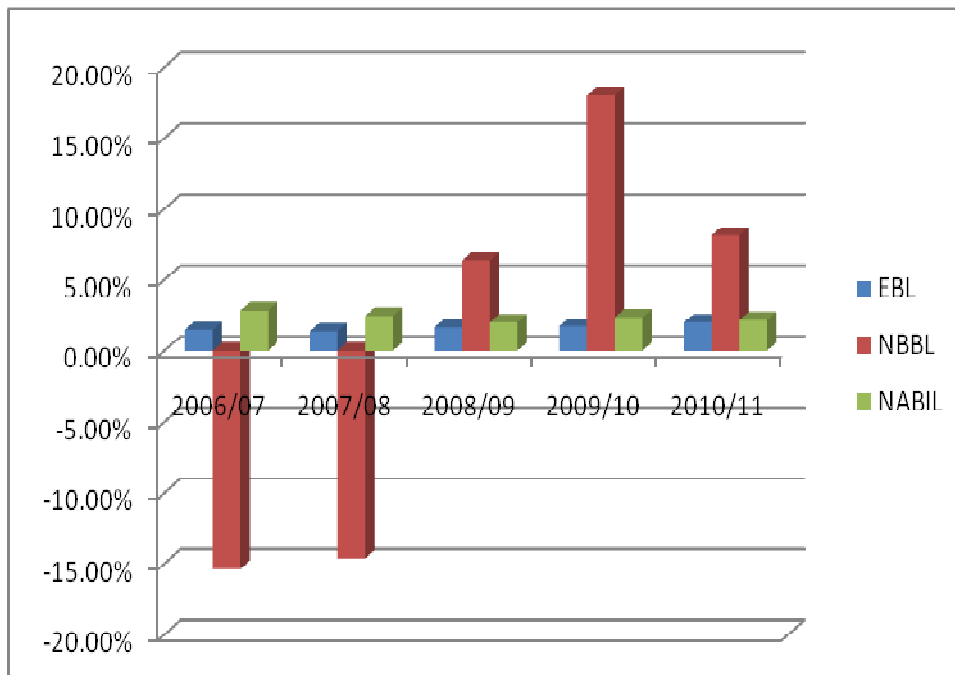
Return on assets establishes the relationship between net profit after interest and total assets. It is computed as under:

Table 4.7
ROA of EBL, NBBL and NABIL Banks

Year	Net Profit after Tax	Total Assets	Ratio
Everest Bank Limited (EBL)			
2006/07	237,290,936	15,959,284,687	1.49%
2007/08	296,409,281	21,432,574,300	1.38%
2008/09	451,218,613	27,149,342,884	1.66%
2009/10	638,732,757	36,916,848,654	1.73%
2010/11	831,765,632	41,382,760,711	2.01%
Average Mean			1.65%
Standard Deviation			0.22
Co-efficient of Variation			13.33%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	(1,797,159,374)	11,709,281,273	-15.35%
2007/08	(1,061,579,502)	7,254,548,243	-14.63%
2008/09	596,487,029	9,391,026,594	6.35%
2009/10	2,158,104,141	11,964,552,621	18.04%
2010/11	1,021,380,061	12,531,042,840	8.15%
Average Mean			0.51%
Standard Deviation			13.27
Co-efficient of Variation			2601.96%
NABIL Bank Limited (NABIL)			
2006/07	635,262,349	22,329,971,078	2.84%
2007/08	673,959,698	27,253,393,008	2.47%
2008/09	746,468,394	37,132,759,149	2.01%
2009/10	1,031,053,098	43,867,397,504	2.35%
2010/11	1,139,099,399	52,150,237,343	2.18%
Average Mean			2.37%
Standard Deviation			0.28
Co-efficient of Variation			11.81%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.7
ROA of EBL, NBBL and NABIL Banks



From the table 4.7, it has been found that the ROA of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 1.49%, 1.38%, 1.66%, 1.73% and 2.01% respectively. Its average ROA is 1.65%, Standard deviation is 0.22 and co-efficient of variation is 13.33%. The ROA of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are -15.35%, -14.63%, 6.35%, 18.04% and 8.15% respectively. Its average ROA is 0.51%, standard deviation is 13.27 and co-efficient of variation is 2601.96%. The ROA of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 2.84%, 2.47%, 2.01%, 2.35% and 2.18% respectively. Its average ROA is 2.37%, standard deviation is 0.28 and co-efficient of variation is 11.81%.

In addition to that, fig 4.7 also illustrates the higher average ROA of NABIL reveals that NABIL has been able to utilize its overall resources in efficient way in comparison with EBL and NBBL. The high ratio also reflects the successes of NABIL's management. However, the lower C.V. of NABIL suggests that NABIL is more consistent in utilizing the overall resources efficiently.

(d) Return on Capital Employed (ROCE)

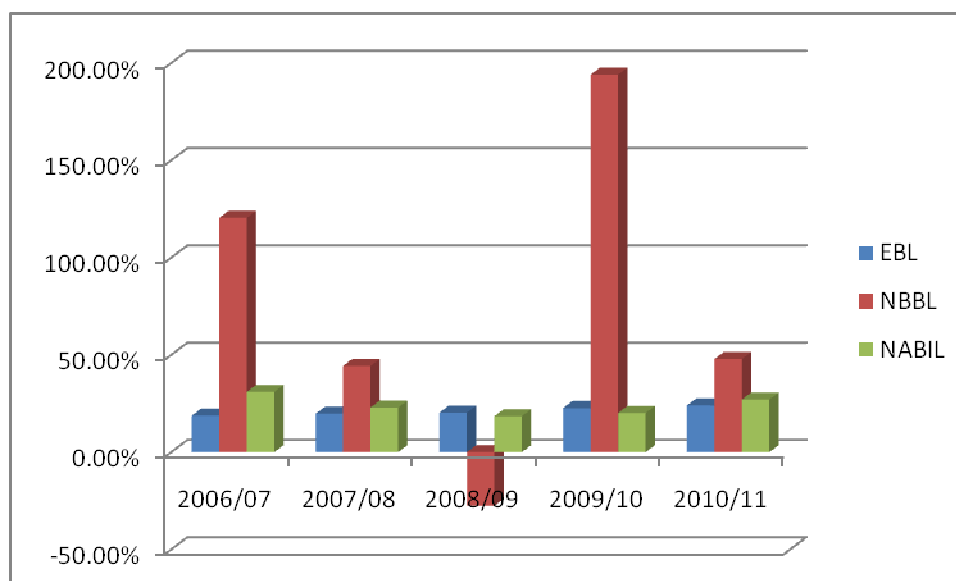
Return on capital employed establishes the relationship between net profit after interest and capital employed. It is computed as under:

Table 4.8
ROCE of EBL, NBBL and NABIL Banks

Year	Net Profit after Tax	Capital Employed	Ratio
Everest Bank Limited (EBL)			
2006/07	237,290,936	1,262,808,301	18.79%
2007/08	296,409,281	1,501,515,266	19.74%
2008/09	451,218,613	2,221,237,580	20.31%
2009/10	638,732,757	2,815,625,055	22.68%
2010/11	831,765,632	3,463,737,855	24.01%
Average Mean			21.11%
Standard Deviation			1.94
Co-efficient of Variation			9.18%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	(1,797,159,374)	(1,491,583,547)	120.48%
2007/08	(1,061,579,502)	(2,394,163,050)	44.34%
2008/09	596,487,029	(2,161,448,295)	-27.59%
2009/10	2,158,104,141	1,112,242,484	194.03%
2010/11	1,021,380,061	2,133,590,976	47.87%
Average Mean			75.83%
Standard Deviation			75.41
Co-efficient of Variation			99.45%
NABIL Bank Limited (NABIL)			
2006/07	635,262,349	2,048,196,127	31.02%
2007/08	673,959,698	2,939,622,215	22.93%
2008/09	746,468,394	4,037,198,989	18.49%
2009/10	1,031,053,098	5,111,545,637	20.17%
2010/11	1,139,099,399	4,209,654,525	27.06%
Average Mean			23.93%
Standard Deviation			4.59
Co-efficient of Variation			19.18%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.8
ROCE of EBL, NBBL and NABIL Banks



From the above computation the ROCE of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 18.79%, 19.74%, 20.31%, 22.68% and 24.01% respectively. Its average ROCE is 21.11%, standard deviation is 1.94 and co-efficient of variation is 9.18%. The ROCE of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 120.48%, 44.34%, -27.59%, 194.03% and 47.87% respectively. Its average ROCE is 75.83%, standard deviation is 75.41 and co-efficient of variation is 99.45%. The ROCE of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are 31.02%, 22.93%, 18.49%, 20.17% and 27.06% respectively. Its average ROCE is 23.93%, standard deviation is 4.59 and co-efficient of variation is 19.18%.

