CHAPTER – 1
INTRODUCTION

1.1   Background of the Study

Bank simply means a financial institution, which is engaged in monetary transaction. Basically, bank work as an institution which accepts deposits and lends loan to those who needs it. Bank provides benefits to depositors by paying fixed interest and borrower gets chance to improve business or other work by getting financial support. So, bank is a resource mobilizing institution, which accepts deposit from various sources and invests such accumulated resources in the field of agriculture, trade, commerce, industry, tourism etc.

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

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

    a) Liquidity is essential for the payment of all sorts of deposits such as current, saving and fixed account of its customers.

    b) Liquidity is important to meet the daily expenses that are spent in the administrative functions.

    c) Liquidity is important to maintain statutory liquidity ratios in banks.

    d) Liquidity is important and inevitable factor to advance loan.

    e) Liquidity is needed to pay dividend to their shareholders.

f) Liquidity is essential to face the economic rise and fall or in economic crisis.

g) Liquidity is essential to gain trust from the public including other sectors.

h) Liquidity is necessary for the efficient and healthy competition among banks.

Besides this, Commercial banks are the profit-oriented business organizations. They are established by issue of shares to general public, who purchase shares to earn profit in terms of dividends. Therefore, profitability should be the cardinal principle for making investment. According to principle of profitability, banks should invest their funds in such sectors, which ensures higher rate of return. Banks must earn sufficient profits to meet all expenses for daily administration, expansion and growth as well as payment of dividend to shareholders. That is why; it should invest in profitable sectors, which assure a fair and stable return on the funds invested. Profitability of banks is measure by Profitability ratio. In other words, the profitability ratios are designed to provide answers to questions such as (i) Is the profit earned by the firm adequate? (ii) What rate of return does it represent? (iii) What is the rate of profit for various division and segments of the firm? (iv) What is the earning per share? (v) What amount was paid in dividends? (vi) What is the rate of return to equity-holders? and so on."

In this study, an attempt has been made to analyze and evaluate the liquidity and profitability position and tradeoff between these factors of Joint Venture Banks (JVBs) in Nepal by using liquidity and profitability status of three joint venture banks namely, Everest Bank Limited, Himalayan Bank Limited and NABIL Bank Limited from the period of 2064/065 to 2068/069.Besides this, the study will also focus on efficient use of total assets by the management by identifying the strengths and weakness of the three respective banks. For the purpose of the study, evaluation of the bank is made with respect to liquidity and profitability ratios.

1.2   Statement of the Problem

Banking sector supports the economic growth of the country. Bank can also be termed as "an intermediary" that bridges the gap between the savers of the fund and the user of the funds. Banks are the custodians and distributors of liquid capital, which is lifeblood of commercial and industrial activities. According to Kent, "A bank is an

organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure."

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

Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Liquidity and profitability management is an important function of any business because it is the determinant of whether the entity will be in operation in the foreseeable future or not. Liquidity management is even more crucial as the lifeline of banking itself is money. For a bank, liquidity means having sufficient funds to meet regulatory, contractual and relationship obligations when required and at a reasonable cost to the bank. However, more than enough liquidity is also harmful and thus invites profitability risk. Thus, proper liquidity and profitability management ensures that all of a bank's lending commitments are met. Assessing a liquidity position can be challenging. An adequate liquidity position for one bank may not be sufficient for another. Therefore the liquidity and profitability are crucial for smooth operation of the bank. We cannot imagine profitability without liquidity; also, there is no growth in liquidity without profitability. So liquidity and profitability are correlated to each other.

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

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

In this study, attempts have also been made to sort out the answers to the following questions:
1. How efficiently JVB's are managing their Liquidity?
2. To what extent these banks have been able to raise their Profitability?
3. Do they manage and utilize their assets efficiently?
4. To what extent these banks are able to utilizing the available resources supplied by Owners and Creditors?
5. How the Liquidity and Profitability of these banks are interrelated?
6. Does the overall liquidity and profitability position indicate any special strength and weakness of the JVB's?

1.3   Objectives of the Study

The general purpose of the study is to discuss, examine and evaluate the tradeoff between liquidity and profitability position of the concerned JVBs in Nepal. Thus, this study has been conducted to achieve the following objectives:
1. To explore the liquidity and profitability of EBL, HBL and NABIL.
2. To examine profitability position of selected JVB's.
3. To assess total assets utilization of banks?
4. To find out the resource utilization ability of the banks.
5. To explore & examine the relationship between Liquidity and Profitability of EBL, HBL and NABIL.
6. To indentify the strengths and weakness of selected JVB's

1.4   Significance of the Study

The study of the analysis of liquidity and profitability position of joint venture banks in Nepal plays vital role in the managerial decision. Every organization has to analyze

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

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

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

1.5   Limitations of the Study

In the context of Nepal, problem of reliable data is the major problem for research study. There is considerable place for arguing about its accuracy and reliability. Every study has limitations due to different factors of institutions, time-period taken, reliability of statistical data, tools and variances.

The following limitations are pointed out in this study of trade off between liquidity and profitability position of JVBs:

1. The study analyzes only the relationship between liquidity and profitability of the selected joint venture banks and hence it does not cover the other aspects of the banks.
2. The study focuses only three joint venture banks viz Nabil, Himalayan and Everest banks only which may not truly represents the whole population.
3. This study is mainly conducted on the basis of secondary data. Therefore, the study has inherent limitation of the secondary data.

4. All the information gathered through primary sources has been assumed to true and correct.

5. The authenticity of the study depends on the authenticity of the data provided and collected.

6. This study covers the analysis of only five years data from FY 2064/65 to FY 2068/69; hence, the conclusion drawn confirms to the above periods only.

1.6 Organization of the Study

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

Chapter-I Introduction

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

Chapter – II Review of Literature

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

Chapter – III Research Methodology

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

Chapter – IV Presentation and Analysis of Data

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

Chapter – V Summary, Conclusion and Recommendations

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

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

CHAPTER – II
REVIEW OF LITERATURE

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

2.1   Theoretical Review

2.1.1   Concept of Liquidity

"Liquidity is the status and part of the assets which can be used to meet the obligation. Liquidity can be viewed in terms of liquidity stored in the balance sheet and in terms of liquidity available through purchased funds. The degree of liquidity depends upon the relationship between cash assets plus those assets which can be quickly turned into cash and the liability awaiting payment. Generally, the definition of liquidity can't be found in the same way, in the countries of whole world. Because, it is known, as much as the development of the monetary sector take place or the use of monetary devices increases, so much the definition of it goes wider. Liquidity means the whole money stock of money."(Bhandari, 2003:143)

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

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

"Liquidity management is the part of risk management framework of the financial services industry, which concerns all financial institutions whether they are

commercial banks or development banks or finance companies or other financial institutions."

(Shrestha; 2061: 16)

"Liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a ratio between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity will result in a poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's fund will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity."(Pandey, 2000:114)

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

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

Liquidity management is much more important than we may realize, because a bank can be closed if it cannot rise enough liquidity even through technically it may be still solvent. Many banks assume that liquid funds can be borrowed virtually without limiting any time they needed. Therefore, they notice little need to store liquidity in

the form of easily marketed, stable-price assets. The enormous cash shortages experienced in recent years by banks make clear that liquidity needs cannot be ignored.

