

Analysis of Liquidity and Profitability
On
Listed of four Commercial Banks

A Thesis

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RECOMMENDATION

This is to certify that the Thesis

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

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DECLARATION

I hereby declare that the work reported in this thesis entitled **Analysis of Liquidity and Profitability on Listed of four Commercial Banks** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Study (M.B.S.) under the supervision of Mr. Krishna Prasad Acharya and Dr. Shankar Prasad Khanal of Shanker Dev Campus, Faculty of Management, T.U.

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Moreover, it is needless to say that to error is human and I am also no exception, so I apologize for any errors and mistakes committed in this thesis work.

.....
DEEPAK PRASAD ROUNIYAR
Researcher

ABBREVIATIONS

AGM	:	Annual General Meeting
BOD	:	Board of Directors
SCBNL	:	Standard Chartered Bank OF Nepal Ltd.
EBL	:	Everest Bank Ltd.
SBI	:	Nepal SBI Bank Ltd.
NABIL	:	NABIL Bank Ltd.
Ltd	:	Limited
&	:	And
CIT	:	Citizen Investment Trust
CRO	:	Company Registrar's Office
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
MOF	:	Ministry of Finance
NCML	:	NIDC Capital Markets Limited
NEPSE	:	Nepal Stock Exchange Ltd.
NRB	:	Nepal Rastra Bank
Rs.	:	Rupees (Nepalese currency unit)
SEBON	:	Securities Board, Nepal
SEC	:	Stock Exchange Center
ATM	:	Automated Teller Machine
C.V.	:	Coefficient of Variation
S.D	:	Standard Deviation
ROA	:	Return on Assets
NPA	:	Non Performing Assets
NPL	:	Non Performing Loan

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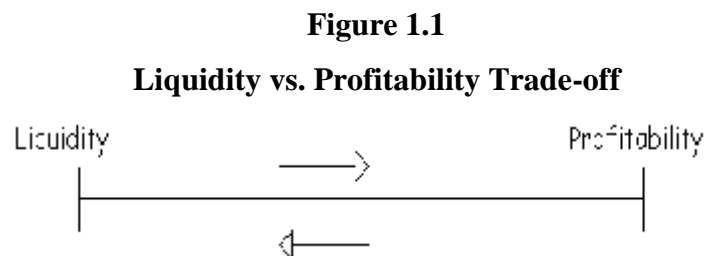
CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Every business entity wants to increase its profit both on short-run and long run but maintaining profitability from a sustainable manner is very difficult task. Profitability, on the other way, depends on other so many variables like liquidity. So these two variables – profitability and liquidity are the most important things for every businessman.

There is a trade-off between liquidity and profitability; gaining more of one ordinarily means giving up some of the other. Short meaning of liquidity is saving enough money in the form of cash, or near-cash assets, to meet your financial obligations. Alternatively, liquidity is the position with which assets can be converted into cash. Similarly, profitability is measure of the amount by which a company's revenues exceed its relevant expenses. Following figure clarifies this reality:



In this regard, we can say that liquidity and profitability are the two parts of a picture – “liquidity” being on one end of a straight line and "Profitability" on the other end of the line. If a businessman is on the line and moves toward one, s/he automatically moves away from the other. In other words, there is the trade-off between liquidity and profitability.

This is easy to illustrate with a simple example. The items on the asset side of a company's balance sheet are listed in order of liquidity, i.e., the ease with which they can be converted into cash. In order, the most important of these assets are:

-) Cash
-) Marketable Securities
-) Accounts Receivable

) Inventory

) Fixed Assets

An important point to be noted here is that if we go from the top of the list to the bottom, the liquidity decreases. However, as we go from top to bottom, the profitability increases. In other words, the most profitable investment for company is normally in its fixed assets; the least profitable investment is cash (Hafiz, 2010).

Profit is what accrues (is added to) capital at the end of an period of activity as a result of a difference between the value of sales and the cost of raw materials, labour and capital that went into the production of the goods sold. Liquidity is the availability of capital at each and every point of the working capital cycle to ensure the smooth flow of production through the business. Liquidity means enough cash and enough working capital to ensure the day-to-day running of the business (Edward, 2010).

Banks are most effective medium of mobilizing the national resources, their efficiency in mobilizing the resources lies in expanding their main business i.e. accepting deposits and advances along with making a marginal profit, the instrument of interest rate can also play an important role for such purpose. But the regulation of interest rates are done by the Nepal Rastra Bank, the central bank of Nepal and the a commercial bank need not face much problem in the fixation of such rates (Pradhan, 2004)

The Nepal bank limited, being one of the commercial bank of Nepal is contributing finances in the economic development of the country since the establishment of the bank, but the process of economic development of a country like Nepal is basically based on the economic growth, the role of financial factors are the most important among the other factors. Considering profitability and liquidity as major factors for a decision maker this study has been conducted.

1.1.1 Profile of Selected Commercial banks:

Everest Bank

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Joint Venture Partner

Punjab National Bank (PNB), their joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Nabil Bank

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

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

Standard Chartered

Standard Chartered Bank was formed in 1969 through the merger of two separate banks, the Standard Bank of British South Africa and the Chartered Bank of India, Australia and China.

These banks had capitalized on the expansion of trade between Europe, Asia and Africa.

The Chartered Bank

The Chartered Bank was founded by James Wilson following the grant of a Royal Charter by Queen Victoria in 1853. The bank opened in Mumbai (Bombay), Kolkata and Shanghai in 1858, followed by Hong Kong and Singapore in 1859. The traditional trade was in cotton from Mumbai, indigo and tea from Kolkata, rice from Burma, sugar from Java, tobacco from Sumatra, hemp from Manila and silk from Yokohama. The bank played a major role in the development of trade with the East following the opening of the Suez Canal in 1869 and the extension of the telegraph to China in 1871. In 1957 Chartered Bank bought the Eastern Bank, together with the Ionian Bank's Cyprus Branches and established a presence in the Gulf.

The Standard Bank

The Standard Bank was founded in the Cape Province of South Africa in 1862 by John Paterson, and started business in Port Elizabeth in the following year. The bank was prominent in financing the development of the diamond fields of Kimberley from 1867. It later extended its network further north to the new town of Johannesburg when gold was discovered there in 1885. The bank expanded in Southern, Central and Eastern Africa and had 600 offices by 1953. In 1965, it merged with the Bank of West Africa, expanding its operations into Cameroon, Gambia, Ghana, Nigeria and Sierra Leone.

Nepal SBI Bank

Nepal SBI Bank Limited is a major national level financial services provider engaged in various retail and commercial banking services.

A team of nearly 580 people, move, lend, invest and protect money of over 300,000 customers nationally and worldwide. Since its inception on July 7, 1993, Bank is continuously upgrading quality of its service delivery and customer satisfaction with the help of state-of -the-art technology. Extending the reach to 27 districts through their 59

physical outlets including 50 branches, 6 extension counters and three administrative offices, they are among largest private banks in Nepal. In addition, they serve their valued customers through e-delivery points like Mobile Banking, Automated Teller Machines (ATMs) and Online Banking service for both corporate and retail clients. They work as subsidiary of State Bank of India—India’s largest bank in almost any benchmark and business parameters, with over 203 years of history and expertise in banking—which has 55 percent of ownership and rest held by a local partner Employee Provident Fund (15%) and general public (30%).

In terms of the Technical Services Agreement concluded between SBI and the NSBL, SBI provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Credit Officer oversees the overall banking operations in the Bank.

1.2 Statement of the Problem

Main problem of this study is to assess the profitability and liquidity condition of selected Nepalese commercial banks. More specifically, following are some problems for the study:

-) What is the liquidity position of the banks?
-) What is the profitability position of the banks?
-) Are the banks utilizing the available resources properly and efficiently?
-) Is there any relationship between selected dependent variables and independent variables regarding liquidity and profitability of the banks?

1.3 Objectives of the Study

After the establishment of joint venture banks, the banking activities is said to be proliferated. This study, in the regard, has tried to accomplish the objectives as given below:

-) To assess the profitability and liquidity position of the commercial banks,
-) To evaluate the banks in terms of resource utilization, and
-) To evaluate the relationship between selected dependent and independent variables regarding liquidity and profitability of the banks.

1.4 Significance of the Study

In order to bring smooth change and development resource utilization is the key factor that must be considered. In this ground, this study may be helpful to consider effective utilization of resources to formulate corporate strategy.

Liquidity, profitability, leverage and other major aspect of resource utilization and relation of return with other financial variables, etc. are the main issues to be dealt with. This study is expected to be helpful to researcher, scholar, students, treasures, policy makers and other interested parties.

Knowledge as to the technique of evaluating the status of resource utilization may be acquired through this study which helps to control and evaluate the effectiveness of resources, which in turn decreases the cost of holding idle assets and increase the shareholder's wealth.

1.5 Limitation of the Study

Beyond the time and resource constraints some of the unavoidable hindrances may come in course of study are as follows:

-) Out of the total commercial banks four commercial banks viz. NABIL Bank, Standard Chartered Bank, Nepal SBI Bank, and Everest Bank have been selected as sample.
-) Available secondary data are used extensively. The reliability depends on it.
-) Historical data of over ten years have been collected and analyzed.
-) Selected financial and statistical tools have been used for analysis.

1.6 Organization of the Study

This research has been organized in the manner below:

Chapter I – Introduction: The first chapter deals with introduction. This includes background, statement of problem, focus of study, objectives of the study, and limitation of the study, review of literature and research methodology.

Chapter II – Review of Literature: Different books, journal, periodicals etc. are reviewed during the study period and these are shown in this chapter.

Chapter III – Research Methodology: This chapter clarifies the nature of the whole research. It includes, research design, sources of data and collection procedure etc. similarly, data are analyzed using different tools and techniques and all of these techniques are briefly defined in this chapter.

Chapter IV – Presentation and Analysis of Data: The fourth chapter presents the data collected different sources. Based on the data analysis of stock market has been performed.

Chapter V – Summary, Conclusion and Recommendation: In the fifth chapter summaries the main conclusions and offers suggestions for further improvement.

After completion of these five chapters, a list of literature that reviewed earlier is included alphabetically in **bibliography**. Likewise, data, information, calculation sheet etc are incorporated in **appendix**.

CHAPTER - II

REVIEW OF LITERATURE

This section attempts to build strong theoretical background through the help of which further search for solutions of the research problems would be easier. Resource mobilization: its theoretical background, academic insights, nature, advantages, importance and other various issues are addressed here in this chapter as contributed by different management experts and others towards this field. While reviewing literature different sources like books, documents, bulletins, reports, journals and articles etc. are consulted.

2.1 Conceptual Framework

This section presents the concepts of key terms used in this research. Profit: We have to clarify the meaning of profit first. Generally, profit is the making of gain in business activity for the benefit of the owners of the business whereas profitability indicates the ability to earn a profit. An Income Statement is traditionally used to measure profitability of a company. A pro-forma income statement shows projected profitability of company.

Dictionary meaning of profit is the money that you make in business or by selling things, especially after paying costs involved, the advantage that you get from doing something (Hornby, 2000).

Profit is essential to survive in any business concern for its successful operation, future expansion and growth. It is the primary measures of success of business organization. It is the excess income over the cost of production. The word 'profit' implies a comparison of the operations of business between two dates, which are usually separated by an interval of one year. The term 'profit' is very controversial and there are different interpretations about it. It has various dimensions and views to be realized. The researcher has already accepted the view of Lynch and Williamson, an economist, labour leader, investor, revenue agent and an accountant of the concern has different view about profit. An economist can view that profit is the reward for entrepreneurship for risk taking. A labour leader might say that it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase. An investor can view it as a measure of the return on his or

her money. An internal revenue agent might regard it is the base for determining income taxes. The account can define it simply as the excess of a firm's revenue over the expense of predicting revenue in a given fiscal period.

Profit is the reward for risk taking in business. An entrepreneur earns profit as reward for his innovations. Arguments of economists on profit may be put in three broad groups. The first looks upon profit as the reward for bearing risks and uncertainties, the second views profit as the consequence of perfection and in-perfection in the competitive adjustment of the economy to dynamic change, the third sees profit as the reward for successful innovation (Joel, 1997). It could be noted that profit is residual income left after the payment of the contractual rewards to other factors of production (Mathuva, 2009).

Profit is the primary measure of operational efficiency of a business firm. The success of business depends largely upon the profit earned by the business. In other word, the managerial efficiency of any concern is reflected upon the volume of profit. So, profit is a signal for the allocation of resources and a standard for judging managerial efficiency (Kulkarni, 1985).

It can be concluded from these definitions that there is no definite definition of profit. It depends on the definer's views; and their interest. The researcher would use the profit as revenue after cost of production. Under the cost of production, all factors of production should be considered for e.g. house rent, labour wage, material cost, machine cost, cost of capital as well opportunity cost of capital.

Profitability: Profitability of a firm is measured in terms of the firm's sales, total assets, and equity or share value. These provide the base to analyze the firm's earnings with respects to a given level of total assets, the ownership investment or share value. Higher the ratios of the firm, higher will be the profitability and vice versa. In case of a bank, we can take total deposit as equivalent meaning of sales.

Liquidity: Dictionary meaning of liquidity is the state of owning things of value that can easily be exchanged for cash. Any business organization uses different assets while operating the business but these all assets are not liquid. As for example, land and building, vehicle, office equipments etc. are not liquid assets. Liquid assets are those assets which

can be converted into cash promptly. Cash in hand, bank balance, gold etc. are examples of liquid assets. Therefore, liquidity is the state in which one can change its assets into cash soon.

Profitability tells us whether the business is "sustainable". Will it keep functioning? If a company is making a profit--even if only a little one--than it has no reason to close its doors. Similarly, liquidity tells us if the business has enough cash to pay its obligations. Imagine a business with \$100.00 in cash. If it has \$110.00 in expenses due this month, it isn't very liquid. By month's end, it better make \$10.00 more, or it will not be able to function. (It could borrow the money, sell something, or otherwise raise it.) If a company has \$100.00, and only \$50.00 in expenses this month, it is "liquid" enough to cover its obligations. Gateway (the computer company) has long survived years of losses, because it was very liquid. It had about \$1,000,000,000 (a billion dollars) in 2001. It has lost money every year since, but still functions because it had enough "liquidity" (and no long-term debt) to survive. Dell (the computer company) has survived for years because it was profitable (until recently) even though it had billions of dollars in debt. Both are important, and neither measure alone can give you a true picture of any company's ability to continue. But at some point--if it doesn't gain profitability--it will fail (Lorenjo, 2010).

Some viewers focus that company's liquidity position is to be considered as short term planning and its profitability position is to be considered as long term planning. Short-term liquidity is the ability of the company to meet its short-term financial commitments. Short-term liquidity ratios measure the relationship between current liabilities and current assets. This helps us measure a company's ability to sell inventory, to collect receivables and to pay current liabilities (Jonsons & Beyrs, 2010).

It is already discussed that the profit of a business is the difference between its revenues and its costs. It is important to consider two main types of profits:

- 1. Gross profit** - is calculated by deducting the cost of sales of a business from its sales revenue (turnover).

- 2. Operating profit** - is calculated by then taking away overhead expenses from gross profit.

2.1.1 Profits, Profitability and Liquidity

2.1.1.1 Introduction and Definitions

Amongst many criteria of business success, there are two which are expressed in financial terms, namely profitability and liquidity. Profit is the excess of resources earned over resources expended or income less costs. Various profit figures (gross, net, pre-tax etc.) for the period can be read from the Profit and Loss Account (US term "Income Statement"). Profitability is the relationship between profits and capital (the "static" resources set aside to earn those profits). Measuring profitability means that you have to relate a profit figure (from the Profit and Loss Account) to a resources figure (from the Balance Sheet).

In short, profit is the measure of gain, and profitability the relation of this gain to the firm's assets. If profitability exceeds the cost of the firm's capital, that is the interest rate at which it can borrow money, it can call it successful.

It is beneficial to society as a whole if less profitable businesses give up their resources to more profitable, because the total profit earned will rise, other things being equal. For this to hold true private and public profit must be equivalent; this is not the case where, for example, profit earners cause there to be social costs, such as atmospheric pollution or noise.

Liquidity may be defined as the ability of a firm to meet its financial obligations as they fall due. The balance sheet (defined as "a structured statement of assets and liabilities") measures these resources and claims, and describes the liquidity of the firm i.e. the relationship between assets and liabilities see also (LD10, Accounting Theory and the Purpose of Accounting).

2.1.1.2 Objectives, Profitability and Liquidity

Profit may be seen as an end in itself (i.e. the "mission" - see LD02) but it is better viewed as a necessary means to an end, namely the survival and growth of the organisation. Japanese companies and some others are reported as seeing profits as a cost of staying in business, which is an echo of the economists' view of normal profits as a cost of capital, with any excess or deficit being cleared over time as new firms move into, or out of, the industry.