Likewise from the figure 4.8, the higher average ROCE of NBBL reveals that NBBL have been utilizing the available resources supplied by the owners and creditors more efficiently than EBL and NABIL. However, the lower C.V. of EBL suggests that EBL is more consistent in utilizing the available resources.

(e) Earnings Per Share (EPS)

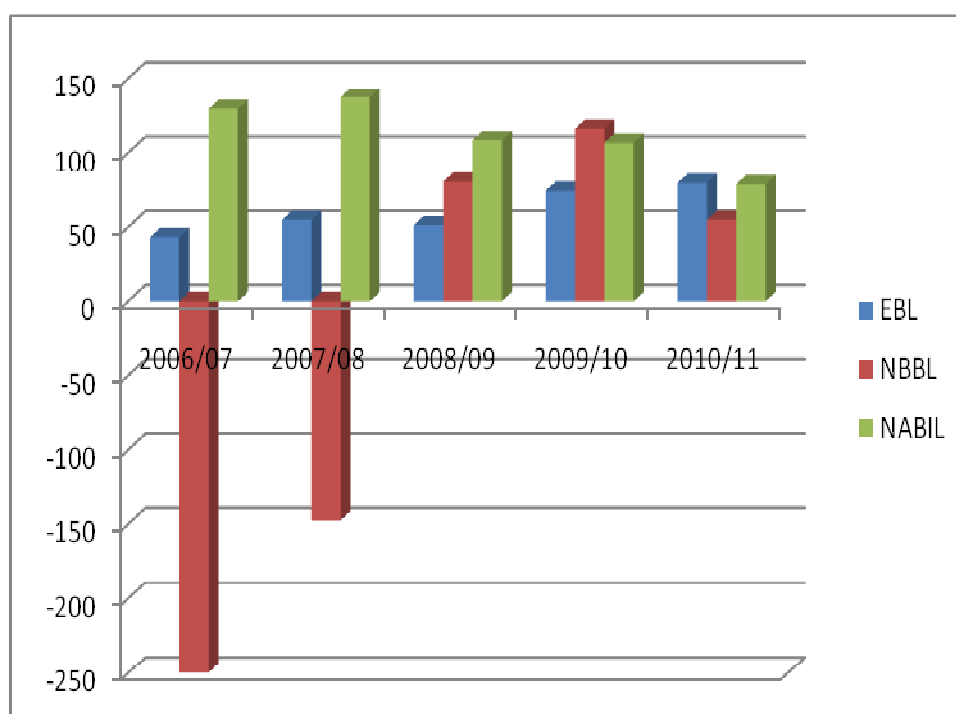
Earning per share establishes the relationship between net profits after preference dividend and number of equity shares. It is computed as under:

Table 4.9
EPS of EBL, NBBL and NABIL Banks

Year	Net Profit after Preference Dividend	No. of Equity Shares	Rs.
Everest Bank Limited (EBL)			
2006/07	224,690,936	5,180,000	43.38
2007/08	283,809,281	5,180,000	54.79
2008/09	427,495,325	8,314,000	51.42
2009/10	622,385,360	8,388,210	74.19
2010/11	817,765,632	10,304,673	79.36
Average Mean			60.63
Standard Deviation			13.79
Co-efficient of Variation			22.74%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	(1,797,159,374)	7,198,520	-249.66
2007/08	(1,061,579,502)	7,198,520	-147.47
2008/09	596,487,029	7,441,260	80.16
2009/10	2,158,104,141	18,603,150	116.01
2010/11	1,021,380,061	18,603,150	54.90
Average Mean			-29.21
Standard Deviation			143.32
Co-efficient of Variation			-490.65%
NABIL Bank Limited (NABIL)			
2006/07	635,262,349	4,916,544	129.21
2007/08	673,959,698	4,916,544	137.08
2008/09	746,468,394	6,892,160	108.31
2009/10	1,031,053,098	9,657,470	106.76
2010/11	1,139,099,399	14,486,205	78.63
Average Mean			112
Standard Deviation			20.39
Co-efficient of Variation			18.21%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.9
EPS of EBL, NBBL and NABIL Banks



The above table 4.9 illustrates that the EPS of EBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are Rs. 43.38, Rs. 54.79, Rs. 51.42, Rs. 74.19 and Rs. 79.36 respectively. Its average EPS is Rs. 60.63, standard deviation is 13.79 and co-efficient of variation is 22.74%. The EPS of NBBL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are Rs. -249.66, Rs. -147.47, Rs. 80.16, Rs. 116.01 and Rs. 54.90 respectively. Its average EPS is Rs. -29.21, standard deviation is 143.32 and co-efficient of variation is -490.67%. The EPS of NABIL in the FY 2006/07, FY 2007/08, FY 2008/09, FY 2009/10, and FY 2010/11 are Rs. 129.21, Rs. 137.08, Rs. 108.31, Rs. 106.76 and Rs. 78.63 respectively. Its average EPS is Rs. 112, standard deviation is 20.39 and co-efficient of variation is 18.21%.

The figure 4.9 also depicts that the higher average EPS of NABIL, which reveals that NABIL's shareholders can get higher amount on every share held than EBL's and NBBL's shareholders. However, the lower C.V. of NBBL suggests that NBBL is more consistent in earning per share than NABIL and EBL.

(f) Dividend per Share (DPS)

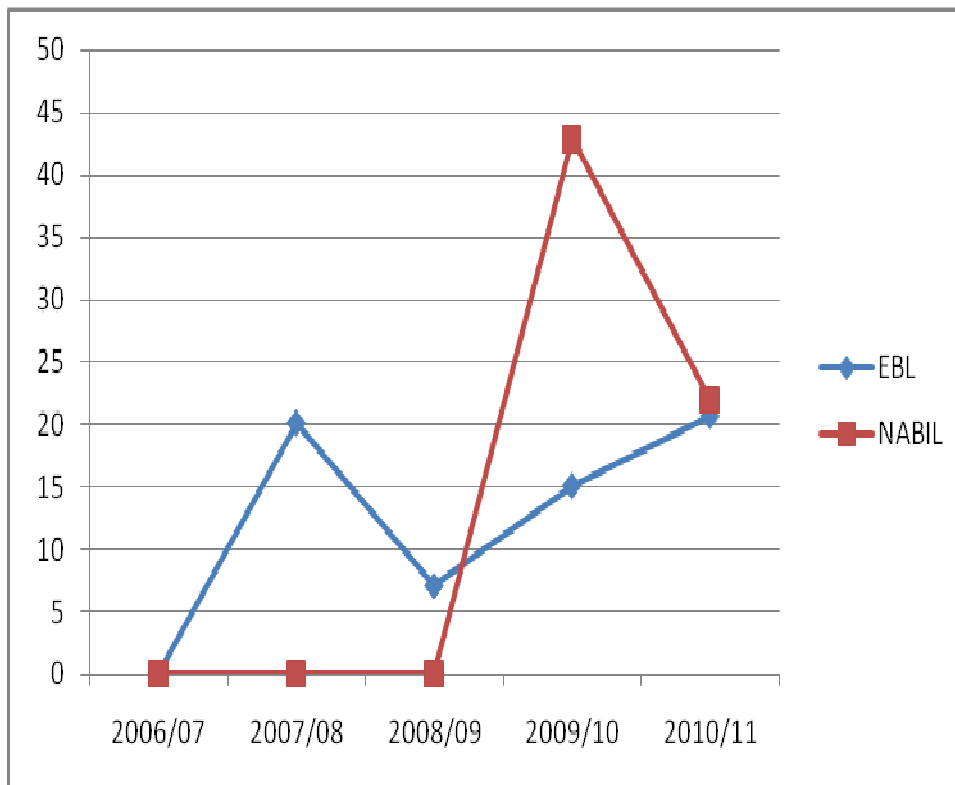
Dividend per share establishes the relationship between dividend paid to shareholders and number of equity shares. It is computed as under:

