FACTORS AFFECTING FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS

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By

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CHAPTER I

INTRODUCTION

1.1 Background of the Study

The roles of commercial banks in association with developing nations have fully interpreted once features of developing ones are well clarified, as banks are main providers of credit for the economy. It can be clearly interpreted that three countries focused in on the paper, including Nepal, Vietnam, Thailand and Malaysia, are developing nations, of which Vietnam, transitioning from one of the world's poorest countries to a lower middle-income one, owns more typical traits than the other two. Meanwhile, according to the World Bank, both Thailand and Malaysia, upper-income countries, are approaching the long-term plan of 20 years to become developed countries (Dao & Nguyen, 2021).

With the responsibility of connecting needs and capital supply, banks play an extremely important role in the economy. Therefore, the stability of the banking system is a prerequisite for an effective financial system and achieving economic growth. In particular, profitability is one of the key factors to ensure the stability of the banking system. With good profitability, the bank can benefit its own shareholders and continue to be a channel of capital to support other investments of individuals and organizations, thereby promoting the development of the whole economy. In contrast, with poor financial results, banks may face bankruptcy, creating/contributing to exacerbating financial crises, thereby leading to severe consequences for the global economy. Therefore, the interest in managing the profitability of banks is always a topic of concern for bank leaders, investors, depositors, and the government. Many studies on profitability and factors affecting the profitability of listed commercial banks have been carried out (Mehta & Bhavani, 2018).

Current commercial banking is the main character of present economy as it makes flow of the resources. Finance is blood of the trade, commerce, they play the role of vanes in the circulation of the funds in economy, and the primary growth of any country depends upon the robust banking system. Commercial banks are the main pillar of the financial system in Pakistan as banks provide different opportunity and services to

clients. The importance of the banking sectors is immense in the progress and richness of any state. The economic development and prosperity comes from the well-rounded developed and perfect banking system. Strong banking system plays important role in efficient allocation and utilization of credit (Haque & Tariq, 2013). Pakistani banking opens a new horizon in Asia as working a dynamic competitive partner in this region, as over the world all the financial institutions face financial crises over last decade now banking in Pakistan is a prominent sector for investment and it provides to the needs of all regardless of caste, creed and religion. Bank is a backbone of all the industries, because every transaction where money is involved, the bank is the main pillar of funding. Banks attract saving from people.

1.2 Problem Statement

Profitability is the norm that can be calculated in absolute or relative numbers via ratio. However, the benefits of calculating profitability ratios are that in a time-series study they can reduce inflation volatility. A variety of measures, including returns on equity (ROE), returns on deposits (ROD), and the profit margin (BTP/TA), are widely used to measure the profitability of a commercial bank (Rasiah, 2011).

Profitability is the basic aim of establishing business and banks are not exceptions. As profitability is an important factor for the smooth running of any business in today's competitive setting and it has a significant impact on the performance of the institutions, as the financial proficiency of banks can also influence the economic development. Therefore, to identify profit determinants provide an opportunity to know which variable's influencing banks profit, management can concentrate their attention on it at the time decision making to adjust the factors. Besides, banks bankruptcies can link systematic crunch. Economic sector that has well established banking setup can also subsidize to the solidity of the financial system within boundaries of the countries. Over the preceding 30 years, most of the researcher's dedicated considerable time and money in the importance of the commercial variables and various studies have linked variables. All this points to the significance of variables that we are going to conduct study. To conduct a study about the determinants of the profitability of banks not only important for the proprietor but also for the decision makers as the asses and modify the performance of the banks accordingly to enhance their efficiency and profit describes

by (Mamatzakis & Remoundos, 2003). Thus, this study has been dealing with below mention issues;

i) What is the most affecting factor for profitability in commercial banks?
ii) Is there any relationship between capital adequacy ratio, non-performing loan ratio, credit deposit ratio, cash reserve ratio and profitability?
iii) Does capital adequacy ratio, non-performing loan ratio, credit deposit ratio, cash reserve ratio have an effect on profitability?

1.3 Objectives of the Study

The major objective of this study is identifying the factors that affect the profitability of commercial banks. However, the specific objectives are as under;

1. To Know the status of Cash reserve ratio, Non performing loan ratio, Capital adequacy ratio, Credit deposit ratio on Return on assets and Return on equity.
2. To Measure the effect of Liquidity on the Performance of Banks

1.4 Rationale of the Study

This study has examined the factors affecting the profitability of Nepalese commercial banks. Study on commercial bank's profitability carry a great significance to shareholders, professionals, bankers themselves and the students eager to know about financial position and their management. This study has helpful for identifying the most or least affecting the profitability of commercial so that they can be controlled and amended for future policy formulation, modification and implementation.

