

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Liquidity management is very important for every business organization. The business has enough liquid assets (i.e., Cash in hand, Cash at bank etc.) to meet the payment obligations. Liquidity ratios work with cash and near-cash assets (i.e., liquid fund) of a business on one side, and the immediate payment obligations (current liabilities) on the other side. If the coverage of the current liabilities by the cash and near-cash is insufficient, it indicates that the business might face difficulties in meeting its immediate financial obligations. This can affect the business operations and profitability of the organisations. The Liquidity versus Profitability Principle: There is a trade-off between liquidity and profitability; gaining more of one ordinarily means giving up some of the other.

Liquidity management is of crucial importance in financial management decision. The optimal of liquidity management is could be achieve by company that manage the trade-off between profitability and liquidity management. Commercial banks' liquidity exposure can be measured by analyzing the sources and uses of liquidity. In this approach, total net liquidity is worked out by deducting the total of uses of liquidity from the total of sources of liquidity. Different liquidity exposure ratios such as borrowed funds to total assets, core deposit to total assets, loans to deposits, and commitments to lend to total assets are used to measure the liquidity position of a commercial bank (Bhunia & Khan, 2011).

Profitability is a measure of firm's efficiency. It is also a control measure of the earning power of a firm as well as operating efficiency. Profitability as net result of a large number of policies and decisions. Ratios are used to measure profitability and give final answers to how effectively the firm is being

managed in terms of its financial performance. Therefore, management, creditors and owners are also interested in the profitability ratio of the firm (Pandey, 1995).

1.2 Focus of the Study

The commercial banks play a vital role in the economic growth of the country. Likewise they are equally liable to the benefits of their shareholders, customers, and depositors and overall to the whole society. Amidst the unfavorable circumstances their success mainly depends on their financial decisions. This thesis focuses on the analysis of their profitability and financial performance to disclose the truth about their financial decisions, present problems and recommendations for corrections. For research purpose five commercial banks have been chosen namely Citizen International Bank Limited (CIBL), Everest Bank Limited (EBL), Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB) and Sanima Bank Limited (SBL).

1.3 Statement of the Problems

In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses. Similarly investors are also needed to evaluate the performance of the companies for secured investment. In the Nepalese capital market financial institutions have dominated to the other sectors. Many researchers have been made in the field of the performance evaluation of the commercial banks among the financial institutions. The statements of problems of this study are mentioned below:

- What is the current position of liquidity of sample banks?
- What is the current position of profitability of sample banks?
- What is the relationship between liquidity and profitability of sample banks?

1.4 Objective of the Study

The main objective of this study is to analyze the comparative study of the liquidity and profitability analysis of the selected commercial banks. The specific objectives are as follows.

- To assess the liquidity position of the sample banks.
- To analyze the profitability ratios of the sample Banks.
- To examine the relationship between liquidity and profitability of the sample banks.

1.5 Limitations of the Study

Limitations of the study are as follows:

- It is mainly based on secondary data like balance sheet, profit and loss account and other from the audited annual reports of sample banks. So that the reliability of study depends upon the accuracy of the available data
- The consistency of the result is strictly based on the annual report of the sample banks.
- It is covering the period of 5 years from 2012/13 to 2016/17 of Citizen International Bank Limited (CIBL), Everest Bank Limited (EBL), Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB) and Sanima Bank Limited (SBL).

1.6 Organization of the Study

This study has organized into the following five chapters:

Chapter I: Introduction

Chapter explains the background of the study, focus of the study, statement of the problems, objective of the study, limitation of the study and organization of the study.

Chapter II: Conceptual Framework and Review of Literature

The second chapter is concern with the review of relevant subjects and includes conceptual framework and review of articles and past studies.

Chapter III: Research Methodology

Chapter three present methodologies adopted for the research. It comprises research design, sources of data, method of analysis and its descriptive presentation.

Chapter IV: Presentation and Analysis of Data

Chapter four deals with the techniques used in analyzing the collected data and its presentation and analysis in the descriptive and analytical manner and also includes major findings of the study.

Chapter V: Summary, Conclusion and Recommendation

This is the last chapter of the study and presents summary of the study, conclusion of the study and needful recommendations for further improvement of the financial performance of the selected banks and for investment decision for investors.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study. The list of bibliography and appendixes are given at the last for references.

CHAPTER II

REVIEW OF LITERATURE

Review of literature means reviewing research studies of relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further study and research can be done or conducted. It is integral mandatory process in research works. It is a crucial part of all dissertations. In other word it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implied putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The focus of the review is liquidity and profitability analysis of commercial bank. The primary purpose of literature is to learn and it helps researcher to find out what research studies have conducted in one's choose of study and what remains to be done. For review study, researcher uses different books, journal, reviews and abstract, indexes, reports and dissertation or research studies published by various institutions, encyclopedia etc.

We study the review of literature in dividing two headings:

- Conceptual Framework
- Review of related studies

2.1 Conceptual Framework

2.1.1 Liquidity Management

Liquidity means having sufficient funds to meet regulatory, contractual and relationship obligations when required and at a reasonable cost to the banks are unique because there will not be large volume of deposit payable on demand in

other types of business. If banks fail to repay the deposit on demand, the bank loses the trust of the public. So liquidity is the lifeline of the bank. In this regard, the term liquidity management is used to describe any types off fulfill the short term obligation of any types of organization (*Dahal & Daha, 2002*).

Managing liquidity is a fundamental component in the safe and sound management of all financial institutions. Sound liquidity management involves prudently managing assets and liabilities (on- and off-balance sheet), both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to approaching cash outflows. This needs to be supported by a process of liquidity planning which assesses potential future liquidity needs, taking into account changes in economic, regulatory or other operating conditions. Such planning involves identifying known, expected and potential cash outflows and weighing alternative asset/liability management strategies to ensure that adequate cash inflows will be available to the institution to meet these needs.

Liquidity management is combination of two words liquidity and management. Liquidity is a word that can be taken as to perform the life cycle system of financial institutions' activities in a perfect manner. It can overall describe the securities management of the cash balance in a systematic and scientific way. Liquidity is that part of the total assets, which can be paid immediately to meet the current obligation. The liquidity of an asset refers to the ease and certainty with which it can be turned into cash. For these different assets exhibits different degrees of liquidity depending upon the ease of turning in cash. In this regard, the term liquidity management is used to describe money and assets that are readily convertible into money with in very short span of time (Reed, et al., 1976).

The assets that can be disposed off immediately and converted into cash in very short span of time are known as liquid assets and the management of same to meet the financial obligations in time is called "Liquidity Management".

Liquidity management for commercial banks is concerned with of cash and other liquid assets (Treasury Bills and Development Bonds) to meet the immediate as well as the contingent financial obligations that may arise due to off balance sheet items.

Managing liquidity involves estimating liquidity needs and providing for them in the most cost-effective way possible. Banks can obtain liquidity from both sides of the balance sheet as well as from off-balance-sheet activities. A manager who attempts to control liquidity solely by adjustments on the asset side is sometimes ignoring less costly sources of liquidity. Conversely, focusing solely on the liability side or depending too heavily on purchased wholesale funds can leave the bank vulnerable to market conditions and influences beyond its control. Effective liquidity managers consider the array of available sources when establishing and implementing their liquidity plan (*Khubchandani, 2002*).

Bank management should understand the characteristics of their funds providers, the funding instruments they use, and any market or regulatory constraints on funding. In order to accomplish this, management must understand the volume, mix, pricing, cash flows, and risks of their bank's assets and liabilities, as well as other available sources of funds and potential uses for excess cash flow. They must also be alert to the risks arising from funding concentrations (*Dahal & Dahal, 2002*).

2.1.2 Importance of Liquidity Management

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

financial institution should keep the stock of liquid assets in the ratio of their deposit liability, as fixed by the Nepal Rastra Bank. The central bank can give the interest with the rate fixed by bank from time to time to the amount in the fund.

The importance of liquidity:

To pay all short deposit

A bank open the current, saving and fixed account for its customer's and accepts the deposits from customers. According to nature of deposit from the customer, the bank should pay in the time when customers ask. The liquidity needs for it. It can't pay the deposits without liquidity. That is why liquidity is necessary for the payment of all types of deposits.

To fulfill demand of the debtor

A bank provides loan to debtors and earns income from it. Many kinds of people come to the banks with purpose of loan. After the loan is granted, the bank is obliged to give the loan to the debtor, therefore, there is necessary of liquidity in bank to provide fresh loan to the debtors.

To provide security of the banks

A bank is sensitive institution because it is an institution of banking transaction. Hence, the deposits are deposited in different types of account by general people, industrialists and businessmen. Apart from it, the bank itself invests the cash in different sectors. The cash in a form of loan can be distributed in different sectors from the bank. So, the bank is regarded as a sensitive and important institution. Such institution can be saved from the various risks at any distributed in different sectors from the bank. So, the bank is regarded as a sensitive and important institution. Such intuition can be saved from the various risks at any situation. Hence, to provide all kinds of security to the bank, the liquidity is necessary.

To meet the expenses for the bank's daily administrative work

Many types of expense go on taking place in bank daily. A bank is legal person. With the lack of expenses, it is nearly impossible for the bank to do its transaction. So the liquidity is necessary for the daily expenses that it is spent in an administrative function. The administrative expenditure can't be fulfilled without liquidity. Hence liquidity is important for the banks.

To maintain liquidity to meet the Cash Fund Ratio and Legal Liquidity Ratio

The commercial bank should keep 5% Cash Reserve Ratio in the Nepal Rastra Bank's account in their own name, in addition to it, there are some small funds in the bank. There is an obligation on bank to keep cash in such fund. Therefore, to fulfill all these demands or to maintain the balance, liquidity is necessary.

To control the economic fluctuation and to keep safe from the risk

It can't be said, there will be the same situations of transaction in the bank and bank will always remain in balance condition. There will be effect of internal and external circumstances in the nation. Such condition may have effect on economic sector. The commercial banks too can't remain safe from the effect of economic sector. There is important of liquidity to keep free economic rise and fall or economic crisis. The bank should maintain some liquidity of certain percent cash fund to keep safe from such situations (Khadka, 2001).

2.1.3 Liquidity Risk

Liquidity risk is the risk to a bank's earnings and capital arising from its inability to timely meet obligations when they come due without incurring unacceptable losses. Bank management must ensure that sufficient funds are available at a reasonable cost to meet potential demands from both funds providers and borrowers. Although liquidity risk dynamics vary according to a

bank's funding market, balance sheet, and inter corporate structure, the most common signs of possible liquidity problems include rising funding costs, requests for collateral, a rating downgrade, decreases in credit lines, or reductions in the availability of long-term funding.

The sophistication of a bank's liquidity management process will depend on its business activities and overall level of risk. However, the principles of liquidity management are straightforward: a well-managed bank, regardless of size and complexity, must be able to identify, measure, monitor, and control liquidity risk in a timely and comprehensive manner (*Khan and Jain, 1997*).

2.1.4 Banking Liquidity Risks

Bankers and examiners must understand and assess how a bank's exposure to other risks may affect its liquidity. The nine categories of risk are credit, interest rate, liquidity, price, foreign currency translation, transaction, compliance, strategic, and reputation. These categories are not mutually exclusive any product or service may expose the bank to multiple risks and a real or perceived problem in any area can prevent a bank from raising funds at reasonable prices and thereby increase liquidity risk (*Johnson, 1990*).

The primary risks that may affect liquidity are reputation, strategic, credit, interest rate, price, and transaction. If these risks are not properly managed and controlled, they will eventually undermine a bank's liquidity position. A brief description of how these risks may affect liquidity is provided below.

A) Reputation Risk

Reputation risk is the current and prospective impact on earnings and capital arising from negative public opinion. A bank's reputation for meeting its obligations and operating in a safe and sound manner is essential to attracting funds at a reasonable cost and retaining funds during troubled times.

Negative public opinion, whatever the cause, may prompt depositors, other

funds providers, and investors to seek greater compensation, such as higher rates or additional credit support, for maintaining deposit balances with a bank or conducting any other business with it. If negative public opinion continues, withdrawals of funding could become debilitating.

To minimize reputation risk and its potential impact on liquidity, bank management should assess the bank's reliance on credit-sensitive funding. A bank that is exposed to significant reputation risk should seek to mitigate liquidity risk by diversifying the sources and tenors of market funding and increasing asset liquidity, as appropriate (*Johnson, 1940*).

B) Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. No strategic goal or objective should be planned without considering its impact on a bank's funding abilities. The bank must be able to raise money required to meet its obligations at an affordable cost. The ability to attract and maintain sufficient liquidity is often an issue at banks experiencing rapid asset growth. If management misjudges the impact on liquidity of entering a new business activity, the bank's strategic risk increases. Management should carefully consider whether the funding planned to support a strategic risk initiative will increase liquidity risk to an unacceptable level (*Johnson, 1940*).

C) Credit Risk

Credit risk is the current and prospective risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise to perform as agreed. A bank that assumes more credit risk, through asset concentrations or adoption of new underwriting standards in conjunction with untested business lines, may be increasing its liquidity risk. Credit-sensitive funds providers may worry that the bank's increased credit exposure could lead

to credit problems and insufficient profits. The bank's ability to meet its obligations may eventually be compromised. Wholesale funds providers and rating agencies consider the level of past-due loans, nonperforming loans, provisions to the allowance for loan and lease losses, and loan charge-offs as indications of trends in credit quality and potential liquidity problems. If credit risk is elevated, the bank may have to pay a premium to access funds or attract depositors. If credit risk has undermined the bank's financial viability, funding may not be available at any price. Most large bank failures have involved the combined effects of severe credit and liquidity deterioration (*Johnson, 1940*).

D) Interest Rate Risk

Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. Changes in interest rates affect income earned from assets and the cost of funding those assets. If a bank experiences a reduction in earnings from a change in market interest rates, funds providers may question the financial stability of the bank and demand a premium. They may even refuse to provide funding.