Table 4.10
DPS of EBL, NBBL and NABIL Banks

Year	Dividend paid to Shareholder's	No. of Equity Shares	Rs.
Everest Bank Limited (EBL)			
2006/07	.....	5,180,000	.....
2007/08	104,222,751	5,180,000	20.12
2008/09	58,852,252	8,314,000	7.08
2009/10	126,611,886	8,388,210	15.09
2010/11	212,885,683	10,304,673	20.66
Average Mean			12.59
Standard Deviation			7.96
Co-efficient of Variation			63.22%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	.....	7,198,520	.....
2007/08	.....	7,198,520	.....
2008/09	.....	7,441,260	.....
2009/10	.....	18,603,150	.....
2010/11	.....	18,603,150	.....
Average Mean			.....
Standard Deviation			.....
Co-efficient of Variation			.....
NABIL Bank Limited (NABIL)			
2006/07	.....	4,916,544	.....
2007/08	.....	4,916,544	.....
2008/09	.....	6,892,160	.....
2009/10	414,059,430	9,657,470	42.87
2010/11	318,267,960	14,486,205	21.97
Average Mean			12.97
Standard Deviation			17.20
Co-efficient of Variation			132.61%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.10
DPS of EBL, NBBL and NABIL Banks



From the above comparative table and figure no 4.10, the higher average DPS of NABIL signifies that NABIL is more successful to win the confidence of the investors. NABIL distributed the dividend for last two years among five. This means NABIL can sell its shares more easily than those shares of EBL and NBBL. Moreover, the lower C.V. of EBL also suggests that it is more consistent in distributing the dividend to its shareholders than NABIL. Where as NBBL didn't disturbed any dividend throughout all the year i.e. from F.Y.2006/07 to F.Y. 2010/11.

(g) Earning Yield Ratio

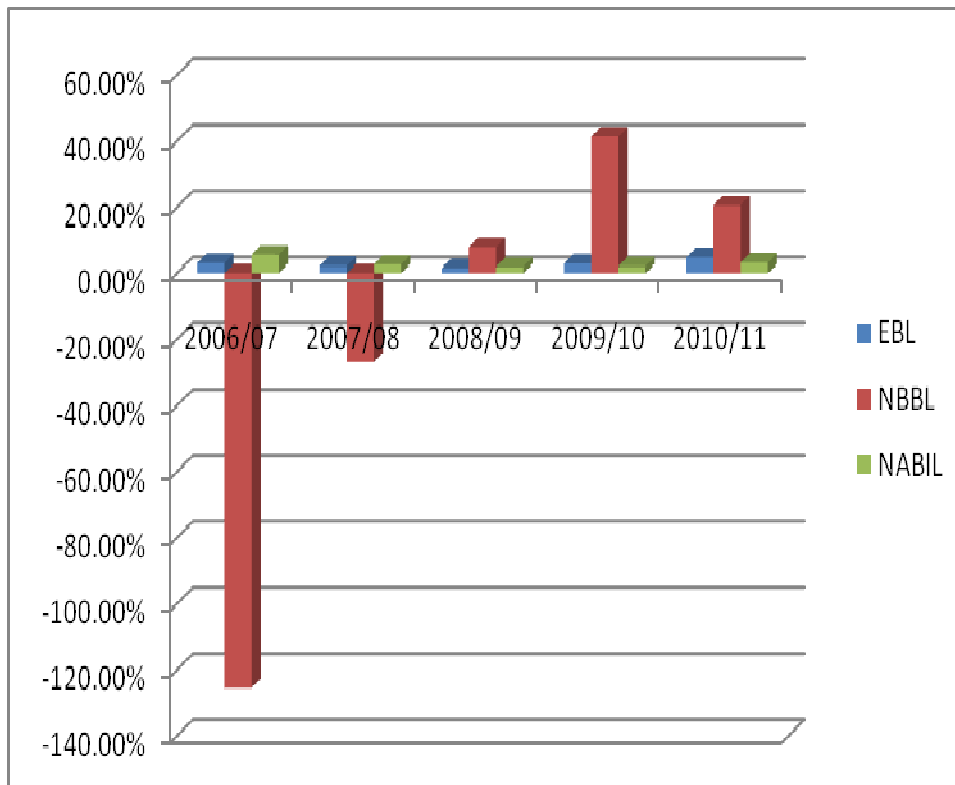
Earning yield ratio establishes the relationship between earning per share (EPS) and market price per share (MPS). It is computed as under:

Table 4.11
Earning Yield Ratios of JVB

Year	EPS	MPS	Ratio
Everest Bank Limited (EBL)			
2006/07	43.38	1379	3.15%
2007/08	54.79	2430	2.25%
2008/09	51.42	3132	1.64%
2009/10	74.19	2455	3.02%
2010/11	79.36	1630	4.87%
Average Mean			2.98%
Standard Deviation			1.09
Co-efficient of Variation			36.58%
Nepal Bangladesh Bank Limited (NBBL)			
2006/07	-249.66	199	-125.46%
2007/08	-147.47	550	-26.81%
2008/09	80.16	1001	8.01%
2009/10	116.01	280	41.43%
2010/11	54.90	265	20.72%
Average Mean			-16.42%
Standard Deviation			58.86
Co-efficient of Variation			-358.46%
NABIL Bank Limited (NABIL)			
2006/07	129.21	2240	5.77%
2007/08	137.08	5050	2.71%
2008/09	108.31	5275	2.05%
2009/10	106.76	4899	2.18%
2010/11	78.63	2384	3.29%
Average Mean			3.2%
Standard Deviation			1.36
Co-efficient of Variation			42.50%

Sources: Annual Reports of EBL, NBBL and NABIL Bank-2011

Figure 4.11
Earning Yield Ratios of JVB



The above table 4.11 show that the earning yield ratio of EBL, NBBL and NABIL from the FY 2006/07, to FY 2010/11. where the higher average earning yield ratio of NABIL reveals that NABIL is comparatively yielding earning more than EBL and NBBL. However, the lower C.V. of NBBL suggests that NBBL is more consistent in earning yield ratio than NABIL and EBL.

4.4 Trend Analysis

Trend analysis enables to have a general idea about the pattern of the behavior of the phenomenon under consideration.

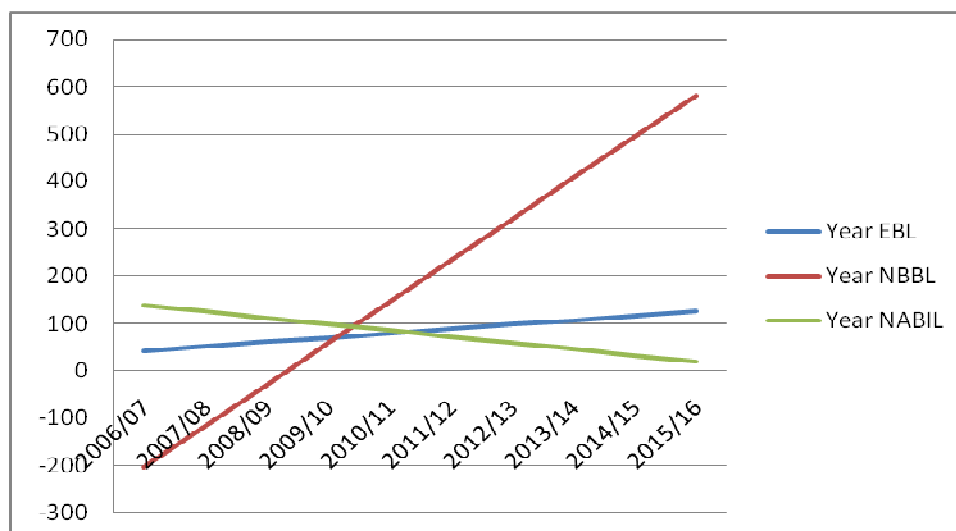
(a) Trend Values (Y_c) of EPS by Least Square Method