Likewise, liquidity is a constraint which must be satisfied both directly, in that firms must settle their debts, and indirectly, in that they must also report an ability to continue to do so. If in the annual accounts, a firm reports poor liquidity, this may cause such a fall in confidence that its state becomes a self-fulfilling prophecy, as creditors demand immediate payment, the classic example being "a run on the bank".

2.1.1.3 Measuring profitability and liquidity

Whereas definition and discussion of the concepts are activities beloved by academics, their practical day to day expression and measurement is a matter for business personnel and accountants. Large organisations may employ accountants or, like smaller firms, hire the services from independent professionals. There is an associated profession whose skills overlap, namely of auditing, whose function is to validate the work of the accountant through an independent evaluation of the accounts.

Such expressions and such measurement require care, routine and administration as well as an understanding of the principles involved. All the levels of profit (gross, operating, net and retained) are expressed in the various sections of the Profit and Loss Account (my definition being "a structured statement of income and expenses"). The measurement of profit is, in fact, very difficult and it is to cut through the problems of principle that accountants adopt a number of "rules of thumb", such as depreciation in equal instalments over the estimated useful life of the project (Please see also LD14, Depreciation).

2.1.1.4 Book-keeping

The book-keeping activities of the firm begin with data capture and then serve two main purposes, firstly as part of the day to day administration of the firm's business (i.e. the payment of bills and the receipt of money owing) and secondly to classify the firm's transactions. When sorted into liabilities, assets, income and expenses, these transactions, drawn up into "accounts", and with appropriate adjustments to bridge the gaps between the transactions and economic reality, provide the "Final Accounts" which provide the expression of profit and liquidity that are the subject of this digest (see also LD11, Accounting Statements and LD20 Book-keeping). Viewed as a whole, these activities give rise to a "magic pool of information" from which all can make extractions without diminishing the pool.

2.1.1.5 Measuring Liquidity

Liquidity, which is much easier to measure than profit, is shown in the Balance Sheet, which can be seen (Chart 2, Appendix 1) as simply an accumulation of timing differences. There is a quantity dimension and a time dimension to liquidity - it is no good having money coming in tomorrow if you need it now - that is unless you can persuade your creditor to wait. If you hold cash or readily realisable assets such as shares, your liquidity is soundly based. If it consists of debtors, it is dependent on their ability and willingness to pay. If it consists of goods, liquidity is a function of the saleability of those goods and may be low if they are not in demand. For the Christmas season of 1984, Acorn and Sinclair Computers, both over-estimated sales so badly that they were left with large stocks of home computers. In each case this was a major factor causing the company (and the British position in micro-computers) to collapse (Firoj, 2010).

2.1.1.6 Liquidity vs Profitability

The financial manager is always faced with the difficulties of liquidity vs. profitability. He/She has to strike a balance between the two. I) The firm has adequate cash to pay for its bills. II) The firm has sufficient cash to make unexpected large purchases and, above all. III) The firm has cash reserve to meet emergencies, at all times. Profitability goal, on the other hand, requires that the funds of the firm are so used so as to yield the highest return. Liquidity and profitability are very closely related. When one increases the other decreases. Apparently liquidity and profitability goals conflict in most of the decisions which the finance manager makes. For example, if higher inventories are kept in anticipation of increase in prices of raw materials, profitability goal is approached but the liquidity of the firm is endangered. Similarly, the firm by following a liberal credit policy may be in a position to push up its sales but its illiquidity decrease.

There is also a direct relationship between higher risk and higher return. Higher risk on the one hand endangers the liquidity—a" the firm, higher return on the other hand increases its profitability. A company may increase its profitability by having a very high debt equity ratio. However, when the company raises funds from outside sources, it is committed to make the payment of interest, etc. at fixed times and in fixed amounts and hence to that extent of its liquidity is reduced.

Thus, in every area of financial management, the financial manager is to choose between risk and profit and generally he chooses in between the two. He should forecast cash flows and analyse the various sources of funds. Forecasting of cash flow and managing the flow of internal funds are the functions which lead to liquidity, cost control and forecasting future profits are the functions of finance manager which lead to profitability. An efficient finance manager fixes that level of operations where both profit and risk are optimised (Duke, 2010).

2.1.2 Brief History of Growth of Banking System

The modern banking performing various functions is quite recent growth. But the origins of banking can be traced very far back into history. In this respect Marshall on his book “money credit and commerce has started that the traces of rudimentary banking can be found in Egyptian and Phoenicia history.” There are records of money lending by the temples of Babylon as making loans testing and exchanging coins and arranging credit transactions and silver. Roman law recognized transfer of funds in a bank in payment of debt in 5th century. But along with the down fall of the Roman empire its civilization and the beginning of the dark age towards 475 A.D. all the banking practice took place towards 12th century and there is evidence that by the 14th century there was a high developed system in several Mediterranean cities (Klise, 2004).

The forerunners of modern banking are three ancestors they were merchants, the moneylenders and Gold Smith in England, gold smith were main origin of private banks. While in France the trail ants or revenue formers represents the earlier forms of bank, in earlier age those ancestor of modern banking practiced the function of accepting deposits of others, charging some interest for custody of money, gradually other functions were also developed and practiced as accepting of deposit by paying interest for attracting more deposit, by advancing loans on security basis fund transferring, issue notes and cheque and so on.

Mainly development of modern commerce banks was only since the 19th century, the 20th century observed development of various banking institutions which were highly specialized particularly in developed countries like USA, FRANCE, USSR etc. but nowadays there are various international intuitions has been developed such as IMF, IBRD, ADB etc which are key to the developed of modern international business (Mathur, 2007)

2.1.3 The Structure, Scope and Objective of Modern Banking

The banking system of world has many similarities but they also differ sometime in quite material aspects. The principle differences are in the details of organization technique the national charter, history, laws and needs. The differences are gradually becoming less because of the growing efficiency of international communication and habit of practices that has been successful in another country. Banking system may be classified in terms of their structure and purpose (Sayers, 2009).

Modern developed financial system will be classified in following points:

-) Central Bank.
-) Commercial Bank.
-) Other financial institutions.

Central Bank: It is the bank of apex origin of government itself for the purpose of performing all major financial operation of the government or economy as the whole. In other word it guides, directs supervisor's controls and influences the operation and behaviour of all other financial institutions for economic welfare.

Commercial Bank: Those types of financial institutions that mainly deal with the activities of the trade commerce, industry and agriculture are commercial banks. The main objective of commercial bank is to mobilization ideal resources in productive use after collecting them from scattered sources and for profit maximization purpose.

Other Financial Institutions: Other financial institutions may be classified as following:

-) The industrial banks providing long and medium term credit for development of industries.
-) The agriculture banks supplying financial assistance for agricultural development.
-) The saving banks
-) Investment banks to foster investment activities of investors.
-) Co-operative institution for the development of rural area.
-) Hire purchase financial companies.
-) Insurance companies etc.

2.1.4 History of Commercial Banks in Nepal

Though the modern banking institutions have a very recent origin in Nepal, some crude bank operations were known to have been practice even in he ancient time. Effect of Indian currency is too much in the early stages of banking development Indian currency is circulated through out the country. Though the term bank is new thing for Nepalese economy there was banking business in the form of money lending business done by several persons. The this respect J.C. Ojha says, it is not possible to give correct chronological history in view of the fact that not authentic historical record is available in respect of banking, it can be inferred from references in the history of Nepal regarding rebuilding of Kathmandu in 723 A.D. Guna kama Deva form the borrowing and that of Shankhadhar (a Sudra merchant) action of introduction of Nepalese sambat, Some 57 years and there after to mark the repayment of all debts that money lending have been prevalent long before that (Ojha,2005).

Tankadhari did money-lending business during the ruling of Jyasthiti Malla in 14th century. He classified the people in 64 classes on the basis of their occupations. Tankadhari were one of them who occupy money lending and commercial business activities, money-lending business particularly for financing the foreign trade with Tibet become quite popular during the reign of Mallas. If we go through the Nepalese history we find that Nepalese participation in foreign trade with Tibet and India. The moneylenders at that time advance for commercial transactions against personal security, the farmer also uses to borrow money from such moneylenders.

On the history of banking development of Nepal Y.P. Pant says, the history of banking and currency in the country become definite only from the 15th century that is in the Lichhivi period when the first coins were minted tin the advance of the 7th century coins of red copper started to be used for exchange purpose. Later on during 12th century in the works of various reforms measures initiated by the rulers particularly during the Mallas period stated the inspiration of the king's names and dates on the coin (Pant, 1979).

During the periods from sixteen to eighteen centuries refinement in the coins age and developments in he indigenous banking were brought into circulations for the first time not only this the factor of Nepal sending its coin to circulation in Tibet as legal tender, shows

the predominant passion or this country in the internal and external economy of Himalaya. Such trends are indicative of the development of currency and banking (Pant, 1979).

Further steps were taken on this ground Ranodip Singh (1877 to 1885) established Tejarath in Kathmandu. Tejarath was Government financial institution supplying credit to people at 5% rate of interest against security of gold silver and armaments (Shrestha; 2007). Government servants can also take loans from Tejarath against the personal security. During the time of Chadra Samser (1901-1929) credit facilities of Tejarath were extended to some other parts of country by opening its branches. At the time the volume of loan for consumption purpose was large and to control serious rate of interest ranging from 75% to 35% and also to curb unfair practices on the part of the unscrupulous moneylenders. On this ground Y.P. Pant says, in the over all department of banking system in Nepal the *Tejarath Adda* may be regarded as the father of modern banking institutions and for quite a long time it rendered good services to the government to servant as well as to the general public the institutions adopted one of elementary functions of the granting loans against gold, silver and other collateral securities which probably was not considered to be a function falling within the competence of banking (Pant,1979).

In the Nepalese history Nepal bank Ltd. was established in 1994 (BS) as a first modern bank in 2013 (BS). Nepal Rastra Bank was established under the Nepal Rastra Bank Act 2012 B.S. as an apex body of banking institutions. Following the establishment of Rastriya Banijya Bank in 2022 B.S. several joint venture banks were established in Nepal. Among them Nepal Arab Bank Ltd. is the first joint venture bank established in Nepal. Thereafter Nepal Indosuez Bank Ltd, Nepal Grindlays Bank Ltd., Himalayan Bank Ltd., Nepal SBI Bank Ltd., Nepal Balgaladesh Bank Ltd., Everest Bank Ltd., Bank of Kathmandu Ltd., Nepal Bank of Ceylon etc. were established (Khadka, 2008).

2.1.5 Main Functions and Services of Commercial Banks

Mostly all the commercial banks are authorized to transact various kind of business which is generally considered to be the important functions of commercial banks. Traditional functions of commercial banks are only concern with accepting deposit and providing loans in ancient time but modern commercial banks works for over all development of industry trade and commerce, services and agriculture also. It can not be said with certainly what should be less detach for banking as it is on march as a function of banking are widening it

will not be wrong to say that banks will assume in course of time a complete economic lit of man (Bashu, 2009).

Main function of bank in Nepal is as follows:

Accepting deposit: The main function of commercial banks is to accept deposits. The existence of deposit is as old as banking system. Deposit gives life to the commercial banking system. There are different types of deposits. Some of them are as follows:

(1) Current or demand deposit

In such type of deposits interest are not paid and party can draw or deposit money at any time in his account. There is no limit of deposit or withdrawal in this type of account. In few countries banks charges few commission on the operation of this type of deposit which is negligible. It may be transferred by the order of the owner to other by means cheque. Demands deposits are banks debts payable on call or order do they are just like call loans.

(2) Time deposits

This type of account is withdraw able only on the expiry of the period for which would be kept in the bank. Banks pays interest on such account according to the contract of period. Money to 6 months, 1 year, two year or five years it may be more than 5 years. Commercial banks in Nepal are taking deposits on those type of account are for 3 months, 6 months, 1 or 2 year only. These fixed deposits are main sources of loans and advances for commercial banks.

(3) Saving deposit

These deposits are such types of accounts in which depositors are not allowed to draw more than a fixed sum of money more than once or twice a week. This type of account may be opened with little sum of money on. On this deposits interest is paid. In Nepal commercial banks are giving 13% interest per annum

(4) Home saving program

In this type of deposit depositors are given a box locked by the bank and at the end of week depositors brings the box to the bank and bank opens the box in front of depositor and the amount inside the box will be deposited on depositors account. Our commercial banks are practicing this type of account in few branches.

Agency services: On this aspect commercial banks performs following functions:

-) Dealing with transaction of foreign exchange business.
-) Serving as agent or correspondent on the behalf or the clients.
-) Issuing of letter of credit circulates notes, bank drafts, and traveler's cheque.
-) Purchases and sale of different type of securities, remittance of funds.
-) Collections and payment of cheque, bills, promissory notes, coupons, dividend and other type of bonds.
-) Acting as executors
-) Distribution and supply of legal tender currency through out the country.
-) Keeping valuable article in safe custody.

Similarly these banks facilitates other type of different functions in short, ordinary banking business consists of changing cash for bank deposits and bank deposits for cash, transferring bank deposits from one person or corporation to another giving bank deposit in exchange for bills of exchange, issuance of government bonds, served promises for business to repay and so forth.

2.2 Review of Previous Studies

Pradhan (2008) has given certain lights on Nepalese enterprises are thought to be relevant to review here. "*Financial Distress, Financial Ratios and Stakeholder Losses in Corporate Restructuring*" is the title of the research. This paper aimed at determining the extent of financial distress in Nepalese enterprises, indicating how financial ratios deteriorate as the firm moves into financial distress, pointing the firm moves into financial distress, pointing out concessions to be made by various stakeholders in the restricting process, and analysing legal framework concerning financial distress in Nepal. The study used both primary as well as secondary data. The primary data were based on interviews conducted with private and public sector respondents while secondary data were collected mainly from final statements of selected enterprises. The enterprise selected for this study consists of public enterprises only since available published information shows that financial distress is more chronic in public enterprises than in private enterprises. Data were analyzed by forming portfolios on net profit ratio, and return on equity to indicate their relationship with measures of liquidity turnover, operating expenses, labour productivity ratio, and coverage ratios. The attempts were also made to estimate various econometric models in order to explain the behaviour of financial ratios in financially distressed firms. In this study, an enterprise is considered to be in financing distress if it suffers losses.

The increase in net profit ratios led to increase in liquidity ratios, and the turnover ratios. Similar was the case with labour productivity and debt coverage. As the enterprise moved into financial distress, labour productivity and debt coverage ratios also deteriorated. The researcher also concludes that portfolios are also formed on return on equity ratios, which indicated that financially distressed enterprises have a lower profitability and liquidity. This analysis also indicated how turnover ratios deteriorated as the enterprises moved into financially distressed situation. Similarly, the labour productivity and coverage ratios of financial distressed enterprises were lower than that of financially healthy enterprises.

Poudel (2009) conducted on “*Profitability Analysis of Standard Chartered Bank Nepal Ltd. and NABIL Bank Ltd.*” an unpublished Master Level thesis has made specific objectives are: to evaluate the soundness of profitability and operating efficiency of SCBNL and NABIL Bank Ltd. The researcher concluded on the basis of findings that NABIL has paid very higher interest to deposits and other working funds than SCBNL. The cost management strategy would be ideal to reduce the various costs and increase the profitability. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

Maharjan, (2010) conducted the study on “*Profitability Analysis of commercial Banks (A case study of Rastriya Banijya Bank And Nepal Bank Ltd.)*” an unpublished Master Level thesis has made specific objectives are: to evaluate the profitability and operating financial efficiency of Nepal Bank Ltd. and Rastriya Banijya Bank, to compare and analyze the fund based interest income with fee based income of Nepal Bank Ltd. and Rastriya Banijya Bank. The researcher concluded on the basis of findings that net operating margin of RBB was better than NBL but the ratio of RBB was very inconsistent in comparison to NBL. Likewise, RBB and NBL had very low net interest margin. The net interest margin of RBB was higher the net interest margin of NBL. Both the banks have very high staff expense related to total operating expense due to over staffing. The operating efficiency ratio of both the banks is very unfavorable during the study period due to the huge amount of operating expenses in compare to the operating income.

Manandhar, (2011) has conduct research on “*Credit Risk and Profitability of Commercial Banks*”. He analyzed the data of six commercial banks and has set the objectives with to evaluate the impact of credit risk on the profitability of the commercial banks, to evaluate

internal and external factor those influence the performing assets and non performing assets. The researcher concluded that NPA of NIBL and NB Bank was increasing during the study period. The NPA of EBL and NABIL was decreasing during the study period. Likewise, NPA of HBL and SBI Bank was fluctuating but overall performance of Nabil Bank was found to be satisfactory during the study period.