This has tended to benefit to the concerned scholars, academicians, investor, researchers, and professional and management student too. It helps to inform the decision makers about the important of profitability management for the bright future of the financial institutions. It also assists to concerned department how to reduce the cost with the help of better profitability in the bank in changing environment to perform strategically to compete against competitors. At this situation, the commercial banks should be more competitive. They should become financially strength/healthy and must have growth potentially and they have to shape their plans and strategies thus the study may be more fruitful and rationale to their stakeholders at present situation. The study plays vital role in the managerial decisions. Every organization has to analyze its profitability in every step of its operation, promotion and expansion.

This study examines the factors affecting profitability of Nepalese commercial banks.

Profitability is the major sources of income and backbone in any commercial banks. There is no doubt that the profit earned by any bank depends on the volume of the good lending. Study on commercial bank's lending practice carry a great significance to shareholders, professionals, bankers themselves and the student eager to know about lending practices and their management.

1.5 Limitations of the Study

i) This study emphasizes on secondary data that is restricted to information obtainable from the yearly financial statement of banks.

CHAPTER II

LITERATURE REVIEW

This chapter consist of mainly three section such as conceptual reviews, review of previous studies and research gap. The review of previous studies and conceptual reviews have been constructed with the help of different articles published in journals.

2.1 Conceptual Review

The modern financial evaluation has greatly affected the role and importance of financial performance. Nowadays, finance is best characterized as ever changing with new ideas and techniques. Only efficient manager of the company can achieve the set-up goals. If a bank does not maintain adequate equity capital, it makes the bank riskier. If a bank has inadequate equity capital, it must be used more debt that has high fixed cost. Therefore, any firm must have adequate equity capital in their capital structure. The main objectives of the bank are to collect deposit as much as possible from the customer and to mobilize into the most profitable sector. If a bank fails to utilize its collected resources, it cannot generate revenue (Chanra, 2016).

Resource mobilization management of bank includes resource collection, investment portfolio loan and advances, working capital, fixed assets management etc. It measures-the-extent to which is successful to utilize its resources. To measure the bank performance in many aspects, we should analyze its financial indicator with the help of financial statement (Vanhome, 2016).

Financial analysis is the process of identifying the financial strength and weakness of the concerned bank. It is the process of finding strength and weakness of the concerned bank. It is the process of finding details accounting information given in the financial statement. It is performed to determine the liquidity, solvency, efficiency and profitability position of an organization. The function or the performance of finance can be broken down into three major decisions i.e. the investment decision, the financing decision and the dividend decision. An optional combination of the three decisions has been maximize the value of the firm (Gupta, 2016)

Theories of Banks' Profitability

One of the crucial components of the financial systems and the economy are the commercial banks. In the recent years, commercial banks have contributed largely in the financial development of the economy of the region. Banks are responsible for allocation of funds to the organizations and individuals who need them. They deposit the funds of the organizations and individuals who have them in excess. Hence, they are responsible for mobilization of funds. Financial performance of the banks affects the capital allocation, expansion of the firms, economic growth of the industries and development of the economy. Profitability of the banks affects not only the commercial banks but it has its impact on the macroeconomic level. In presence of the current environment, the profits fetched by the banks reflect their financial performance. Banks come in stable state and they fetch high profits in case of maintenance of the profitability index of the commercial banks (Goddard et al., 2004). Hence, profitability becomes the important part of the performance of the banks which affects many sectors. Hence, factors influencing the performance of the banks in financial sector have grabbed the attention of the many research scholars, bank supervisors and financial markets. Scholars began conducting research on the performance of the banks between 1970 and 1980. They applied two models named as efficient structure theory and market power theory (Athanasoglou et al., 2006).

Another theory which is known as balanced portfolio theory helps in determining profits fetched by banks. It has also been used in the study of the profitability of banks (Nzongang & Atemnkeng, 2006). The performance of the banks is affected by the market structure of the industry stated by market power theory which was given by

CHAPTER III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps along with a reasonable of each such step to be adopted by researcher in studying a problem with certain objectives in view. Research methodology is the set of various instrumental approach used in achieving the predetermined objective as stated in the earlier chapters. It counts on the resources and to the extent of their reliability and validity in this research.