Table 4.12
Trend Value of EPS

Year	Banks		
	EBL	NBBL	NABIL
2006/07	42.35	-203.64	138.30
2007/08	51.49	-116.38	125.15
2008/09	60.63	-29.12	112
2009/10	69.77	58.14	98.85
2010/11	78.91	145.40	85.70
2011/12	88.05	232.66	72.55
2012/13	97.19	319.62	59.40
2013/14	106.33	407.18	46.25
2014/15	115.47	494.44	33.10
2015/16	124.61	581.70	19.95

Source: Appendix 1, 2 and 3

Figure 4.12
Trend Value of EPS



From the table 4.12 and figure 4.12 it is shown that the EPS of EBL is in the increasing trend in the successive fiscal years. It has increased from Rs. 42.35 in FY 2006/07 to Rs. 124.61 in the FY 2015/16. Whereas, the table shows that the EPS of NABIL is in the declining trend in the successive fiscal years. It has declined from Rs. 138.30 in FY 2006/07 to Rs. 19.95 in the FY 2015/16. On the other hand, NBBL has an increasing trend of EPS, where as first three

year its EPS are in negative value then onwards it has increased from Rs.58.14 in FY 2009/10 to Rs. 581.70 in the FY 2015/16.

(b) Trend Values (Yc) of Net Profit by Least Square Method

Table 4.13

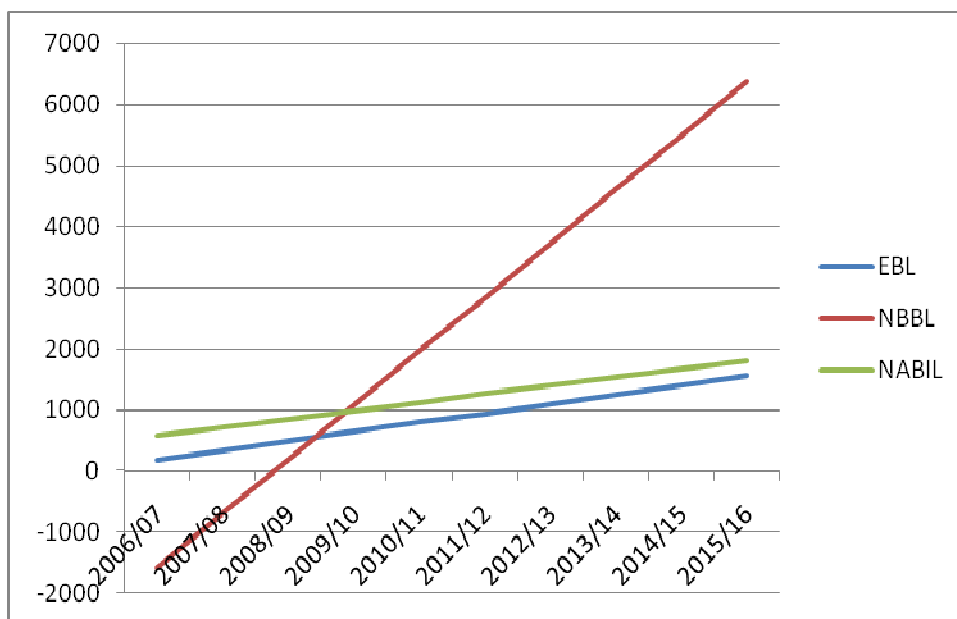
Trend Value of Net Profit

Year	Banks		
	EBL	NBBL	NABIL
2006/07	184.82	-1587.91	572.21
2007/08	337.95	-702.23	708.69
2008/09	491.08	183.45	845.17
2009/10	644.21	1069.13	981.65
2010/11	797.34	1954.81	1118.13
2011/12	950.47	2840.49	1254.61
2012/13	1103.60	3726.17	1391.09
2013/14	1256.73	4611.85	1527.57
2014/15	1409.86	5497.53	1664.05
2015/16	1562.99	6383.21	1800.53

Source: Appendix 4, 5 and 6

Figure 4.13

Trend Value of Net Profit



The above table 4.13 clearly indicates that the net profit of EBL is in the increasing trend in the successive fiscal years. It has increased from Rs. 184.82 in FY 2006/07 to Rs. 1562.99 in the FY 2015/16. Whereas, the table showed that the net profit of NBBL is also in the increasing trend in the successive fiscal years. It has increased from Rs. -1587.91 in FY 2006/07 to Rs. 6383.21 in the FY 2015/16. On the other hand, NABIL has also an increasing trend of net profit in the successive fiscal years. It has increased from Rs. 572.21 in FY 2006/07 to Rs. 1800.53 in the FY 2015/16.

4.5 Correlation Co-efficient (r)

Correlation analysis deals to determine the degree of relationship between two or more variables. In correlation analysis, only one variable is treated as dependent and one or more variables are treated as independent. The correlation coefficient between two variables X and Y, denoted by r, is a numerical measure of linear relationship between them. In this study, total deposits of banks are treated as independent variable whereas, cash and bank balance and, net profit are treated as dependent variables.

(a) Correlation Co-efficient between Total Deposit and Cash & Bank Balance

The correlation co-efficient between total deposit (X) an independent variable and cash and bank balance (Y) a dependent variable is to measure the degree of relationship between the two variables.

Table 4.14

Correlation Co-efficient between Total Deposit and Cash & Bank Balance

Banks	r	r²
EBL	0.03	0.09%
NBBL	-0.027	0.073%
NABIL	0.96	92.16%

Source: Appendix 7, 8 and 9

The table no 4.14 depicts that NABIL has high degree of positive correlation, EBL has low degree of positive correlation and NBBL has negative correlation between total deposit and cash and bank balance. Moreover, the coefficient of determinants (r²) of EBL, NBBL and NABIL are 0.09%, 0.073% and 92.16% respectively.

(b) Correlation Co-efficient between Total Deposit and Net Profit

The correlation co-efficient between total deposit (X) and independent variable and net profit (Y) a dependent variable is to measure the degree of relationship between the two variables.

Table 4.15

Correlation Co-efficient between Total Deposit and Net Profit

Banks	r	r²
EBL	0.98	96.04%
NBBL	-0.53	28.09%
NABIL	0.96	92.16%

Source: Appendix 10, 11 and 12

From the computation it has been found that EBL and NABIL have high degree of positive correlation whereas NBBL has low degree of negative correlation between total deposit and profit. Moreover, the coefficient of determinants (r^2) of EBL, NBBL and NABIL are 96.04%, 28.09% and 92.16% respectively.

4.6 Major Findings of the Study

- The average current ratio of EBL, NBBL and NABIL are 1.072times, 0.93 times and 1.07 times respectively. Moreover, the C.V. of such banks is 69.96%, 19.35% and 58.87% respectively. It shows that NBBL is more consistent in maintaining the current ratio among the other two banks.
- The average quick ratio of EBL, NBBL and NABIL are 1.07 times, 0.93 times and 1.07 times respectively. It shows that higher average quick ratio of EBL & NABIL indicates that both have good liquidity within the bank in terms of quick ratio as compared to NBBL. Whereas; the position of NBBL seems to be week on such regard.
- The average cash and bank balance to current deposit ratio of EBL, NBBL and NABIL are 139.93%, 171.02% and 38.54% respectively. The higher average ratio of cash & bank balance to current deposit of NBBL indicates the sound liquidity position of the bank than that of EBL and NABIL.
- The average mean ratio of cash and bank balance to total deposit of EBL, NBBL and NABIL are 15.04%, 17.86% and 5.94% respectively. It reveals that NBBL has maintained adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits.