Shahi (2012) conducted in her study “*Financial Performance of Joint Venture Banks (With reference to NSBI and EBL)*” has made the specific objectives are: to evaluate and compare the financial performance of EBL and NSBI, to evaluate the liquidity, profitability, leverage, growth and capital adequacy of these banks. The researcher concludes all the calculations and presentations based on the secondary data. According to the analysis, the overall performance of the sample banks is found to be satisfactory. Both the banks are not strong in performance. Some are strong in liquidity position and some are strong in profit making. Current ratio of both the banks is similar and is less than the standard ratio i.e. 2:1. Deposits of NSBI are comparatively higher than EBL. Ratio of cash and bank balance to total deposit is lower for NSBI than EBL. This proves that NSBI has utilized more amounts in loans and advances rather than for liquidity purpose. While calculating the leverage ratio, it is found that NSBI is using more debt than equity. It leads to increase in interest expenses. Debt is more risky than equity. Ratio of NPAT to Total Assets and NPAT to Total Deposit both is higher for NSBI. So from the profitability point of view, NSBI is better than EBL. NSBI has incurred more expenses for staffs than EBL. More staff expenses may lead to the increase in motivation level of staffs and also leads to the increase in expenses of the bank. Interest earned on total assets for both the banks are similar. Hence, the researcher concludes that NSBI has shown better profitability due to more other incomes rather than the interest income.

Shrestha (2012) conducted the study on “*Productivity Measurement of Credit Position In Nepalese Commercial Banks (Special reference to BOK and NIBL)*” with the specific objectives are: to explore the productivity measurement on credit position of BOK and NIBL, to inspect the level of the non-performing loan investments that exists within the banking industry and to analyze the lending policy of Nepalese commercial banks with the help of BOK and NIBL. The researcher concludes that NIBL is better than BOK. However, the banks should focus in some areas to meet the standard for loss provision. In other words, it has to focus on adequate liquidity management. NIBL has performed better

every year with the higher growth rate in most of the sectors. NIBL has managed to reduce their loan losses in the recent years and able to maximize the profit. They also have some problem with the non-performing loan provisioning where the bank should put an eye on. Yet the bank is performing hard to meet every standard. BOK being a rising bank has been performing well in recent years. The researcher also concludes that both banks had sufficient liquidity in these five years with higher CRR and the investment in government securities. They are able to maintain the optimum Credit to Deposit ratio and achieved satisfying growth rate in net profits. In the case of loan loss provisioning, they have also failed in some way where they should focus on and act upon harder to be in the standard.

2.3 Research Gap

The review provides us the path that 'Liquidity' ensures short-term survival where 'Profitability' ensures long-term survival. Both are essential for any company to survive. Previous researchers have conducted the researches relating to profitability as well as profit planning & control for the number of studies on banks is small. This research will fulfil this lacking to some extent. After reviewing different literatures it is found that previous researchers have analyzed profitability condition using different tools and techniques. However, financial surplus to equity and financial surplus to assets ratio in order to analyze the short run profitability is not seen employed. Similarly, this research "Analysis of Liquidity and Profitability on Listed of Four Commercial Banks (NABIL, SCBNL, SBI and EBL) "gives the mirror of banking industry. Likewise, all four samples one decade data (over ten year's data) analysis of profitability and liquidity analysis is also new and crucial research and vary from the others. For that purpose, all data are changed to 1989/90-price level as the government had started financial reform from this year. These elements are not found employed in previous master degree thesis. Therefore, to some extent, this gap is to be fulfilled through this research.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter refers to the overall approach to the research process, covering from theoretical underpinning to the collection and analysis of data. It is composed of both parts of technical aspect and logical aspect. Specially, this chapter has focused on research design, procedure employed, nature and source of data, sample and population, Financial and statistical tool used here in this study and limitation of the study.

3.1 Research Design

The research design of this study is descriptive and analytical in nature. This study is quantitative since the quantitative data have extensively been employed. Position of profitability, liquidity and resource utilization, relation of profitability to other variables are the main issues to be dealt. To facilitate research, the researcher collects the data of concerned commercial banks and they are tabulated and analyzed by using different financial and statistical tools to find out real condition resource utilization.

3.2 Nature and Sources of Data

The data upon which this study is made are basically secondary in nature. The secondary data have been collected from financial statement, annual report, unpublished official records of concerned banks and financial state of listed companies published by Nepal stock exchange. All the collected data and information have been properly arranged, synthesized, tabulated and calculated to arrive at the realistic analytical steps.

3.3 Populations and Sample

Total population for this study is the commercial banks listed in Nepal Stock Exchange. Because of the time and resource constraints, convenience sampling technique is designed to follow. Among the many commercial banks, the sample banks are taken on the basis of judgmental sampling method. Though the sample is relatively small, efforts are made to make the more accurate and precise. The sample banks are as follows:

Table 3.1
Sample Banks

S.N.	Sample Banks	Years	No. of observation
1.	Everest Bank Ltd (EBL)	2001/02-2010/11	10
2.	Nabil Bank Ltd (NABIL)	2001/02-2010/11	10
3.	Standard Chartered Bank Ltd. (SCB)	2001/02-2010/11	10
4.	Nepal SBI Bank Ltd (SBI)	2001/02-2010/11	10

3.4 Tools for Analysis of Data

Financial and statistical tools have been applied for analyzing the working capital management in Nepalese commercial banks.

3.4.1 Financials Tools

Various financial methods are used to analyze the resource utilization of commercial banks they are as follows:

3.4.1.1 Liquidity Ratio

Cash and Bank Balance to Current Assets Ratio: This ratio measures the bank's liquidity in terms of cash and bank balance only as other current assets except cash and bank balance may not be suspicious to be converted to cash immediately or in a short notice.

$$\text{Cash and bank balance to current assets} = \frac{\text{Cash and bank balances}}{\text{Current assets}}$$

Cash Reserve Ratio (CRR):

To maintain sound liquidity position, all commercial banks are required to maintain a certain portion of total deposits with NRB in their own account. This portion is called Cash Reserve Ratio (CRR) and is 5% and currently held at 6.0% according to amendment of monetary policy FY 2069/070 B.S by NRB. The CRR shows whether the banks have complied with the NRB requirements or not. It is computed as follows:

$$\text{Cash Reserve Ratio} = \frac{\text{Cash in Reserve}}{\text{Total Deposits}}$$

3.4.2 Credit Management Analysis

i. Total Loan to Total Deposit Ratio:

This ratio indicates the capability of the banks to successfully utilize the total deposits on loans & advances for profit generating purposes. It measures how quickly the total deposits collected can be granted as loans & advances to earn reasonable returns. It is calculated as follows:

$$\text{Total loans \& advances to total deposit ratio} = \frac{\text{Total Loans and Advances}}{\text{Total Deposit}}$$

Higher ratio indicates the efficient and effective utilization of funds while lower ratio indicates the inefficiency of the banks to stop them from remaining idle.

ii. Interest Income to Loans & Advances Ratio:

This ratio indicates the capability of the banks to manage the loans & advances in earning higher interest income. It shows the proportion of interest income earned as compared to the total loans & advances granted. It is calculated as follows:

$$\text{Interest income to Loans \& advances ratio} = \frac{\text{Total Interest Income}}{\text{Total Loans and Advances}}$$

Higher ratio indicates the higher rate of earning interest income and so is the indicator of good performance in lending activities, and vice versa.

3.4.3 Profitability and its Measurement

Profitability is a measure of firm's efficiency (Khan & Jain, 1998). Different ratios can be used to measure profitability. The ratios measure overall efficiency of management as the return generated on sale and investment. It is also a control measure of the earning power of a firm as well as operating efficiency.

Profitability ratios essentially relate to the profit earned by a firm during a particular period to various parameters like sales, shareholders equity, capital employed, total assets etc. Western and Brigham express their view, "Profitability is net result of a large number of policies and decisions. Ratios are used to measure profitability and these give final answers about how effectively the firm is being managed" (Weston & Brigham; 2000).

Profitability ratios are designed to provide answers to some questions such as what is the earning per share; what amount was paid in dividends; what is the rate of return to equity

holder and what is the relationship between and among these variables etc (Khan & Jain, 1998).

The profitability ratio is calculated to measure the operative efficiency of the company. Management, creditors and owner of the company are also interested in the profitability ratio of the firm (Pandey, 1993).

Financial profitability has been defined as the ability of a firm to generate revenues in excess of its costs. It can be long or short term. In the long run, a firm should be able to maintain the value of invested capital and should be able to yield a profit, which exceeds the opportunity cost of capital meaning that the yield generated by the firm should exceed the opportunity cost of capital. In order to examine long-term profitability, especially NPV and IRR have been used. Short-term profitability, on the other hand, refers to a firm's ability to make an operating profit. It is analyzed on a yearly basis and different financial ratios are used under it.

3.4.3.1 Measurement of Profitability

There are basically two types of profitability ratios in short term, those showing profitability in relation to investment and in relation to sales. In the present analysis, the profitability ratios are proportioned to equity investment and fixed assets. They are, therefore, calculated as net profit/ equity investment and net profit/ fixed assets. These ratios are given below:

Return on Assets (ROA): Return on assets ratio measures net profit after tax as compared to the amount invested in the assets. Van Horne viewed, "when we multiply the assets turnover of the firm by net profit margin, we obtain the return on assets ratio or earning power on total asset" (Van Horne; 1996: 174). The statement can be written in the following formula:

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$$

Return on assets is also calculated on the basis of fixed assets, it is called return on fixed assets (ROFA) which is calculated as,

$$\text{Return on Fixed Assets} = \frac{\text{Net Profit After Tax}}{\text{Fixed Assets}} \times 100\%$$

These ratios are useful to measure the profitability of a firm and these are the short term measure of firm's effectiveness also.

Return on Capital Employed (ROCE): The term capital employed refers to long-term fund supplied by the creditors and owners of the firm. Return on capital employed is the relationship between net profits after tax and total capital employed. The ratio measures overall effectiveness of management in earning profit from using total capital. It can be calculated by dividing net profit after tax by total capital employed as given below:

$$\text{Return on Capital Employed/fund (ROCE)} = \frac{\text{Net profit after tax}}{\text{total capital employed / fund}}$$

The ratio is most important because it reflects the overall efficiency of its used capital. Higher the ratio is favourable to the firm and vice-versa.

Cost in terms of its variability can be classified as fixed and variable. Profitability, liquidity and other decisions most depend on the nature of cost. Therefore, selected ratios along with the above will be used to measure the cost effectiveness of the bank also.

Net Profit after Tax to net worth: Operating profit to net worth is also a measure of bank's efficiency so far as the matter of utilizing the equity capital is concerned. How much revenue is generated by utilizing the equity fund is an issue to be examined.

$$\text{Net profit to net worth} \times \frac{\text{Net profit After Tax}}{\text{Net worth}}$$

Net Profit to Total Deposit: Net profit to total deposit gauges the bank's efficiency to generate net profits out of the total deposit it collected. That means if the bank is able to make more profits from the deposit collected through the different sources then this ratio tends to be more.

$$\text{Net profit to total deposit} \times \frac{\text{Net profit After Tax}}{\text{total deposit}}$$

Net Profit to Total loan and advances: Net profit to total loan and advances gauges the bank's efficiency to generate net profits. It is calculated as following manner.

$$\text{Net profit to total loan and advances} \times \frac{\text{Net profit After Tax}}{\text{total loan and advances}}$$

Credit Risk Ratio:

This ratio indicates the possibility of loan being default or not getting repaid by the client with subsequent losses to the bank. It is calculated as the percentage of nonperforming loans to total loans and advances/credit.

$$\text{Credit Risk Ratio} = \frac{\text{Total Non performing loans}}{\text{Total loans and advances}}$$

Higher ratio shows the presence of more risky assets in the volume of loans and advances, and vice versa.

Hence, these are the various financial tools that were used to achieve the objectives of this study.

3.4.4 Tools to Measure Solvency Position of a Firm

Firm's solvency position is measured by the help of solvency ratio. Solvency ratio refers that ratio which reveals the liquidity position of the concern. Solvency ratios are calculated to judge the financial position of the firm from short-term solvency viewpoint as well as long-term. Generally short-term solvency ratio is current ratio which is defined under:

Current Ratio: One of the most general and most frequently used the ratio is called current ratio. It is a measure of short-term liquidity and it is calculated by dividing the firm's current assets by current liabilities (Gitman; 1988). Current assets normally include cash, marketable securities, prepaid and advance expenses, accounts receivable, and inventories. Current liabilities includes account payable, short-term notes payable, current maturates of long-term debt, accrual income taxes and other accrued expenses. The higher the current ratio is favourable to the firm. There is no hard and fast rule regarding the standard of this ratio but normally a current ratio of 2:1 is considered satisfactory. The ratio is calculated by following formula.

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

b. Cash and Bank Balance to fixed Deposit Ratio

The bank should maintain adequate cash and bank balance to meet the unexpected and heavy withdrawal of deposits. So this ratio measures the ability of the bank to meet its immediate obligations. Cash and bank balance consists of cash in hand, foreign cash in hand, cheques and balance with domestic and foreign banks. Likewise a current and saving

deposit includes all types of deposits except fixed deposit.

Cash and bank balance to current and saving deposit ratio is calculated by dividing cash and bank balance by current and saving deposits as under Cash and Bank Balance to fixed

$$\text{Deposit Ratio} = \frac{\text{Fixed deposit}}{\text{Current \& Saving Deposit}}$$

This ratio shows the bank's ability to meet its immediate obligations. Higher the ratio shows the higher liquidity position and the ability to cover the deposit and vice-versa.

c. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measure percentage of most liquid fund with the bank to make immediate payment to depositors. This ratio is computed by dividing cash and bank balances by total deposit.

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

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks, balance held in foreign banks and other financial institutions. The total deposits encompass current deposits, fixed deposits, investment in other financial institution, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits liability and vice versa. Moreover, too high ratio is unfit, as capital will be tied-up and opportunity cost will be higher.

3.4.2 Statistical Tools

Various statistical tools may be used for the evaluation of financial performance of the banks such as measure of central tendency, measure of dispersion Correlation Analysis. Under this heading, statistical tools such as coefficient of correlation between variables and trend analysis of important variables have been used. Statistical tools are the mathematical techniques used to analyze and interpret performance. It is used to describe the relationship between variables and interpret the result. Statistics is also used to test the hypothesis that is set to know the information of population.

Mean (\bar{X})

The arithmetic mean or average is the sum of total values to the number of observations in

the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure of central tendency. In this study it is used in data related to dividend of sample banks over five years. It is calculated as:

Arithmetic Mean: Arithmetic mean is the average return over periods.. It is calculated by,

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n}$$

Or, $\bar{X} = \frac{X}{n}$

Where,

\bar{X} = Arithmetic mean return

$x_1, x_2, x_3 \dots \dots \dots x_n$ = Set of observations

n = total no. of observations

X = Sum of given observation

Standard Deviation (S.D.)

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. S.D. The small standard deviation means the high degree of homogeneity of the observations. In simple term high SD means very less similarity in the values and low SD means high similarity among the values. SD may be defined mathematically as,

$$S.D. = \sqrt{\frac{\sum fX^2 - \frac{(\sum fX)^2}{n}}{n}}$$

Where,

X = number of observations in the sample

\bar{X} = mean of number of observations in the sample

n = number of years

$\sum fX^2 - \frac{(\sum fX)^2}{n}$ = Sum of Total number of observations deviation from mean in the sample.

& Coefficient of Variation (C.V.) is also useful to assess the consistency of the data for comparison point of view. For calculation, please follow appendix-II.

Correlation

The term correlation analysis is the analysis, which reflects that the variables of the two different data are related or we can say that correlation is the analysis of relation between more than one variable. "When the variables are of internally or ratio scaled, the appropriate statistical tools for measuring the relationship and expressing it in a brief formula is known as Correlation." The relation between the data may be positive or negative when both variables are moving upward or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice versa that the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected variables with each other over study period.

Karl Pearson's Coefficient Correlation Analysis

Out of several mathematical method of measuring, correlation the Karl Pearson popularly known as Pearson's coefficient of correlation widely used in practice to measure the degree of relationship between two variables. Two variables are said to have correlation when the value of one variable is accompanied by the change in the value of the other. Therefore, it is measured by following formula using two variables. It is denoted by small 'r'.

$$\text{Correlation of coefficient } r = \frac{n\sum XY - \sum X \times \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \cdot \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

r = coefficient of correlation

XY = Sum of product of two series.

X² = Sum of squared in X series

Y² = Sum of squared in Y series

The value of this coefficient can never be more than + 1 or less than -1. Thus, + 1 and -1 are the limit of this coefficient. The r = + 1 implies that correlation between variables is positive and vice-versa. And zero denoted no correlation.

Trend Analysis

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratio of different items for various periods is calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally a period of five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statements item bears same to the same items in the base of year.