"Liquidity is an important principle of bank lending. According to the principle of liquidity, banks should invest their funds in such sectors, where investment can be converted into cash easily and quickly without remarkable loss on their value. Banks should invest majority of their funds in government securities and first class securities, which possess sufficient liquidity." (Singh, 2062:97)

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

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

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

2.1.2 Criteria for Measuring Liquidity Position of Bank

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

a) Deposit investment ratio

Liquidity can be measured by the deposit investment ratio. The depositors deposit the cash in the current, saving and fixed accounts. The bank receives the most liquidity as deposit. The bank invests the capital collected by deposit in various profitable and productive sectors in the form of loan. By earning much profit from it, the bank can get a lot of amount from the amount of deposit. The bank has the nature of paying lower interest to the depositors and taking higher interest from the place it invested. And the bank doesn't invest all the cash as loan. A part from the deposit invested, the bank also has other cash. Thus, the criteria of liquidity can be found from it.

b) Investment in assets

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

c) Cash reserve ratio

The cash reserve ratio also can be taken as criteria of measuring bank liquidity. The commercial bank should maintain the cash reserve ratio as fixed by the central bank by opening an account in central bank and also should maintain the statutory liquidity

ratio, in its own treasury. It changes from time to time. Thus, bank liquidity can be measured from this also.

d)   Profitability

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

e)   Investment in loan

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

f)   Structure of bank

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

g)   Position of business

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

2.1.3   Concept of Profitability

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

Profitability ratio indicates the degree of success in achieving desired profit. It furnishes answers to how efficiently the bank is being managed. Although profitability ratio mainly studies the earning power of the bank, it depicts almost entire performance of the bank.
(Khan and Jain; 1992:98)

Business environment is full of risks and uncertainties. To grasp the global changing technologies, to stay in the market uncertainties, to replace acquire assets and enhancing business scope etc. required a profit margin.
(Saunders & Cornett; 2004: 61)

Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.
(Mishkin; 1998: 26)

Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends. (Mishkin; 1998: 26)

"Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits."(Panday, 2000: 420)

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

Profit is a reward for risk taking. Profit for a bank is the difference between borrowing rate of interest and lending rate of interest. Generally, an interest rate is the composite of liquidity risk premium, default risk premium, inflation risk premium and risk free rate. Investments on liquid assets are free from liquidity risk and default risk. So, interest rates or rate of return from such investment are comparatively very low. Banks wants to invest on those assets which ensures higher return rate. However, they cannot escape from the investment on liquid assets. So, appropriate investment portfolio which ensures both liquidity and profitability is essential.

2.1.4   Principle of Profitability

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

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

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

2.1.5   Trade-off between Liquidity and Profitability

For a bank, the words liquidity and profitability come again and again. There is no possibility of profitability without liquidity. Also, there is no growth in liquidity without profitability. These are complement to each other. But these two also are opponent to each other. If there is high liquidity in bank, the bank can't gain profit. Because, most part of the liquidity is reserved in the bank, it doesn't give profit to the bank. The bank can't invest the amount. It is not possible to hope profitability without investment.

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

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

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

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

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

a) Liquidity is necessary to make payment of all sorts of deposits.

b) Liquidity is necessary to save the bank from the economic rise and fall.

c) The bank should not keep high (much) liquidity to gain profit.

d) In the lack of profitability, the bank can't be operated.

e) Also, if there is liquidity crisis in the bank, it can't be run.

f) Also, the bank should earn much profit to pay the shareholders, creditors and the employees of the bank.

g) Also, for competition, the bank should gain profit.

h) The bank can't manage its transactions without gaining profit.

With the above mentioned reasons, the liquidity and the profitability have their peculiar importance in the bank. So, from business point of view, it is necessary to maintain balance, between principalities of liquidity and profitability."(Bhandari, 2003:164)

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

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

2.2   Review of Related Studies

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

Review of Journal and Articles

Kennon,J.(2005) in his study entitled *"The Importance of Liquidity and Liquid Assets; A Lesson from September 11th"* found that After the September 11th terrorist attacks, the American financial system was shut down for four days. With stock exchanges closed, investors learnt the importance of liquidity after they temporarily lost access to cash and investments. As we reflect on the tragedy, investors should remember one important lesson: at least some portion of our net worth should be liquid. The term liquidity refers to how fast something can be turned into cold, hard cash. Liquid assets are those that are thought to be turned to cash immediately. Besides this, money market funds can cause problems because we may lose access to our cash if the financial markets shut down (which is precisely what happened to many investors on September 11th). For emergency purposes, we should not consider stocks, bonds, mutual funds, government treasuries, annuities, or insurance policies as liquid assets. In addition to normal market fluctuations, these investments may become completely illiquid if the exchanges are closed. Even if we don't own any investments, we still need a cash reserve. Once Manhattan was shut down, many businesses could not operate. In some cases, employees were not paid for several weeks, leaving them without a source of income. What if such an extraordinary event caused our company to run into tough financial times and it either closed its doors or started lying off most of the work force? How would we survive? If we had realized the importance of liquidity, we would be able to stay afloat for at least several months using our cash reserves.

The article entitled " *The   Efficiency of   Liquidity   Monitoring   and Forecasting Framework the Nepal Rastra Bank in the Context of Liquidity Management in the Nepalese Banking and Financial* System" by Shrestha in 2007 has stated liquidity management as the part of risk management framework of financial services industry. He found taking high liquidity risk as well as high credit risk are two main

factors that cause banks to fail. Although high liquidity risk alone is not likely to cause banks failures, a liquidity crisis usually signals a need for change. The article concluded proper liquidity management ensures that banks and financial institutions' financial commitments and obligations are met. Maintaining adequate liquidity also helps in avoiding forced sale of assets. The need for bank liquidity stems from seasonal, cyclical trend and short-term irregular movements in deposits and loans. The different sources available to meet these liquidity needs were identified and grouped into asset and liability liquidity sources. The treasury manager must consider the purpose of the liquidity need, the length of time for which funds are needed, the access to liability markets, the cost and the characteristics of various liquidity sources and interest rate forecasts.

Review of Thesis

Gumanju's Study (2004)

Gumanju has conducted a study entitled *"A Comparative Study of Financial Performance Analysis of HBL and NIB",* with the general objective of examining and evaluating the financial performance of Himalayan Bank Limited (HBL) and Nepal Investment Bank (NIB) concludes the findings such as,

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

On the basis of analysis and evaluation of various financial and statistical tools, he recommended that both the banks should maintain standard current ratio. Moreover, he also suggested that both the banks should improve their capacity by improving effective organization structure and controlling capital structure and so on.

Paudel's Study (2006)

Paudel carried out the research work on *"Liquidity Management of Commercial Banks in Nepal with reference to Bank of Kathmandu (BOK), Nepal Industrial and Commercial Bank (NIC), HBL, EBL and NABIL"*, with the objective of examining and analyzing the liquidity position and its management in Nepalese commercial banks has investigated the findings such as,

- The liquidity position of NIC is strong, EBL is poor and BOK, HBL and NABIL are moderate in terms of cash and bank balance to current deposit ratio,

- The liquidity position of EBL, NIC and BOK are proportionately better than NABIL and HBL in terms of short-term investment to total investment ratio,

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

Dhungana's Study (2006)

Dhungana has conducted a study entitled "*Liquidity Position of Commercial Banks of Nepal With reference to BOK, HBL, Standard Chartered Bank (SCB), Nepal Bank Limited (NBL), NIB and EBL",* with the objective of examining the relationship between liquidity and profitability has concluded the findings such as,

- The banks under study are maintaining very high level of liquidity than the rate imposed by the NRB,

- Saving and fixed deposits are in higher proportion as the major sources of funds for each bank,

- There is positive correlation between change in deposit and change in total liquid fund of the banks and so on.