Off-balance-sheet instruments that a bank uses to manage its interest rate risk may also pose liquidity risk. The cash flows of those instruments often are very sensitive to changes in rates, and, if not properly managed, can result in unexpected funding requirements or other cash outflows during periods of volatile interest rates (*Crosse, 1963*).

E) Price Risk

Price risk (or market risk) is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. Price risk may result in volatile earnings. This risk is most prevalent in large banks that actively trade financial instruments. Price risk is closely monitored by funds providers when assessing a bank's financial position and creditworthiness. If price risk and its perceived impact on earnings or capital is too great, funds providers

may require the bank to pay increased rates for funds, may not be willing to invest in longer term maturities, or may not be willing to provide funding on any terms (*Crosse, 1963*).

F) Transaction Risk

Transaction risk is the current and prospective risk to earnings and capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position and manage information. Systems that directly affect liquidity include wire transfer systems for check and securities clearing, electronic banking, and operations governing credit, debit, and smart card usage. If product lines change, management must adjust the systems to ensure that all transactions can be handled. Significant problems can develop very quickly if the systems that process transactions fail or delay execution. If customers have difficulty accessing their accounts, they may close them, which will diminish liquidity. Transaction risk should be considered in the bank's contingency planning process (*Crosse, 1963*).

2.1.5 Factors Affecting the Needs of Bank Liquidity

Basically, need of bank is affected by the following factors

External Environmental factors

- **Prevailing interest rate:** If bank interest rate is high, the demand of cash is low what why there will be low liquidity needs.
- **Saving and investment:** High level of income and saving produce low level of liquidity high level of investment produce high level of liquidity needs.
- **Growth and slackening position of the financial market:** Growth and progress of economic and financial market produce low level of liquidity needs but opposite to this slackening position of economic and financial market produces high level of liquidity needs.

Internal Environmental factor

- **Lending policy of bank:** Level of liquidity requires to the bank if it has adopted a long term or mid-term loan policy. Otherwise low level of liquidity requirement is applicable for the short-term investment policy adopting bank.
- **Management liquidity:** Low level of liquidity needs to high-risk bearing and capable risk handling management. Other high level of liquidity needs for risk averter and relatively low capable or inefficient management.
- **Strategic planning and fund flow situation:** Liquidity needs is affected by bank's investment policy, strategic planning and objectives.

It is also affected by the fund flow situation and lending policy. If the bank has collected more amount in current account relatively there will be high level need of liquidity otherwise there is low level of need of liquidity. It depends on maturity matching of assets and liability of banks (Bhandari, 2004).

2.1.5 Concept of Profit and Profitability

Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits (Cavery, 1997).

The term profit has three meanings:

- In economics, the concept of reward of the entrepreneur for risk taking and management.
- In business operations, the gain from manufacturing, merchandising and selling operations after all expenses are met. Since profit normally is added to net worth, it may be measured by the increase in net worth over that of the previous accounting period. The amount of the concern's

profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, such as are found in the profit and loss account.

- In speculative transactions, the excess of the net selling price over the costs (including all charges) of the security or commodities traded in (Charles, 1999).

Profitability means ability to earn profit. What role does “profit” play within the firm? What specific tasks are assigned to the financial staff, and what tools and techniques are available to it for improving the firm’s performance? On a broader scale, what is the role of profit in the Nepalese economy, and how can financial management be used to further our national goal? As we shall see, proper financial management will help all business provides better products to its customer at lower price, pay higher wages and salaries to its workers and managers, and still provide greater return to the investors who put up the capital needed to firm and then operate the firm. We can simply define the word “profit” as primary measurement of success of management effectiveness in business enterprise. In other word profit means the excess of total revenue over the total cost of production. Productive activities, which in turn is the result of the investment venture in productive enterprises. The establishment of these enterprises needs a huge amount of funds. Existing enterprises and companies within the economy can be viewed as productive enterprises that operate with equity and debt funds. The decision making process of choosing funds among various alternatives with the best financial mix, plays a crucial role in the capital structure decision of the firm.

The second component part of the term profitability is 'ability' which reflects the capacity of power of company to earn profit. This ability is also referred to

as 'earning capacity' or 'earning power' of the concerned investment. Thus, the term 'profitability' may be taken as the ability of a company to earn profit. According to Howard and Upton, "The word profitability may be defined as the ability of a given investment to earn return on its use (Howard &Upton, 1961).

As the profitability is a relative measure, it is used to judge the degree of operational efficiency of management. In a profitability analysis, the profit making ability of company as measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly position stands as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon. Profitability is the net result of a large number of policies and decisions. The ratios examiner thus far provide some information about the way the firm is operating, but the profitability ratios show the combined effects of liquidity, assets management and debt management on operating results. Profitability ratio is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and condition can be determined. While computing the ratios, they do not add any information, they only reveal the relationship in a more meaningful way to enable us to draw conclusions from them.

Further, in financial analysis, and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interpret them. It helps as analyst to make quantitative judgment about the financial position and performance of the firm. The rationale of ratio analysis lies in the fact that it makes related information comparable. A single figure by itself has no meaning but when expressed in terms of a related figure, it yields significant inferences Ratio Analysis, as quantities tool, enables analysts to draw quantitative conclusions. Hence, ratio analysis is the systematic production of ratios from both internal and external financial reports to summarize key relationship and results in order to appraise profitability position. It is used as practical means of monitoring and improving

performance, which helps the organizations, meet their future obligations of expectations from the past performance.

The profitability concept has an important place in the theory of financial management. The financial decision of a firm relates to choice of proportion of debt and equity to finance the investment requirement. A proper balance between debt and equity is necessary to ensure a trade-off between risk and return to the firm. A firm should select such a financing mix, which maximizes the profit of the firm. The optimal profit and its implication are more noticeable.

Profitability is the net result of a large number of policies and decisions. The ratios examiner thus far provide some information about the way the firm is operating, but the profitability ratios show the combined effects of liquidity, assets management and debt management on operating results. Profitability ratio is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and condition can be determined. While computing the ratios, they do not add any information, they only reveal the relationship in a more meaningful way to enable us to draw conclusions from them. Further, in financial analysis, and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interpret them. It helps as analyst to make quantitative judgment about the financial position and performance of the firm (Narayan, 1980).

2.1.6 Need of Profit

Profit is a must for the following reasons:

- Measurement of performance

Profit is only one factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.

- Premium to cover costs of staying in business

Business environment is full of risks and uncertainties. To grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.

- Ensuring supply of future capital

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

- Return to the Investors

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 (Mishkin, 1998).

2.1.3 Profitability of Commercial Banks

Unlike in any other organizations, there are various forms of stakeholders in the Bank. So, the bank also has to make the best efforts to meet the interests of the stakeholders. The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, the foremost objective of the banks is the profit maximization.

The major source of funds of the bank is the public deposit. The bank in most of the cases has to pay certain rate of interest to the public in their deposit. Thus, the banks have to mobilize these funds in the profitable sectors, which derive the maximum return on the assets. Hence, the investment or granting of loan and advances by them are highly influenced by profit margin. The profit of the bank is dependent on the interest rate, volume of loan and time period of

loan. However, the bank at the same time has to ensure that their investment is safe from default.

Although the banks have to invest in order to earn profits. But, at the same time have to set aside some of its fund in order to maintain their liquidity. As we all know the major source of bank's fund is public deposits, the bank has to be able to allow the depositors to withdraw their deposit in terms of need. Thus, the bank cannot invest all its funds in the profitable sectors. Thus, a successful bank is one who invests most of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserves to meet the daily requirements of the depositors. Lower the liquidity, higher the profitability and higher the liquidity, lower the profitability. So, profitability and liquidity maintain a highly negative co-relation. Since both are equally important, banks cannot afford to ignore any of them. So, the management has to make a crucial decision regarding a mixture of liquidity and profitability (*William, 1990*).

2.2 Review of Related Studies

2.2.1 Review of Research Articles

Brindadevi (2013) conducted a study on "*A Study on Profitability Analysis of Private Sector Banks In India*" and the objective of this study was overall profitability analysis of different private sector banks in India based on the performances of profitability ratios like interest spread, net profit margin, return on long term fund, return on net worth & return on asset. Profitability is a measure of efficiency and control it indicates the efficiency or effectiveness with which the operations of the business are carried on. Recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways

to change the business to improve profitability. These potential changes can be analyzed with a support of income statement and balance sheet.

Profitability of private sector banks in India plays major role in banking sector without profit the investors cannot invest in this business. A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services. To conclude that there is difference among the mean value of interest spread, net profit margin, return on long term fund and return on net worth and there is no difference among the mean value of return on asset of private banks. So profitability ratios are employed by the management in order to assess how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective steps to improve the operating efficiency of the business.

Tulsian (2014), conducted a study on "*Profitability Analysis (A comparative study of SAIL & TATA Steel)*" and the main purpose of a business unit is to make profit. The profitability analysis is done to throw light on the current operating performance and efficiency of business firms. It should be duly noted that net income figure alone is not very helpful in determining the efficiency and performance of the business firm unless it is related to some other figures such as sales, cost of goods sold, operating expenses, capital invested etc. Thus the profitability ratios are calculated to enlighten the end result and comparison of business firms which is the sole criterion of overall efficiency of business concern. It is evident from the gross profit ratio of Tata Steel showed a decreasing trend and so is the case with SAIL , which shows inefficiency of the management , however on the basis of the average it can be concluded that Tata Steel performed better as the decrease is less than the decrease in the gross profit ratio of SAIL Therefore it is suggested that management of both the companies should increase the gross profit ratio by controlling cost of goods sold and by increasing sales and try maintaining the same position in future also. The operating profit ratio was lower in SAIL and it is suggested that the

company should try to increase this ratio and also high fluctuation should be controlled by management. On the other hand the operating profit ratio was satisfactory in TISCO and it is suggested that company should try maintaining this ratio. Therefore it can be concluded that TISCO has performed better than SAIL from view point of this ratio as coefficient of variation was higher for SAIL than TISCO denoting variability. Analyzing the return on capital employed ratio it can be concluded that return on capital employed position of SAIL was better than TISCO because the average of the ratio was higher but the decreasing trend in both the company implies inefficiency of the management and inefficient utilization of the capital funds.

Jeevaraja (2014) had conducted a study on "*A study on Liquidity and Profitability of Private Banks in Sri Lanka*". The recent crisis has underlined the importance of sound bank liquidity management. In response, regulators are devising new liquidity standards with the aim of making the financial system more stable and resilient. Liquidity is most significant discipline of Banks' Profitability. Liquidity maintenance is an operational tool that helps to determine 'how does a bank choose their liquidity assets?' bank liquidity maintenance is then the composition or structure of its liquidity assets. This Study aims to examine the impact of liquidity on profitability of banking sector in Sri Lanka from 2008 to 2012. To conduct this research, samples were selected from all commercial banks in Sri Lanka. After data were collected from secondary sources of those samples, these data were presented and analyzed by using correlation and regression tools. In this research, the researcher concluded about the hypothesis providing, then clarify the research findings, after that the researcher formed a final conclusion. Some important suggestions also were given for the future studies. According to the analyses, showed that liquidity ratio has strong positive correlation with return on assets. Otherwise there is no relationship between liquidity and banks' profitability. There is no significant impact of liquidity on profitability of banking sector in Sri Lanka.

This Study presents empirical evidence regarding the impact of liquidity on profitability of the banking sector in Sri Lanka, over the period of 2008 to 2012. In short, results suggest that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability, all else equal. Conceptually, this result is consistent with the idea that funding markets reward a bank, to some extent, for holding liquid assets, thereby reducing its liquidity risk. However, this benefit is can eventually be outweighed by the opportunity cost of holding such comparatively low-yielding liquid assets on the balance sheet. Preliminary results in this study also suggest that Sri Lankan banks may have needed to hold less liquid assets over the estimation period than Stranded rate of liquidity requirement. For banks in order to optimize profits. More generally, this Study marks a first attempt to empirically address the relationship between liquidity assets and bank profitability. In interpreting the estimation results, it should be kept in mind that this work uses a reduced form model and, despite econometric adjustments, may not fully account for endangerment between variables. This is particularly important in terms of discussing any optimal level of liquid asset holdings relative to profits. Even though availability of liquidity asset must be maintained.

Kumar et. al. (2015), had conducted a study on "*Profitability Analysis of Selected Cement Companies in India*". Cement industry is a largest industry in world economy and Indian cement industries place second largest in the world. It is playing vital role to providing employment, infrastructure and housing sector, it attracted FDI worth US\$ 3,084.89 million during the year 2000 to 2014. The production capacity is projected to reach 550MT by financial year 2020. The research paper mainly focuses on analyses of profitability of selected cement companies in India during period of 2005 to 2014, the tools used for analysis are mean, standard deviation, co-efficient of variation and compound

annual growth rate, the study found that the profitability position of Ambuja cements is satisfactory when compare to other companies.

After analysing the profitability of different cement companies during the study period from a different angle it is found that Ambuja cements the profitability position as show satisfactory when compare to other companies. The compound annual growth rate as shown satisfactory in India cements while compare to other companies hence all the cement companies should concentrate on modern techniques of production and different marketing strategies to increase the positive growth rate and profitability.

Khan and ali (2016) had conducted a study on "*Impact of Liquidity on Profitability of Commercial Banks in Pakistan: An Analysis on Banking Sector in Pakistan*". The main objective of the study is to find the nature of relationship and the strength of relationship exist between the variables. Correlation and regression are used respectively to find the nature of the relationship and extent of relationship between dependent and independent variables. Secondary data was used for analysis which was extracted from the last five years (2008-2014) annual accounts of Habib Bank Limited. After conducting correlation and regression analysis it was found that there as significant positive relationship between liquidity with profitability of the banks. Since, the data of the banking sector was used, hence the results cannot be generalized to other sectors. It has been empirically proved through analysis that liquidity has positive relationship with profitability, and has considerable impact on the profitability of commercial banks in Pakistan. With the growing liquidity level to ascertain limit the profitability also increases. None of the variable shows negative relationship. Every ratio of liquidity shows positive relation with all the ratios of liquidity. Hence, this research indicates that liquidity has positive relationship with profitability. Therefore, it is suggested that banks should keep considerable amount of their liquid assets in order to get higher rate of profit.