Trend analysis shows the direction progress upward or downward. It is an important from of horizontal analysis of financial statements often called as Pyramid Method of ratio analysis. More over in this method a statement used to analyzed with the base of another reference statement. Other method of analysis is the calculation of trend analysis and showing trend value in graph paper. On the other hand trend analysis is not out of limitation, it may effect by price level changes and the select ion of bases year may an obstacle. It can show only the trend in the operating result financial position of a concern cannot be discussed.

Besides there, it is great important for financial performance because of their utilities in business as well as in the banks. They are:

-) It is a simple technique. It doesn't involve tedious calculation.
-) It is a brief method to indicate the future trends.
-) It reduces the changes of errors as it provides the opportunity to compare the percentage with absolute figure.
-) A financial analyst is able to judge the present position of the company and to compare with the overall trend in industry.

Trend analysis measures the scenario of the variables for the different period. This tool is used to find out the trend of different financial indicators. To find out the actual situation of the different factors for various years, trend analysis is most useful. It does not provide the analytical figures as cause and effects but it shows the actual figures. It may be down ward sloping, upward sloping of constant over the period. One of the most popular and mathematical method of determining the trend of time series is the least square method. By using this method, we can estimate the future trend values of different variables. Hence, for the estimation of linear trend line following formula is used.

$$Y = a + bX$$

Where,

Y= Trend value a= Y Intercept

b= slope of trend line of the amount of change in Y Variable that is an associate with change in 1 unit in X variable

X= Time variable

t- Statistics-

t-test is applied to assess whether the computed correlation is significant or not.

The t -statistic is:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where,

t=calculated value of t

r= correlation of coefficient between the variables.

n= number of sample.

For applying t-test, the t- values are calculated first and compared with the critical values at a certain level of significance for given degree of freedom. If the computed value of 't' exceeds the table value (say t 0.05), it is known that the correlation coefficient is significant at 5 percent level of significance otherwise not.

Coefficient of Determination

Square of correlation coefficient is called coefficient of determination, i.e. r^2 . It represents the proportion of variation of dependent variable that is explained by the independent variables.

3.5 Definition of the key terms

EBIT: Operating profit indicates the profit from operating activities. From this profit interest and tax as well as all kinds of expenses viz. direct and indirect are not deducted. So, it is the earning before interest and tax (EBIT).

Net worth: sum of equity capital, reserve and provision.

Current assets: It is the sum of cash in hand and bank balance, bills receivables, etc. of the banks those provided in annual reports.

Total assets: Generally, '*total assets*' is the sum of current assets and fixed assets. However, these banks classify the assets as '*other assets*' also. Therefore, '*total assets*' is the sum of '*current assets*', '*fixed assets*' and '*other assets*' in this study.

Financial surplus: The term '*Financial Surplus*', in this research, indicates the net profit after tax.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter stands for presenting and analyzing data to achieve the formulated objectives. This section is classified into five different sub- sections. Among them, first section presents profitability position of the banks, both in long run and short run. Second section is for the evaluation of the banks' liquidity position. Similarly, third section presents the case of resource utilization by the banks. Forth section is for the evaluation of linear relationship between selected dependent and independent variables regarding profitability and liquidity of the banks. Finally, fifth section presents basic findings based on the discussion in preceding four sections.

4.1 Evaluation of Profitability Position of the Banks

Profitability refers to the operating efficiency of firms. Here, the financial ratio analysis using annual data of ten years have been used to measure short-term profitability. Two ratios namely - financial surplus to equity and financial surplus to assets have been used. These ratios have been presented and analyzed in this section comprehensively.

4.1.1 Financial Surplus (NPAT) to Equity Ratio/Return on Equity

In this study net profit is taken as the term 'financial surplus'. The ratio of financial surplus to equity capital refers operating efficiency of the banks. This ratio indicates return to equity. Operating profit to net worth is also a measure of bank's efficiency so far as the matter of utilizing the equity capital is concerned. How much revenue is generated by utilizing the equity fund is an issue to be examined the ratios for the banks are fluctuating. It is also known as NPAT to book net worth ratio.

Table 4.1
Financial Surplus to Equity Ratio of Sample Banks in (%)

Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	19.27	27.53	38.79	7.45
2002/03	15.34	31.27	37.03	8.55
2003/04	18.83	30.45	35.96	9.71
2004/05	17.11	29.86	33.88	8.33
2005/06	19.8	32.16	37.57	12.04
2006/07	27.92	30.47	32.7	22.1
2007/08	28.53	30.72	32.85	17.84
2008/09	28.96	42.22	33.58	18.58
2009/10	30.17	36.39	32.23	18.85
2010/11	29.93	29.69	30.42	16.49
Mean	23.59	32.07	34.5	13.99
S.D.	5.66	4.01	2.57	5.08
C.V.	23.99	12.5	7.45	36.31

Sources: Appendix I & II

Table 4.1 presents the result of financial surplus to equity ratio or return on equity of the sample banks. According to this, the return to equity for EBL varies for ten years. average of this ratio shows that the return to equity for the is 23.59%, 32.05%,34.5% and 13.99% for EBL,NABIL,SCBNL and SBI respectively which is above the normal standard. This indicates that the return on equity investment for the bank is satisfactory. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 5.66%, 4.01%, 2.57% and 5.08% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 23.99%, 12.5%, 7.45% and 36.31% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 Return on equity is highest of SCBNL and lowest of SBI among the four sample banks. In same way, financial surplus to equity ratio for sample banks are fluctuating trend. SBI has more riskier that is highest CV 36.31% than other sample banks. At last, financial surplus to equity ratio i.e. return to equity investment for SBI is far smaller than other three banks. The weighted ratio is also smaller than other banks indicating that this bank is not satisfactory towards the equity investment. In the fiscal year 2010/11 the return on equity of all banks are in decreasing trend i.e.29.93%, 29.69%, 30.42% and 16.49% respectively EBL,

NABIL, SCBNL and SBI which is not good signal for investors. Following figure shows the reality with more clear.

Figure 4.1

Financial Surplus to Equity Ratio for the Sample Banks

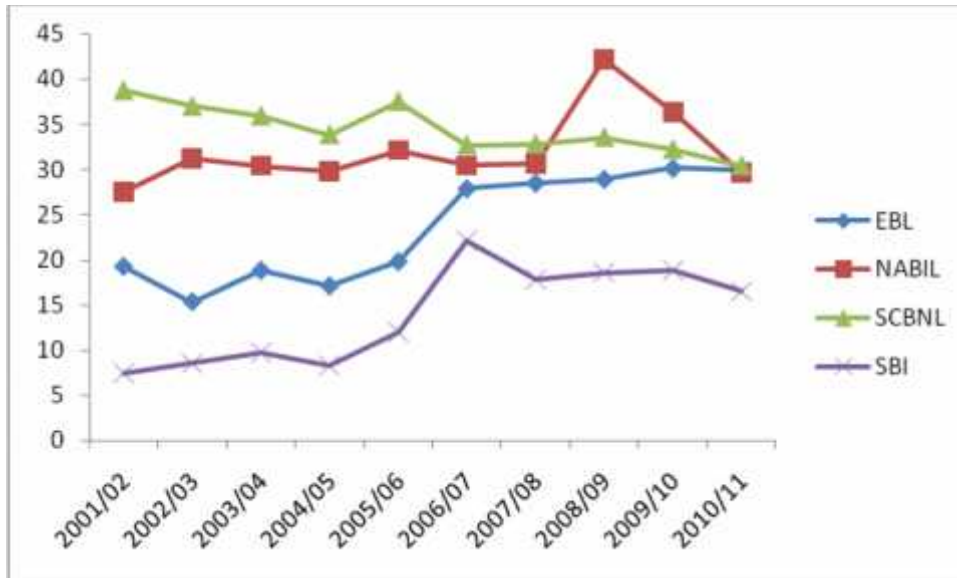


Figure 4.1 presents the trend of financial surplus to equity ratio (ROE) for the banks. The trend for all four sample banks is positive and almost constant. To sum up, financial surplus to equity investment for majority banks is satisfactory as the ratios are above the normal standard except SBI. It implies that the short-term profitability of these sample banks in terms of equity investment is satisfactory.

4.1.2 Financial Surplus to total Assets Ratio / Return on Assets

After analyzing the data by the help of financial surplus to equity ratio it is clear that all banks are success to generate short-term profit in terms of their equity investment. Similarly, financial surplus to assets is calculated in order to know the effectiveness of investment on total assets with respect to net profit. Table 4.2 presents the financial surplus to assets for the banks.

Table 4.2
Financial Surplus to total Assets Ratio of Sample Banks in (%)

Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	1.3	2.75	2.6	0.54
2002/03	1.2	3.01	2.42	0.64
2003/04	1.5	2.98	2.27	0.72
2004/05	1.4	3.08	2.46	0.55
2005/06	1.5	3.23	2.56	0.9
2006/07	1.38	2.72	2.42	1.83
2007/08	1.65	2.32	2.46	0.44
2008/09	1.73	2.55	2.56	1.05
2009/10	2.09	2.38	2.7	1.08
2010/11	2.1	2.43	2.55	1.01
Mean	1.58	2.74	2.5	0.87
S.D.	0.29	0.3	0.11	0.38
C.V.	18.92	10.95	4.4	43.67

Sources: Appendix I & II

Table 4.2 presents the result of financial surplus to assets ratio or return on assets of the sample banks. The average ratio for return on assets is 1.58%, 2.74%, 2.5% and 0.87% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on assets for the bank is satisfactory. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 0.29%, 0.30%, 0.11% and 0.38% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 18.92%, 10.59%, 4.4% and 43.67% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 Return on assets is highest of NABIL which is 2.74% and lowest of SBI which is 0.87% among the four sample banks. In same way, financial surplus to assets ratio for sample banks are fluctuating trend. SBI has more risky that is highest CV 43.61% than other sample banks. At last, financial surplus to assets ratio for SBI is far smaller than other three banks. According to the coefficient variation SCBNL is more uniformity which has less CV i.e.4.4% than other sample banks. The fluctuation takes place continuously till the last year of the study period 2010/11. In the fiscal year 2010/11 the return on assets of EBL and NABIL are slightly increasing i.e. 2.1% and 2.43% whereas

return on equity of SCBNL and SBI is slightly decreasing trend i.e. 2.55% and 1.01% . Following figure shows also makes more clear.

Figure 4.2
Financial Surplus to total Assets Ratio for the Sample Banks

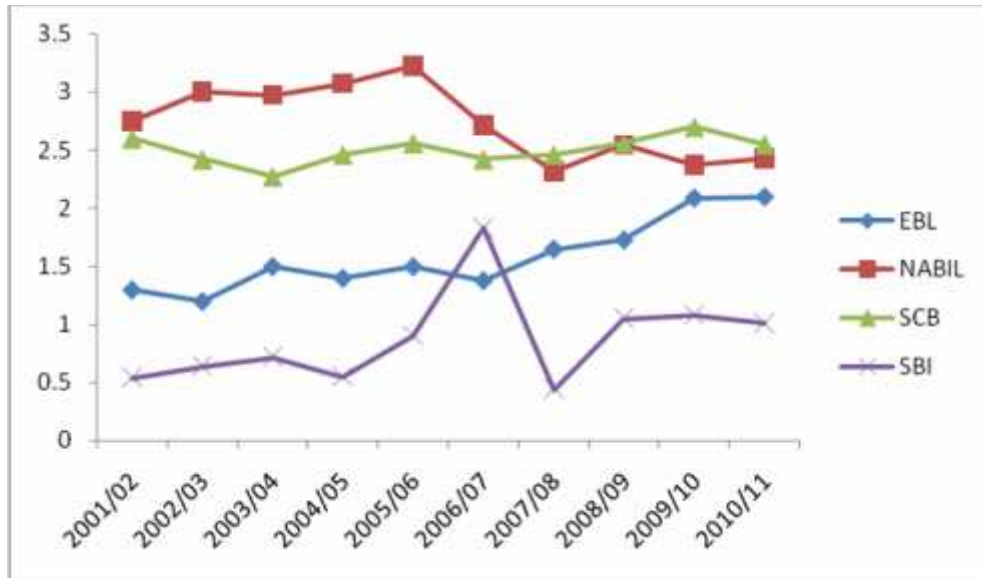


Figure 4.2 presents ratio of financial surplus to assets for the sample banks. The ratios are slightly different for all the banks. The ratio for EBL is increasing gradually even it has decreased in fiscal 2002/03. in the first year. Through this analysis, predicts that the bank’s success in future in order to achieve its goal. It is because, both financial surplus with respect to equity investment and assets are higher.

4.1.3 Return on Fixed Assets

Return on assets is also calculated on the basis of fixed assets (net), it is called return on fixed assets (ROFA) which is calculated as,

$$\text{Return on Net Fixed Assets} = \frac{\text{Net Profit After Tax}}{\text{Fixed Assets}} \times 100\%$$

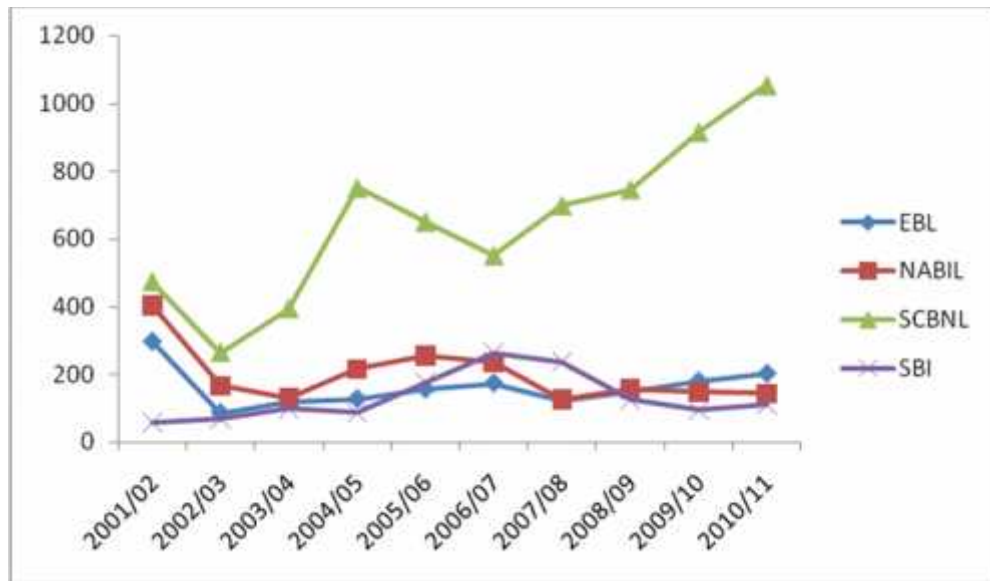
Table 4.3
Return on Fixed Assets of Sample Banks in (%)

Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	297.59	404.82	474.15	56.78
2002/03	85.93	165.23	264.43	68.63
2003/04	121.29	129.21	394.76	97.6
2004/05	127.4	215.37	750.6	86.36
2005/06	155.96	254.78	650.54	175.38
2006/07	174.26	234.93	550.99	262.2
2007/08	125.29	124.82	698.39	236.83
2008/09	149.52	155.99	746.59	124.76
2009/10	179.62	146.37	916.15	93.86
2010/11	202.35	143.06	1054.96	111.41
Mean	161.92	197.48	650.16	131.38
S.D.	55.36	81.41	71.52	66.85
C.V.	34.19	41.22	11	50.88

Sources: Appendix I & II

Table 4.3 presents the result of financial surplus to fixed assets ratio or return on fixed assets of the sample banks. The average ratio for return on fixed assets is 161.92%, 197.48%, 650.61% and 131.38% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on fixed assets for the bank is good. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 55.36%, 81.41%, 71.52% and 66.85% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 34.19%, 41.22%, 11% and 50.88% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 Return on fixed assets is highest of SCBNL which is 650.16% and lowest of SBI which is 131.38% in average among the four sample banks. In same way, financial surplus to fixed assets ratio for sample banks are volatile. SBI has more risky that is highest CV 50.88% than other sample banks. According to the coefficient variation SCBNL is more uniformity which has less CV i.e.11.% than other sample banks. The fluctuation takes place continuously till the last year of the study period 2010/11. In the fiscal year 2010/11 the return on fixed assets of EBL, SCBNL and SBI are increasing i.e.202.35%, 111.41% and 1054.96% and NABIL is slightly decreased i.e.143.06% respectively. Following figure shows also makes more clear.

Figure 4.3
Returns on Fixed Assets of sample banks in (%)



4.1.4 Return on Capital Employed/fund on risked assets (ROCE): The term capital employed refers to long-term fund supplied by the creditors and owners of the firm. Return on capital employed is the capital adequacy of core capital and supplementary capital on risk weighted assets. The ratio measures overall effectiveness of management in earning profit from using total capital.