3.1 Research Design

In this study, the descriptive as well as casual comparative research design have been followed up. Decision regarding, what were; when how much by means concerning an enquiry or a research study constitutes a research design “A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure".

3.2 Population and Sample

The term population of data denotes for the data of each organization which is within the boundary of specific organization. The population data for this study comprises all listed commercial banks, which are currently operating in Nepal. A represented part of population selected from it to investigating its properties is called sample. Whereas, sample data are the data of those organizations which has been selected from the wholepopulation for study.

3.3 Nature and Sources of Data

Data is very reliable and effective source for research. The study uses the secondary data to fulfill its objectives. Secondary data are those data that are collected by someone else or used already and made available to other in the form of published statistics such as annual reports, periodicals, newspapers, magazines etc. Once a primary data is used, it loses its originality and becomes secondary. This study is mainly depending on the use of secondary data that consists of annual reports of the concerned banks. Besides the annual reports, various other sources of data have also been used for the purpose of the study plan documents, newspaper, magazine, economic journals, NRB reports etc.

The proposed research has focused on quantitative data rather than qualitative data. These data collect from secondary sources. The secondary sources are governmental

sources, semi-governmental sources, private organization, Non-government organization, International non-government organization, newspapers, google, YouTube etc. Finally, the data has been edited, coded, classified, tabulated and presented as per requirements.

3.4 Methods of Analysis

The collected data were recorded in excel sheet then analyze with the help of SPSS 20 version. The method of analysis employed in this study includes descriptive analysis and inferential analysis has been applied. Under descriptive the mean, minimum, maximum and standard deviation has been used to analyze the data.

Along with descriptive statistics, a correlation matrix including the variables is also presented. The correlation matrix shows that some of the independent variables are significantly correlated with each other. The regression analysis has been carried out to establish the relationship between dependent and independent variables.

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them correlation analysis regarded as major one is used for this research. To make the study more specific and reliable, the researcher uses two types of tool for analysis:

i) Statistical Tools
ii) Financial Tools

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CHAPTER-IV

RESULTS AND DISCUSSION

In this section of the study, various statistical tools described in chapter three have been used for fulfilment of study' objectives. The general purpose of this chapter is to analyze and interpret the data collected during the study. It provides systematic presentation, interpretation, and analysis of secondary data in order to deal with various issues associated with liquidity effect on banks' profitability. Both statistical and financial tools have been employed in this section as per requirements. The statistical tools consist of descriptive and inferential tools whereas financial tools consist of ratio analysis.

4.1 Descriptive Analysis

Descriptive analytical tools such as mean (arithmetic), range and standard deviation have been incorporated with respect to variables such as capital adequacy ratio, non-performing loan ratio, credit deposit ratio, cash reserve ratio, return on assets and return on equity. Where, capital adequacy ratio, non-performing loan ratio, credit deposit ratio and cash reserve ratio are predictors also called independent variables. on the other hand, return on assets and equity are dependent variables.

Table 4: *Descriptive Analysis*

Descriptive Statistics						
Variables	N	Range	Minimum	Maximum	Mean	Std. Deviation
CAR	30	84.13	11.01	95.14	27.70	21.40
NPLR	30	39.22	.00	39.22	9.78	12.53
CDR	30	91.78	9.47	101.25	58.97	26.86
CRR	30	26.18	4.78	30.96	17.30	8.71
ROE	30	27.06	5.72	32.78	19.14	6.07
ROA	30	2.43	.82	3.25	1.88	.58

The descriptive analysis is based on total thirty number of observations having five entities with ten fiscal year data. The mean value for capital adequacy ratio is 27.70 percent with standard deviation 21.40 percent over ten years. The minimum and

maximum value of capital adequacy ratio is 11.01 and 95.14 percent. Thus, the range for capital adequacy ratio is 84.13 percent.

Similarly, the mean value for non-performing loan ratio is 9.78 percent with standard deviation 12.53 percent over ten years. The minimum and maximum value of non-performing loan ratio is .00 and 39.22 percent. Thus, the range for non-performing loan ratio is 39.22 percent.

Moreover, the mean value for credit deposit ratio is 58.97percent with standard deviation 26.86 percent over ten years. The minimum and maximum value of credit deposit ratio is 9.47 and 101.25 percent. Thus, the range for credit deposit ratio is 91.78 percent.

Likewise, the mean value for cash reserve ratio is 17.30 percent with standard deviation 8.71 percent over ten years. The minimum and maximum value of cash reserve ratio is 4.78 and 30.96 percent. Thus, the range for cash reserve ratio is 26.18 percent.