2.2.2 Review of Thesis

Dhungana (2011) had conducted a study on “*Liquidity Position of Commercial Banks of Nepal with reference to BOK, HBL, SCBNL, NBL and NIBL*”. The main objectives were to examining the impact of liquidity and profitability in financial performance and to analyze the liquidity position of sample banks.

The study was conducted on the basis of secondary data. The study has focused only on three commercial banks. Mainly, the secondary sources have been collected from the annual reports of the sample commercial banks and the annual reports of NRB. The study used financial and statistical analysis to see the liquidity position of sampled commercial bank.

The banks under study are maintaining very high level of liquidity than the rate imposed by the NRB, there is negative impact in market due to the high liquidity. It shows the lack of efficiency of liquidity mobilization in financial performance. There is positive correlation between change in deposit and change in total liquid fund of the banks and so on. That performance of stated banks is quite satisfactory and they should find new investment sector for long lasting profitability.

Karki (2012) had conducted a study on “*Liquidity and Profitability Position of Commercial Banks of Nepal with reference to SCBNL, NABIL, HBL and NIBL*”.

The main objectives were to examining the liquidity and profitability position of the commercial banks of Nepal and to see the relationship between the liquidity and profitability of sample banks.

The researcher has used only secondary sources for getting answers of the research question. The study has focused only on four commercial banks. Mainly, the secondary sources have been collected from the annual reports of the commercial banks, annual reports of NEPSE and the annual reports of NRB. The study found that the liquid asset of SCBNL is highest among the

above mentioned banks. In terms of cash reserve ratio liquidity position of NIBL is most satisfactory and there is negative correlation between profitability and liquidity.

Panta (2013) entitled, "*Cash and Liquidity Management of Commercial Banks in Nepal*". The Objectives and major findings are to comparatively examine and analysis the liquidity position and cash management practices of SBL and NIBL, and to find out the correlation between loan and advances and total deposit

The study was conducted on the basis of secondary data by using five year data of five fiscal years. The study focused on only two commercial. The main source of the data was annual reports of respective commercial banks and annual reports of NRB. The study used financial ratio analysis and correlation analysis to analyze the data.

The research found that the total deposit of SBL and NIBL is in increasing trend over the period. Both of them have high positive correlation between total deposit and loan and advances. The trend line of loan and advances for both banks is upward slopping which refers to the increase in the disbursement of loan and advances. The researcher recommended that the both banks should keep sufficient level of current and quick assets to maintain its liquidity position. He further recommended SBL and NIBL to give priority to invest in profitable opportunity than providing maximum unsecured loan. Finally, he suggested the government to provide certain legal framework in liquidity management policy as well as debt financing policy.

Adhikari (2014) had conducted a study on "*A study of impact of financial performance of HBL, NABIL and EBL*". The main objectives were to find the impact of liquidity in financial performance of commercial bank with references HBL, NABIL and EBL and to compare the profitability, risk position, liquidity, assets and debt management efficiency and their impact in financial performance.

The study has focused on four commercial banks. Mainly, the secondary sources have been collected from Nepal Stock Exchange Limited, economic survey and reports, brochure and annual reports of sampled commercial banks. The study used both financial and statistical tools. The study found that the mean of total loans and advances total saving deposits ratio of EBL is greater than of HBL and NABIL. The coefficient of variation between the ratios of HBL is less than EBL and NABIL. The mean ratio of total investment to total deposits of EBL is significantly greater than that of HBL and NABIL but the coefficient of variation between the ratios of HBL is more consistent than that of EBL and NABIL. It shows there is positive impact of HBL in financial performance in comparisons with EBL and NABIL.

Adhikari (2015) conducted the study on *Profitability And Liquidity Position of Commercial Banks of Nepal, With Reference to HBL and EBL*. The Objectives and major findings are to examine the liquidity and profitability situation of the banks, to analyze the profitability ratios, including return on shareholders' equity, total assets and deposit of the sample Banks, to evaluate the cash reserve ratio maintained by the Banks and to analyze the relationship between net profit & total deposit and net profit & investment etc.

The study has focused on three commercial banks. Mainly, the secondary sources have been collected from Nepal Stock Exchange Limited, economic survey and reports, brochure and annual reports of sampled commercial banks. The study used both financial and statistical tools. On the basis of current ratio the liquidity position of EBL is better than that of HBL. Whereas on the basis of cash reserve ratio also EBL is most satisfactory than that of HBL. But, the liquidity policy adopted by HBL is most stable than that of EBL. On the basis of cash and bank balance to total deposit ratio, it can be concluded that EBL had the practice of highest percentage of total deposit collected in the form of cash and bank balance than HBL to meet the immediate cash requirement. On the ground of current deposit to total deposit, it can be concluded that HBL requires more liquidity than EBL to meet the demand of current deposit

holders, since the ratio of current deposit to total deposit of HBL is higher than EBL.

Sapkota (2017) conducted a study on "Impact of Liquidity Management on Financial Performance (A Study of Commercial Bank with Reference to NABIL, NIBL AND HBL)". The major objectives of the study are to analyze the impact of liquidity management on financial performance of selected commercial banks, to evaluate the relationship between deposits, investment, loans and advances of selected commercial banks and to analyze the deposits and investment position of the selected sample banks.

For this study, the researcher has used only secondary data analysis. The study used only two commercial banks as a sample of the study. Further the researcher applied quantitative research for achieving the objectives of the study. Moreover, the study used descriptive techniques for conducting the research. The researcher found that cash and bank balance to current deposit ratio of NIBL is high and HBL and NABIL are significantly low. This implies that the liquidity position of NIBL is strong. HBL and NABIL are in moderate. Short term investment to total deposit ratio of HBL is high and followed by NABIL and NIBL respectively. This implies that short term investment to total deposit ratio of HBL is strong. NABIL and NIBL are in moderate. Short term investment to total ratio of HBL is high and followed by NABIL respectively. This implies that HBL is capable to meet the necessary short term obligations by short term investment and it is efficient to manage liquidity position than other banks. But NABIL has low ratio among them. This implies that NABIL is low amongst them. Loans, Advances and Bills purchased to total deposit ratio of NABIL is the highest and NIBL is the lowest, which means that NABIL is investing its deposit to long term loans and advances but NIBL is not doing so. It is depicted that the liquidity risk is high for NIBL and other are in average. NABIL and HBL have maintained adequate balance with NRB which is high than required CRR limit but NABIL has not maintained sufficient reserve in bank for liquidity provisions. Balance with NRB to current deposit

of NIBL is high. This implies that NIBL has strong liquidity position. HBL has middle level of ratio, which implies that HBL has moderate liquidity position but NABIL has lower liquidity position.

Research Gap

Commercial Banks invest their deposit in different profitable projects according to the investment regulatory framework and guidance issued by Nepal Rastra Bank as well as the bank's own risk and return appetite. Financial analysis of such liquidity and profitability of a bank is always fruitful to a wide range of stakeholders. So, the updated information on banks' profitability and liquidity would be of great advantage to the researcher, the bank concerned, as well as to the public at large who has any kind of stake in that organization. This study covers latest financial data and analysis based there on of commercial banks particularly of the CBIL, EBL, NBL, RBB and SBL.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view. Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well throughout activities of gathering, recording analysis and interpreting the data with the purpose of finding answer to the problems.

3.1 Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic. A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

This research work tried to analyze the liquidity management of the commercial banks of Nepal. The present study consists of analytical as well as descriptive design. The study was based on secondary data only. Only five commercial bank was taken into account, which represent almost same strategic groups. Financial as well as statistical tools were used to analyze and interpret. The study will follow descriptive and causal comparative research design.

3.2 Population and Sample

There are 28 commercial banks operating in Nepal. The study of all these banks within this research was almost impossible. Hence, considering these number of banks as total population, only five commercial bank namely Citizen International Bank Limited (CBIL), Everest Bank Limited (EBL), Nepal Bank

Limited (NBL), Rastriya Banijya Bank (RBB) and Sanima Bank Limited (SBL) within from these total population has been randomly taken as sample and tried to achieve the objectives set out by analyzing the data.

3.3 Sources of Data

This study mainly based on secondary data. Secondary data are collected from their respective annual report of the sample banks and website of the Nepal Rastra Bank .

3.4 Data Analysis Tools

Liquidity and Profitability position of the banks is analyzed with two important tools. The first most important tool is the financial tool, which includes ratio analysis and another is a statistical tool.

3.4.1 Financial Tools

The following financial ratios are going to be analyzed under the liquidity and financial position analysis of selected five commercial banks.

A) Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the commercial bank must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it wills unnecessary tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short-term solvency of the banks.

a. Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. Current ratio measure the short-term solvency, i.e. its ability to meet short-term obligation or as a measure of creditors versus current assets. The current ratio is calculated by dividing current assets by current liabilities.

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

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bill and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance in case of seasonal business ratio and the nature of business.

b. Quick Ratio

Quick ratio established a relationship between quick asset and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonable soon without a loss of value cash is the most liquid asset. Other assets which are considered to be relatively liquid are included in quick assets are book debts and marketable securities. This quick ratio can be calculated by dividing the total of liquid assets by total current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick Assest}}{\text{Current liabilitie s.}}$$

b. Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance to total deposits ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders,

saving depositors, call and other depositor. This ratio is computed by using the following formula:

Cash and Bank Balance to Total Deposit Ratio

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

c. Cash Reserve Ratio (CRR)

Each bank has to keep the cash reserve ratio as directed by the NRB. The CRR ratio as per the NRB should be 6%.

d. Fixed Deposit Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is calculated in order to find out the proportion of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loans and advances.

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Total Fixed Deposit}}{\text{Total Deposit}}$$

e. Current Deposit to Total Deposit Ratio

Current deposit is short-term noninterest bearing deposit. Current deposit is generally regarded as short-term obligation as it can be withdrawn without prior notice or with short notice.

$$\text{Current Deposit to Total Deposit Ratio} = \frac{\text{Total Current Deposit}}{\text{Total Deposit}}$$

f. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current for cash. The ratio is computed by dividing Cash and Bank Balance by Current Assets, presented as under,

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

B) Profitability Ratio

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Therefore the company should continuously evaluate the efficiency of the company in terms of profit. The profitability ratio are calculated to measure the operating efficiency of the company.

a. Net Profit Margin

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

$$\text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Interest Income}}$$

b. Return on Total Assets Ratio (ROA)

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measures earning power and overall operation efficiency of a firm. This ratio helps the

management in identifying the factors that have a bearing on overall performance of the firm.

$$\text{Return on Total Assets} = \frac{\text{NPAT}}{\text{Total Assets}}$$

c. Return on Shareholders' Equity

Return on shareholders' equity reflects how well the firm has used the resource of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by shareholders' equity.

$$\text{Return on Shareholders' Equity} = \frac{\text{NPAT}}{\text{Shareholders' Equity}}$$

d. Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. An explanation of the ability of management in efficient utilization of deposits. The ratio is calculated as;

$$\text{Return on Total Deposits Ratio} = \frac{\text{NPAT}}{\text{Total Deposits}}$$

e. Earnings per Share

The profitability of the common shareholders' investment can also be measured in term of earning per share. The earnings per share is calculated by dividing the profit after tax by total number of common share outstanding.

$$\text{Earning Per Share} = \frac{\text{NPAT}}{\text{No. of Common Shares}}$$

3.4.2 Statistical Tools

A. Arithmetic Mean

Arithmetic Mean of a given set of observations is the sum of the observation divided by the number of observations. In such a case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum x}{n}$$

Where $\sum x$ = sum of all values of the observations

n = Number of observation

x = Value of variables

B. Standard Deviation

The standard deviation usually denoted by the letters (σ). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis.

We have,

$$\text{Standard Deviation} = \sqrt{\frac{\sum(x - \bar{x})^2}{n}}$$

C. Coefficient of Variation (C.V.)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100\%$$

Where σ = Standard Deviation

\bar{x} = Mean Value of Variables

The distribution having less C.V. is said to be less variable or more consistent. A distribution having greater C.V. is said to be more variable or less consistent.

D. Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tool is used for measuring the intensity or the magnitude of linear relationship between two variables X and Y is usually denoted by 'r' can be obtained as:

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

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

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

E. Coefficient of Determination (r^2)

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

F. Probable Error of Correlation

The probable error of the co-coefficient of correlation helps in interpreting its value; it is obtained the following formula.

$$P.E. = 0.6745 \frac{1 - r^2}{\sqrt{n}}$$

It is used in interpretation whether calculated value of 'r' is significant or not.

1. If $r < P.E.$, it is insignificant. So, perhaps there is no evidence of correlation.
2. If $r > P.E.$, it is significant.
3. In other cases nothing can be concluded.

G. Simple Regression Analysis

Simple regression analysis determines the relationship between two variables. One variable called the dependent variable and other variable called independent variable. In this study, simple regression analysis has been used to determine the relationship between the net profit, net profit, return on assets and earning per share with liquid assets. For this question following regression equation model has been implemented.

The regression equation of Y on X be

$$Y = a + bx$$

Where,

Y = Dependent Variable i.e. net profit,

a = Regression Constant

b = Regression Coefficient

x = Independent Variable i.e. current assets, total assets and total investment

Regression Constant (a)

The value of constant is the intercept of model that indicates the average level of dependent variable when independent variable is zero. Also 'a' (constant) indicates the mean or average effect on dependent variable, of all variables committed from the model. Regression constant is calculated for selected dependent and independent variables specified in this study.