Table 4.4
Return on Capital Employed/fund on risked assets (ROCE) in (%)

Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	12.9	11.23	17.38	12.34
2002/03	13.1	10.74	14.14	18.19
2003/04	11.07	11.06	15.57	7.74
2004/05	13.54	12.44	16.06	5.26
2005/06	12.72	12.31	14.93	5.83
2006/07	11.2	12.04	15.71	5.6
2007/08	11.44	11.1	13.15	5.72
2008/09	11.34	10.7	14.7	6.67
2009/10	10.77	10.5	14.51	9.63
2010/11	10.43	10.58	14.22	7
Mean	11.85	11.27	15.03	8.34
S.D.	1.05	0.69	1.12	3.91
C.V.	8.86	6.12	7.45	46.82

Sources: Appendix I & II

Table 4.4 presents the result of return on capital fund or employed to risked assets of the sample banks. The average of this ratio is 11.85%, 11.27%, 15.03% and 8.34% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on capital fund or employed to risked assets for the bank is good i.e. effectiveness of management in earning profit. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 1.05%, 0.69%, 1.12% and 3.91% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 8.86%, 6.12%, 7.45% and 46.82% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 return on capital fund or employed to risked assets is highest of SCBNL which is 15.03% and lowest of SBI which is 8.34% in average among the four sample banks. In same way, return on capital fund or employed to risked assets for SBI is more volatile than other sample banks. SBI has not managed its profitability to maintain capital adequacy than other sample banks. According to the coefficient variation NABIL is more uniformity which has less CV i.e. 6.12% than other sample banks. The fluctuation takes place continuously till the last year of the study period 2010/11. In the fiscal year 2010/11 the return on capital fund or employed to risked assets of NABIL is slightly increasing and EBL, SCBNL and SBI are slightly decreasing. Following figure also makes more clear.

Figure 4.4

Return on Capital Employed/fund on risked assets (ROCE):

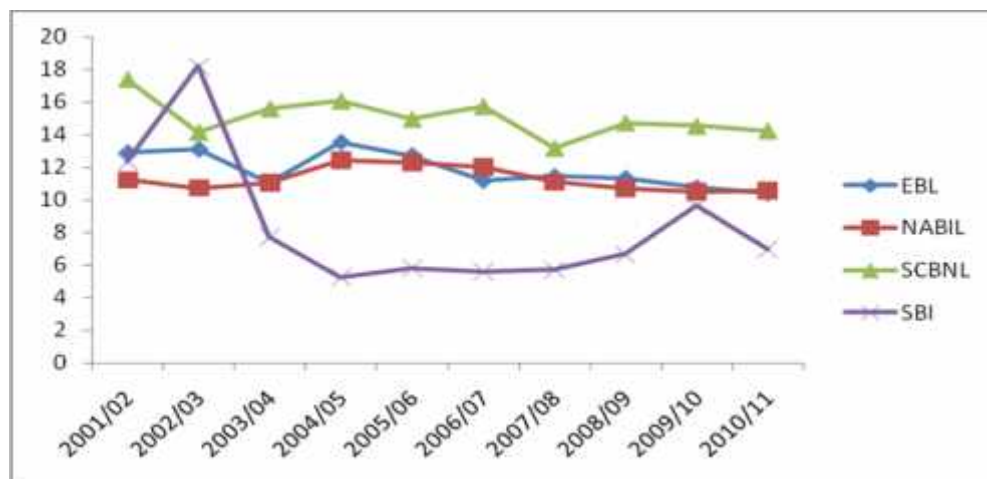


Figure 4.4 depicts the ROCE ratio is most important because it reflects the overall efficiency of its used capital. Higher the ratio is favourable to the firm and vice-versa. The return on capital fund or employed to risked assets of SCBNL is highest and SBI is lowest.

4.1.5 Net Profit to Total Deposit:

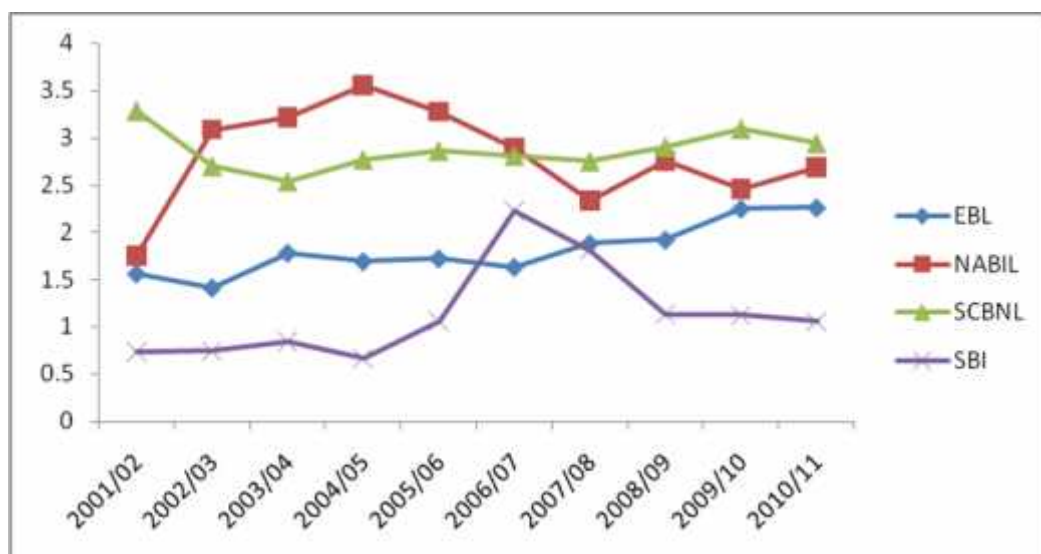
Net profit to total deposit gauges the bank's efficiency to generate net profits out of the total deposit it collected. That means if the bank is able to make more profits from the deposit collected through the different sources then this ratio tends to be more.

Table 4.5
Net Profit to Total Deposit In (%)

Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	1.56	1.75	3.28	0.73
2002/03	1.41	3.09	2.7	0.74
2003/04	1.78	3.22	2.54	0.84
2004/05	1.69	3.56	2.77	0.66
2005/06	1.72	3.28	2.86	1.06
2006/07	1.63	2.89	2.81	2.23
2007/08	1.88	2.34	2.75	1.81
2008/09	1.92	2.76	2.9	1.13
2009/10	2.25	2.46	3.09	1.12
2010/11	2.26	2.69	2.94	1.05
Mean	1.81	2.8	2.86	1.14
S.D.	0.26	0.5	0.19	0.47
C.V.	14.36	17.86	6.64	41.22

Sources: Appendix I & II

Figure 4.5
Net Profit to Total Deposit Ratio



From the above table 4.5 and figure 4.5 depicts the Net profit to total deposit gauges the bank's efficiency to generate net profits out of the total deposit it collected. From the table 4.5, the average of net profit to total deposit ratio is 1.81%, 2.8%, 2.86% and 1.14% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the net profit to total deposit ratio for the bank is satisfactory i.e. well management in earning profit. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 0.26%, 0.5%, 0.19% and 0.47% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 14.36%, 17.86%, 6.64% and 41.22% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 net profit to total deposit ratio is highest of SCBNL which is 2.86% and lowest of SBI which is 1.14% in average among the four sample banks. In same way, net profit to total deposit ratio for SBI is more volatile and SCBNL is less volatile among sample banks.

4.1.6 Net Profit to Total loan and advances:

Net profit to total loan and advances gauges the bank's efficiency to generate net profits. It is more clear from the following.

Table 4.6
Net Profit to Total loan and advances in (%)

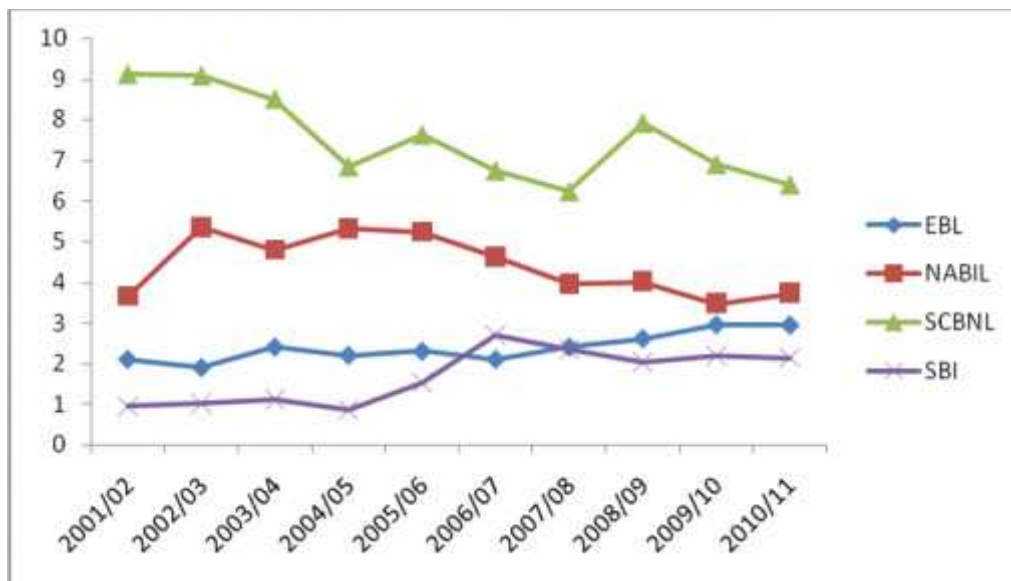
Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	2.1	3.65	9.13	0.95
2002/03	1.9	5.36	9.09	1.03
2003/04	2.4	4.79	8.51	1.12
2004/05	2.2	5.32	6.85	0.87
2005/06	2.3	5.24	7.63	1.53
2006/07	2.1	4.62	6.75	2.69
2007/08	2.4	3.96	6.24	2.35
2008/09	2.61	4.02	7.93	2.03
2009/10	2.95	3.47	6.91	2.18
2010/11	2.94	3.73	6.41	2.14
Mean	2.39	4.42	7.55	1.69
S.D.	0.33	0.68	0.97	0.61
C.V.	13.81	15.38	12.85	36.09

Sources: Appendix I & II

From the above table 4.6 depicts the Net profit to total loan and advances gauges the bank's efficiency to generate net profits out of the total loan and advances. From the table 4.6, the average of Net profit to total loan and advances ratio is 2.39%, 4.42%, 7.55% and 1.69% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the Net profit to total loan and advances ratio for the bank is satisfactory i.e. to generate the profit. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 0.33%, 0.68%, 0.97% and 0.61% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 13.81%, 15.38%, 12.85% and 36.09% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 Net profit to total loan and advances ratio is highest of SCBNL which is 7.55% and lowest of SBI which is 1.69% in average among the four sample banks. It is also shown in following figure 4.6.

Figure 4.6

Net Profit to Total loan and advances in (%)



4.2 Evaluation of Liquidity Position of the Bank

Another main objective of this research is to evaluate the liquidity position of the banks. While evaluating the banks in terms of liquidity, a ratio has been used and this is as follows.

4.2.1 Liquidity Ratio

Liquidity ratio measures the short-term solvency of a firm. The ratio is the crude measurement of liquidity position of a firm. The ability to pay the firm's short-term

obligation is measured with the liquidity ratio. Current ratio is one of the measures of liquidity in which cash and bank balance to current ratio of different banks is calculated and analyzed in this section.

4.2.1.1 Cash and Bank Balance to Current Assets Ratio

This ratio measures the bank's liquidity in terms of cash and bank balance only. It is because other current assets except cash and bank balance may be suspicious to be converted to cash immediately or in a short notice.

Table 4.7

Cash and Bank Balance to Current Assets Ratio of Sample Banks in (%)

Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	9.23	6.29	6.7	25.21
2002/03	14.79	7.34	7.93	19.02
2003/04	68.38	5.85	9.19	11.15
2004/05	92.36	7.63	5	7.48
2005/06	9.94	7.06	5.09	8.79
2006/07	14.79	5.86	7.25	8.24
2007/08	11.36	7.43	6.43	7.97
2008/09	10.1	7.96	8.02	6.23
2009/10	19.36	2.77	5.04	4.76
2010/11	13.62	4.35	7.29	10.82
Mean	26.39	6.25	6.79	10.97
S.D.	24.26	1.55	1.12	6.02
C.V.	91.92	24.8	16.49	54.87

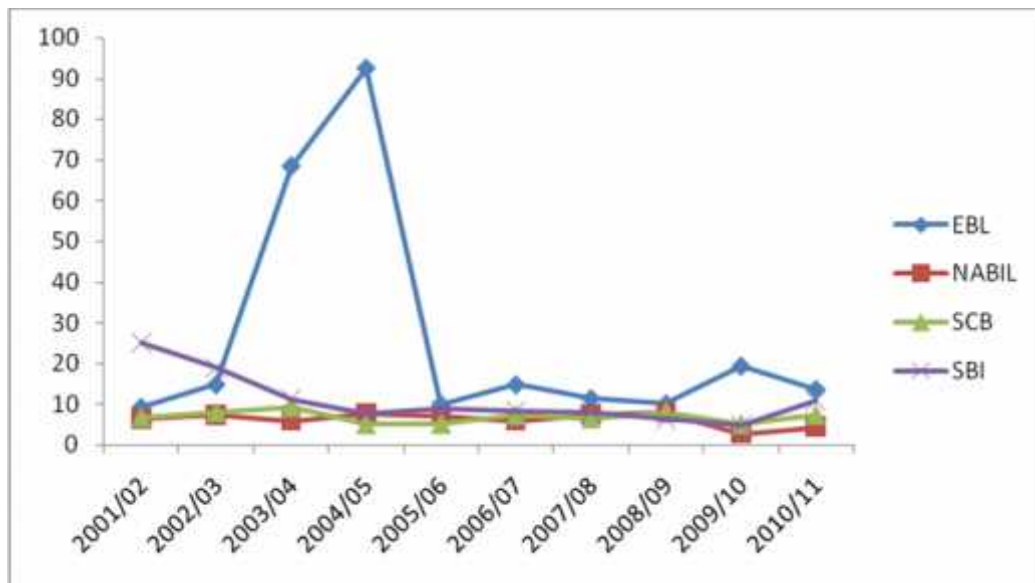
Sources: Appendix I & II

From the above table 4.7 depicts the Cash and Bank Balance to Current Assets gauges the bank's efficiency to generate the liquidity of the banks. From the table 4.7, Cash and Bank Balance to Current Assets ratio is 26.39%, 6.25%, 6.79% and 10.97% for EBL, NABIL, SCBNL and SBI respectively in an average. This indicates that the Cash and Bank Balance to Current Assets for the bank is satisfactory i.e. to generate the liquidity. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 24.26%, 1.55%, 1.12% and 6.02% respectively. Coefficient of variation indicates the fluctuating trend or measuring the

uniformity of the banks which is 91.92%, 24.8%, 16.49% and 54.87% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 Cash and Bank Balance to Current Assets ratio is highest of EBL which is 91.92% and lowest of SCBNL which is 16.49% in average among the four sample banks. The liquidity of this ratio is 24.82% and 54.87% of NABIL and SBI by measuring coefficient of variation. It is also shown in following figure 4.7.

Figure 4.7

Cash and Bank Balance to Current Assets Ratio of Sample Banks in (%)



By this result, it can be said that SCBNL, NABIL and SBI have higher liquidity as compared to EBL.

4.2.1.2 Cash Reserve Ratio (CRR):

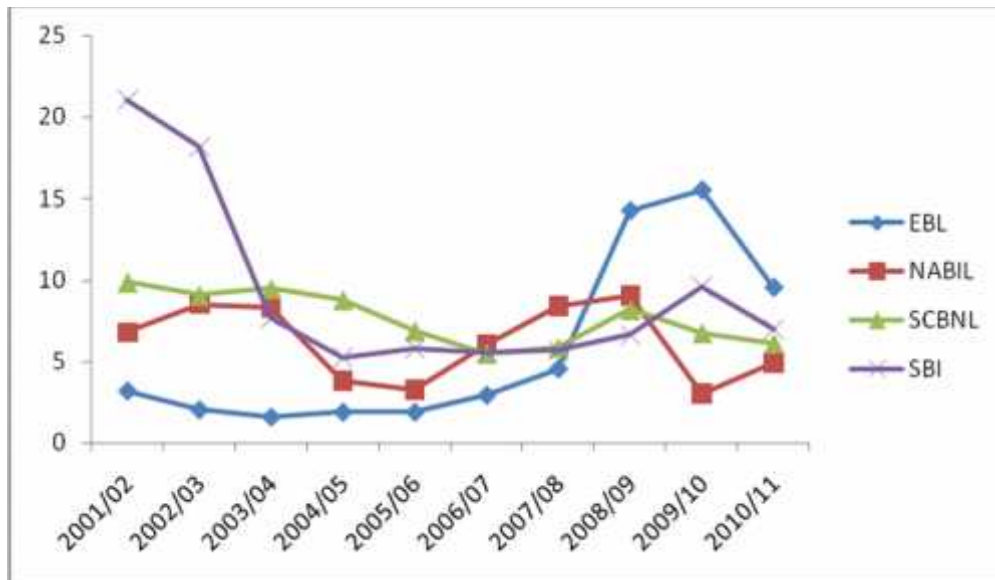
The Cash Reserve Ratio (CRR) is 5.0% and currently (CRR) held at 6.0% according to amendment of monetary policy FY 2069/070 B.S by NRB. It shows whether the banks have complied with the NRB requirements or not. CRR of the four banks for NABIL, SBI, EBL and SCBNL have been computed as follows.