Shrestha's Study (2007)

Shrestha in his study entitled *"Performance Measurement of Joint Venture Banks in Nepal with reference to EBL, SCB, Nepal State Bank of India (NSBI) and NABIL"* focused to access the investment policy and strategies followed by the banks under study. The major findings from the study includes,

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

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

With the analysis and evaluation of various financial and statistical tools, he recommended that all the banks under study should collect more amounts of deposits through variety of deposit schemes and facilities. Moreover, he also suggested EBL to keep wide vision in investment. Further, he strongly recommended the banks to invest its more funds in shares and debentures.

Tamang's Study (2009)

Tamang has conducted a study entitled *"Financial Performance Analysis of Commercial Banks of Nepal with reference to NIB and NABIL"*, with the objective to measure the operating efficiency, stability and profitability of NIB and NABIL along with their financial strength and weakness concludes the findings such as,
- The liquidity position of NIB is better than that of NABIL,
- NABIL has utilized more debt than NIB,
- The profitability ratio of NABIL is better than the of NIB in terms of ROA,
- The EPS and DPS of NABIL are better than that of NIB,
- There is positive correlation between total debt and net profit for both the banks etc.

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

Karki's Study (2010)

Karki has conducted a study on *"Liquidity and Profitability Position of Commercial Banks of Nepal"* which included SCBL, NABIL, HBL, EBL; NIBL with the objective

to examine the liquidity and profitability position of the commercial banks of Nepal. The thesis work investigated following findings

- The liquid asset of SCBL is highest among the above mentioned banks.
- Liquid assets maintained by NABIL are higher than that of EBL.
- In terms of cash reserve ratio liquidity position of NIBL is most satisfactory.
- The average net profit made by SCBL is highest. In terms of net profit margin SCBL is most efficient.

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

2.3 Research Gap and Implication to the managers

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

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

CHAPTER-III
RESEARCH METHODOLOGY

3.1   Introduction

Research is a systematic method to find out the solution to a problem where as research methodology refers to various sequential steps to be adopted by a research in studying a problem with certain objectives in view. In other words, research methodology describes the methods, techniques and process applied in the entire aspects of the study. It is a sequential procedure and method to be adopted in a systematic study. It has been clear that research methodology is a systematic and scientific method of identifying problems, collecting facts and information tabulating and recording the data, setting hypothesis, analyzing the facts and researching certain conclusion with a view of findings answer to the problems. In fact, research methodology is one of the crucial aspects of the thesis writing. So the presented chapters outline the entire research methodology used and followed in this study.

3.2   Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance. The main objective of this study is to analyze and evaluate the relationship between liquidity and profitability positions of the selected JVB's and provide suggestion on the basis of the evaluation. To accomplish this objective, analytical and descriptive research design has been adopted. It tries to describe and analyze all these facts that have been collected for the purpose of the study. In this research, the trade off between liquidity and profitability positions of the JVBs is analyzed. Mostly the secondary data have been used for the research study. The data are collected from the various websites, annual reports of the respective banks, personal visits opinion survey etc. Hence, the research design is made by collecting the informations from the different source and data have been tabulated and analyzed by using various financial and statistical tools. The financial tools include liquidity and profitability ratios. Similarly, the statistical tools include average or mean, standard deviation, coefficient of variation, trend

analysis. This study tries to make comparison and establishes relationship between two or more variables. At the end, summary, conclusion and recommendations are set for the purpose of the study.

3.3 Population and Sample

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

Since, this study is focused on the JVBs, thus, here the population encompasses all the JVBs functioning its operation within the country. Since, study of whole population may not be effective due to several factors, thus, sampling becomes essential to draw inference for the population. So, among all the JVBs, three JVBs have been selected randomly as sample, viz. Everest Bank Limited, Himalayan Bank Limited and NABIL Bank Limited. Here the sample comprises fifty percentage of the total population.

3.4 Sources of Data

This research is primarily based on secondary data. Data collected by the researcher or through agent for the first time from related field and possessing original character are known as primary data. Primary data are also called first source. On the other hand, data collected by come one else, used already and are made available to other in the form of published statistics are known as secondary data. Once primary data have been used, it loses its primary characteristics and becomes secondary.

3.5 Data Collection Techniques

Once the purpose of statistical investigation has defined, the next step is the collection of the data that are relevant for analysis in a meaningful manner. Thus, collection of data is considered as an integral part of the research activity. In this regard, the annual report (i.e. financial statement of the concerned fiscal years have been collected from

the respective banks. Moreover, several books, journals, articles and magazines, and various websites have also been referred for the information.

3.6 Data Analysis Tools

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

Financial Tools

Financial tools are those which are used for the analysis and interpretation of financial data. Here in this study, the financial tools will include:

(A)   Liquidity Ratio

(B)   Profitability Ratio

(A) Liquidity Ratio

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

(a) Current Ratio

The current ratio is a measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for every one rupee of current liability. Current ratio establishes a relationship between current assets and current liabilities. It is calculated as under.

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

Current assets include cash and those assets which can be converted into cash within a year, such as cash and bank balance, money at call and short notice, and other assets.

Whereas, all obligations maturing within a year are included in current liabilities. Current liabilities include bills payable and other liabilities.

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

(b) Quick Ratio

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

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

Generally, a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition.

(c) Cash and Bank Balance to Current Deposit Ratio

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

$$Cash\ and\ Bank\ Balance\ to\ Current\ Deposit\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ Deposit}$$

(d) Cash and Bank Balance to Total Deposit Ratio

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

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

(B) Profitability Ratio

Each and every firm has been established to earn profit by fulfilling human needs and wants. Profit is a kind of fuel for business enterprise or firms. Without profit no firm can survive. Therefore, profit is essential for a firm's survival and future growth. One of the focus of commercial banks is to be enough profitable so as to meet a variety of objectives like achieving a desirable liquidity position, meet fixed interest obligation, overcome the future contingencies, explicit hidden investment opportunities, encourage branch expansion etc. Profitability ratio, as a matter of fact, is the best indicator of overall efficiency of the bank.

(a) Net Profit Ratio

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

$$Net\ Profit\ Ratio = \frac{Net\ Profit}{Operating\ Income}$$

Where,

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

(b) Return on Equity (ROE)

Equity shareholders are the real owners of a company and are the risk-bearers and are entitled to total profits earned by the company after preference dividend. Return on

equity relates the profitability of a company to equity shareholders' equity. ROE measures the company's profitability in terms of return to equity shareholders. It is calculated as under:

$$ROE = \frac{Net\ Profit\ After\ Tax}{Shareholder's\ Equity}$$

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

(c) Return on Total Assets (ROA)

Return on total assets or simply return on assets, measures the productivity of the assets. It is measured in terms of relationship between net profit and assets. "This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in the business thereby, indicating effective use of the resources available and vice-versa." (Munankarmi, 2000:3.37)

ROA is calculated as under;

$$ROA = \frac{Net\ Profit\ after\ Tax}{Total\ Assets}$$

Here, total assets include "both fixed and current assets. However, assets that is not productive like goodwill should be excluded. It is needless to add that fictitious assets and accumulated loss shown on the assets side are also excluded in this case. Here investments are included as they are productive, in the sense that they are capable of earning interest." (Sharma, 1998:260)

(d) Return on Capital Employed (ROCE)

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

$$ROCE = \frac{Net\ Profit\ after\ Tax}{Capital\ Employed}$$

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

(e) Earning Per Share (EPS)

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

The increasing tendency of EPS enhances the possibility of more dividend and bonus shares. EPS only shows how much 'theoretically' belongs to the ordinary shareholders. It does not reveal how much is paid to the owners as dividends nor how much of the earnings are retained in the business.