Regression Coefficient (b)

The regression coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding the effect of all other independent variables constant in the regression model. It explains how changes in independent variables affect the value of dependent variables estimate.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter the researcher has analyzed and interpreted relevant and available data of the selected commercial banks according to the research methodology as mentioned in the previous chapter. The analysis of data consists of organizing, tabulating and evaluating the collected data.

4.1 Financial Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

4.1.1 Liquidity Ratio

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting cash reserve ratio (CRR) requirements prescribed by NRB. The commercial banks should ensure that they do not suffer from the liquidity problem and should ensure that it does not have excess liquidity as well. The failure of the bank to meet this obligation will result bad credit image and loss of creditors confidence.

4.1.1.1 Current Ratio

The current ratio is a measure of the firm's short-term solvency. Current ratio of 2:1 or more is generally considered satisfactory, which is not a strict rule. This conventional rule is based on the assumption that even if the current assets are decreased by half, the firm can easily meet its current obligations.

Table 4.1 : Current Ratio

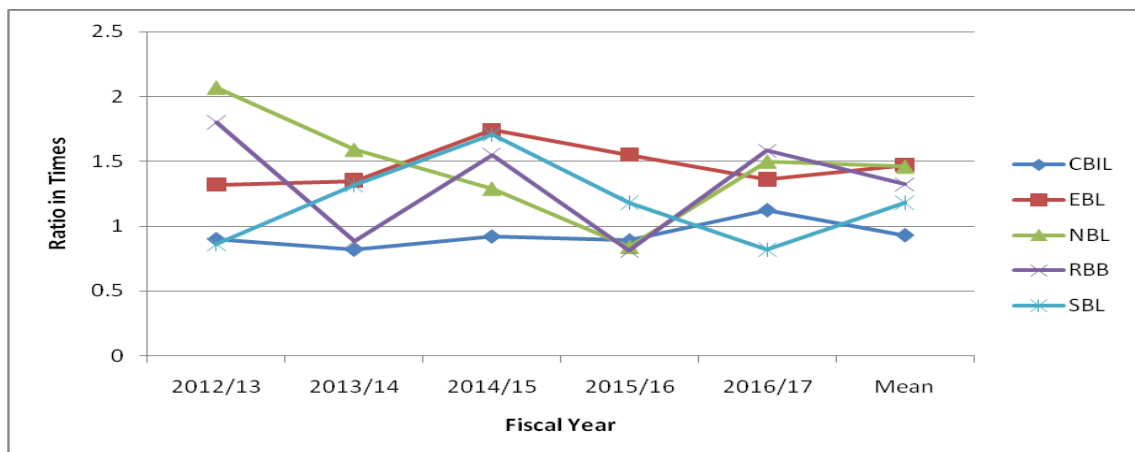
(Ratio in Times)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	0.90	1.32	2.07	1.80	0.86
2013/14	0.82	1.35	1.59	0.88	1.32
2014/15	0.92	1.74	1.29	1.55	1.71
2015/16	0.89	1.55	0.84	0.81	1.18
2016/17	1.12	1.36	1.50	1.58	0.82
Mean	0.93	1.47	1.46	1.32	1.18
S.D.	0.12	0.18	0.45	0.45	0.37
C.V.%	12.51	12.14	30.59	33.80	30.95

Source: Appendix I

The Table 4.1 is presented in the figure also to show the trend line.

Figure 4.1 : Current Ratio



The Table 4.1 and Figure 4.1 presents the current ratio of CBIL, EBL, NBL, RBB and SBL during the study period 2012/13 to 2016/17. The current ratio of CBIL is in fluctuating trends. The current ratio of CBIL has revolved between 0.82 times in the fiscal year 2013/14 to 1.12times in the fiscal year 2016/17.. The current ratio of EBL also in fluctuating trends and ranged from 1.32times

in the fiscal year 2012/13 to 1.74times in the fiscal year 2014/15. Similarly, the current ratio of NBL is also in fluctuating trends and ranged from 0.84times in the fiscal year 2015/16 to 2.07times in the fiscal year 2012/13.

Likewise, the ratio of RBB is in fluctuating trends and ranged from 0.81times in the fiscal year 2015/16 to 1.80times in the fiscal year 2012/13 and the current ratio of SBL also is in fluctuating trends and has ranged from 0.82:1 times for fiscal year 2016/17 to 1.71:1 times in fiscal year 2014/15. The average current ratio of CBIL, EBL, NBL, RBB and SBL is 0.93times, 1.47times, 1.46times, 1.32times and 1.18 times respectively. Comparing sample banks on the basis of current ratio, it can be concluded that the liquidity position of EBL is better than that of other sample banks, as the current ratio of EBL is higher CBIL, NBL, RBB and SBL.

4.1.1.2 Quick Ratios

Quick Ratio establishes a relationship between quick or liquid assets and current liabilities. It is computed by dividing the quick assets by current liabilities.

Table 4.2 : Quick Ratios

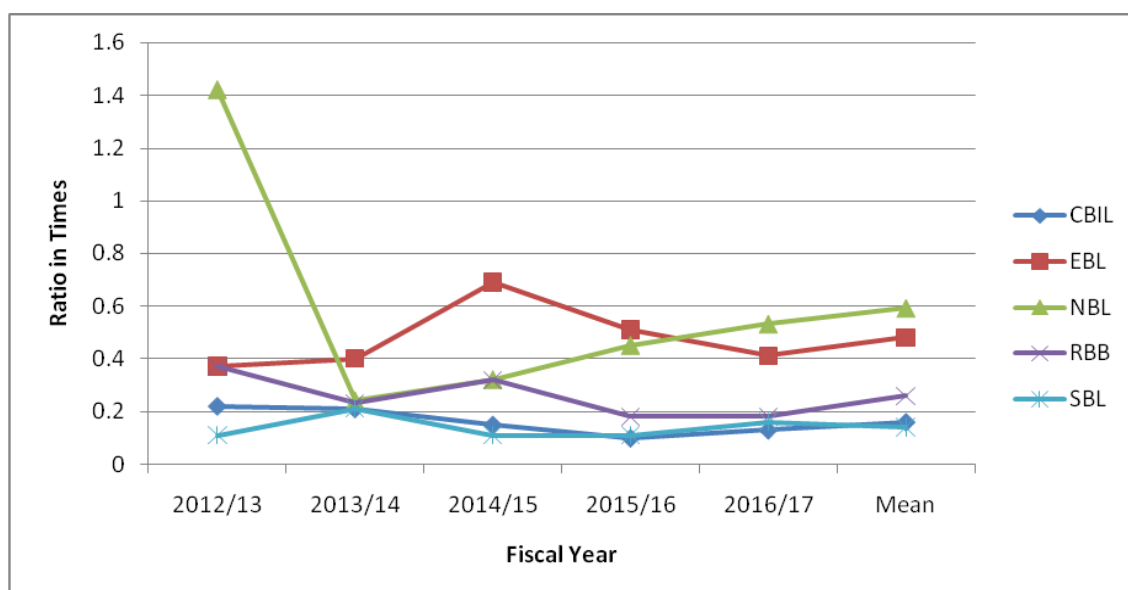
(Ratio in Times)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	0.22	0.37	1.42	0.37	0.11
2013/14	0.21	0.40	0.24	0.23	0.21
2014/15	0.15	0.69	0.32	0.32	0.11
2015/16	0.10	0.51	0.45	0.18	0.11
2016/17	0.13	0.41	0.53	0.18	0.16
Mean	0.16	0.48	0.59	0.26	0.14
S.D.	0.05	0.13	0.48	0.09	0.04
C.V.%	29.81	26.99	80.78	33.51	31.83

Source: Appendix I

The Table 4.2 is presented in the figure also to show the trend line.

Figure 4.2 : Quick Ratios



The Table 4.2 and Figure 4.2 shows the quick ratio of CBIL, EBL, NBL, RBB and SBL for the study period 2012/13 to 2016/17. The quick ratio of CBIL, EBL, NBL, RBB and SBL are in fluctuating trends. The average quick ratio of CBIL, EBL, NBL, RBB and SBL is 0.16 times, 0.48times, 0.59times, 0.26times and 0.14 respectively. The standard quick ratio is 1:1 i.e. quick assets must be equal to current liabilities. The CBIL, EBL, NBL, RBB and SBL does not shown good liquidity position because of quick ratios of every year are lower than standard form.

4.1.1.3 Cash and Bank Balance to Total Deposits Ratio

Adequate liquidity is also must in the banking sector in order to protect its solvency and to honor its short-term obligations and liabilities. Hence bank should have enough cash and bank balance in comparison to total deposit.

Table 4.3 : Cash and Bank Balance to Total Deposits Ratio

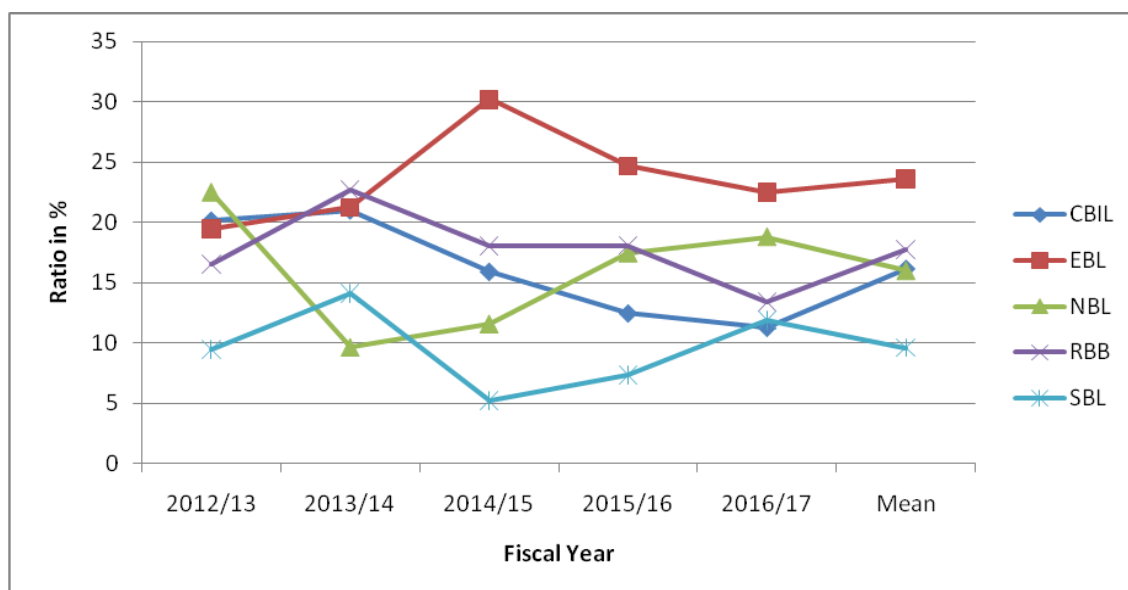
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	20.14	19.43	22.53	16.53	9.47
2013/14	21.00	21.21	9.60	22.73	14.12
2014/15	15.89	30.23	11.55	18.07	5.20
2015/16	12.43	24.66	17.46	18.09	7.35
2016/17	11.24	22.49	18.81	13.36	11.87
Mean	16.14	23.60	15.99	17.75	9.60
S.D.	4.40	4.16	5.32	3.38	3.53
C.V.%	27.26	17.64	33.28	19.06	36.81

Source: Appendix I

The Table 4.3 is presented in the figure also to show the trend line.

Figure 4.3 : Cash and Bank Balance to Total Deposits Ratio



The Table 4.3 and Figure 4.3 measured the cash and bank balance kept by the banks in respect to the total deposit collected during the study period 2012/13 to 2016/17. The cash and bank balance to total deposit of CBIL is in fluctuating and ranged from 11.24% in the fiscal year 2016/17 to 21.00% in the fiscal year 2013/14. In average, CBIL has kept 16.14% of the total deposit as cash and bank balance to meet the cash requirement. Similarly, the ratio of EBL is in fluctuating trend and ranged from 19.43% in the fiscal year 2012/13 to 30.23% in the fiscal year 2014/15. The cash and bank balance to total deposit of NBL is also in fluctuating trends and ranged from 9.60% in the fiscal year 2013/14 to 22.53% in the fiscal year 2012/13.

Likewise, the ratio of RBB is also in fluctuating trends and ranged from 13.36% in the fiscal year 2016/17 to 22.73% in the fiscal year 2013/14 and the cash and bank balance to total deposit ratio followed fluctuating trend in SBL. The ratio is ranged from 5.20% in the fiscal year 2014/15 to 14.12% in the fiscal year 2013/14. The average cash and bank balance to total deposit of CBIL, EBL, NBL, RBB and SBL is 16.14%, 23.60%, 15.99%, 17.75% and 9.60% respectively. On the basis of cash and bank balance to total deposit ratio, it can be concluded that EBL had the practice of higher percentage of total deposit collected in the form of cash and bank balance and SBL had practice lower percentage of total deposit collected in the form of cash and bank balance than CBIL, NBL and RBB to meet the immediate cash requirement.

4.1.1.4 Cash Reserve Ratio

Each bank has to operate its activities as per the direction set out by Nepal Rastra Bank (NRB). According to the directives of NRB, Cash Reserve Ratio (CRR) is currently held at 6% standard, and it shows whether the banks have complied with the NRB requirements or not.