- The average net profit ratio of EBL, NBBL and NABIL are 38.57%, -38.17% and 44.92% respectively. It shows that NABIL is comparatively earning higher rate of profit than EBL and NBBL.
- The average ROE of EBL, NBBL and NABIL are 26.39%, 74.03% and 31.98% respectively. It reveals that NBBL has been efficiently utilizing the owners' investment comparatively better than EBL and NABIL.
- The average ROA of EBL, NBBL and NABIL are 1.65%, 0.51% and 2.37% respectively. The higher mean ratio of NABIL states that NABIL has been able to utilize its overall resources in efficient way in comparison with EBL and NBBL during the study period. The high ratio also reflects the successes of NABIL's management.
- The average ROCE of EBL, NBBL and NABIL are 21.11%, 75.83% and 23.93% respectively. The higher mean ratio of NBBL reveals efficient utilization of available resources supplied by the owners and creditors.
- The average mean of EPS of EBL, NBBL and NABIL are Rs. 60.63, Rs. -29.21 and Rs. 112 respectively. The higher EPS of NABIL means NABIL's shareholders can get higher amount on every share held.
- The average DPS of EBL and NABIL are Rs. 12.59 and Rs. 12.97 respectively, whereas NBBL didn't give any dividend through out all year. The higher mean DPS of NABIL signifies that NABIL is more successful to win the confidence of the investors. This means NABIL can sell its shares more easily than those shares of EBL and NBBL.
- The average earning yield ratio of EBL, NBBL and NABIL are 2.98%, -16.42% and 3.2% respectively. Moreover, the C.V. of such banks are 36.58%, -358.46% and 42.50% respectively. NBBL with lower C.V. is more consistent in earning yield ratio whereas; NABIL with high C.V. seems less consistent.
- The trend analysis of EPS of EBL, NBBL and NABIL shows that EBL and NBBL have an increasing trend whereas, NABIL has a declining trend. Moreover, NBBL increasing trend of EPS seems better than EBL.
- The trend analysis of net profit of EBL, NBBL and NABIL shows that all these 3 Joint Venture Banks have an increasing trend. However, NBBL & NABIL increasing trend of net profit are better than EBL.

- The correlation co-efficient between total deposit and cash & bank balance of EBL, NBBL and NABIL are 0.03, -0.027 and 0.96 respectively.
- It shows that NABIL has high degree of positive relationship, EBL has low degree of positive relationship and NBBL has negative relationship between total deposit and cash & bank balance.
- The correlation co-efficient between total deposit and net profit of EBL, NBBL and NABIL are 0.98, -0.53 and 0.96 respectively. It shows that there exists high degree of positive relationship between total deposit and net profit in EBL and NABIL, whereas negative degree of relationship exists in NBBL.
- Simply looking on the investment report of these 3 Joint Venture Banks under study, it is found that these banks invest their funds in government treasury bills, government securities, foreign banks and in corporate shares. However, the most interesting point to be noted here is that these Joint Venture Banks invests less than 1% of their funds in corporate shares.
- The analysis of different financial and statistical tools clearly shows that EBL & NABIL seems to be healthier and sound banks than NBBL on almost every aspect of the study. But NBBL also good at maintaining liquidity. Among 3JVB's NABIL has maintained a proper balance between liquidity and profitability. Due to the proper equilibrium between the liquidity and profitability, NABIL has clearly dominated the race as compared of EBL and NBBL. But it does not imply that EBL and NBBL have failed to maintain the proper balance between liquidity and profitability. They have also tried their best in their own way in maintaining the proper equilibrium between the liquidity and profitability but comparatively less or below than NABIL.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

The institutions, engaged in financial activities are known as commercial banks. Commercial banks are the real intermediaries who transfer savings from the savers to the borrowers so that the money can be used in productive sectors. These financial institutions help to integrate every financial activity of the community. They offer financial support to all types business through providing various types of loan and other financial services. Commercial banks have macro level involvement for economic development of any country.

This study has been prepared to know about the trade off between liquidity and profitability position of EBL, NBBL and NABIL. The liquidity and profitability are two major components for a bank to achieve its objectives. If there is high liquidity in bank, the bank can't gain profit. Because, most part of the liquidity is reserved in the bank, it doesn't give profit to the bank. The bank can't mobilize the fund. For profitability, the bank has to keep liquidity low in the bank, invest the cash fund, it can gain profit after some time but it can invite a great accident to the bank. If there is no maintenance of liquidity in the bank as a balance form, the bank can't carry out its banking transactions. The principality of liquidity and profitability are very much crucial for smooth operation of bank.

In the first chapter, the background and subject matter of the study consisting statement of the problem, significance and limitations of the study has been dealt. In the second chapter, the relevant review of literature has been made in terms of theoretical background of banking principles as well journals, articles and previous thesis have been reviewed. Third chapter deals with the research methodology that has been used to evaluate the liquidity and profitability position of Joint Venture Banks under study. In the fourth chapter, the data and information are presented, analyzed and interpreted by the help of financial and statistical tools. Finally, in the fifth and last chapter, summary, conclusion and recommendations have been made regarding the entire study.

For the purpose of analysis and evaluation, different financial and statistical tools have been used. Here, financial tools include liquidity ratio and profitability ratio whereas statistical tools include average mean, standard deviation, co-efficient of variation, trend analysis, and correlation co-efficient. The liquidity ratios includes current ratio, quick ratio, cash and bank balance to current deposit ratio, cash and bank balance to total deposit ratio. These ratios help to analyze and evaluate the liquidity position of banks. Similarly, the profitability ratios such as net profit ratio, return on equity, return on total assets, return on capital employed, earning per share, and dividend per share, earning yield ratio assist to analyze and evaluate the profitability position of banks. In addition to that the trend analysis of net profit and trend analysis of EPS enable to have general idea about the pattern of the behavior of net profit and EPS.

Correlation analysis such as correlation co-efficient between total deposit and cash and bank balance and correlation co-efficient between total deposit and net profit deals to determine the degree of relationship between two variables.

The data that have been analyzed by such financial and statistical tool includes from FY 2006/07 to FY 2010/11. This study is mainly conducted on the basis of secondary data. Therefore, the study has inherent limitation of the secondary data. All the information gathered through primary sources has been assumed to true and correct. The authenticity of the study depends on the authenticity of the data provided and collected. For the systematic analysis of study, chapter plan have been made.

Basically, the entire research work has focused on the comparative study on relationship between liquidity and profitability of Nepalese joint venture banks. Every organization has to analyze its financial performance in the every step of its operation, promotion, and expansion. There should be an appropriate equilibrium between the earning and non-earning assets. Commercial banks are always guided by the objective of profitability. In this study attempts are made to get knowledge about the relationship between liquidity and profitability, operational efficiency of the management, efficient use of total assets by the management etc. by identifying the strengths and weakness of the three respective banks.

The growth of financial sector in Nepal is much better compared to the other sectors in the country. There are a sizeable number of commercial banks, development banks, finance companies and co-operatives operating in the country although bulk of the loan and deposit portfolio remains with private sector commercial banks. The concentration of private banks has been more in urban areas than rural parts of the country. Some of the valid reasons for private banks not going into suburban and rural parts of the country could be lack of collateral, lack of infrastructure, lack of information, lack of quality manpower, lack of knowledge and skills, lack of efficient management and lack of formal education of promoters, lack of technology etc. Digging deeper into the loan portfolios of private banks, one can easily make out that the primary focus has been on big size corporate loans. Only a small portion of the loan portfolios could be seen to have been going to the small and medium sized enterprises, popularly known as SMEs.