It is calculated as under:

$$EPS = \frac{Net\ Profit\ after\ Preference\ Dividend}{Number\ of\ Equity\ Shares}$$

(f)   Dividend Per Share (DPS)

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

It is calculated as under:

$$DPS = \frac{Dividend\ paid\ to\ Shareholders}{Number\ of\ Equity\ Shares}$$

(g) Dividend pay-out Ratio

Dividend pay-out ratio measures the profit distributed on dividends out of earning per share. The main purpose to calculate this ratio is to find out the amount of dividend paid out of EPS. "If the dividend payout ratio is subtracted from 100, it will give what

percentage share of the net profits are retained in the business." (Khan and Joshi, 2003:107)

It is calculated as under:

$$Dividend\ pay-out\ Ratio = \frac{DPS}{EPS}$$

(h) Earning Yield Ratio

Earning yield ratio shows the relationship between earning per share and market value of share. "In general, higher ratio tells the story of success and lower ratio signifies the insufficiency of return on investment made on shares as compared to market price." (Wagle and Dahal, 2008:10.18) It is calculated as under:

$$Earning\ Yield\ Ratio = \frac{EPS}{MPS}$$

(i) Dividend Yield Ratio

Dividend yield ratio shows the relationship between dividend per share (DPS) and Market value per share (MPS). This ratio is closely related to EPS and DPS. Higher market value leads to decrease the ratio and vice-versa. It is calculated as under:

$$Dividend\ Yield\ Ratio = \frac{DPS}{MPS}$$

Statistical Tools

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

(a) Average ($\overline{X}$)

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

Arithmetic mean of a given set of observations is their sum divided by the number of observations. In general, if X_1, X_2………X_n are the given N observations, then their arithmetic mean, denoted by $\bar{X}$ is given by,

$$\bar{X} = \frac{X_1 + X_2 + \dots\dots + X_n}{N} = \frac{\sum X}{N}$$

Where,

X = Sum of the observations, and

N = Number of Years

(b) Standard Deviation

"Standard deviation is the square root of the arithmetic average of the squares of the deviations measured from the mean. Thus, in the calculation of standard deviation, first the arithmetic average is calculated and the deviation of various items from the arithmetic average are squared. The squared deviations are totaled and the sum is divided by the number of items. The square root of the resulting figure is the standard deviation of the series."(Elhance and B.M. Agarwal, 2000: 9.25) The standard deviation is conventionally represented by the Greek letter sigma (σ). If X1, X2, ………Xn is a set of N observations then, standard deviation is given by,

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

$\sum (X - \bar{X})$ = Sum of the squares of the deviations measured from mean, and

N = Number of Observations

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

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

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

(d) Coefficient of correlation (r)

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

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

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

(e) Hypothesis

Hypothesis is the assumption about the population parameter then its validity is tested. "It may or may not be found valid on verification. The act of verification involves testing the validity of such assumption which, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis or test of significance. In other words, a procedure to assess the significance of a statistic or difference between two independent statistics is known as test of significance." (Sharma and Chaudhary, 2009:332)

The test of hypothesis finds out whether it deserves the acceptance or rejection of the hypothesis. The main goal of testing of hypothesis is to test the characteristics of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistic is significant or not. There are two types of hypothesis namely, Null hypothesis and Alternative hypothesis. The hypothesis of no difference is called null hypothesis denoted by H_o and a complementary hypothesis against the null hypothesis is called alternative hypothesis denoted by H_1.

In this study, in order to test whether the sample correlation coefficient is significant of any correlation between the variables in the population, t-test for significance of an observed sample correlation coefficient is applied.

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(f) Trend Analysis

A general tendency of the time series data to increase or decrease or stagnate during a long period of time is called the secular trend or simple trend. Trend is the general, smooth, long-term average tendency. "It is not necessary that the increase or decline should be in the same direction throughout the given period. It may be possible that different tendencies of increase, decrease or stability are observed in different sections of time. However, the overall tendency may be upward, downward or stable. Such tendencies are the result of the forces which are more or less constant for a long time or which change very gradually and continuously over a long period of time. Such as the change in the population, tastes, habits and customs of the people in a society, and so on. They operate in a evolutionary manner and do not reflect sudden changes." (Gupta, 2001:510)

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

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

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1   Introduction

This chapter entitled "Presentation and Analysis of Data" is a crucial chapter and has been organized to present the result and analyze them accordingly. The basic objective of this study is to observe and analyze the liquidity and profitability position of Everest Bank Limited (EBL), Himalayan Bank Limited (HBL) and NABIL Bank Limited (NABIL) as well as relationship between two factor of selected JVB's. The presentation and analysis of data in this study have been done through the help of financial statements of the year from FY 2064/65 to FY 02068/69.

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

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

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

4.2 Liquidity Ratio

(a) Current Ratio

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

Table 4.1

Current Ratios of JVB

Year	Current Assets	Current Liabilities	Ratio
Everest Bank Limited (EBL)			
2064/65	4,353,400,000.00	1,540,900,000.00	2.83%
2065/66	7,256,900,000.00	1,362,300,000.00	5.33%
2066/67	8,450,300,000.00	1,367,600,000.00	6.18%
2067/68	7,155,100,000.00	1,284,800,000.00	5.57%
2068/69	11,820,100,000.00	2,389,500,000.00	4.95%
Average Mean			4.97%
Standard Deviation			1.28
Co-efficient of Variation			25.75%
Himalayan Bank Limited (HBL)			
2064/65	3,652,300,000.00	1,618,000,000.00	2.26%
2065/66	5,922,400,000.00	1,846,100,000.00	3.21%
2066/67	6,341,700,000.00	2,479,000,000.00	2.56%
2067/68	7,686,600,000.00	3,074,000,000.00	2.50%
2068/69	9,618,200,000.00	2,585,900,000.00	3.72%
Average Mean			2.85%
Standard Deviation			0.60
Co-efficient of Variation			21.08%
NABIL Bank Limited (NABIL)			
2064/65	6,125,700,000.00	2,156,300,000.00	2.84%
2065/66	6,614,000,000.00	2,551,000,000.00	2.59%
2066/67	7,225,300,000.00	2,972,000,000.00	2.43%
2067/68	8,423,000,000.00	4,545,200,000.00	1.85%
2068/69	13,762,500,000.00	9,623,100,000.00	1.43%
Average Mean			2.23%
Standard Deviation			0.58
Co-efficient of Variation			25.83%

Sources: Annual Reports of EBL, HBL and NABIL Bank

The table shows that the current ratio of EBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 2.83%, 5.33%, 6.18%, 5.57% and 4.95% respectively. Its average current ratio is 4.97%, Standard deviation is 1.28 and Co-efficient of variation is 25.75%.The current ratio of HBL in the 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 2.26%, 3.21%, 2.56%, 2.50% and

3.72% respectively. Its average current ratio is 2.85%, Standard deviation is 0.60 and co-efficient of variation is 21.08% similarly. The current ratio of NABIL in the 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 2.84%, 2.59%, 2.43%, 1.85% and 1.43% respectively. Its average current ratio is 2.23%, standard deviation is 0.58 and co-efficient of variation is 25.83%.