Further, the mean value for return on equity is 19.14 percent with standard deviation 6.07 percent over ten years. The minimum and maximum value of return on equity is 5.72 and 32.78 percent. Thus, the range for return on equity is 27.06 percent.

Eventually, the mean value for return on equity is 1.88 percent with standard deviation .58 percent over ten years. The minimum and maximum value of return on equity is .82 and 3.25 percent. Thus, the range for return on equity is 2.43 percent.

Table 6: *Correlation Analysis with Dependent Variable ROA*

Correlations						
		CAR	NPLR	CDR	CRR	ROA
CAR	Pearson Correlation	1	.867**	-.368**	-.595**	.523**
	Sig. (2-tailed)		.000	.008	.000	.000
	N		30	30	30	30
NPLR	Pearson Correlation		1	-.634**	-.710**	.338*
	Sig. (2-tailed)			.000	.000	.016
	N			30	30	30
CDR	Pearson Correlation			1	.829**	-.020
	Sig. (2-tailed)				.000	.891
	N				30	30
CRR	Pearson Correlation				1	-.313*
	Sig. (2-tailed)					.027
	N					30
ROA	Pearson Correlation					1

***. Correlation is significant at the 0.01 level (2-tailed).*

**. Correlation is significant at the 0.05 level (2-tailed).*

Relationship between capital adequacy ratio and return on assets

The correlation coefficient between capital adequacy ratio and return on assets is 523** which indicate that there is a positive correlation between capital adequacy ratio and return on assets. Thus, capital adequacy ratio and return on assets move in same direction. The corresponding p-value is 0.00o, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between capital adequacy ratio and return on assets.

Relationship between non-performing loan ratio and return on assets

The correlation coefficient between non-performing loan ratio and return on assets is .338* which indicate that there is a positive correlation between non-performing loan ratio and return on assets. Thus, non-performing loan ratio and return on assets move in same direction. The corresponding p-value is 0.016, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between non-performing loan ratio and return on assets.

Relationship between credit deposit ratio and return on assets

The correlation coefficient between credit deposit ratio and return on assets is -.020 which indicate that there is a negative correlation between credit deposit ratio and return on assets. Thus, credit deposit ratio and return on assets move in inverse direction. The corresponding p-value is 0.891, which is greater than level of significance (α) = 0.05 at 95 percent confidence level results that there is insignificant relationship between credit deposit ratio and return on assets.

Relationship between cash reserve ratio and return on assets

The correlation coefficient between cash reserve ratio and return on assets -.313* which indicate that there is a negative correlation between cash reserve ratio and return on assets. Thus, cash reserve ratio and return on assets move in inverse direction. The corresponding p-value is 0.027, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between c cash reserve ratio and return on assets.

Regression Analysis

A line of regression gives the best estimate of one unfamiliar variable for any given value of the other variable. The multiple regression analysis has been assimilated to

inspect the cause and effect relationship between and among the variables. A line fitted to a set of data points to guesstimate the relationship between two variables is called regression line. A line fitted by the method of least square is the line of best fit. The model has been developed by undertaking dependent i.e. return on equity and independent variables such as capital adequacy ratio, non-performing loan ratio, credit deposit ratio and cash reserve ratio. Thus, the multiple regression equation is $ROE_{it} = \beta_0+\beta_1 CAR +\beta_2 CRR +\beta_3 CDR+\beta_4 NPLR + \varepsilon_{it}$ executed in table 7, 8 and 0. Similarly, table 10, 11 and 12 incorporate $ROA_{it} = \beta_0+\beta_1 CAR +\beta_2 CRR +\beta_3 CDR+\beta_4 NPLR + \varepsilon_{it.}$

Table 7: *Model Summary with Dependent Variable ROE*

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.519a	.270	.205	5.41150

a. Predictors: (Constant), CRR, CAR, CDR, NPLR

The table 7 depicts the model summary for linear regression analysis undertaking the dependent i.e. return on equity and independent variables such as capital adequacy ratio, non-performing loan ratio, credit deposit ratio and cash reserve ratio.

The multiple regression model summary, the R-square for this model, which is 0.27. This means that 27 percent of the variation in the dependent variable i.e. return on equity is explained by independent variables such as capital adequacy ratio, non-performing loan ratio, credit deposit ratio and cash reserve ratio. The adjusted R-square for regression model is .205. The std. error of the estimate for multiple regression model is 5.41150.