5.2 Conclusions

Liquidity is the most sensible and crucial aspect of the bank, which is often compared to lifeblood of the human being. Lack of adequate liquidity is often one of the first signs that a bank is in serious financial trouble and lead to the loss of public faith upon banks. Thus, ensuring adequate liquidity is a never-ending problem for the bank management that will always have significant implications for the bank's profitability. On the basis of the study, the liquidity position of EBL and NABIL are comparatively better than NBBL according to current ratio and quick ratio. Whereas, on the basis of cash and bank balance to current deposit ratio and cash and bank balance to total deposit ratio, the liquidity position of NBBL seems to be more sound than EBL and NABIL. The average net profit ratio, ROA, EPS, DPS, and Earning Yield Ratio of NABIL are comparatively better than EBL and NBBL, whereas ROE, ROCE of NBBL are better than EBL & NABIL. It clearly shows that NABIL is a far better bank than EBL and NBBL in almost every aspect that have been analyzed and evaluated in the study. The trend analysis of EPS of EBL, NBBL and NABIL shows that EBL and NBBL have an increasing trend of EPS in the past, present and future. Whereas, NABIL has a declining trend of EPS from the FY 2006/07 to FY 2015/16. On the other hand, the trend analysis of net profit ratio of all these 3 Joint Venture Banks has an increasing trend. But when compared among these 3 Joint Venture Banks, both the trend i.e. EPS and net profit, shows that NBBL have a better increasing trend. The correlation co-efficient between total deposit and cash & bank balance of EBL, NBBL and NABIL are such that NABIL has

high degree of positive relationship, EBL has low degree of positive relationship and NBBL has negative relationship. Moreover, there exists high degree of positive relationship between total deposit and net profit in EBL and NABIL, whereas negative relationship exists in NBBL.

Although the banks are reporting of steady profits, the banks have tendency to cover up bad loans by restructuring them to show good performance. In order to check such practice, the central bank has announced a new measure in its monetary policy. The Joint Venture Banks are found superior than other local commercial banks operating within the country. The Joint Venture Banks are fully equipped with all kinds of modern and latest technologies.

5.3 Recommendations

There is a direct effect of current state of political instability of our country in the field of commercial and financial sector. Due to the violating environment in the country, people have not been able to mobilize and utilize the resources. Most of the commercial banks have been struggling against the economic crisis. Despite such conditions, it is found that the Joint Venture Banks under this study are running on profit. Thus, all these Joint Venture Banks should be appreciated for their banking transactions inspire of the present critical situation.

- Since, the average current ratio and quick ratio of NBBL is comparatively lower than the other 2 Joint Venture Banks under study, and below the standard rate as well, so NBBL is strongly suggested to increase its liquidity position in terms of current and quick ratio so that it can be able to meet the demand of the customers when required.
- The coefficient of variation (C.V.) of NABIL in terms of cash & bank balance to current deposit and total deposit are high. It implies that NABIL is less consistent in maintaining the cash and bank balance from the deposits. Thus, NABIL is advised to be more consistent under this regard.
- Nepalese shareholders are very much concerned about the payment of cash dividend by the banks. So, the banks are suggested to pay the cash dividend consistently. Hence, the bank especially NABIL with having high C.V. is recommended to maintain consistent dividend policy.
- The trend analysis of EPS of NABIL clearly shows that NABIL has a declining trend of EPS. Thus, NABIL is strongly suggested to pay due consideration in this regard, so that it can take the necessary steps to overcome the declining trend of EPS.

- The banks are found that the saving from the rural communities is neglected, without which they can't contribute much to the economic development of the country. Thus, these Joint Venture Banks under study are suggested to open their branches in the rural areas too and provide their services which will consequently be helpful for the development of the nation.
- Since, Nepal have fixed exchange rate regime with India, thus, it is suggested to the entire financial institutions within the country including these 3 Joint Venture Banks under study to control the credit and maintain the inflation rate in a limit because at the present scenario of inter-relation between Nepali economy with India's, Nepal would lose if it floats its currency.
- The bank should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level. The bank should remain consistently vigilant in enhancing their moral and motivation. Similarly, the bank should enhance effectiveness, efficiency and proper co-ordination of its departmental tasks by continuously reviewing its structural design in accordance with the need of the changing time and situation.
- All these Joint Venture Banks under study are suggested to concentrate more on their performance, business growth rate, asset quality and governance practices. Apart from these, market reputation, diversified service range and rate of shareholders should also be taken into account by the banks so, that it not only be beneficial for the bank but will also play a vital criteria or tool in regarding a reward as one of the best bank of the nation.
- The study may be helpful to fulfill the gap of proper research about the relationship between liquidity and profitability. It may provide the knowledge about liquidity management in Nepalese commercial banks and their profitability position. This research covers the existing liquidity management practice, existing liquidity position and its trend, factors affecting the liquidity and profitability. It also provides different banking tools for liquidity management as well as for profitability position, so other researcher may make their study wider by selecting different topic such as credit position, stock position, and right share issues, impact of liquidity and profitability in share price etc with the help of this study. Similarly one can select other financial institutions as well as other companies like manufacturing companies, other service companies for study. For the further study and analysis, this study may be guideline to other researchers.

BIBLIOGRAPHY

Books:

- Bhandari, D.R. (2003). *Banking and Insurance: Principles & Practice*. Kathmandu: Aayush Publications.
- Clark, J. (1999). *International Dictionary of Banking and Finance*. New York: Glenlake Publishing Co Ltd and AMACOM American Management Association.
- Khan, M.Y. & Jain, P.K. (1997). *Banking Theory and Practice*. New Delhi: Tata McGraw-Hill Publishing Co. Ltd.
- Maisel, S.J. (1982). *Risk and Capital Adequacy in Commercial Banks*. Chicago: The University of Chicago Press.
- Pandey, I.M. (1995). *Financial Management*. New Delhi: Vikash Publishing House Pvt. Ltd.
- Patheja, A. (1994). *Financial Management of Commercial Banks*. New Delhi: South Asia Publications.
- Philips, D. (2003). *Liquidity Management in Banking Crisis; European Economy*. Westminster: Bangor Publishing House. XI (17): 15.
- Rosenburg, J. M. (1982). *Dictionary of banking and finance*. New York: John Wiley & Sons.
- Verma, H.L. & Malhotra, A.K. (1993). *Funds Management in Commercial Banks*. New Delhi: Deep & Deep Publications.
- Wolf, H.K. & Pant, P.R. (2007) *Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Journals and Articles

- Kennon, J. (n.d.). *The importance of liquidity and liquid assets: A lesson from September 11th*. Retrieved September 26, 2008, from the About.com website
- Khatiwoda, Y. (2010) "Nepalese banking sector is facing liquidity problem due to their own causes" Kathmandu: Annapurna Post. July 16, 2010
- Shrestha, H (2007). "The Efficiency of Liquidity Monitoring and Forecasting Framework the Nepal Rastra Bank in the Context of Liquidity Management in the Nepalese Banking and Financial System". Nepal Rastra Bank Samachar. Kathmandu: Nepal Rastra Bank. VIII (9)
- Walt, J (2008), "Sound Practices for Managing Liquidity in Banking Organizations" Journal of Banking and Finance. Stockholm: Umeasisk Publisher. IX (5): 26.

Thesis:

Gumanju, C.B. (2004) *A Comparative Study of Financial Performance Analysis of HBL and NIB*, Unpublished Master Degree Thesis, Submitted to Nepal Commerce Campus, TU, Kathmandu.

Karki, L.B. (2010) *Liquidity and Profitability Position of Commercial Banks of Nepal*, Unpublished Master Degree Thesis, Submitted to Shanker Dev Campus, TU, Kathmandu.

Paudel, R. (2006) *Liquidity Management Commercial Banks in Nepal*, Unpublished Master Degree Thesis, Submitted to Central Department, TU, Kirtipur

Shrestha, S. (2007) *Performance Measurement of Joint Venture Banks in Nepal with reference of EBL, SCB, Nepal State Bank of India (NSBI) and NABIL*, Unpublished Master Degree Thesis, Submitted to Public Youth Campus, T.U., Kathmandu.

Tamang, M.B. (2008) *Financial Performance Analysis of Commercial Banks of Nepal with reference to NIB and NABIL*, Unpublished Master Degree Thesis, Submitted to Shanker Dev Campus, T.U., Kathmandu.