Table 4.8
Cash Reserve Ratio in (%)

Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	3.2	6.78	9.87	21.07
2002/03	2.04	8.51	9.07	18.19
2003/04	1.6	8.32	9.46	7.74
2004/05	1.9	3.83	8.77	5.26
2005/06	1.9	3.26	6.86	5.83
2006/07	2.94	6	5.46	5.6
2007/08	4.56	8.37	5.84	5.72
2008/09	14.26	9.03	8.18	6.67
2009/10	15.53	3.02	6.74	9.63
2010/11	9.55	4.9	6.1	7
Mean	5.75	6.2	7.64	9.27
S.D.	4.92	2.11	1.52	4.95
C.V.	85.56	34.03	19.89	53.39

Sources: Appendix I & II

Figure 4.8
Cash Reserve Ratio of sample banks in (%)



The above table 4.8 and figure 4.8 presents the cash reserve ratio of NABIL, SBI, EBL and SCBNL during the last ten fiscal years. The average cash reserve ratio is 5.75%, 6.2%,

7.64% and 9.27% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the cash reserve ratio for the all bank is maintained as directed by NRB standard. I.e. to generate the liquidity. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 4.92%, 2.11%, 1.52% and 4.95% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 85.56%, 34.03%, 19.89% and 53.39% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 cash reserve ratio is highest of SBI which is 9.27% and lowest of EBL which is 5.75% in average among the four sample banks. From the this, it can be easily seen that the CRR of EBL is more fluctuating and cannot meet the standard from fiscal year 2001/02 to 2007/08. likewise, NABIL also felt to meet the NRB standard in fiscal year 2004/05 and 2005/06. On the contrary, the data of SCBNL and SBI have maintained the CRR above the NRB standard. However, in a beginning fiscal year 2001/02 and 2002/03 the CRR of SBI is highest with 21.07% and 18.19% respectively. Hence, in overall the liquidity risk of EBL is highest in comparison to other sample banks.

4.3 Credit Management Analysis

4.3.1 Total Loan/credit to Total Deposit Ratio:

This ratio indicates the capability of the banks to successfully utilize the total deposits on loans and advances for profit generating purposes. It measures how quickly the total deposits collected can be granted as loans and advances to earn reasonable returns.

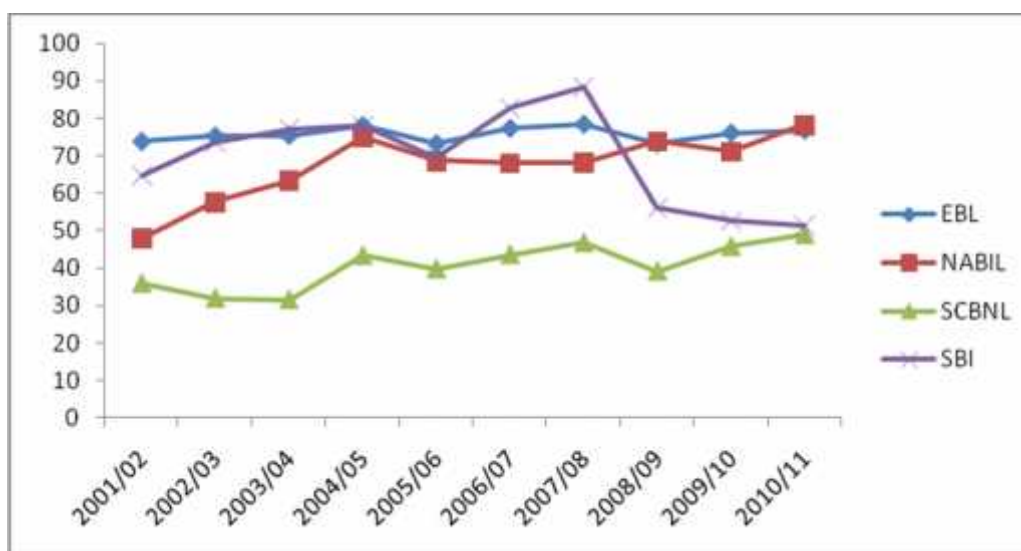
Table 4.9
Total Loan/credit to Total Deposit Ratio (in %)

Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	74	47.96	35.97	64.57
2002/03	75.4	57.68	31.99	73.52
2003/04	75.6	63.41	31.63	76.85
2004/05	78.2	75.05	43.49	77.87
2005/06	73.4	68.63	39.92	69.32
2006/07	77.44	68.13	43.78	82.66
2007/08	78.56	68.18	46.95	88.32
2008/09	73.43	73.87	39.27	55.84
2009/10	76.24	71.17	45.98	52.48
2010/11	76.98	78.29	49.11	51.2
Mean	75.93	67.23	40.81	69.26
S.D.	1.79	8.42	5.04	12.02
C.V.	2.35	12.52	12.35	17.34

Sources: Appendix I & II

The above table 4.9 presents the total loan/credit to total deposit ratio of NABIL, SBI, EBL and SCBNL during the last ten fiscal years. The average total loan/credit to total deposit ratio is 75.93%, 67.23%, 40.81% and 69.26% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the capability of the banks to successfully utilize the total deposits on loans and advances for profit generating purposes. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 1.79%, 8.42%, 5.04% and 12.02% respectively.

Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 2.35%, 12.52%, 12.35% and 17.34% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 total loan/credit to total deposit ratio of SBI is more volatile among the sample banks. Thus, higher ratio indicates the efficient and effective utilization of funds while lower ratio indicates the inefficiency of the banks to stop them from remaining idle. It is also presented in following figure 4.11.

Figure 4.9**Total Loan/credit to Total Deposit Ratio (in %)****4.3.2 Interest Income to Loans and Advances Ratio:**

This ratio indicates the capability of the banks to manage the loans and advances in earning higher interest income. It shows the proportion of interest income earned as compared to the total loans and advances granted.

Table 4.10**Interest Income to Loans and Advances Ratio in (%)**

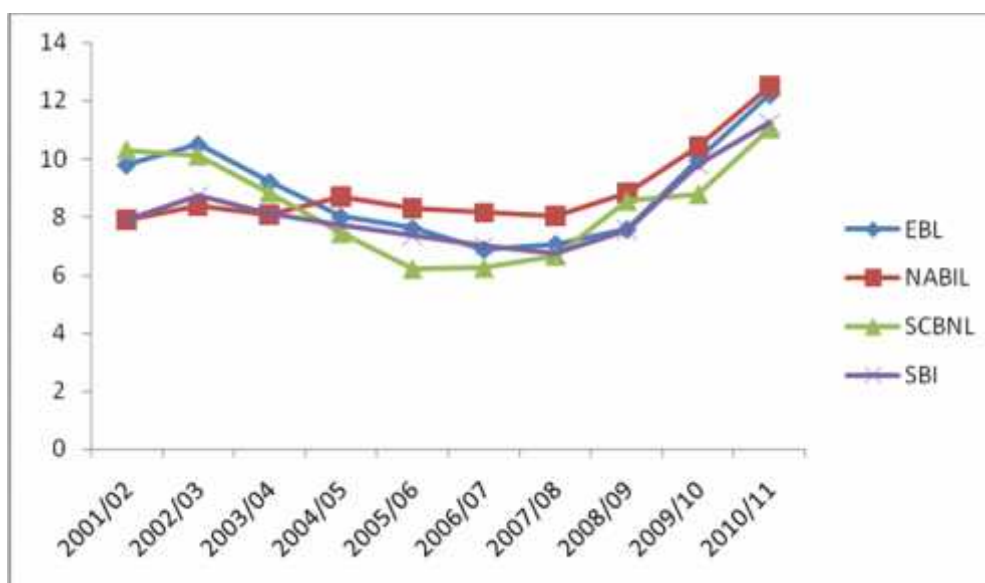
Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	9.8	7.89	10.31	7.9
2002/03	10.5	8.37	10.11	8.72
2003/04	9.2	8.08	8.83	8.1
2004/05	8	8.7	7.43	7.72
2005/06	7.6	8.29	6.19	7.38
2006/07	6.87	8.14	6.23	7.01
2007/08	7.06	8.04	6.65	6.75
2008/09	7.57	8.82	8.54	7.56
2009/10	9.95	10.41	8.78	9.8
2010/11	12.22	12.5	11.05	11.24
Mean	8.87	8.92	8.41	8.22
S.D.	1.65	1.35	1.66	1.3
C.V.	18.6	15.13	19.74	15.82

Sources: Appendix I & II

The above table 4.10 presents the interest income to loans and advances ratio of NABIL, SBI, EBL and SCBNL during the last ten fiscal years. The average interest income to loans and advances ratio is 8.87%, 8.92%, 8.41% and 8.22% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the capability of the banks to manage the loans and advances in earning higher interest income. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 1.65%, 1.35%, 1.66% and 1.3% respectively.

Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 18.6%, 15.13%, 12.27% and 15.82% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 the interest income to loans and advances ratio of EBL is more volatile among the sample banks. SCBNL has more utilized the loan and advances to generate income which is 19.74% and SBI has less utilized i.e.8.22% in an average. It is also presented in following figure 4.11.

Figure 4.10
Interest Income to Loans and Advances Ratio in (%)



4.4 Credit Risk Ratio:

This ratio indicates the possibility of loan being default or not getting repaid by the client with subsequent losses to the bank. It is calculated as the percentage of nonperforming loans to total loans and advances/credit. Higher ratio shows the presence of more risky assets in the volume of loans and advances, and vice versa.

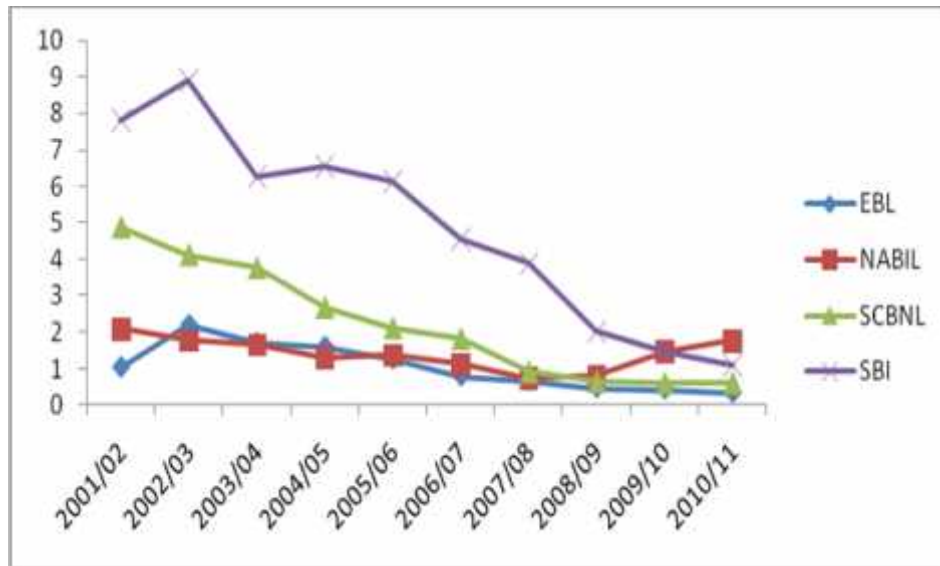
Table 4.11
Credit Risk Ratio of Sample Banks in (%)

Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	1.04	2.1	4.89	7.8
2002/03	2.2	1.78	4.13	8.9
2003/04	1.7	1.67	3.77	6.25
2004/05	1.6	1.32	2.69	6.54
2005/06	1.27	1.38	2.13	6.13
2006/07	0.8	1.12	1.83	4.56
2007/08	0.68	0.74	0.92	3.89
2008/09	0.48	0.8	0.66	2.02
2009/10	0.44	1.48	0.61	1.48
2010/11	0.34	1.77	0.62	1.1
Mean	1.06	1.42	2.25	4.87
S.D.	0.56	0.41	1.43	2.53
C.V.	52.83	28.87	63.56	51.95

Sources: Appendix I & II

The above table 4.11 presents the nonperforming loans to total loans and advances/credit ratio (credit risk) of NABIL, SBI, EBL and SCBNL during the last ten fiscal years. The average credit risk ratio is 1.06%, 1.42%, 1.43% and 4.87% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the possibility of loan being default or not getting repaid by the client with subsequent losses to the bank is SCBNL which is highest i.e. 63.56%.risky by measuring coefficient of variation though the SBI has more risky in average with 4.87%. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 0.56%, 0.41%, 1.43% and 2.53% respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11, the credit risk ratio of SCBNL is succeeding to reduce in each fiscal year 2001/02 to 2009/10 except last fiscal year 2010/11. In last fiscal year 2010/11 SBI and EBL succeed in reduced credit risk whereas NABIL and SCBNL have increased slightly. It is also presented in following figure 4.11.

Figure 4.11
Credit Risk Ratio of Sample Banks in (%)



4.5 Tools to Measure Solvency Position of a Firm

Firm's solvency position is measured by the help of solvency ratio. Solvency ratio refers that ratio which reveals the liquidity position of the concern. Solvency ratios are calculated to judge the financial position of the firm from short-term solvency viewpoint as well as long-term. Generally short-term solvency ratio is current ratio which is defined under:

4.5.1 Current Ratio

Current assets normally include cash, marketable securities, prepaid and advance expenses, accounts receivable, and inventories. Current liabilities includes account payable, short-term notes payable, current maturates of long-term debt, accrual income taxes and other accrued expenses. The higher the current ratio is favourable to the firm. There is no hard and fast rule regarding the standard of this ratio but normally a current ratio of 2:1 is considered satisfactory.

Table 4.12
Current Ratio of Sample Banks in (times)

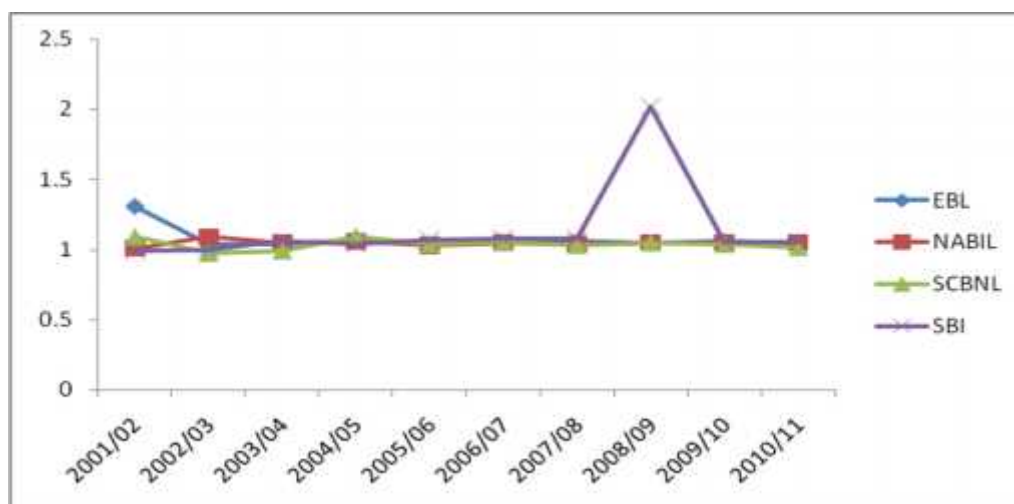
Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	1.31	1.01	1.09	0.99
2002/03	1.04	1.09	0.976	1
2003/04	1.04	1.05	0.994	1.06
2004/05	1.07	1.06	1.093	1.04
2005/06	1.04	1.03	1.042	1.07
2006/07	1.06	1.05	1.051	1.08
2007/08	1.06	1.04	1.034	1.08
2008/09	1.05	1.05	1.05	2.02
2009/10	1.06	1.05	1.039	1.05
2010/11	1.05	1.05	1.02	1.05
Mean	1.08	1.05	1.04	1.14
S.D.	0.08	0.02	0.03	0.29
C.V (%)	7.4	1.9	2.88	25.44

Sources: Appendix I & II

The above table 4.12 presents the current ratio of NABIL, SBI, EBL and SCBNL during the last ten fiscal years. The average current ratio is 1.08, 1.05, 1.04 and 1.14 for EBL, NABIL, SCBNL and SBI respectively. The higher the current ratio is favourable to the firm. by measuring coefficient of variation though the SBI has more risky in average with 25.44%. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 0.08, 0.02, 0.03 and 0.29 respectively. The average current ratio is highest of SBI and lowest of SCBNL. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 the current ratio of SBI is more volatile which is not good there may be increased in loan and advances. It is also presented in following figure 4.12.