Table 8: *Analysis of Variance with ROE*

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	486.843	4	121.711	4.156	.006b
	Residual	1317.795	25	29.284		
	Total	1804.639	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), CRR, CAR, CDR, NPLR

The fitness of the model is stated F-statistic of 4.156 with p-value of .006 is significant at 95 percent confidence level since p-value is less than .05. This implies that the research model is a good-fit in explaining liquidity impact on profitability.

4.2 Major Findings

- The mean value for capital adequacy ratio is 27.70 percent with standard deviation 21.40 percent over ten years. The minimum and maximum value of capital adequacy ratio is 11.01 and 95.14 percent. Thus, the range for capital adequacy ratio is 84.13 percent.

- The mean value for non-performing loan ratio is 9.78 percent with standard deviation 12.53 percent over ten years. The minimum and maximum value of non-performing loan ratio is .00 and 39.22 percent. Thus, the range for non-performing loan ratio is 39.22 percent.

- The mean value for credit deposit ratio is 58.97 percent with standard deviation 26.86 percent over ten years. The minimum and maximum value of credit deposit ratio is 9.47 and 101.25 percent. Thus, the range for credit deposit ratio is 91.78 percent.

- The mean value for cash reserve ratio is 17.30 percent with standard deviation 8.71 percent over ten years. The minimum and maximum value of cash reserve ratio is 4.78 and 30.96 percent. Thus, the range for cash reserve ratio is 26.18 percent.

- The mean value for return on equity is 19.14 percent with standard deviation 6.07 percent over ten years. The minimum and maximum value of return on equity is 5.72 and 32.78 percent. Thus, the range for return on equity is 27.06 percent.

- The mean value for return on equity is 1.88 percent with standard deviation .58 percent over ten years. The minimum and maximum value of return on equity is .82 and 3.25 percent. Thus, the range for return on equity is 2.43 percent.

- The correlation coefficient between capital adequacy ratio and return on equity is .465** which indicate that there is a positive correlation between capital adequacy ratio and return on equity. Thus, capital adequacy ratio and return on equity move in same direction.

- The corresponding p-value is 0.001, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between capital adequacy ratio and return on equity.

- The correlation coefficient between non-performing loan ratio and return on equity is .323* which indicate that there is a positive correlation between non-performing loan ratio and return on equity. Thus, non-performing loan ratio and return on equity move in same direction.

- The corresponding p-value is 0.022, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between non-performing loan ratio and return on equity.

- The correlation coefficient between credit deposit ratio and return on equity is -.103 which indicate that there is a negative correlation between credit deposit ratio and return on equity. Thus, credit deposit ratio and return on equity move in inverse direction.

- The corresponding p-value is 0.476, which is greater than level of significance (α) = 0.05 at 95 percent confidence level results that there is insignificant relationship between credit deposit ratio and return on equity.

- The correlation coefficient between cash reserve ratio and return on equity -.314* which indicate that there is a negative correlation between cash reserve ratio and return on equity. Thus, cash reserve ratio and return on equity move in inverse direction.

- The corresponding p-value is 0.026, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between c cash reserve ratio and return on equity.

- The correlation coefficient between capital adequacy ratio and return on assets is 523** which indicate that there is a positive correlation between capital adequacy ratio and return on assets.

- Thus, capital adequacy ratio and return on assets move in same direction. The corresponding p-value is 0.00, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between capital adequacy ratio and return on assets.

- The correlation coefficient between non-performing loan ratio and return on assets is .338* which indicate that there is a positive correlation between non-performing loan ratio and return on assets.

- Thus, non-performing loan ratio and return on assets move in same direction. The corresponding p-value is 0.016, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between non-performing loan ratio and return on assets.

- The correlation coefficient between credit deposit ratio and return on assets is -.020 which indicate that there is a negative correlation between credit deposit ratio and return on assets. Thus, credit deposit ratio and return on assets move in inverse direction.

- The corresponding p-value is 0.891, which is greater than level of significance (α) = 0.05 at 95 percent confidence level results that there is insignificant relationship between credit deposit ratio and return on assets.

- The correlation coefficient between cash reserve ratio and return on assets -.313* which indicate that there is a negative correlation between cash reserve ratio and return on assets. Thus, cash reserve ratio and return on assets move in inverse direction. The corresponding p-value is 0.027, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between cash reserve ratio and return on assets.

- The multiple regression model summary, the R-square for this model, which is 0.27. This means that 27 percent of the variation in the dependent variable i.e. return on equity is explained by independent variables such as capital adequacy ratio, non-performing loan ratio, credit deposit ratio and cash reserve ratio.