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

Figure 4.1

Current Ratios of JVB
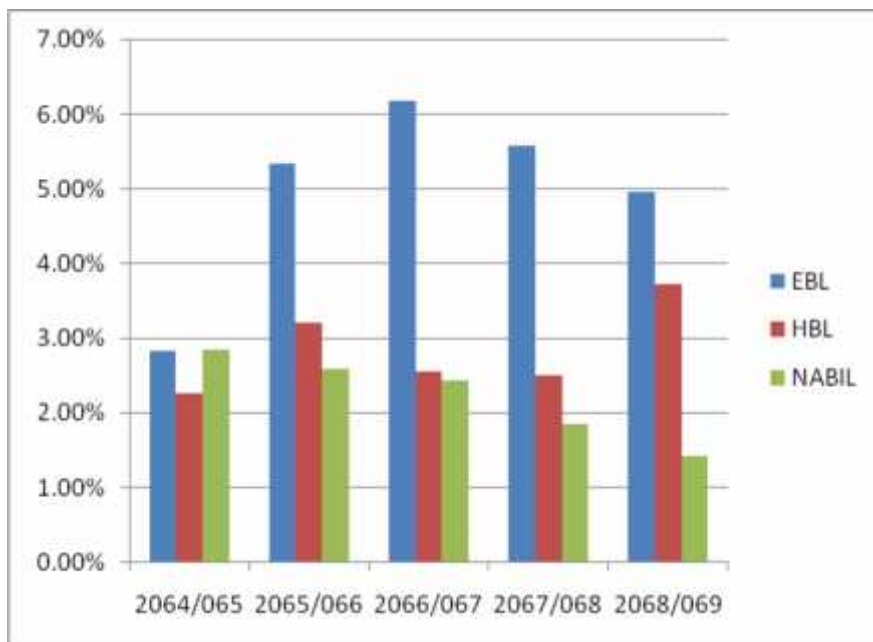
b) Quick Ratio

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

Table 4.2

Quick Ratio of JVB

| Year	Quick Assets	Current Liabilities	Ratio
Everest Bank Limited (EBL)			
2064/65	3,673,400,000.00	1,540,900,000.00	2.38%
2065/66	6,789,500,000.00	1,362,300,000.00	4.98%
2066/67	8,395,900,000.00	1,367,600,000.00	6.14%
2067/68	7,065,600,000.00	1,284,800,000.00	5.50%
2068/69	11,567,600,000.00	2,389,500,000.00	4.84%
Average Mean			4.77%
Standard Deviation			0.89
Co-efficient of Variation			29.93%
Himalayan Bank Limited (HBL)			
2064/65	3,063,300,000.00	1,618,000,000.00	1.89%
2065/66	5,351,400,000.00	1,846,100,000.00	2.90%
2066/67	5,630,400,000.00	2,479,000,000.00	2.27%
2067/68	6,686,700,000.00	3,074,000,000.00	2.18%
2068/69	9,143,700,000.00	2,585,900,000.00	3.54%
Average Mean			2.55%
Standard Deviation			0.66
Co-efficient of Variation			25.84%
NABIL Bank Limited (NABIL)			
2064/65	5,137,100,000.00	2,156,300,000.00	2.38%
2065/66	5,248,300,000.00	2,551,000,000.00	2.06%
2066/67	5,595,700,000.00	2,972,000,000.00	1.88%
2067/68	6,623,900,000.00	4,545,200,000.00	1.46%
2068/69	11,240,600,000.00	9,623,100,000.00	1.17%
Average Mean			1.79%
Standard Deviation			0.48
Co-efficient of Variation			26.92%

Sources: Annual Reports of EBL, HBL and NABIL Bank

From the computation it can be seen that the quick ratio of EBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 2.38%, 4.98%, 6.14%, 5.50% and 4.84% respectively. Its average quick ratio is 4.77%, Standard deviation is 1.43 and Co-efficient of variation is 29.93%.The quick ratio of HBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 1.89%, 2.90%, 2.27%, 2.18% and 3.54% respectively. Its average quick ratio is 2.55%, Standard deviation is 0.66 and co-efficient of variation is 25.84%.The quick ratio of NABIL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 2.38%, 2.06%, 1.88%, 1.46% and 1.17% respectively. Its average quick ratio is 1.79%, standard deviation is 0.48 and co-efficient of variation is 26.92%.

The figure also indicates that higher average quick ratio of EBL shows that it has good liquidity within the bank in terms of quick ratio as compared to EBL and

NABIL. On the other hand, the lower C.V. of HBL shows that it is more consistent in maintaining the funds within the bank than EBL and HBL.

Figure 4.2

Quick Ratio of JVB
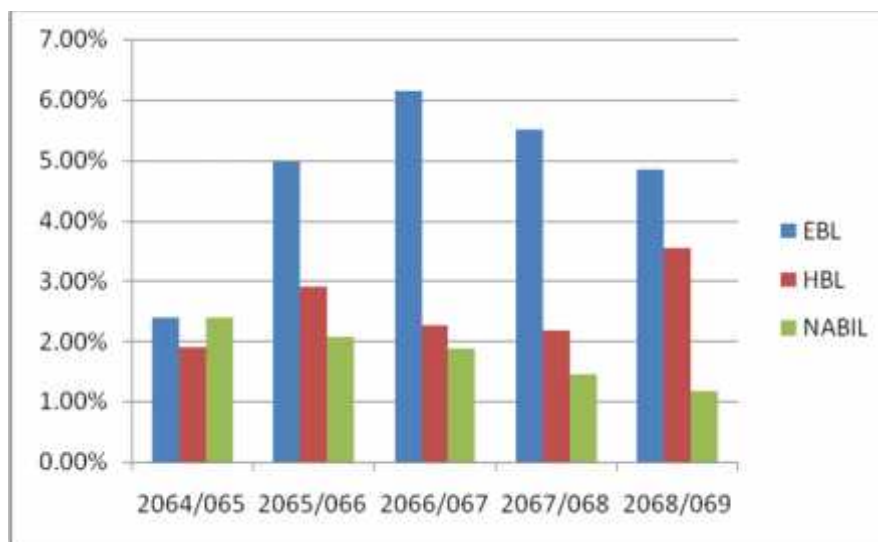
(c) Cash and Bank Balance to Current Deposit Ratio

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

Table 4.3

Cash and Bank Balance to Current Deposit Ratio

Year	Cash and Bank Balance	Current Deposit	Ratio
Everest Bank Limited (EBL)			
2064/65	3,198,400,000.00	2,492,300,000.00	128.33%
2065/66	6,164,400,000.00	4,859,900,000.00	126.84%
2066/67	7,818,800,000.00	4,173,300,000.00	187.35%
2067/68	6,122,900,000.00	4,791,200,000.00	127.79%
2068/69	10,363,300,000.00	6,098,300,000.00	169.94%
Average Mean			148.05%
Standard Deviation			28.60
Co-efficient of Variation			19.32%
Himalayan Bank Limited (HBL)			
2064/65	2,503,400,000.00	6,801,300,000.00	36.81%
2065/66	4,398,500,000.00	7,566,400,000.00	58.13%
2066/67	4,324,600,000.00	9,036,600,000.00	47.86%
2067/68	3,805,200,000.00	3,694,300,000.00	103.00%
2068/69	6,626,900,000.00	4,584,000,000.00	144.57%
Average Mean			78.07%
Standard Deviation			44.88

|			
Co-efficient of Variation			57.48%
NABIL Bank Limited (NABIL)			
2064/65	4,623,500,000.00	5,365,800,000.00	86.17%
2065/66	3,925,400,000.00	5,515,900,000.00	71.17%
2066/67	4,513,700,000.00	7,920,700,000.00	56.99%
2067/68	4,884,500,000.00	5,818,400,000.00	83.95%
2068/69	5,098,600,000.00	6,734,400,000.00	75.71%
Average Mean			74.80%
Standard Deviation			11.66
Co-efficient of Variation			15.60%