Table 4.4 : Cash Reserve Ratio

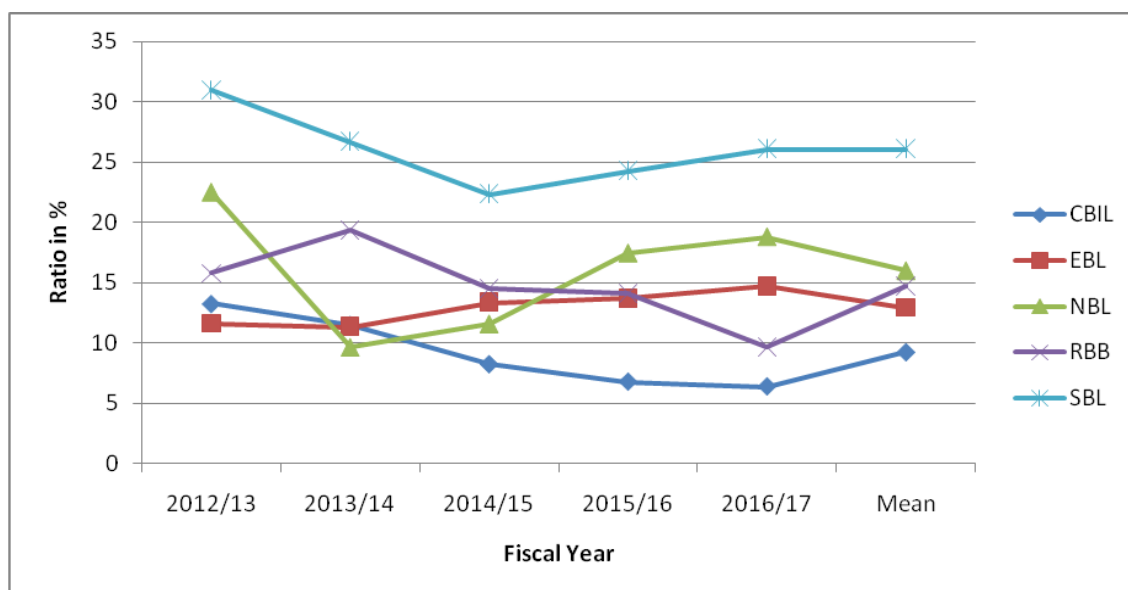
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	13.24	11.59	22.53	15.78	30.96
2013/14	11.48	11.31	9.60	19.38	26.68
2014/15	8.20	13.33	11.55	14.48	22.32
2015/16	6.74	13.66	17.46	14.09	24.24
2016/17	6.34	14.69	18.81	9.60	26.08
Mean	9.20	12.92	15.99	14.67	26.06
S.D.	3.03	1.43	5.33	3.52	3.23
C.V.%	32.95	11.09	33.30	23.98	12.39

Source: Appendix I

The Table 4.4 is presented in the figure also to show the trend line.

Figure 4.4 : Cash Reserve Ratio



The Table 4.4 and Figure 4.4 depicted the cash reserve ratio of CBIL, EBL, NBL, RBB and SBL during the fiscal year 2012/13 to 2016/17. The table showed that the cash reserve ratio maintained by CBIL is in decreasing trend for during the study period, i.e. ranged from 6.34% in the fiscal year 2016/17 to 13.24% in the fiscal year 2012/13. In average, CBIL has maintained 9.20% as the cash reserve ratio. Likewise, the cash reserve ratio of EBL is in increasing trends except in fiscal year 2013/14 and the ratio is ranged from 11.31% in the fiscal year 2013/14 to 14.69% in the fiscal year 2016/17.

So on the ratio of NBL is also in fluctuating trends and ranged from 9.60% in the fiscal year 2013/14 to 22.53% in the fiscal year 2012/13. The cash reserve ratio of RBB is also in fluctuating trends and ranged from 9.60% in the fiscal year 2016/17 to 19.38% in the fiscal year 2013/14. Similarly, the cash reserve ratio in SBL ranged from 22.32% in the fiscal year 2014/15 to 30.96% in the fiscal year 2012/13. The average cash reserve ratio of CBIL, EBL, NBL, RBB and SBL is 9.20%, 12.92%, 15.99%, 14.67% and 26.06% respectively. The analysis depicted that CBIL, EBL, NBL, RBB and SBL has remained successful to meet the standard set by NRB for cash reserve ratio in all fiscal year. It can be concluded that the liquidity position of SBL is more satisfactory than that of CBIL, EBL, NBL and RBB.

4.1.1.5 Fixed Deposit to Total Deposit Ratio

The higher the proportion of fixed deposits, the lower the proportion of current, saving or short-term deposit in the total deposit. This situation shows higher short-term liquidity position of the bank.

Table 4.5 : Fixed Deposit to Total Deposit Ratio

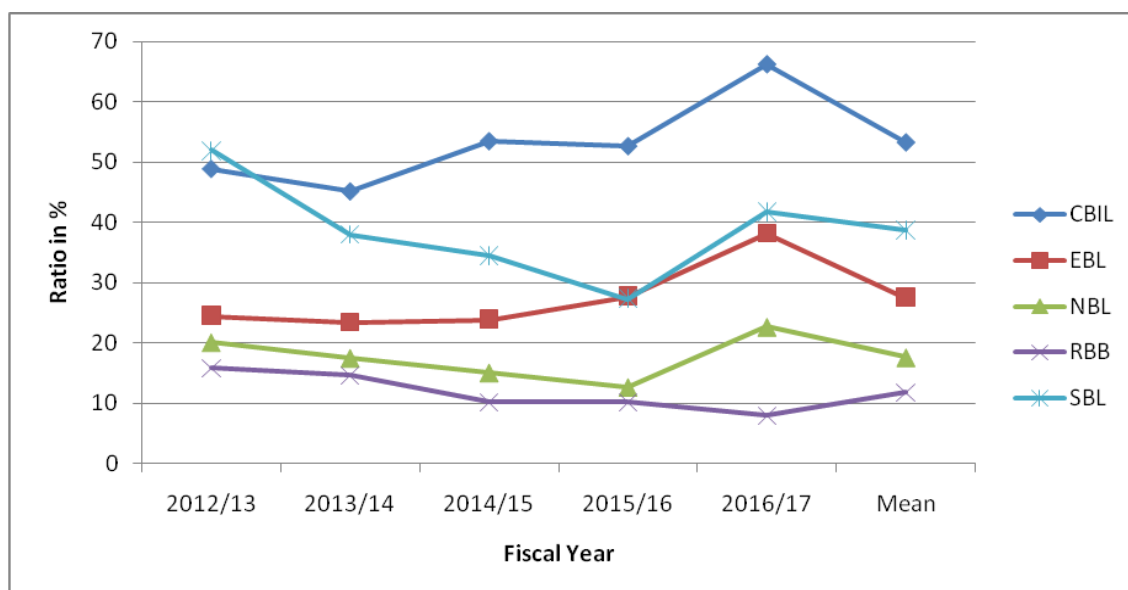
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	48.83	24.44	20.09	15.79	51.95
2013/14	45.07	23.39	17.48	14.54	37.97
2014/15	53.44	23.81	15.04	10.08	34.39
2015/16	52.62	27.74	12.62	10.10	27.25
2016/17	66.27	38.18	22.66	7.88	41.78
Mean	53.25	27.51	17.58	11.68	38.67
S.D.	8.00	6.21	3.97	3.34	9.16
C.V.%	15.03	22.56	22.60	28.58	23.68

Source: Appendix I

The Table 4.5 is presented in the figure also to show the trend line.

Figure 4.5 : Fixed Deposit to Total Deposit Ratio



The Table 4.5 and Figure 4.5 shows the fixed deposit to total deposit ratio of CBIL, EBL, NBL, RBB and SBL during the fiscal year 2012/13 to 2016/17. The fixed deposit to total deposit ratio of CBIL are in fluctuating trend and the ratios are ranged from 45.07% in the fiscal year 2013/14 to 66.27% in the fiscal year 2016/17. The ratio of EBL is in increasing trends except in fiscal year 2012/13 and ranged from 23.39% in the fiscal year 2013/14 to 38.18% in the fiscal year 2016/17.

Similarly, the fixed to total deposit of NBL is ranged from 12.62% in the fiscal year 2015/16 to 20.09% in the fiscal year 2012/13. So on, the ratio of RBB is in fluctuating trends and ranged from 7.88% in the fiscal year 2016/17 to 15.79% in the fiscal year 2012/13. Likewise, the ratio in SBL is in decreasing trends except in final fiscal year and the ratios are ranged from 27.25% in fiscal year 2015/16 to 51.95% in fiscal year 2012/13. The average fixed deposit to total deposit ratio of CBIL, EBL, NBL, RBB and SBL are 53.25%, 27.51%, 18.58%, 11.68% and 38.67% respectively. Higher average ratio shows that CBIL has maintained enough fixed deposit in relation to its total deposit than EBL, NBL, RBB and SBL.

4.1.1.6 Current Deposit to Total Deposit Ratio

Current deposit includes only the amount of current deposit account. It is no interest bearing account. Generally, short-term deposit is not beneficial to the bank, as it cannot be invested on long-term basis. Therefore lower ratio shows higher short-term liquidity position of the bank.

Table 4.6 : Current Deposit to Total Deposit Ratio

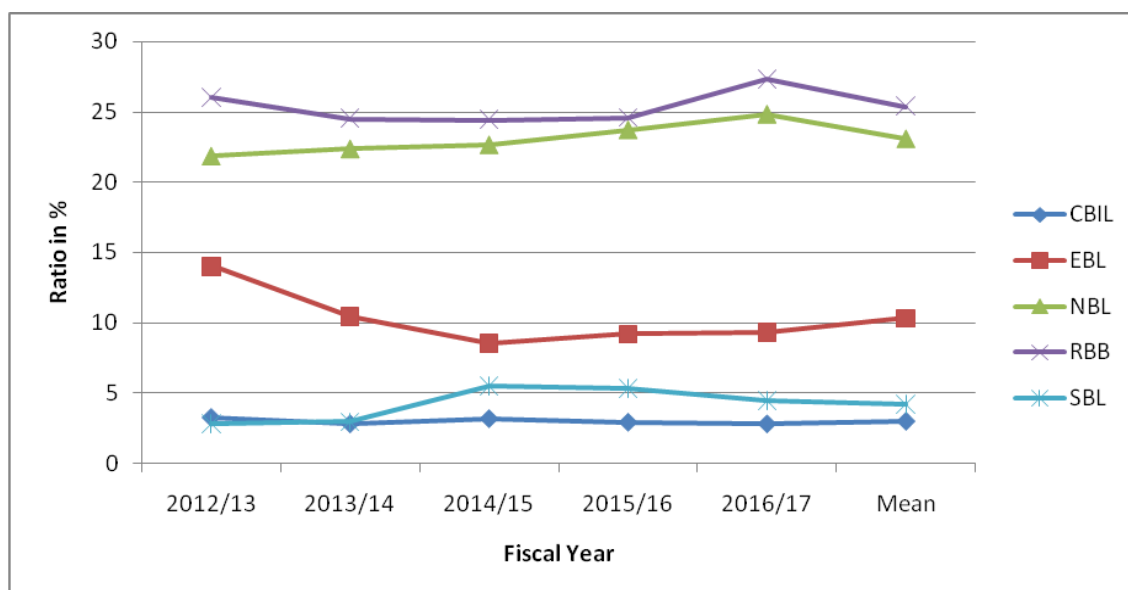
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	3.22	14.03	21.84	26.02	2.81
2013/14	2.78	10.45	22.36	24.54	2.94
2014/15	3.14	8.52	22.65	24.42	5.47
2015/16	2.89	9.21	23.72	24.56	5.28
2016/17	2.77	9.33	24.84	27.32	4.42
Mean	2.96	10.31	23.08	25.37	4.18
S.D.	0.21	2.19	1.20	1.27	1.26
C.V.%	7.08	21.29	5.19	5.02	30.17

Source: Appendix I

The Table 4.6 is presented in the figure also to show the trend line.

Figure 4.6 : Current Deposit to Total Deposit Ratio



The Table 4.6 and Figure 4.6 shows the ratio of current deposit to total deposit of CBIL, EBL, NBL, RBB and SBL during the fiscal year 2012/13 to 2016/17. The current deposit to total deposit ratio in CBIL is in fluctuating trend. The ratio is ranged from 2.77% in fiscal year 2016/17 to 3.22% in fiscal year 2012/13. Likewise, the ratio of EBL is in fluctuating trend and ranged from 8.52% in the fiscal year 2014/15 to 14.03% in the fiscal year 2012/13. The current to total deposit ratio of NBL is in increasing trend and ranged from 21.84% in the fiscal year 2012/13 to 24.84% in the fiscal year 2016/17.

So on, the current to total deposit ratio of RBB is in fluctuating trends and ranged from 24.42% in the fiscal year 2014/15 to 27.32% in the fiscal year 2016/17. Similarly, the ratio in SBL also is in fluctuating trend. The ratio is ranged from 2.81% in fiscal year 2012/13 to 5.47% in the fiscal year 2014/15. The average current deposit to total deposit ratio of CBIL, EBL, NBL, RBB and SBL is 2.96%, 10.31%, 23.08%, 25.37 and 4.18% respectively. RBB's average current deposit to total deposit ratio is higher and CBIL's ratio is lower than EBL, NBL, and SBL which shows RBB managed enough proportion of current deposits among total deposits to meet its short term demand or liquidity.

4.1.1.7 Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis.