- The adjusted R-square for regression model is .205. The std. error of the estimate for multiple regression model is 5.41150.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

The study is concern with the factors influencing the financial performance of commercial banks in Nepal. The study has been conducted with five banks undertaking ten fiscal-year sample period. The study consists of return on assets and return on equity as dependent variables whereas as cash reserve ratio, capital adequacy ratio, non-performing loan ratio and credit deposit ratio as independent variables. The major objective of the study is to analyze liquidity impact on profitability of commercial banks in Nepal. Both descriptive and inferential statistical tools have been employed to attain the objectives of the study.

The major findings of this study can be elaborated as the correlation coefficient between cash reserve ratio and return on equity -.314* which indicate that there is a negative correlation between cash reserve ratio and return on equity. Thus, cash reserve ratio and return on equity move in inverse direction. The corresponding p-value is 0.026, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between c cash reserve ratio and return on equity. The correlation coefficient between capital adequacy ratio and return on assets is 523** which indicate that there is a positive correlation between capital adequacy ratio and return on assets.

Thus, capital adequacy ratio and return on assets move in same direction. The corresponding p-value is 0.00, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between capital adequacy ratio and return on assets. The correlation coefficient between non-performing loan ratio and return on assets is .338* which indicate that there is a positive correlation between non-performing loan ratio and return on assets. Thus, non-performing loan ratio and return on assets move in same direction. The corresponding p-value is 0.016, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between non-performing loan ratio and return on assets.

The correlation coefficient between credit deposit ratio and return on assets is -.020 which indicate that there is a negative correlation between credit deposit ratio and return on assets. Thus, credit deposit ratio and return on assets move in inverse direction. The corresponding p-value is 0.891, which is greater than level of significance (α) = 0.05 at 95 percent confidence level results that there is insignificant relationship between credit deposit ratio and return on assets. The correlation coefficient between cash reserve ratio and return on assets -.313* which indicate that there is a negative correlation between cash reserve ratio and return on assets. Thus, cash reserve ratio and return on assets move in inverse direction. The corresponding p-value is 0.027, which is less than level of significance (α) = 0.05 at 95 percent confidence level results that there is significant relationship between cash reserve ratio and return on assets.

5.2 Conclusion

In the light of this evidence, it is crystal clear that the liquidity has low degree of effect on profitability of joint venture banks. There is statistically negatively significant relationship between cash reserve ratio and return on equity and return on assets. However, the all joint venture banks have sufficiently retained liquidity level to tackle future liquidity risk and solvency.

The shareholders are getting return regular however this in not consistency over getting return. Similarly, there is statistically positive and significant relationship between capital adequacy ratio and return on equity. The effect of capital adequacy ratio on profitability is week. Similarly, there is statistically negative but insignificant relationship between non-performing loan ratio and return on equity. The effect of non-performing loan ratio on profitability is considerable but not so strong enough. Moreover, there is statistically positive and significant relationship between credit deposit ratio and return on equity and return on assets. In addition, credit deposit ratio also has weaker effect.

5.3 Implications

Practical Implications

There are many implications for future researchers, managers, shareholders, regulators and so on. The study can help managers in banks to make accurate financial decisions that will satisfy the stakeholder’s interest with regards to liquidity and profitability

needs of the investors. In addition, the findings of the research revealed that changes in level of liquidity does affects profitable situation, so it enables managers to revise and adopt relevant strategies regarding profitability with concerning the level of liquidity are present in profitable banks. This will help them to formulate rules and regulation that help to minimize failure risk in the banking sector.

Theoretical Implications

Similarly, it will be also helpful for other financial intuitions to formulate plans and policies based on the findings of this research. The study had covered only the liquidity part and it was conducted using limited ratios. Therefore, the researchers in future, who will conduct research in the same field, can use various other ratios and more advanced statistical and accounting tools, techniques in order to get better results. The secondary analysis was done by using descriptive statistics, correlation and regression analysis. Therefore, the researcher in future may consider other analysis such as test of normality test and so on for more accurate results and conclusions. The interested researchers can also do in the same area of this research extensively using a wider data and area of coverage. The study had analyzed the impact of liquidity on profitability. Such information could protect commercial banks against failure, enhance their performances, and disclose what will happen to one factor as some results of a change in others. This study had proved that the liquidity affected profitability of bank. If bank hold high level of liquidity, profit of bank will decrease and vice versa. Therefore, bank should try to maintain adequate level of capital.

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