Sources: Annual Reports of EBL, HBL and NABIL Bank

The relation between cash and bank balance to current deposit ratio of three JVBs can be seen from the table no 4.3. The cash and bank balance to current deposit ratio of EBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 128.33%, 126.84%, 187.35%, 127.79% and 169.94% respectively. Its average cash & bank to current deposit ratio is 148.05%, Standard deviation is 28.60 and Co-efficient of variation is 19.32%.The cash & bank balance to current of HBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 36.81%, 58.13%, 47.86%, 103.00% and 144.57% respectively. Its average cash & bank balance to current deposit ratio is 78.07%, Standard deviation is 44.88 and co-efficient of variation is 57.48%.The cash & bank balance to current deposit ratio of NABIL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 86.17%, 71.17%, 56.99%, 83.95% and 75.71% respectively. Its average cash & bank balance to current deposit ratio is 74.80%, standard deviation is 11.66 and co-efficient of variation is 15.60%.

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

Figure 4.3

Cash and Bank Balance to Current Deposit Ratio
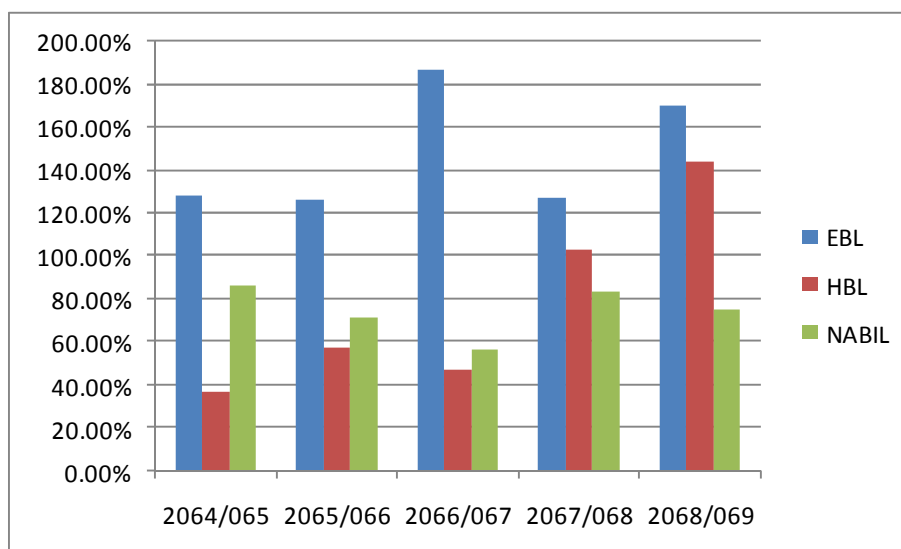
(d) Cash and Bank Balance to Total Deposit Ratio

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

Table 4.4

Cash and Bank Balance to Total Deposit Ratio

Year	Cash and Bank Balance	Total Deposit	Ratio
Everest Bank Limited (EBL)			
2064/65	3,198,400,000.00	23,976,300,000.00	13.34%
2065/66	6,164,400,000.00	33,322,900,000.00	18.50%
2066/67	7,818,800,000.00	36,932,300,000.00	21.17%
2067/68	6,122,900,000.00	41,127,900,000.00	14.89%
2068/69	10,363,300,000.00	50,006,100,000.00	20.72%
Average Mean			17.72%
Standard Deviation			3.49
Co-efficient of Variation			19.70%
Himalayan Bank Limited (HBL)			
2064/65	2,503,400,000.00	31,805,300,000.00	7.87%
2065/66	4,398,500,000.00	34,681,000,000.00	12.68%
2066/67	4,324,600,000.00	37,609,000,000.00	11.50%
2067/68	3,805,200,000.00	40,920,600,000.00	9.30%
2068/69	6,626,900,000.00	47,731,000,000.00	13.88%
Average Mean			11.05%
Standard Deviation			2.45
Co-efficient of Variation			22.21%
NABIL Bank Limited (NABIL)			
2064/65	4,623,500,000.00	31,915,000,000.00	14.49%
2065/66	3,925,400,000.00	37,348,300,000.00	10.51%
2066/67	4,513,700,000.00	46,334,800,000.00	9.74%

2067/68	4,884,500,000.00	49,691,400,000.00	9.83%
2068/69	5,098,600,000.00	55,023,700,000.00	9.27%
Average Mean			10.77%
Standard Deviation			2.13
Co-efficient of Variation			19.75%

Sources: Annual Reports of EBL, HBL and NABIL Bank

The above table illustrates the cash and bank balance of different years and its proportion with regards to total deposit. The table shows that the cash & bank balance to total deposit ratio of EBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 13.34%, 18.50%, 21.17%, 14.89% and 20.72 % respectively. Its average cash & bank balance to total deposit ratio is 17.72%, standard deviation is 3.49 and co-efficient of variation is 19.70%.

The cash & bank balance to total deposit ratio of HBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 7.87%, 12.68%, 11.50%, 9.30% and 13.88% respectively. Its average cash & bank balance to total deposit ratio is 11.05%, standard deviation is 2.45 and co-efficient of variation is 22.21 %.The cash & bank balance to total deposit ratio of NABIL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 14.49%, 10.51%, 9.74%, 9.83% and 9.27 % respectively. Its average cash & bank balance to total deposit ratio is 10.77%, standard deviation is 2.13 and co-efficient of variation is 19.75%.

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

Figure 4.4

Cash and Bank Balance to Total Deposit Ratio
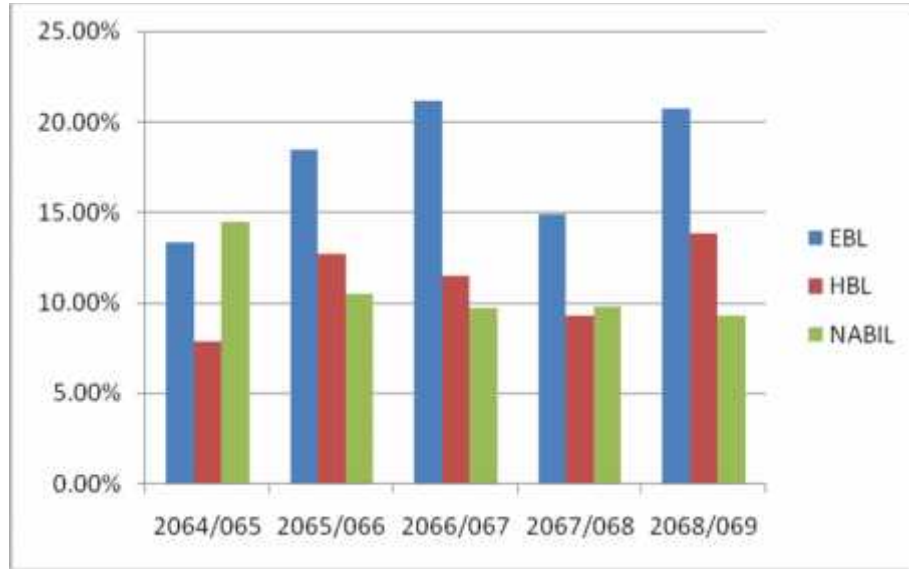
4.3 Profitability Ratio