Reports:

Annual Report of EBL (FY 2006/07 - FY 2010/11)

Annual Report of NBBL (FY 2006/07 - FY 2010/11)

Annual Report of NABIL (FY 2006/07 - FY 2010/11))

Websites:

www.bizfinance.about.com

www.cbs.gov.np

www.everestbankltd.com.

www.nbbl.com.np

www.mof.gov.np

www.nabilbank.com

www.nrb.gov.np

APPENDIX 1

Calculation of Trend Value of EPS of EBL by Least Square Method

Years (t)	EPS (Y)	t- 2064/65 (X)	XY	X ²	Trend Value (Yc)
2006/07	43.38	-2	-86.76	4	42.35
2007/08	54.79	-1	-54.79	1	51.49
2008/09	51.42	0	0	0	60.63
2009/10	74.19	1	74.19	1	69.77
2010/11	79.36	2	158.72	4	78.91
n = 5	∑Y = 303.14	∑X=0	∑XY = 91.36	∑X²=10	

Let the trend line be given by the equation,

$$Y_c = a + bX \dots \dots \dots \text{Equation 1}$$

Its normal equations are,

$$\sum Y = na + b \sum X \dots \dots \dots \text{Equation 2}$$

$$\sum XY = a \sum X + b \sum X^2 \dots \dots \dots \text{Equation 3}$$

Putting the respective value in equation 2, we have

$$303.14 = 5a + b(0)$$

$$\text{Or, } 5a = 303.14$$

$$\text{Or, } a = 60.63$$

Again, putting the respective value in equation 3, we have

$$91.36 = a(0) + 10b$$

$$\text{Or, } 10b = 91.36$$

$$\text{Or, } b = 9.14$$

Now, substituting the value of **a** and **b** in equation 1, we have

$$Y_c = a + bX$$

$$\text{Or, } Y_c = 60.63 + 9.14X$$

Estimated Trend Values of EPS of EBL in the Future Years

Year:	2011/12	2012/13	2013/14	2014/15	2015/16
Yc:	88.05	97.19	106.33	115.47	124.61

APPENDIX 2

Calculation of Trend Value of EPS of NBBL by Least Square Method

Years (t)	EPS (Y)	t- 2064/65 (X)	XY	X ²	Trend Value (Yc)
2006/07	-249.66	-2	499.32	4	-203.64
2007/08	-147.47	-1	147.47	1	-116.38
2008/09	80.16	0	0	0	-29.12
2009/10	116.01	1	116.01	1	58.14
2010/11	54.90	2	109.8	4	145.4
n = 5	∑Y = -146.06	∑X=0	∑XY = 872.6	∑X²=10	

Let the trend line be given by the equation,

$$Y_c = a + bX \dots\dots\dots \text{Equation 1}$$

Its normal equations are,

$$\sum Y = na + b \sum X \dots\dots\dots \text{Equation 2}$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots \text{Equation 3}$$

Putting the respective value in equation 2, we have

$$-146.06 = 5a + b(0)$$

$$\text{Or, } 5a = -146.06$$

$$\text{Or, } a = -29.12$$

Again, putting the respective value in equation 3, we have

$$872.6 = a(0) + 10b$$

$$\text{Or, } 10b = 872.6$$

$$\text{Or, } b = 87.26$$

Now, substituting the value of **a** and **b** in equation 1, we have

$$Y_c = a + bX$$

$$\text{Or, } Y_c = -29.12 + 87.26X$$

Estimated Trend Values of EPS of NBBL in the Future Years

Year:	2011/12	2012/13	2013/14	2014/15	2015/16
Yc:	232.66	319.92	407.18	494.44	581.70

APPENDIX 3

Calculation of Trend Value of EPS of NABIL by Least Square Method

Years (t)	EPS (Y)	t- 2064/65 (X)	XY	X ²	Trend Value (Yc)
2006/07	129.21	-2	-258.42	4	138.3
2007/08	137.08	-1	-137.08	1	125.15
2008/09	108.31	0	0	0	112
2009/10	106.76	1	106.76	1	98.85
2010/11	78.63	2	157.26	4	85.70
n = 5	∑Y = 559.99	∑X=0	∑XY = - 131.48	∑X²=10	

Let the trend line be given by the equation,

$$Y_c = a + bX \dots\dots\dots \text{Equation 1}$$

Its normal equations are,

$$\sum Y = na + b \sum X \dots\dots\dots \text{Equation 2}$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots \text{Equation 3}$$

Putting the respective value in equation 2, we have

$$559.99 = 5a + b(0)$$

$$\text{Or, } 5a = 559.99$$

$$\text{Or, } a = 112$$

Again, putting the respective value in equation 3, we have

$$-131.48 = a(0) + 10b$$

$$\text{Or, } 10b = -131.48$$

$$\text{Or, } b = -13.15$$

Now, substituting the value of **a** and **b** in equation 1, we have

$$Y_c = a + bX$$

$$\text{Or, } Y_c = 112 - 13.15X$$

Estimated Trend Values of EPS of NABIL in the Future Years

Year:	2011/12	2012/13	2013/14	2014/15	2015/16
Yc:	72.55	59.40	46.25	33.10	19.95

APPENDIX 4

Calculation of Trend Value of Net Profit of EBL by Least Square Method

Years (t)	Net Profit (Y)	t-2064/65 (X)	XY	X ²	Trend Value (Yc)
2006/07	237.29	-2	-474.58	4	184.82
2007/08	296.41	-1	-296.41	1	337.95
2008/09	451.22	0	0	0	491.08
2009/10	638.73	1	638.73	1	644.21
2010/11	831.77	2	1663.54	4	797.34
n = 5	∑Y = 2455.42	∑X=0	∑XY = 1531.28	∑X²=10	

Let the trend line be given by the equation,

$$Y_c = a + bX \dots\dots\dots \text{Equation 1}$$

Its normal equations are,

$$\sum Y = na + b \sum X \dots\dots\dots \text{Equation 2}$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots \text{Equation 3}$$

Putting the respective value in equation 2, we have

$$2455.42 = 5a + b(0)$$

$$\text{Or, } 5a = 2455.42$$

$$\text{Or, } a = 491.08$$

Again, putting the respective value in equation 3, we have

$$1531.28 = a(0) + 10b$$

$$\text{Or, } 10b = 1531.28$$

$$\text{Or, } b = 153.13$$

Now, substituting the value of **a** and **b** in equation 1, we have

$$Y_c = a + bX$$

$$\text{Or, } Y_c = 491.08 + 153.13X$$

Estimated Trend Values of Net Profit of EBL in the Future Years

Year:	2011/12	2012/13	2013/14	2014/15	2015/16
Yc:	950.47	1103.60	1256.73	1409.86	1562.99

APPENDIX 5

Calculation of Trend Value of Net Profit of NBBL by Least Square Method

Years (t)	Net Profit (Y)	t- 2064/65 (X)	XY	X ²	Trend Value (Yc)
2006/07	-1797.16	-2	3594.32	4	-1587.91
2007/08	-1061.58	-1	1061.58	1	-702.23
2008/09	596.49	0	0	0	183.45
2009/10	2158.10	1	2158.10	1	1069.13
2010/11	1021.38	2	2042.76	4	1954.81
n = 5	∑Y = 917.23	∑X=0	∑XY = 8856.76	∑X²=10	

Let the trend line be given by the equation,

$$Y_c = a + bX \dots\dots\dots \text{Equation 1}$$

Its normal equations are,

$$\sum Y = na + b \sum X \dots\dots\dots \text{Equation 2}$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots \text{Equation 3}$$

Putting the respective value in equation 2, we have

$$917.23 = 5a + b(0)$$

$$\text{Or, } 5a = 917.23$$

$$\text{Or, } a = 183.45$$

Again, putting the respective value in equation 3, we have

$$8856.76 = a(0) + 10b$$

$$\text{Or, } 10b = 8856.76$$

$$\text{Or, } b = 885.68$$

Now, substituting the value of **a** and **b** in equation 1, we have

$$Y_c = a + bX$$

$$\text{Or, } Y_c = 183.45 + 885.68X$$

Estimated Trend Values of Net Profit of NBBL in the Future Years

Year:	2011/12	2012/13	2013/14	2014/15	2015/16
Yc:	2840.49	3726.17	4611.85	5497.53	6383.21

APPENDIX 6

Calculation of Trend Value of Net Profit of NABIL by Least Square Method

In million

Years (t)	Net Profit (Y)	t-2064/65 (X)	XY	X ²	Trend Value (Yc)
2006/07	635.26	-2	-1270.52	4	572.21
2007/08	673.96	-1	-673.96	1	708.69
2008/09	746.47	0	0	0	845.17
2009/10	1031.05	1	1031.05	1	981.65
2010/11	1139.10	2	2278.20	4	1118.13
n = 5	∑Y = 4225.84	∑X=0	∑XY = 1364.77	∑X²=10	