Table 4.7 : Cash and Bank Balance to Total Current Asset Ratio

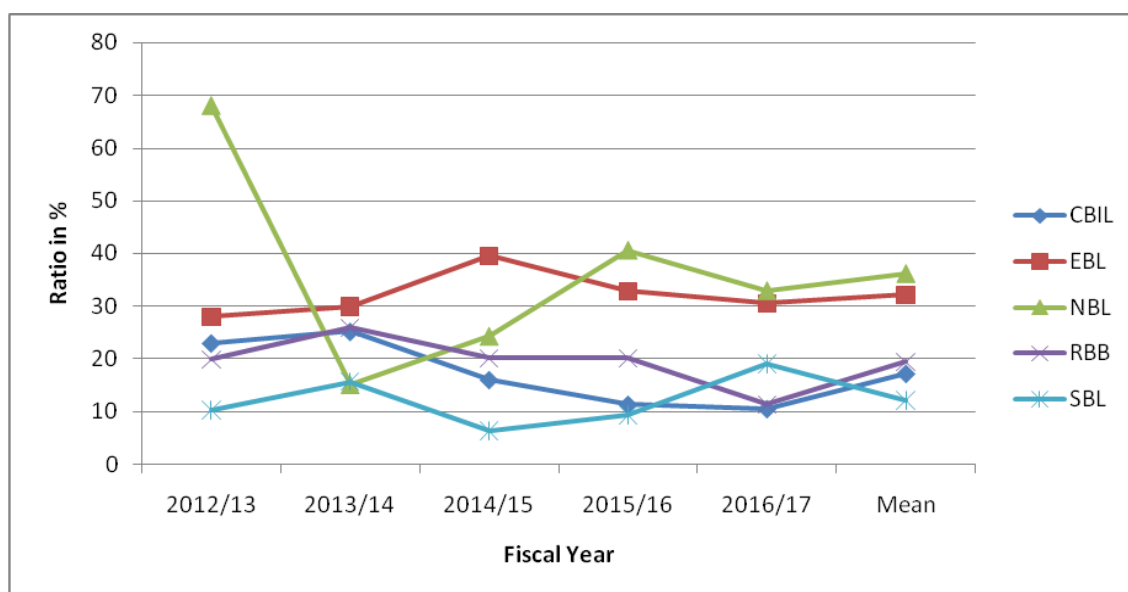
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	23.00	27.96	68.03	19.84	10.25
2013/14	25.18	29.85	15.03	25.90	15.69
2014/15	16.05	39.52	24.24	20.08	6.36
2015/16	11.37	32.85	40.58	20.14	9.35
2016/17	10.55	30.42	32.91	11.32	19.06
Mean	17.23	32.12	36.16	19.46	12.14
S.D.	6.65	4.49	20.21	5.21	5.13
C.V.%	38.60	13.98	55.90	26.79	42.26

Source: Appendix I

The Table 4.7 is presented in the figure also to show the trend line of cash and bank balance to current assets ratio.

Figure 4.7 : Cash and Bank Balance to Total Current Assets Ratios



The Table 4.7 and Figure 4.7 shows the cash and bank balance to current assets ratio of CBIL, EBL, NBL, RBB and SBL during the study period 2012/13 to 2016/17. The cash and bank balance with respect to the current assets of CBIL has fluctuating trend. During the study period it is lowest 10.55% for the year 2016/17 and the highest 25.18% in the year 2013/14. Similarly, the ratio of EBL is in fluctuating trends and ranged from 27.96% in the fiscal year 2012/13 to 39.52% in the fiscal year 2014/15. So on the cash and bank balance to current assets ratio of NBL also in fluctuating trends and ranged from 15.03% in the fiscal year 2013/14 to 68.03% in the fiscal year 2012/13.

Likewise, the cash and bank balance to current assets ratio of RBB is in fluctuating trends and ranged from 11.32% in the fiscal year 2016/17 to 25.90% in the fiscal year 2013/14. The cash and bank balance to current assets ratio of SBL is in fluctuating and ranged from 6.36% in fiscal year 2014/15 to 19.06% in fiscal year 2016/17. The average the cash and bank balance to current assets ratio of CBIL, EBL, NBL, RBB and SBL is 17.23%, 32.12%, 36.16%, 19.46% and 12.14% respectively. The cash and bank balance to current assets ratio of NBL is higher and SBL is lower among the sample banks and the ratios are fluctuating trends.

4.1.2 Profitability Ratio

4.1.2.1 Net Profit Margin

Net profit mean net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subject to similar business conditions.

Table 4.8 : Net Profit Margin

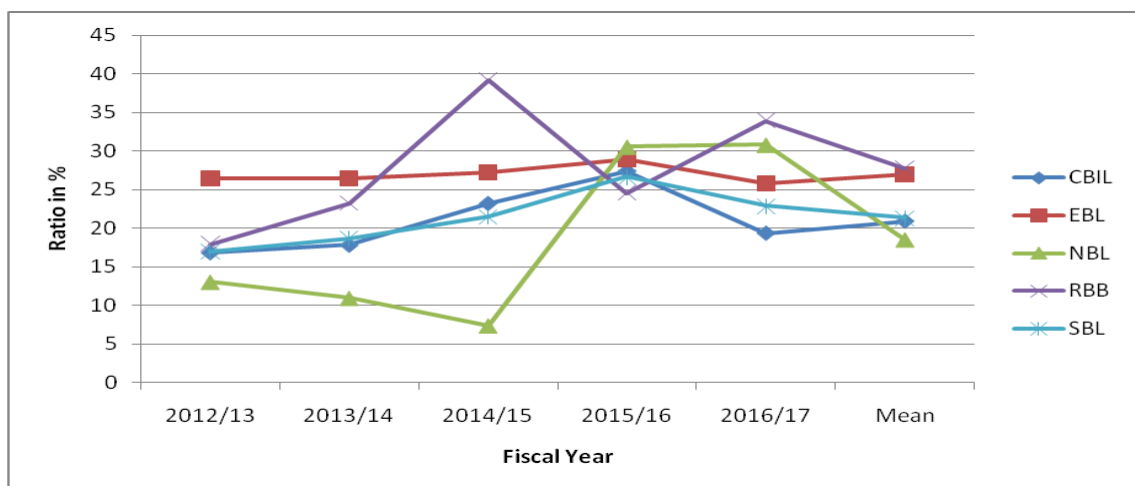
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	16.84	26.45	13.00	17.92	16.96
2013/14	17.81	26.63	10.91	23.21	18.68
2014/15	23.17	27.20	7.33	39.22	21.46
2015/16	27.31	28.88	30.54	24.60	26.63
2016/17	19.36	25.82	30.81	33.95	22.84
Mean	20.90	27.00	18.52	27.78	21.31
S.D.	4.32	1.16	11.28	8.62	3.76
C.V.%	20.67	4.31	60.92	31.03	17.63

Source: Appendix I

The Table 4.8 is presented in the figure also to show the trend line of net profit margin.

Figure 4.8 : Net Profit Margin



The above Table 4.8 and Figure 4.8 shows the net profit margin of CBIL, EBL, NBL, RBB and SBL during the fiscal 2012/13 to 2016/17. The net profit

margin of CBIL is in increasing trends except in the final fiscal year. The net profit margin ratio of CBIL is ranged from 16.84% in the fiscal year 2012/13 to 27.31% in the fiscal year 2015/16. In average, the net profit margin of CBIL is 20.90%. Similarly, the net profit margin of EBL is also in increasing trends except in fiscal year 2016/17 and ranged from 25.82% in the fiscal year 2016/17 to 28.88% in the fiscal year 2015/16. Likewise, the ratio of NBL is in fluctuating trends and ranged from 7.33% in the fiscal year 2014/15 to 30.81% in the fiscal year 2016/17.

So on the net profit margin of RBB is ranged from 17.92% in the fiscal year 2012/13 to 39.22% in the fiscal year 2014/15. Similarly, the net profit margin of SBL is in increasing trend except in final fiscal year and ranged from 16.96% in the fiscal year 2012/13 to 26.63% in the fiscal year 2015/16. The average net profit margin of CBIL, EBL, NBL, RBB and SBL is 20.90%, 27.00%, 18.52%, 27.78% and 21.31% respectively. On the basis of net profit margin, it can be concluded that the RBB is more successful and CBIL is less successful among the sample banks in controlling the operating and other non operating cost; as a result RBB net profit margin is higher.

4.1.2.2 Return on Total Assets Ratio

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measures earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

Table 4.9 : Return on Total Assets Ratio

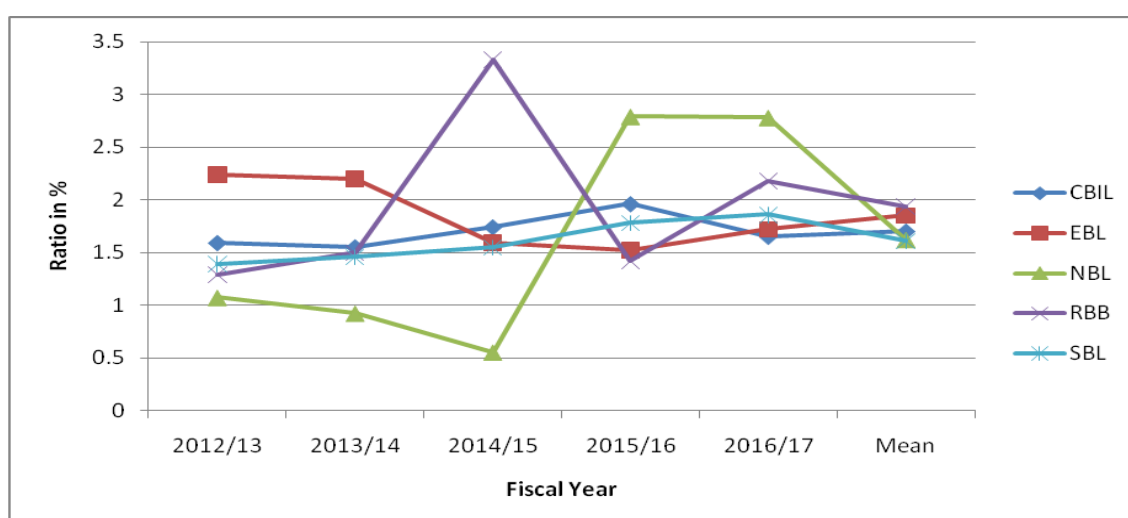
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	1.59	2.24	1.07	1.29	1.39
2013/14	1.55	2.20	0.92	1.50	1.46
2014/15	1.74	1.59	0.55	3.33	1.55
2015/16	1.96	1.52	2.79	1.42	1.78
2016/17	1.65	1.72	2.78	2.18	1.86
Mean	1.70	1.85	1.62	1.94	1.61
S.D.	0.16	0.34	1.08	0.85	0.21
C.V.%	9.70	18.44	66.57	43.65	12.82

Source: Appendix I

The Table 4.9 is presented in the figure also to show the trend line of return on total assets.

Figure 4.9 : Return on Total Assets Ratio



The above Table 4.9 and Figure 4.9 shows the return on total assets of sampled banks during the fiscal year 2012/13 to 2016/17. The return of total assets of

CBIL, EBL, NBL, RBB and SBL are in fluctuating trends during the study period. The average return on assets ratio of CBIL, EBL, NBL, RBB and SBL is 1.70%, 1.85%, 1.62%, 1.94% and 1.61% respectively. Comparing the return on assets of sample banks, the return on assets of RBB (1.94%) is higher and SBL (1.61) is lower than that of EBL (1.85%), NBL (1.62%) and CBIL (1.70%) which clearly indicated that RBB is more successful and SBL is less successful in generating profit from the investment in total assets among the sample banks.

4.1.2.3 Return on Equity

Return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. If you think back to lesson three, you will remember that shareholder equity is equal to total assets minus total liabilities.

Table 4.10 : Return on Equity Ratio

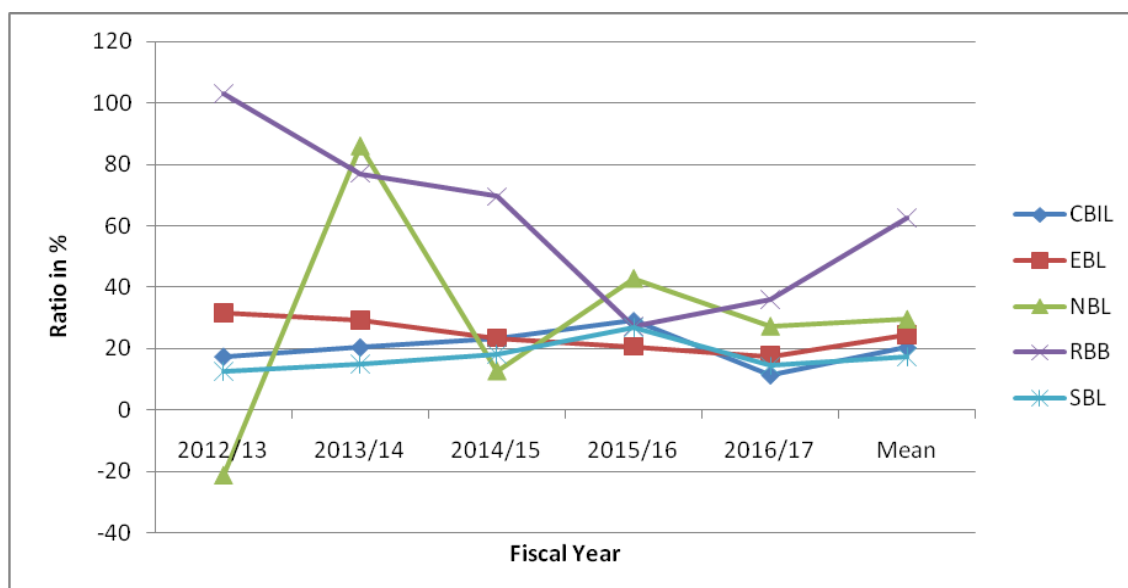
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	17.40	31.52	-21.30	102.96	12.58
2013/14	20.43	29.04	86.09	76.96	15.09
2014/15	23.31	23.25	12.68	69.56	18.19
2015/16	29.13	20.61	42.88	27.37	26.91
2016/17	11.24	17.50	27.30	36.02	14.39
Mean	20.30	24.38	29.53	62.57	17.43
S.D.	6.66	5.82	39.53	30.95	5.67
C.V.%	32.81	23.86	133.86	49.46	32.52

Source: Appendix I

The Table 4.10 is presented in the figure also to show the trend line of return on shareholder's equity.