(a) Net Profit Ratio

Net profit ratio establishes the relationship between net profit and operating income. It is computed as under:
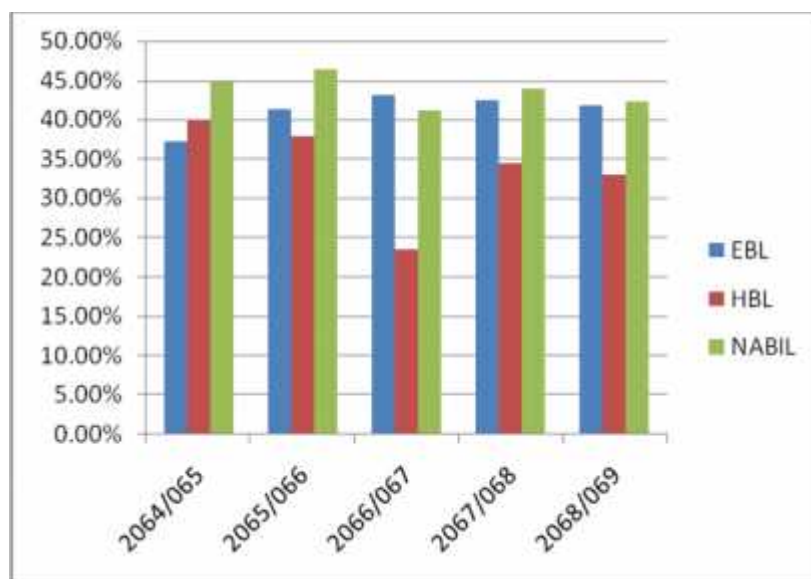
Table 4.5
Net Profit Ratios of JVB

Year	Net Profit	Operating Income	Ratio
Everest Bank Limited (EBL)			
2064/65	451,218,613.00	1,209,898,087.00	37.29%
2065/66	638,732,757.00	1,544,965,598.00	41.34%
2066/67	831,765,632.00	1,927,976,053.00	43.14%
2067/68	931,303,628.00	2,192,940,003.00	42.47%
2068/69	1,090,564,222.00	2,609,735,240.00	41.79%
Average Mean			41.21%
Standard Deviation			2.29
Co-efficient of Variation			5.56%
Himalayan Bank Limited (HBL)			
2064/65	635,868,519.00	1,597,495,036.00	39.80%

2065/66	752,834,735.00	1,988,047,919.00	37.87%
2066/67	508,798,193.00	2,157,958,409.00	23.58%
2067/68	893,115,143.00	2,586,743,976.00	34.53%
2068/69	958,638,260.00	2,911,212,795.00	32.93%
Average Mean			33.74%
Standard Deviation			6.29
Co-efficient of Variation			18.65%
NABIL Bank Limited (NABIL)			
2064/65	746,468,394.00	1,670,427,262.00	44.69%
2065/66	1,031,053,098.00	2,220,983,026.00	46.42%
2066/67	1,138,570,802.00	2,764,088,060.00	41.19%
2067/68	1,337,745,485.00	3,046,127,914.00	43.92%
2068/69	1,700,375,650.00	4,014,853,041.00	42.35%
Average Mean			43.71%
Standard Deviation			2.03
Co-efficient of Variation			4.65%

Sources: Annual Reports of EBL, HBL and NABIL Bank

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

Figure 4.5

Net Profit Ratios of JVB

(b) Return on Equity (ROE)

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

Table 4.6

ROE of EBL, HBL and NABIL Banks

Year	Net Profit after Tax	Shareholder's Equity	Ratio
Everest Bank Limited (EBL)			
2064/65	451,218,613.00	1,584,500,000.00	28.48%
2065/66	638,732,757.00	2,044,500,000.00	31.24%
2066/67	831,765,632.00	2,181,600,000.00	38.13%
2067/68	931,303,628.00	2,737,100,000.00	34.03%
2068/69	1,090,564,222.00	3,090,600,000.00	35.29%
Average Mean			33.43%
Standard Deviation			3.71
Co-efficient of Variation			11.11%
Himalayan Bank Limited (HBL)			
2064/65	635,868,519.00	2,127,000,000.00	29.90%
2065/66	752,834,735.00	2,492,100,000.00	30.21%
2066/67	508,798,193.00	3,096,800,000.00	16.43%

2067/68	893,115,143.00	3,416,100,000.00	26.14%
2068/69	958,638,260.00	3,965,700,000.00	24.17%
Average Mean			25.37%
Standard Deviation			5.61
Co-efficient of Variation			22.11%
NABIL Bank Limited (NABIL)			
2064/65	746,468,394.00	2,057,000,000.00	36.29%
2065/66	1,031,053,098.00	2,372,100,000.00	43.47%
2066/67	1,138,570,802.00	3,054,000,000.00	37.28%
2067/68	1,337,745,485.00	3,754,300,000.00	35.63%
2068/69	1,700,375,650.00	4,469,000,000.00	38.05%
Average Mean			38.14%
Standard Deviation			3.12
Co-efficient of Variation			8.17%

Sources: Annual Reports of EBL, HBL and NABIL Bank

The above table depicts that the ROE of EBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 28.48%, 31.24%, 38.13%, 34.03% and 35.29% respectively. Its average ROE is 33.43%, standard deviation is 3.71 and co-efficient of variation is 11.11%. The ROE of HBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 29.90%, 30.21%, 16.43%, 26.14% and 24.17% respectively. Its average ROE is 25.37%, standard deviation is 5.61 and co-efficient of variation is 22.11%. The ROE of NABIL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 36.29%, 43.47%, 37.28%, 35.63% and 38.05% respectively. Its average ROE is 38.14%, standard deviation is 3.12and co-efficient of variation is 8.17%.

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

Figure 4.6

ROE of EBL, HBL and NABIL Banks
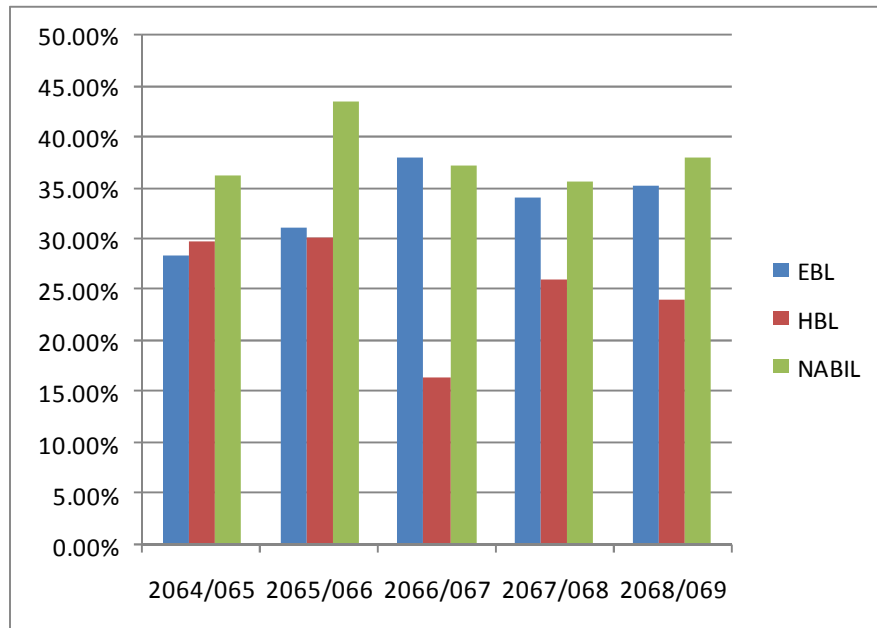
4.4 Assets Utilization of JVB's

In order to find the Proper Assets Utilization Retun on Total Assets has been using as financial tool.