Figure 4.12

Current Ratio of Sample banks



b. Cash and Bank Balance to fixed Deposit Ratio

The bank should maintain adequate cash and bank balance to meet the unexpected and heavy withdrawal of deposits. So this ratio measures the ability of the bank to meet its immediate obligations. Cash and bank balance consists of cash in hand, foreign cash in hand, cheques and balance with domestic and foreign banks. Likewise a current and saving deposit includes all types of deposits except fixed deposit. Higher the ratio shows the higher liquidity position and the ability to cover the deposit and vice-versa.

Table 4.13

Cash and Bank Balance to fixed Deposit Ratio in (times)

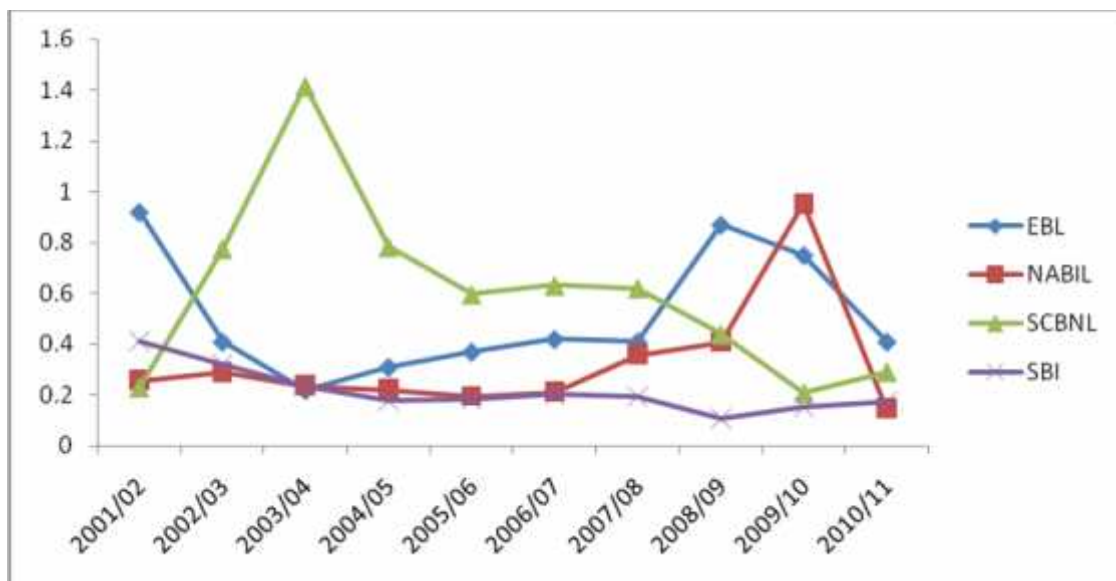
Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	0.92	0.256	0.232	0.41
2002/03	0.41	0.289	0.776	0.318
2003/04	0.22	0.237	1.416	0.236
2004/05	0.31	0.223	0.784	0.177
2005/06	0.37	0.195	0.597	0.182
2006/07	0.42	0.212	0.632	0.203
2007/08	0.41	0.358	0.621	0.196
2008/09	0.87	0.406	0.441	0.109
2009/10	0.75	0.952	0.21	0.155
2010/11	0.41	0.145	0.293	0.174
Mean	0.51	0.33	0.6	0.22
S.D.	0.22	0.21	0.22	0.08
C.V (%)	43.14	63.63	36.67	36.36

Sources: Appendix I & II

The above table 4.13 presents the cash and bank balance to fixed deposit ratio of NABIL, SBI, EBL and SCBNL during the last ten fiscal years. The average cash and bank balance to fixed deposit ratio in times is 0.51, 0.33, 0.60 and 0.22 for EBL, NABIL, SCBNL and SBI respectively. Higher this ratio shows the higher liquidity position and the ability to cover the deposit and vice-versa. By measuring the average this ratio SCBNL is highest i.e.0.6 times and lowest of SBI i.e. 0.22. Likewise, coefficient of variation shows the NABIL has more risky in average with 63.63% and SBI is less risky with 36.36%. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 0.22, 0.21, 0.22 and 0.08 respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 of this ratio of NABIL is more volatile and SBI is less. It is also presented in following figure 4.13.

Figure 4.13

Cash and Bank Balance to fixed Deposit Ratio of Sample banks



c. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measure percentage of most liquid fund with the bank to make immediate payment to depositors. This ratio is computed by dividing cash and bank balances by total deposit.

Table 4.14
Cash and Bank Balance to Total Deposit Ratio in (times)

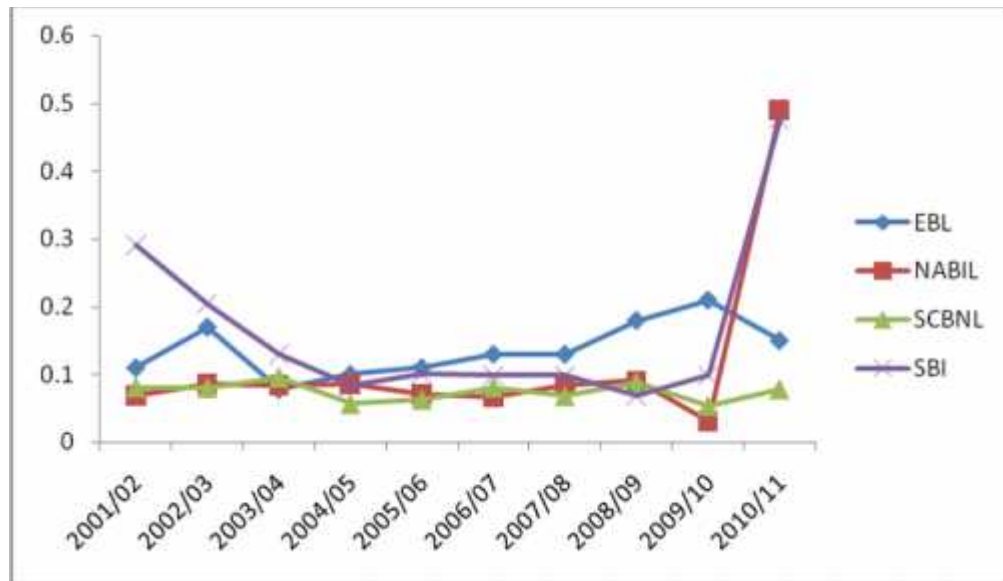
Fiscal Year	Sample Banks			
	EBL	NABIL	SCBNL	SBI
2001/02	0.11	0.0678	0.081	0.291
2002/03	0.17	0.0851	0.08	0.204
2003/04	0.078	0.0832	0.095	0.129
2004/05	0.1	0.0854	0.057	0.083
2005/06	0.11	0.07	0.063	0.101
2006/07	0.13	0.066	0.081	0.098
2007/08	0.13	0.084	0.068	0.098
2008/09	0.18	0.09	0.088	0.068
2009/10	0.21	0.03	0.054	0.098
2010/11	0.15	0.49	0.078	0.477
Mean	0.14	0.12	0.07	0.16
S.D.	0.03	0.11	0.01	0.12
C.V.(%)	21.43	91.67	14.29	75.0

Sources: Appendix I & II

The above table 4.14 presents the cash and bank balance to total deposit ratio of NABIL, SBI, EBL and SCBNL during the last ten fiscal years. The average cash and bank balance to total deposit ratio in times is 0.14, 0.12, 0.07 and 0.16 for EBL, NABIL, SCBNL and SBI respectively. This ratio measure percentage of most liquid fund with the bank to make immediate payment to depositors. Therefore, Higher this ratio shows the higher liquidity of most liquid fund with the bank and the ability to make immediate payment to depositors to cover the deposit and vice-versa. By measuring the average this ratio NSBI is highest i.e.0.16 times and lowest of SCBNL i.e. 0.07. Likewise, Standard deviation for the EBL, NABIL, SCBNL and SBI is 0.03, 0.11, 0.01 and 0.12 respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 of this ratio of NABIL is more volatile and SBI is less. It is also presented in following figure 4.14.

Figure 4.14

Cash and Bank Balance to Total Deposit Ratio of Sample banks



4.6 Statistical Tools

The statistical analyses include the calculation of correlation coefficients of different variables in order to find out the liquid assets trend of the respective commercial banks and to figure out the strengths and weaknesses of credit management of the commercial banks.

4.6.1 Trend Analysis of Net Profit After Tax of EBL, NABIL, SCBNL and SBI

The trend of Net Profit After Tax (NPAT) of commercial banks tend to identify the average Net profit maintained by the banks and to identify the rate of changes in the volume of liquid fund in the next five years using the trend shown by the historical data. The following table 4.15 reveals the forecast of the Net Profit to be maintained by the respective banks for the next 6 years. This has been calculated using the trend analysis of last ten years' data.

Table 4.15

Forecasted Trend Analysis of NPAT for next six years

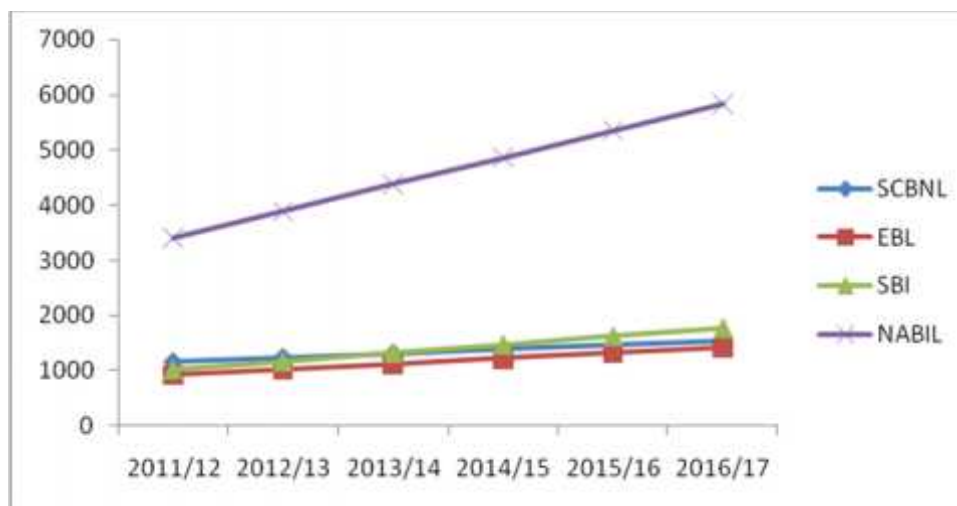
Name	a	b	Forecasted					
			2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
SCBNL	713.843	76.115	1170.53	1246.65	1322.76	1398.87	1474.99	1551.11
EBL	339.102	97.897	926.48	1024.38	1122.28	1220.18	1318.07	1415.97
SBI	125.07	149.89	1024.41	1174.30	1324.19	1474.08	1623.97	1773.86
NABIL	479.01	487.63	3404.81	3892.45	4380.08	4867.72	5355.35	5842.98

Source: Appendix III

The above table 4.15 deals with the trend of net profit after tax maintained by the respective banks for the next six years. The table presents the forecast of the banks net profit after tax from the FY2011/12 to FY2016/17. As already given by their regression equation, the average net profit after tax maintained by the banks, SCBNL, EBL, SBI and NABIL are Rs. 713.843 million Rs. 339.102 million, Rs.125.07 million and 479.01 million respectively, with other things remaining unchanged. However, the slope of the equation, that usually shows the rate of change in the value, reveals two different directions of the banks. SCBNL has a positive rate of 76.115 million which denotes that with every unit change in the year, the value of the net profit after tax will increase by additional 76.115 million. Whereas, in case of EBL, SBI and NABIL, the value of this rate of change will increased by 97.897 million, 149.89 million and 487.63 million with reveal the increasing trend of the bank in maintaining the net profit after tax volume. On the basis of previous ten years data, the forecasted net profit after tax for next six years from fiscal year 2011/12 to 2016/17 of the SCBNL, EBL, SBI and NABIL are directly computed in the above table 4.15. This trend is more clearly understood from the following figure 4.15

Figure 4.15

Forecasted Trend Analysis of NPAT of Sample banks



4.6.2 Strengths/Weakness of the Credit management of the Commercial banks

This section deals with the degree of management success in handling the credit of the bank. It does not deal with the SWOT analysis of the Credit department. The degree of the management success in handling the credits and advances of the bank is determined by the significance of a series of relationship of loans and advances among a number of factors such as net profit, liquid assets, total deposits etc. This relationship among different variables is determined by the Pearson's coefficient of correlation of the data of the

respective banks. The objective behind this analysis is to understand and analyze the impact of the credit provided by the banks to its net profitability and liquidity position.

4.6.2.1 Relationship between the Total loans & advances and Net Profit

The relationship between the total credit (loans and advances) with the net profit of the samples banks indicates how much credits granted has actually resulted in profit. In other words, it tries to analyze whether the total credit and net profit of the banks are moving in the same direction or not. The following table shows the correlation coefficient between the total credit and net profit denoted by 'r'. 'r²' indicates the coefficient of determination, t_{cal} and t_{tab} refers to calculated value of t- statistic and tabulated value of t-statistic at 5% level of significance at 8 degree of freedom two tailed test for respectively. The following results are worth highlighting.

Table 4.16

Correlation coefficient between Total Loan & advances and Net Profit

Banks	r	r²	t_{cal}	t_{tab}	Result
SCBNL	0.9618	0.9251	9.940	2.306	Significant
EBL	0.9924	0.9845	3.495	2.306	Significant
SBI	0.9804	0.9612	14.079	2.306	Significant
NABIL	0.8101	0.6563	3.908	2.306	Significant

Source: Appendix IV

The table above 4.16 clearly highlights the relationship between the total loan and advances and the net profit earned by the SCBNL, EBL, SBI and NABIL. The positive relationship shown by their correlation coefficient pointed out the fact that an increase in total credit has resulted in an increase in the net profit. This positive relationship is considered highly significant as the increase in total credit has contributed in increasing the net profit of the banks. Likewise, in the context of significant relationship a few inferences can be made. The calculated value t_{cal} of all four sample banks i.e. SCBNL, EBL, SBI and NABIL (9.940, 3.495, 14.079 and 3.908) is greater than tabulated 't' at 5% significance level at 8 degree of freedom for two tailed test(2.306). Since, the calculated value of t is greater than tabulated t null hypothesis is rejected and H_1 is accepted. Thus, we conclude that there is significant relation between total loan & advances and net profit of all the sample banks.

4.6.2.2 Relationship between the Total loans and advances and Total deposit

The relationship between the total credit (loans and advances) and total deposit is of great significant, as it indicates the direction taken by the total credit with the changes in the volume of total deposit. A bank will be unable to provide large volumes of credit if it does not receive adequate and sufficient deposits in a timely basis. The following table shows the correlation coefficient between the total credit and total deposits denoted by 'r'. 'r²' indicates the coefficient of determination, t_{cal} and t_{tab} refers to calculated value of t- statistic and tabulated value of t-statistic at 5% level of significance at 8 degree of freedom respectively. The following results are worth highlighting.

Table 4.17

Correlation coefficient between Total Loan and advances and Total Deposits

Banks	r	r²	t_{cal}	t_{tab}	Result
SCBNL	0.9543	0.9107	9.032	2.306	Significant
EBL	0.9912	0.9823	21.073	2.306	Significant
SBI	0.2635	0.0694	0.773	2.306	Insignificant
NABIL	0.8239	0.6788	4.112	2.306	Significant

Source: Appendix IV

The table above 4.17 clearly highlights the relationship between the total Loan and advances and the total deposit received. The positive relationship shown by their correlation coefficient points out the fact that the changes in each variable are taking place in the same direction, i.e., an increase in total credit is supported by an increase in the total deposit. This positive relationship is highly significant as the banks won't be able to sustain for a longer period if any one of these variables do not increase or decrease with one another. The calculated value t_{cal} of SCBNL, EBL, and NABIL (9.032, 21.073 and 4.112) is greater than tabulated 't' at 5% significance level at 8 degree of freedom for two tailed test(2.306). It indicates that there is significance difference between loan and advances and total deposit of SCBNL, EBL and NABIL. Among the sample banks, since SBI calculated value t_{cal} is less than tabulated 't' at 5% significance level at 8 degree of freedom for two tailed test(2.306) there is no relationship between total loan and advances and total deposit for SBI i.e. insignificant.