Figure 4.10 : Return on Equity Ratio



The Table 4.10 and Figure 4.10 exhibits the return of equity of CBIL, EBL, NBL, RBB and SBL during the fiscal year 2012/13 to 2016/17. The return on shareholders' equity of CBIL is in increasing trends during the periods taken for research except in fiscal year 2016/17. The ratio is lowest in the fiscal year 2016/17 i.e. 11.24% and highest in the fiscal year 2015/16 i.e. 29.13%. The table shows that CBIL generated 20.30% of shareholders' equity as net profit in average. Likewise, the return on equity of EBL is in decreasing trends and ranged from 17.50% in the fiscal year 2016/17 to 31.52% in the fiscal year 2012/13. The ratio of NBL is in fluctuating trends and the ratio is ranged from -21.30% in the fiscal year 2012/13 to 86.09% in the fiscal year 2013/14.

So on, the return on equity of RBB is also in fluctuating trends and range from 27.37% in the fiscal year 2015/16 to 102.96% in the fiscal year 2012/13. Similarly, the ratio in SBL increasing trends during the period except in final fiscal year and ranged from 12.58% in the fiscal year 2012/13 to 2726.91% in the fiscal year 2015/16. In average, the shareholders' of SBL got 17.43% return from their investment. The average rerun on shareholders equity ratio of CBIL, EBL, NBL, RBB and SBL is 20.30%, 24.38%, 29.53%, 62.57% and 17.43% respectively. Comparing the return on shareholders' equity, it can be concluded

that the shareholders of RBB remained more satisfied and shareholders of SBL remained less satisfied among the sample banks as RBB generated more percentage of return from shareholders' equity than CBIL, EBL, NBL and SBL.

4.1.2.4 Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposit has been mobilized. This ratio is a mirror of bank's overall financing performance; deposits are outsiders' capital fund that entails paying fixed interest, this affects NPAT ultimately. Shareholders, depositors and management are concerned with this ratio.

Table 4.11 : Return on Total Deposit Ratio

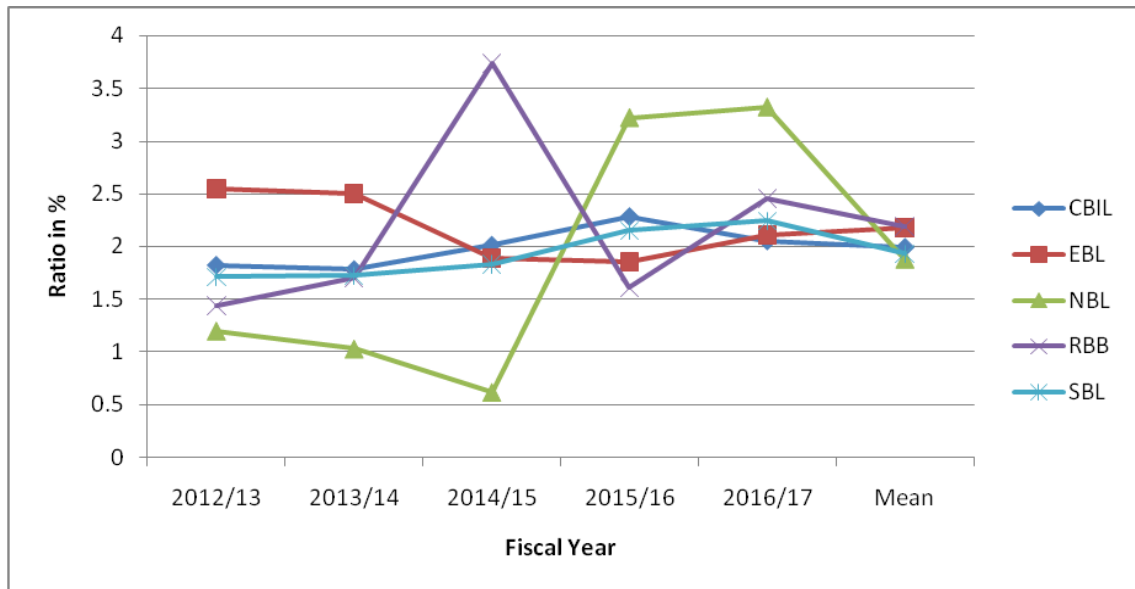
(Ratio in %)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	1.82	2.55	1.20	1.44	1.71
2013/14	1.78	2.50	1.03	1.71	1.72
2014/15	2.01	1.89	0.62	3.74	1.83
2015/16	2.28	1.85	3.22	1.61	2.15
2016/17	2.05	2.11	3.32	2.46	2.24
Mean	1.99	2.18	1.88	2.19	1.93
S.D.	0.20	0.33	1.29	0.95	0.25
C.V.%	10.11	15.11	68.58	43.29	12.75

Source: Appendix I

The Table 4.11 is presented in the figure also to show the trend line of return on deposit.

Figure 4.11 : Return on Total Deposit Ratio



The Table 4.11 and Figure 4.11 shows how efficiently the total deposit had been utilized in generating net profit of CBIL, EBL, NBL, RBB and SBL during the fiscal year 2012/13 to 2016/17. The net profit to total deposit of CBIL, EBL, NBL, RBB and SBL is in fluctuating during the study years. The net profit to total deposit ratio of CBIL, EBL, NBL, RBB and SBL is 1.99%, 2.18%, 1.88%, 2.19% and 1.93% respectively. Comparing the average net profit to total deposit of sample banks, it can be concluded that RBB (2.19%) remained more successful than CBIL, EBL, NBL and SBL in mobilizing total deposit to generate profit. Thus, the profitability position of RBB is better than that of CBIL, EBL, NBL and SBL.

4.1.2.5 Earnings per Share (EPS)

Earnings per share measure the profit available to the each equity holders. EPS does not indicate how many dividends are being paid on each share. It only measures the overall operational efficiency of the bank. It is the profit after tax figure that is dividend by the number of common shares to calculate the value of earnings per share.

Table 4.12 : Earnings per Share

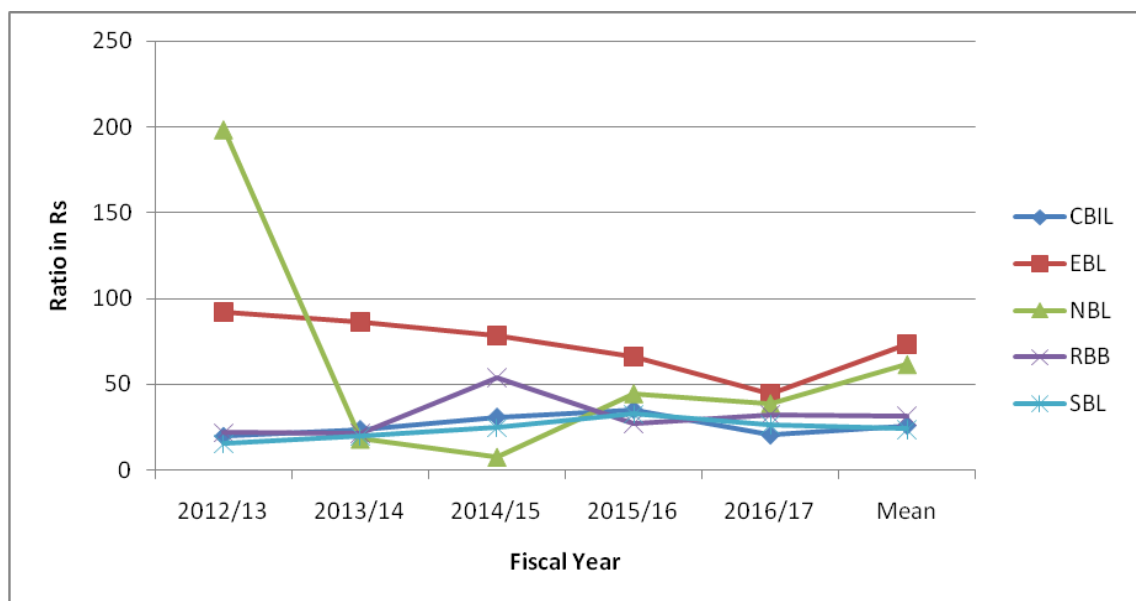
(Ratio in Rs.)

Fiscal Year	CBIL	EBL	NBL	RBB	SBL
2012/13	19.66	91.88	198.53	21.79	15.13
2013/14	23.70	86.04	18.08	21.38	19.28
2014/15	30.94	78.04	7.48	54.07	24.47
2015/16	35.25	65.97	44.59	27.42	32.55
2016/17	20.27	44.32	38.77	32.32	26.31
Mean	25.96	73.25	61.49	31.40	23.55
S.D.	6.86	18.86	78.08	13.45	6.68
C.V.%	26.42	25.75	126.97	42.83	28.38

Source: Appendix I

The Table 4.12 is presented in the figure also to show the trend line of earning per share.

Figure 4.12 : Earnings per Share



The Table 4.12 and Figure 4.12 shows the earning per share of CBIL, EBL, NBL, RBB and SBL during the study period 2012/13 to 2016/17. The table

reveals that the earning per share of CBIL has followed increasing trend except in final fiscal year. The earning per share of EBL is in decreasing trends and the earning per share of NBL, RBB and SBL are in fluctuating trends. The average earning per share of CBIL, EBL, NBL, RBB and SBL is Rs.25.96, Rs.73.25, Rs.61.49, Rs.31.40 and Rs.23.55 respectively. Comparing the average earning per share, it can be considered that EBL (Rs.75.25) is much artisan in mobilizing the shareholders' equity to earn high profit per share then CBIL, NBL, RBB and SBL. As a result both the existing shareholders' and the potential investors might have been fascinated toward the EBL for being part of it by buying its share.

4.2 Statistical Analysis

4.2.1 Coefficient of Correlation Analysis

Coefficient of correlation analysis is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and one independent. Under this topic, this study tries to find out relationship between the following variables:

- Correlation between Cash reserve ratio and Net Profit
- Correlation between Total Assets and Net Profit
- Correlation between Current Assets and Net Profit

A. Correlation Analysis between Cash Reserve Ratio and Net Profit

Let the dependent variable, net profit be denoted by Y and the independent variable cash reserve ratio be denoted by X . Then the correlation between these two variables of CBIL, EBL, NBL, RBB and SBL has been presented in the Table 4.13.

Table 4.13 : Correlation and Regression Analysis between Investment and Net Profit

Particulars	CBIL	EBL	NBL	RBB	SBL
r	-0.9605	-0.1605	0.408	-0.5755	-0.4395
r ²	0.9226	0.0258	0.1665	0.3312	0.1932
P.E	0.0234	0.2939	0.2514	0.2017	0.2434
6 × P. E.	0.1402	1.7633	1.5086	1.2104	1.4603
Remarks	Insignificant	Insignificant	Insignificant	Insignificant	Insignificant

Source: Appendix – II

The Table 4.13 has indicated that there exists negative correlation coefficient between cash reserve ratio and net profit in CBIL, EBL, RBB and SBL but positive in NBL. The value of correlation of CBIL, EBL, NBL, RBB and SBL is -0.9608, -0.1605, 0.408, -0.5755 and -0.4395 respectively. As the coefficient of correlation of CBIL, EBL, NBL, RBB and SBL is lower than their respective 6P.E, it can be concluded that the relationship between cash reserve ratio and net profit is statistically insignificant which means increase in cash reserve ratio decreases the net profit of the company.

B. Correlation Analysis between Total Assets and Net Profit

Let the dependent variable, net profit be denoted by Y and the independent variable, total assets be denoted by X . Then the correlation between these two variables of CBIL, EBL, NBL, RBB and SBL has been presented in the Table 4.14.

Table 4.14 : Correlation Analysis between Total Assets and Net Profit

Particulars	CBIL	EBL	NBL	RBB	SBL
R	0.9731	0.8257	0.5526	0.5664	0.9981
r ²	0.9469	0.6818	0.3054	0.3208	0.9962
P.E	0.0160	0.0960	0.2095	0.2049	0.0011
6 × P. E.	0.0961	0.5759	1.2572	1.2292	0.0069
Remarks	Significant t	Significant t	Insignificant t	Insignificant t	Significant t

Source: Appendix – II

The Table 4.14 represents the relationship between net profit and total assets of CBIL, EBL, NBL, RBB and SBL. The correlation coefficient between net profit and total assets of CBIL, EBL, NBL, RBB and SBL is positive. The correlation between net profit and total assets of CBIL, EBL, NBL, RBB and SBL is 0.9731, 0.8257, 0.5528, 0.5664 and 0.9981 respectively. Since, the value of 'r' is higher than the 6 P.E. in CBIL, EBL and SBL, it can be considered that there exists significant relationship between net profit and total assets, and hence net profit increases/decreases with the increase/decrease of total assets but the value of r is lower than that of 6PE in NBL and RBB it can be considered that there exists insignificant relationship between net profit and total assets.

C. Correlation Analysis between Current Assets and Net Profit

Let the dependent variable, net profit be denoted by *Y* and the independent variable current assets be denoted by *X*. Then the correlation between these two variables of CBIL, EBL, NBL, RBB and SBL has been presented in the Table 4.15.

Table 4.15 : Correlation Analysis between Current Assets and Net Profit

Particulars	CBIL	EBL	NBL	RBB	SBL
R	0.9955	0.7751	0.5526	0.579	0.943
r ²	0.9910	0.6008	0.3054	0.3352	0.8892
P.E	0.0027	0.1204	0.2095	0.2005	0.0334
6 × P. E.	0.0163	0.7225	1.2572	1.2031	0.2004
Remarks	Significant t	Significant t	Insignificant t	Insignificant t	Significant t

Source: Appendix – II

The Table 4.15 shows that, there is positive correlation current assets and net profit for CBIL, EBL, NBL, RBB and SBL. The value of correlation of CBIL, EBL, NBL, RBB and SBL is 0.9955, 0.7751, 0.5526, 0.5790 and 0.9430 respectively. As the coefficient of correlation of CBIL, EBL and SBL is higher than their respective 6 P.E., it can be concluded that the relationship between current assets and net profit is statistically significant and net profit increases with the increase in current assets amount but the value of r is lower than 6PE in NBL and RBB the relationship between current assets and net profit is statistically insignificant.