Let the trend line be given by the equation,

$$Y_c = a + bX \dots\dots\dots \text{Equation 1}$$

Its normal equations are,

$$\sum Y = na + b \sum X \dots\dots\dots \text{Equation 2}$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots \text{Equation 3}$$

Putting the respective value in equation 2, we have

$$4225.84 = 5a + b(0)$$

$$\text{Or, } 5a = 4225.84$$

$$\text{Or, } a = 845.17$$

Again, putting the respective value in equation 3, we have

$$1364.77 = a(0) + 10b$$

$$\text{Or, } 10b = 1364.77$$

$$\text{Or, } b = 136.48$$

Now, substituting the value of **a** and **b** in equation 1, we have

$$Y_c = a + bX$$

$$\text{Or, } Y_c = 845.17 + 136.48X$$

Estimated Trend Values of Net Profit of NABIL in the Future Years

Year:	2011/12	2012/13	2013/14	2014/15	2015/16
Yc:	1254.61	1391.09	1527.57	1664.05	1800.53

APPENDIX 7

Correlation Co-efficient between Total Deposit (X) and Cash & Bank Balance (Y) of Everest Bank Limited (EBL)

Years	X	Y	X ²	Y ²	XY
2006/07	13802.44	1552.97	190507350	2411715.821	21434775.2
2007/08	18186.25	2391.42	330739689.1	5718889.616	43490962
2008/09	23976.30	2667.97	574862961.7	7118063.921	63968049.1
2009/10	33322.95	6164.37	1110418997	37999457.5	205414993
2010/11	36932.31	7818.82	1363995522	61133946.19	288767084
N = 5	126220.30	20595.55	3570524519	114382073	623075864

We have,

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

$$r = \frac{5 \cdot 623075864 - 126220.30 \times 20595.55}{\sqrt{5 \times 3570524519 - (126220.30)^2} \sqrt{5 \times 114382073 - (20595.55)^2}}$$

$$r = \frac{515802820}{\sqrt{15359653767} \sqrt{17428445915}}$$

$$r = 0.03$$

Co- efficient of determination (r^2) = $(0.03)^2 = 0.0009$ i.e. 0.09%

APPENDIX 8

Correlation Co-efficient between Total Deposit (X) and Cash & Bank Balance (Y) of Nepal Bangladesh Bank Limited (NBBL)

Years	X	Y	X ²	Y ²	XY
2006/07	13015.14	1694.68	169393869.2	2871940.302	22056497.5
2007/08	9385.95	1164.05	88096057.4	1355012.403	10925715.1
2008/09	10883.65	1922.85	118453837.3	3697352.123	20927626.4
2009/10	9997.70	2571.42	99954005.29	6612200.816	25708285.7
2010/11	10052.18	2058.30	101046322.8	4236598.89	20690402.1
N = 5	53334.62	9411.3	576944092	18773104.53	100308527

We have,

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

$$r = \frac{5 \times 100308527 - 53334.62 \times 9411.3}{\sqrt{5 \times 576944092 - (53334.62)^2} \sqrt{5 \times 18773104.53 - (9411.3)^2}}$$

$$r = \frac{-405474.206}{\sqrt{40138769.46} \sqrt{5292954.96}}$$

$$r = -0.027$$

Co-efficient of determination (r^2) = $(-0.027)^2 = 0.00073$ i.e. 0.073%

APPENDIX 9

Correlation Co-efficient between Total Deposit (X) and Cash & Bank Balance (Y) of NABIL Bank Limited (NABIL)

Years	X	Y	X²	Y²	XY
2006/07	19347.40	630.24	374321886.8	397202.4576	12193505.38
2007/08	23342.28	1399.83	544862035.6	1959524.029	32675223.81
2008/09	31915.05	2671.14	1018570417	7134988.9	85249566.66
2009/10	37348.25	3372.51	1394891778	11373823.7	125957346.60
2010/11	46410.70	1400.09	2153953074	1960252.008	64979156.96
N = 5	158363.68	8073.72	5486599191	22825791.09	321054799.4

We have,

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

$$r = \frac{5 \times 321054799.4 - 158363.68 \times 8073.72}{\sqrt{5 \times 5486599191 - (158363.68)^2} \sqrt{5 \times 22825791.09 - (8073.72)^2}}$$

$$r = \frac{326689986.5}{\sqrt{2353940812} \sqrt{48944000.81}}$$

$$r = 0.96$$

Co- efficient of determination (r^2) = $(0.96)^2 = 0.9216$ i.e. 92.16%

APPENDIX 10

Correlation Co-efficient between Total Deposit (X) and Net Profit (Y) of Everest Bank Limited (EBL)

Years	X	Y	X ²	Y ²	XY
2006/07	13802.44	237.29	190507350	56306.5441	3275180.988
2007/08	18186.25	296.41	330739689.1	87858.8881	5390586.363
2008/09	23976.30	451.22	574862961.7	203599.4884	10818586.09
2009/10	33322.95	638.73	1110418997	407976.0129	21284367.85
2010/11	36932.31	831.77	1363995522	691841.3329	30719187.49
N = 5	126220.25	2455.42	3570524519	1447582.266	71487908.78

We have,

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

$$r = \frac{5 \times 71487908.78 - 126220.25 \times 2455.42}{\sqrt{5 \times 3570524519 - (126220.25)^2} \sqrt{5 \times 1447582.266 - (2455.42)^2}}$$

$$r = \frac{47515817.65}{\sqrt{1921071085} \sqrt{1208823.954}}$$

$$r = 0.98$$

Co-efficient of determination (r^2) = $(0.98)^2 = 0.9604$ i.e. 96.04%

APPENDIX 11

Correlation Co-efficient between Total Deposit (X) and Net Profit (Y) of Nepal Bangladesh Bank Limited (NBBL)

Years	X	Y	X ²	Y ²	XY
2006/07	13015.14	-1797.16	169393869.2	3229784.066	-23390289
2007/08	9385.95	-1061.58	88096057.4	1126952.096	-9963936.801
2008/09	10883.65	596.49	118453837.3	355800.3201	6491988.389
2009/10	9997.70	2158.10	99954005.29	4657395.61	21576036.37
2010/11	10052.18	1021.38	101046322.8	1043217.104	10267095.61
N = 5	53334.62	917.23	576944092	10413149.20	4980894.564

We have,

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

$$r = \frac{5 \times 4980894.564 - 53334.62 \times 917.23}{\sqrt{5 \times 576944092 - (53334.62)^2} \sqrt{5 \times 10413149.20 - (917.23)^2}}$$

$$r = \frac{-24015640.68}{\sqrt{40138769.46} \sqrt{51224435.13}}$$

$$r = -0.53$$

Co-efficient of determination (r^2) = $(-0.53)^2 = 0.2809$ i.e. 28.09%

APPENDIX 12

Correlation Co-efficient between Total Deposit (X) and Net Profit (Y) of NABIL Bank Limited (NABIL)

Years	X	Y	X ²	Y ²	XY
2006/07	19347.40	635.26	374321886.8	403555.2676	12290629.32
2007/08	23342.28	673.96	544862035.6	454222.0816	15731763.03
2008/09	31915.05	746.47	1018570417	557217.4609	23823627.37
2009/10	37348.25	1031.05	1394891778	1063064.103	38507913.16
2010/11	46410.70	1139.10	2153953074	1297548.81	52866428.37
N = 5	158363.68	4225.84	5486599191	3775607.723	143220361.3

We have,

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

$$r = \frac{5 \times 143220361.3 - 158363.68 \times 4225.84}{\sqrt{5 \times 5486599191 - (158363.68)^2} \sqrt{5 \times 3775607.723 - (4225.84)^2}}$$

$$r = \frac{46882233.01}{\sqrt{2353940812} \sqrt{1020314.909}}$$

$$r = 0.96$$

Co-efficient of determination (r^2) = $(0.96)^2 = 0.9216$ i.e. 92.16%