4.6.2.3 Relationship between the Total loans & advances and Total Non-Performing Loans

The relationship between the total credit (loans and advances) and total non-performing loans indicates the volume of nonperforming loans raised from the total credit granted. This suggests the volume and chances of loans being default or not paid by the clients are of significant value or not. The following table shows the correlation coefficient between the total credit and total nonperforming loans denoted by 'r'. 'R²' indicates the coefficient of determination, t_{cal} and t_{tab} refers to calculated value of t- statistic and tabulated value of t- statistic at 5% level of significance at 8 degree of freedom respectively. The following results are worth highlighting.

Table 4.18
Correlation coefficient between Total loans & advances and Total Nonperforming Loans

Banks	r	r²	t_{cal}	t_{tab}	Result
SCBNL	-0.7837	0.6788	3.911	2.306	Significant
EBL	-0.1213	0.0147	0.3456	2.306	Insignificant
SBI	-0.7239	0.5240	2.967	2.306	Significant
NABIL	0.8243	0.6795	4.118	2.306	Significant

Source: Appendix IV

The above table 4.18 presents the correlation coefficient between total credit and total nonperforming loans of the commercial banks. As depicted by the figures above, the correlation between these two variables is highly negative, which means, they are moving in the opposite direction. The negative relationship points out the fact that an increase in non-performing loans leads to a decrease in total volume of credit. This is bad news as the banks' capacity to provide loans would decline if more credits granted resulted in non-performing ones. This would result in a huge loss for the bank. However, if the volume of loans being default decreases with the increase in the volume of loan provided, this denotes the effective handling of loans and efficient handling of non-performing loans by the credit department. It also suggests that the staffs of the credit department have a quick learning curve when it comes to handing non-performing loans and credit. By testing t- statistic, The calculated value t_{cal} of SCBNL, SBI and NABIL (3.911, 2.967 and 4.118) is greater than tabulated 't' at 5% significance level at 8 degree of freedom for two tailed test(2.306). It indicates that there is significance difference between loan and advances and total nonperforming loan of SCBNL, SBI and NABIL. However, since EBL calculated value t_{cal}

(0.3456) is less than tabulated 't' at 5% significance level at 8 degree of freedom for two tailed test(2.306) there is no relationship between total loan and advances and total nonperforming loan for SBI i.e. insignificant. It probably means that the volume of loan being default does not significantly depend upon the volume of the loan provided only. There may be several other reasons for the loans being default.

4.7 Major findings

This study addresses different aspects of profitability and liquidity of sample banks. The overall results of the study can briefly be noted out as follows:

- J Average return to equity is 23.58%, 32.05%, 34.5% and 13.99% for EBL, NABIL, SCBNL and SBI respectively which is above the normal standard. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 23.99%, 12.5%, 7.45% and 36.31% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 return on equity is highest of SCBNL and lowest of SBI among the four sample banks. SBI has more risky that is highest CV 36.31% than other sample banks. In the fiscal year 2010/11 the return on equity of all banks are in decreasing trend i.e. 29.93%, 29.69%, 30.42% and 16.49% respectively for EBL, NABIL, SCBNL and SBI which is not good signal for investors.
- J The average ratio for return on assets is 1.58%, 2.74%, 2.5% and 0.87% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on assets for the bank is satisfactory. From the ten years analysis return on assets is highest of NABIL which is 2.74% and lowest of SBI which is 0.87% among the four sample banks. In same way, financial surplus to assets ratio for sample banks are fluctuating trend. SBI has more risky that is highest CV 43.61% than other sample banks.
- J The average ratio for return on fixed assets is 161.92%, 197.48%, 650.61% and 131.38% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on fixed assets for the bank is good. From the ten years analysis, return on fixed assets is highest of SCBNL which is 650.16% and lowest of SBI which is 131.38% in average among the four sample banks. In same way, financial surplus to fixed assets ratio for sample banks are volatile. SBI has more risky that is highest CV 50.88% than other sample banks.
- J The average of ROCE ratio is 11.85%, 11.27%, 15.03% and 8.34% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on capital fund or

employed to risked assets for the bank is good i.e. effectiveness of management in earning profit. From the ten years analysis, return on capital fund or employed to risked assets is highest of SCBNL which is 15.03% and lowest of SBI which is 8.34% in average among the four sample banks. In same way, return on capital fund or employed to risked assets for SBI is more volatile than other sample banks. SBI has not managed its profitability to maintain capital adequacy than other sample banks. NABIL is more uniformity which has less CV i.e. 6.12% than other sample banks.

- J Average net profit to total deposit ratio is 1.81%, 2.8%, 2.86% and 1.14% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the net profit to total deposit ratio for the bank is satisfactory i.e. well management in earning profit. From the ten years analysis, net profit to total deposit ratio is highest of SCBNL which is 2.86% and lowest of SBI which is 1.14% in average among the four sample banks.
- J Average Net profit to total loan and advances ratio is 2.39%, 4.42%, 7.55% and 1.69% for EBL, NABIL, SCBNL and SBI respectively. Net profit to total loan and advances ratio is highest of SCBNL which is 7.55% and lowest of SBI which is 1.69% in average among the four sample banks.
- J Cash and Bank Balance to Current Assets ratio is 26.39%, 6.25%, 6.79% and 10.97% for EBL, NABIL, SCBNL and SBI respectively in an average. This indicates that the Cash and Bank Balance to Current Assets for the bank is satisfactory i.e. to generate the liquidity. Cash and Bank Balance to Current Assets ratio is highest of EBL which is 91.92% and lowest of SCBNL which is 16.49% in average among the four sample banks. SCBNL, NABIL and SBI have higher liquidity as compared to EBL.
- J The average cash reserve ratio is 5.75%, 6.2%, 7.64% and 9.27% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the cash reserve ratio for the all bank is maintained as directed by NRB standard. I.e. to generate the liquidity. Cash reserve ratio is highest of SBI which is 9.27% and lowest of EBL which is 5.75% in average among the four sample banks.
- J The average total loan/credit to total deposit ratio is 75.93%, 67.23%, 40.81% and 69.26% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the capability of the banks to successfully utilize the total deposits on loans and advances for profit generating purposes. From the ten years analysis total loan/credit to total deposit ratio of SBI is more volatile among the sample banks.

- J The average interest income to loans and advances ratio is 8.87%, 8.92%, 40.89% and 8.22% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the capability of the banks to manage the loans and advances in earning higher interest income. . SCBNL has more utilized the loan and advances to generate income which is 40.89% and SBI has less utilized i.e.8.22% in an average.
- J The average credit risk ratio is 1.06%, 1.42%, 1.43% and 4.87% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the possibility of loan being default or not getting repaid by the client with subsequent losses to the bank is SCBNL which is highest i.e. 63.56%.risky by measuring coefficient of variation though the SBI has more risky in average with 4.87%.
- J The average current ratio is 1.08, 1.05, 1.04 and 1.14 for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis, the current ratio of SBI is more volatile which is not good there may be increased in loan and advances.
- J The average cash and bank balance to fixed deposit ratio in times is 0.51, 0.33, 0.60 and 0.22 for EBL, NABIL, SCBNL and SBI respectively. By measuring the average this ratio SCBNL is highest i.e.0.6 times and lowest of SBI i.e. 0.22. From the ten years analysis, this ratio of NABIL is more volatile and SBI is less.
- J The average cash and bank balance to total deposit ratio in times is 0.14, 0.12, 0.07 and 0.16 for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis, this ratio of NABIL is more volatile and SBI is less.
- J From the trend (simple regression) analysis, average net profit after tax maintained by the banks, SCBNL, EBL,SBI and NABIL are Rs. 713.843 million, Rs. 339.102 million, Rs.125.07 million and 479.01 million respectively, with other things remaining unchanged. SCBNL has a positive rate of 76.115 million which denotes that with every unit change in the year, the value of the net profit after tax will increase by additional 76.115 million. Whereas, in case of EBL, SBI and NABIL, the value of this rate of change will increased by 97.897 million, 149.89 million and 487.63 million with reveal the increasing trend of the bank in maintaining the net profit after tax volume.
- J The relationship between the total credit (loans and advances) with the net profit of all four sample banks SCBNL, EBL, SBI and NABIL are found significant. However, relationship between the total credit (loans and advances) with the deposit SCBNL, NABIL and EBL are significant whereas SBI is insignificant since SBI t_{cal} is less than t_{tab} , 8 degree of freedom for two tailed test. Likewise, the relationship between total

loan and advances and nonperforming loan for SCBNL, NABIL and SBI are insignificant but EBL is significant since EBL t_{cal} is less than t_{tab} , 8 degree of freedom for two tailed test.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study has covered the period of ten fiscal years being from 2001/02 to 2010/11. Secondary data have been used in analysis process. Both statistical and financial tools have been employed for the purpose of analyzing the data. In the study four banks are selected as sample. They are NABIL, SCBNL, SBI and EBL.

Different aspects of profitability, liquidity and resource utilization of sample banks have been examined in this research. Under the profitability analysis, two ratios viz. financial surplus to equity and financial surplus to assets ratio, return on fixed assets, return on capital employed/fund to risk weighted are used. Average return to equity is 23.58%, 32.05%, 34.5% and 13.99% for EBL, NABIL, SCBNL and SBI respectively which is above the normal standard. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 23.99%, 12.5%, 7.45% and 36.31% for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 return on equity is highest of SCBNL and lowest of SBI among the four sample banks. The average ratio for return on assets is 1.58%, 2.74%, 2.5% and 0.87% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on assets for the bank is satisfactory. From the ten years analysis return on assets is highest of NABIL which is 2.74% and lowest of SBI which is 0.87% among the four sample banks. In same way, financial surplus to assets ratio for sample banks are fluctuating trend. Likewise, the average ratio for return on fixed assets is 161.92%, 197.48%, 650.61% and 131.38% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on fixed assets for the bank is good. From the ten years analysis, return on fixed assets is highest of SCBNL which is 650.16% and lowest of SBI which is 131.38% in average among the four sample banks. In same way, financial surplus to fixed assets ratio for sample banks are volatile. In a same manner, the average of ROCE ratio is 11.85%, 11.27%, 15.03% and 8.34% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the return on capital fund or employed to risked assets for the bank is good i.e. effectiveness of management in earning profit. From the ten years analysis, return on capital fund or employed to risked assets is highest of SCBNL which is 15.03% and lowest of SBI which

is 8.34% in average among the four sample banks. In same way, return on capital fund or employed to risked assets for SBI is more volatile than other sample banks. SBI has not managed its profitability to maintain capital adequacy than other sample banks. Likewise, the average net profit to total deposit ratio is 1.81%, 2.8%, 2.86% and 1.14% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the net profit to total deposit ratio for the bank is satisfactory i.e. well management in earning profit. From the ten years analysis, net profit to total deposit ratio is highest of SCBNL which is 2.86% and lowest of SBI which is 1.14% in average among the four sample banks.

While observing the liquidity position of the banks, Cash and Bank Balance to Current Assets ratio is 26.39%, 6.25%, 6.79% and 10.97% for EBL, NABIL, SCBNL and SBI respectively in an average. This indicates that the Cash and Bank Balance to Current Assets for the bank is satisfactory i.e. to generate the liquidity. Cash and Bank Balance to Current Assets ratio is highest of EBL which is 91.92% and lowest of SCBNL which is 16.49% in average among the four sample banks. SCBNL, NABIL and SBI have higher liquidity as compared to EBL. Likewise, the average cash reserve ratio is 5.75%, 6.2%, 7.64% and 9.27% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the cash reserve ratio for the all bank is maintained as directed by NRB standard. I.e. to generate the liquidity. Cash reserve ratio is highest of SBI which is 9.27% and lowest of EBL which is 5.75% in average among the four sample banks. The average total loan/credit to total deposit ratio is 75.93%, 67.23%, 40.81% and 69.26% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the capability of the banks to successfully utilize the total deposits on loans and advances for profit generating purposes. From the ten years analysis total loan/credit to total deposit ratio of SBI is more volatile among the sample banks.

The average interest income to loans and advances ratio is 8.87%, 8.92%, 40.89% and 8.22% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the capability of the banks to manage the loans and advances in earning higher interest income. SCBNL has more utilized the loan and advances to generate income which is 40.89% and SBI has less utilized i.e.8.22% in an average. The credit risk ratio is 1.06%, 1.42%, 1.43% and 4.87% for EBL, NABIL, SCBNL and SBI respectively in an average. This indicates that the possibility of loan being default or not getting repaid by the client with subsequent losses to the bank is SCBNL which is highest i.e. 63.56% .risky by measuring coefficient of variation though the SBI has more risky in average with 4.87%. The average current ratio

is 1.08, 1.05, 1.04 and 1.14 for EBL, NABIL, SCBNL and SBI respectively. From the ten years analysis, the current ratio of SBI is more volatile which is not good there may be increased in loan and advances.

To evaluate the relationship between dependent variable and different independent variables of the banks, the simple regression is used. By this, average net profit after tax maintained by the banks, SCBNL, EBL, SBI and NABIL are Rs. 713.843 million, Rs. 339.102 million, Rs.125.07 million and 479.01 million respectively, with other things remaining unchanged. SCBNL has a positive rate of 76.115 million which denotes that with every unit change in the year, the value of the net profit after tax will increase by additional 76.115 million. Whereas, in case of EBL, SBI and NABIL, the value of this rate of change will increased by 97.897 million, 149.89 million and 487.63 million with reveal the increasing trend of the bank in maintaining the net profit after tax volume.

The relationship between the total credit (loans and advances) with the net profit of all four sample banks SCBNL, EBL, SBI and NABIL are found significant. However, relationship between the total credit (loans and advances) with the deposit SCBNL, NABIL and EBL are significant whereas SBI is insignificant since SBI t_{cal} is less than t_{tab} , 8 degree of freedom for two tailed test. Likewise, the relationship between total loan and advances and nonperforming loan for SCBNL, NABIL and SBI are insignificant but EBL is significant since EBL t_{cal} is less than t_{tab} , 8 degree of freedom for two tailed test.

5.2 Conclusion

Banks are most effective medium of mobilizing the national resources, their efficiency in mobilizing the resources lies in accepting deposits and advances along with making a marginal profit, the instrument of interest rate can also play an important role for such purpose. Profitability analysis measures the profitability condition or financial mirror of the banks. Likewise, liquidity analysis consists of liquiditability, credit and management risk of the banks. In other words, liquidity consists of financial strength and weaknesses i.e. financial highlight of the banks. This study covers both the profitability and liquidity of the four commercial banks viz. SCBNL, NABIL, SBI and EBL. The analysis mainly focuses the financial ratios as, financial surplus to equity ratio, ROA, ROCE or fund to risked weighted, net profit on total loan and advances etc. All four sample banks are above the normal standard indicating that they are able to generate return on both their equity

investment and assets employed. While observing the liquidity position of the banks, Cash and Bank Balance to Current Assets for all four sample banks are satisfactory i.e. to generate the liquidity. Likewise, Cash and Bank Balance to Current Assets ratio is highest of EBL and lowest of SCBNL in average among the four sample banks. SCBNL, NABIL and SBI have higher liquidity as compared to EBL. Likewise, the average cash reserve ratio is 5.75%, 6.2%, 7.64% and 9.27% for EBL, NABIL, SCBNL and SBI respectively. This indicates that the cash reserve ratio for the all four sample banks are maintained as directed by NRB standard. i.e. to generate the liquidity. Cash reserve ratio is highest of SBI and lowest of EBL in average among the four sample banks. Similarly, Standard Chartered Bank (SCB) is most efficient so far as the matter of utilizing owners' equity to generate revenues is concerned while EBL and SBI have weak position regarding resource utilization.

5.3 Recommendation

Following are some recommendations based on major findings of the study:

-) Both profitability and liquidity positions of the banks are sound and better indicating that shareholders are safe in the long run. Therefore, the banks should keep constant vigilance upon the positions so that they can sustain it even in the long run.
-) Standard Chartered Bank Ltd. and NABIL are efficient so far as the matter of utilizing total assets and owners' equity to generate revenues is concerned while other two banks (EBL and SBI) have comparatively weak position towards it. Therefore, EBL and SBI are recommended to utilize their fund from more efficient manner.
-) Banks should Invest in the assets that ensures higher rates of return given the manageable risk,
-) The banks should have to reduce non performing and non interest earning funds so as to upgrade the condition,
-) The banks must not ignore the importance of leverage to enhance the earning power of the assets. As such it is recommended that the optimum leverage should be injected considering its relative costs and benefits so that earning of the owner' will increase.

-) The banks should utilize their deposit in long term return rather than short term return. For this, they should focus the deposit in productive sector which help to growth the national economic.
-) Trend analysis indicates that working capital plays important role to change net profit of the banks therefore the banks should take working capital as 'key variable' and they should have to make a proper balance between current assets and current liabilities.

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