4.2.2 Regression Analysis

4.2.2.1 Regression between Net Profit and Total Investment

Let the dependent variable net profit is denoted by Y and independent variable total investment is denoted by X, and then the regression equation of net profit on total investment is given by:

$$Y = a + b X$$

Table 4.16 : Regression Analysis between Net Profit and Total Investment

Sample Banks	Constant(a)	Regression Coefficient(b)
CBIL	758736.6	0.137
SBL	1666324.4	0.124
NBL	1571371.6	0.087
RBB	2784454.6	0.078
EBL	731391.00	0.105

Sources: Appendix-III

The above table describes the simple regression analysis between Net Profit and total investment of sample commercial banks. In case of CBIL, PCBL and SBL regression coefficient (beta) are 0.137, 0.124, 0.087, 0.078 and 0.105 respectively. This means if one rupee increases in total investment, it leads to an average of Rs.0.137, 0.124, 0.087, 0.078 and 0.105 increases in net profit of CBIL, EBL, NBL, RBB and SBL. Regression constant of CBIL, EBL, NBL, RBB and SBL are 758736.6, 1666324.4, 1571371.6, 2784454.6 and 731391 respectively.

4.2.2.2 Regression between Net Profit and Total Assets

Let the dependent variable net profit is denoted by Y and independent variable total assets is denoted by X, and then the regression equation of net profit on total assets is given by:

$$Y = a + b X$$

Table 4.17 : Regression analysis between Net Profit and Total Assets

Sample Banks	Constant(a)	Regression Coefficient(b)
CBIL	758736.60	0.017
SBL	1666324.40	0.017
NBL	1591371.60	0.019
RBB	2784454.60	0.020
EBL	731391.00	0.0174

Sources: Appendix-III

The above table describes the simple regression analysis between Net Profit and total assets of sample commercial banks. In case of CBIL, PCBL and SBL regression coefficient (beta) are 0.017, 0.017, 0.019, 0.02 and 0.0174 respectively. This means if one rupee increases in total assets, it leads to an average of Rs 0.017, 0.017, 0.019, 0.02 and 0.0174 increases in net profit of CBIL, EBL, NBL, RBB and SBL. Regression constant of CBIL, EBL, NBL, RBB and SBL are 758736.6, 1666324.4, 1571371.6, 2784454.6 and 731391 respectively.

4.2.2.3 Regression between Net Profit and Current Assets

Let the dependent variable net profit is denoted by Y and independent variable current assets is denoted by X, and then the regression equation of net profit on total current assets is given by:

$$Y = a + b X$$

Table 4.18 : Regression analysis between Net Profit and Current Assets

Sample Banks	Constant(a)	Regression Coefficient(b)
CBIL	758736.60	0.020
SBL	1666324.40	0.028
NBL	1591371.60	0.042
RBB	2784454.60	0.023
EBL	731391.00	0.03

Sources: Appendix-III

The above table describes the simple regression analysis between Net Profit and current assets of sample commercial banks. In case of CBIL, PCBL and SBL regression coefficient (beta) are 0.02, 0.028, 0.042, 0.023 and 0.03 respectively. This means if one rupee increases in current assets, it leads to an average of Rs 0.02, 0.028, 0.042, 0.023 and 0.03 increase in net profit of CBIL, EBL, NBL, RBB and SBL. Regression constant of CBIL, EBL, NBL, RBB and SBL are 758736.6, 1666324.4, 1571371.6, 2784454.6 and 731391 respectively.

4.3 Major Findings

The main findings of the study are derived on the analysis of financial and statistical data of CBIL, EBL, NBL, RBB and SBL. The findings are illustrated as follows.

- The average current ratio of CBIL, EBL, NBL, RBB and SBL is 0.93times, 1.47times, 1.46times, 1.32times and 1.18 times respectively. Comparing sample banks on the basis of current ratio, it can be concluded that the liquidity position of EBL is better than that of other sample banks, as the current ratio of EBL is higher CBIL, NBL, RBB and SBL.
- The average quick ratio of CBIL, EBL, NBL, RBB and SBL is 0.16 times, 0.48times, 0.59times, 0.26times and 0.14 respectively. The

standard quick ratio is 1:1 i.e. quick assets must be equal to current liabilities. The CBIL, EBL, NBL, RBB and SBL does not shown good liquidity position because of quick ratios of every year are lower than standard form.

- The average cash and bank balance to total deposit of CBIL, EBL, NBL, RBB and SBL is 16.14%, 23.60%, 15.99%, 17.75% and 9.60% respectively. On the basis of cash and bank balance to total deposit ratio, it can be concluded that EBL had the practice of higher percentage of total deposit collected in the form of cash and bank balance and SBL had practice lower percentage of total deposit collected in the form of cash and bank balance than CBIL, NBL and RBB to meet the immediate cash requirement.
- The average cash reserve ratio of CBIL, EBL, NBL, RBB and SBL is 9.20%, 12.92%, 15.99%, 14.67% and 26.06% respectively. The analysis depicted that CBIL, EBL, NBL, RBB and SBL has remained successful to meet the standard set by NRB for cash reserve ratio in all fiscal year. It can be concluded that the liquidity position of SBL is more satisfactory than that of CBIL, EBL, NBL and RBB.
- The average fixed deposit to total deposit ratio of CBIL, EBL, NBL, RBB and SBL are 53.25%, 27.51%, 18.58%, 11.68% and 38.67% respectively. Higher average ratio shows that CBIL has maintained enough fixed deposit in relation to its total deposit than EBL, NBL, RBB and SBL.
- The average current deposit to total deposit ratio of CBIL, EBL, NBL, RBB and SBL is 2.96%, 10.31%, 23.08%, 25.37 and 4.18% respectively. RBB's average current deposit to total deposit ratio is higher and CBIL's ratio is lower than EBL, NBL, and SBL which shows RBB managed enough proportion of current deposits among total deposits to meet its short term demand or liquidity.

- The average the cash and bank balance to current assets ratio of CBIL, EBL, NBL, RBB and SBL is 17.23%, 32.12%, 36.16%, 19.46% and 12.14% respectively. The cash and bank balance to current assets ratio of NBL is higher and SBL is lower among the sample banks and the ratios are fluctuating trends.
- The average net profit margin of CBIL, EBL, NBL, RBB and SBL is 20.90%, 27.00%, 18.52%, 27.78% and 21.31% respectively. On the basis of net profit margin, it can be concluded that the RBB is more successful and CBIL is less successful among the sample banks in controlling the operating and other non operating cost; as a result RBB net profit margin is higher.
- The average return on assets ratio of CBIL, EBL, NBL, RBB and SBL is 1.70%, 1.85%, 1.62%, 1.94% and 1.61% respectively. Comparing the return on assets of sample banks, the return on assets of RBB (1.94%) is higher and SBL (1.61) is lower than that of EBL (1.85%), NBL (1.62%) and CBIL (1.70%) which clearly indicated that RBB is more successful and SBL is less successful in generating profit from the investment in total assets among the sample banks.
- The average rerun on shareholders equity ratio of CBIL, EBL, NBL, RBB and SBL is 20.30%, 24.38%, 29.53%, 62.57% and 17.43% respectively. Comparing the return on shareholders' equity, it can be concluded that the shareholders of RBB remained more satisfied and shareholders of SBL remained less satisfied among the sample banks as RBB generated more percentage of return from shareholders' equity than CBIL, EBL, NBL and SBL.
- The net profit to total deposit ratio of CBIL, EBL, NBL, RBB and SBL is 1.99%, 2.18%, 1.88%, 2.19% and 1.93% respectively. Comparing the average net profit to total deposit of sample banks, it can be concluded that RBB (2.19%) remained more successful than CBIL, EBL, NBL and

SBL in mobilizing total deposit to generate profit. Thus, the profitability position of RBB is better than that of CBIL, EBL, NBL and SBL.

- The average earning per share of CBIL, EBL, NBL, RBB and SBL is Rs.25.96, Rs.73.25, Rs.61.49, Rs.31.40 and Rs.23.55 respectively. Comparing the average earning per share, it can be considered that EBL (Rs.75.25) is much artisan in mobilizing the shareholders' equity to earn high profit per share than CBIL, NBL, RBB and SBL. As a result both the existing shareholders' and the potential investors might have been fascinated toward the EBL for being part of it by buying its share.
- The value of correlation between cash reserve ratio and net profit of CBIL, EBL, NBL, RBB and SBL is -0.9608, -0.1605, 0.408, -0.5755 and -0.4395 respectively.
- The correlation between net profit and total assets of CBIL, EBL, NBL, RBB and SBL is 0.9731, 0.8257, 0.5528, 0.5664 and 0.9981 respectively.
- The value of correlation between current assets and net profit of CBIL, EBL, NBL, RBB and SBL is 0.9955, 0.7751, 0.5526, 0.5790 and 0.9430 respectively.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Liquidity management can overall describe the security management of the cash balance in a systematic and scientific way. Liquidity is that part of the total assets, which can be paid immediately to meet the current obligation. The liquidity management is used to describe money and assets that are readily convertible into money within very short span of time. The liquidity of assets refers to the ease and certainty with which it can be turned into cash. Bank maintain liquidity in the form of cash and bank balance, placement of money at call or short notice and investment in government securities and other securities readily convertible into cash. It is such a large proportion of deposit payable on demand. Inadequate liquidity tarnishes the image of the organization while excess liquidity is detrimental to the profitability.

Profitability is the net result of a large number of policies and decisions. The ratios examiner thus far provide some information about the way the firm is operating, but the profitability ratios show the combined effects of liquidity, assets management and debt management on operating results. Profitability ratio is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and condition can be determined. While computing the ratios, they do not add any information; they only reveal the relationship in a more meaningful way to enable us to draw conclusions from them. Further, in financial analysis, and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interpret them. It helps as analyst to make quantitative judgment about the financial position and performance of the firm.

The main objective of this study is to analyze the Liquidity and profitability position of the Citizen International Bank Limited (CIBL), Everest Bank Limited (EBL), Nepal Bank Limited (NBL), Rastriya Banijya Bank (RBB) and Sanima Bank Limited (SBL). However, the study of all the commercial banks is almost impossible and thus only five banks CBIL, EBL, NBL, RBB and SBL is taken as sample. To achieve the objectives set out, different financial tools like liquid assets trend, Cash reserve ratio, cash and bank balance to total deposit, fixed assets to total deposit, net profit margin, return on shareholders' equity, total assets, return on return on total deposit and others were analyzed.

For this study, it is used only secondary data analysis. The study used only five commercial banks as a sample of the study. Further the researcher applied quantitative research for achieving the objectives of the study. Moreover, the study will follow descriptive and causal comparative research design.

5.2 Conclusion

In conclusion, it can be said that liquidity and profitability analysis is one of the most important parts of every financial institutions. Comparing sample banks on the basis of current ratio, it can be concluded that the liquidity position of EBL is better than that of other sample banks, as the current ratio of EBL is higher CBIL, NBL, RBB and SBL. EBL had the practice of higher percentage of total deposit collected in the form of cash and bank balance and SBL had practice lower percentage of total deposit collected in the form of cash and bank balance than CBIL, NBL and RBB to meet the immediate cash requirement. CBIL, EBL, NBL, RBB and SBL has remained successful to meet the standard set by NRB for cash reserve ratio in all fiscal year. It can be concluded that the liquidity position of SBL is more satisfactory than that of CBIL, EBL, NBL and RBB. The average fixed deposit to total deposit ratio of CBIL is higher than EBL, NBL, RBB and SBL. Higher average ratio shows that CBIL has maintained enough fixed deposit in relation to its total deposit than EBL, NBL, RBB and SBL. RBB's average current deposit to total deposit

ratio is higher and CBIL's ratio is lower than EBL, NBL, and SBL which shows RBB managed enough proportion of current deposits among total deposits to meet its short term demand or liquidity.

On the basis of net profit margin, it can be concluded that the RBB is more successful and CBIL is less successful among the sample banks in controlling the operating and other non operating cost; as a result RBB net profit margin is higher. The return on assets of RBB is higher and SBL is lower than that of EBL, NBL and CBIL which clearly indicated that RBB is more successful and SBL is less successful in generating profit from the investment in total assets among the sample banks. The shareholders of RBB remained more satisfied and shareholders of SBL remained less satisfied among the sample banks as RBB generated more percentage of return from shareholders' equity than CBIL, EBL, NBL and SBL. RBB remained more successful than CBIL, EBL, NBL and SBL in mobilizing total deposit to generate profit. Thus, the profitability position of RBB is better than that of CBIL, EBL, NBL and SBL. EBL is much artisan in mobilizing the shareholders' equity to earn high profit per share than CBIL, NBL, RBB and SBL. As a result both the existing shareholders' and the potential investors might have been fascinated toward the EBL for being part of it by buying its share.

5.3 Recommendations

On the basis of the major findings drawn on the previous chapter and the conclusion made in this chapter, the following recommendations have been given for the enhancement of the liquidity and profitability CBIL, EBL, NBL, RBB and SBL.

- The current ratio of CBIL, EBL, NBL, RBB and SBL is lower than the benchmark of 2:1. Although, such benchmark is not most necessary in the banking sector, it would be better if CBIL, EBL, NBL, RBB and SBL keep such ratio to ensure the sound liquidity position.

- It would be better if CBIL, EBL, NBL, RBB and SBL focus on collecting the deposit through fixed deposit, which requires less liquidity in the bank and the bank, can invest such money in productive sector.
- SBL has comparatively low average proportion of profitability ratio. So, it is suggested to SBL should invest in productive sector to increase the degree of profit.
- The EPS of SBL is lower than that of CBIL, EBL, NBL and RBB. So, it is recommended that SBL should increase the EPS by tracing out the fruitful and secured sector of investment and thus, increase DPS and dividend payout ratio to retain the existing shareholders as well as to fascinate the potential shareholders.
- All of the banks should focus on optimally utilizing the total assets to generate return and should concentrate on generating return from utilizing net worth.