Return on Assets (ROA)

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

Table 4.7

ROA of EBL, HBL and NABIL Banks

Year	Net Profit after Tax	Total Assets	Ratio
Everest Bank Limited (EBL)			
2064/65	451,218,613.00	28,565,900,000.00	1.58%
2065/66	638,732,757.00	38,000,300,000.00	1.68%
2066/67	831,765,632.00	42,053,000,000.00	1.98%
2067/68	931,303,628.00	46,895,600,000.00	1.99%
2068/69	1,090,564,222.00	56,609,200,000.00	1.93%
Average Mean			1.83%
Standard Deviation			0.19
Co-efficient of Variation			10.24%

Himalayan Bank Limited (HBL)			
2064/65	635,868,519.00	37,526,800,000.00	1.69%
2065/66	752,834,735.00	40,790,700,000.00	1.85%
2066/67	508,798,193.00	44,768,800,000.00	1.14%
2067/68	893,115,143.00	49,298,500,000.00	1.81%
2068/69	958,638,260.00	55,898,500,000.00	1.71%
Average Mean			1.64%
Standard Deviation			0.29
Co-efficient of Variation			17.61%
NABIL Bank Limited (NABIL)			
2064/65	746,468,394.00	38,478,600,000.00	1.94%
2065/66	1,031,053,098.00	45,941,600,000.00	2.24%
2066/67	1,138,570,802.00	54,609,800,000.00	2.08%
2067/68	1,337,745,485.00	61,292,600,000.00	2.18%
2068/69	1,700,375,650.00	71,545,300,000.00	2.38%
Average Mean			2.17%
Standard Deviation			0.16
Co-efficient of Variation			7.60%

Sources: Annual Reports of EBL, HBL and NABIL Bank

From the table 4.7, it has been found that the ROA of EBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 1.58%, 1.68%, 1.98%, 1.99% and 1.93% respectively. Its average ROA is 1.83%, Standard deviation is 0.19 and co-efficient of variation is 10.24%.

The ROA of HBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 1.69%, 1.85%, 1.14%, 1.81% and 1.71% respectively. Its average ROA is 1.64%, standard deviation is 0.29 and co-efficient of variation is 17.61%. The ROA of NABIL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 1.94%, 2.24%, 2.08%, 2.18% and 2.38% respectively. Its average ROA is 2.17%, standard deviation is 0.16 and co-efficient of variation is 7.60%.

In addition to that, fig 4.7 also illustrates the higher average ROA of NABIL reveals that NABIL has been able to utilize its overall resources in efficient way in

comparison with EBL and HBL. The high ratio also reflects the successes of NABIL's management. However, the lower C.V. of NABIL also suggests that NABIL is more consistent in utilizing the overall resources efficiently.

Figure 4.7

ROA of EBL, HBL and NABIL Banks
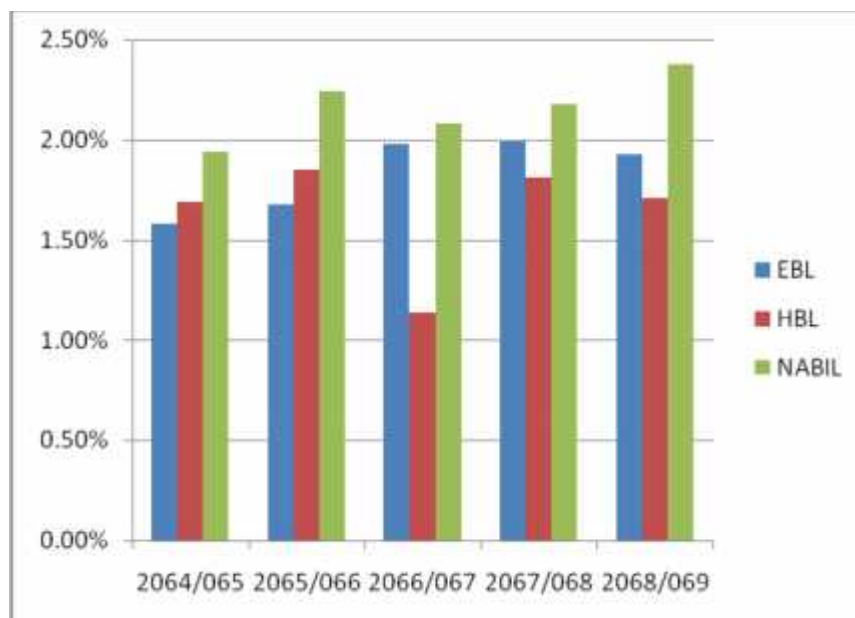
4.5 Resource Utilization of JVB's

In order to find the Proper Resource Utilization Return on Capital Employed has been using as financial tool.

Return on Capital Employed (ROCE)

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

Table 4.8

ROCE of EBL, HBL and NABIL Banks

Year	Net Profit after Interest	Capital Employed	Ratio
Everest Bank Limited (EBL)			
2064/65	451,218,613.00	2,213,500,000.00	20.38%
2065/66	638,732,757.00	2,678,500,000.00	23.85%

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2066/67	831,765,632.00	2,908,200,000.00	28.60%
2067/68	931,303,628.00	3,541,100,000.00	26.30%
2068/69	1,090,564,222.00	3,113,500,000.00	35.03%
Average Mean			26.83%
Standard Deviation			5.50
Co-efficient of Variation			20.50%
Himalayan Bank Limited (HBL)			
2064/65	635,868,519.00	3,016,500,000.00	21.08%
2065/66	752,834,735.00	3,013,000,000.00	24.99%
2066/67	508,798,193.00	3,619,900,000.00	14.06%
2067/68	893,115,143.00	3,949,200,000.00	22.62%
2068/69	958,638,260.00	4,495,500,000.00	21.32%
Average Mean			20.81%
Standard Deviation			4.08
Co-efficient of Variation			19.61%
NABIL Bank Limited (NABIL)			
2064/65	746,468,394.00	3,657,000,000.00	20.41%
2065/66	1,031,053,098.00	4,417,500,000.00	23.34%
2066/67	1,138,570,802.00	3,504,300,000.00	32.49%
2067/68	1,337,745,485.00	5,786,300,000.00	23.12%
2068/69	1,700,375,650.00	5,177,600,000.00	32.84%
Average Mean			26.44%
Standard Deviation			5.80
Co-efficient of Variation			21.94%

Sources: Annual Reports of EBL, HBL and NABIL Bank

From the above computation the ROCE of EBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 20.38%, 23.85%, 28.60%, 26.30% and 35.03% respectively. Its average ROCE is 26.83%, standard deviation is 5.50 and co-efficient of variation is 20.50%. The ROCE of HBL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 21.08%, 24.99%, 14.06%, 22.62% and 21.32% respectively. Its average ROCE is 20.81%, standard deviation is 4.08 and co-efficient of variation is 19.61%. The ROCE of NABIL in the FY 2064/65, FY 2065/66, FY 2066/67, FY 2067/68, and FY 2068/69 are 20.41%, 23.34%, 32.49%,

23.12% and 32.84% respectively. Its average ROCE is 26.44%, standard deviation is 5.80 and co-efficient of variation is 21.94%.

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

Figure 4.8

ROCE of EBL, HBL and NABIL Banks
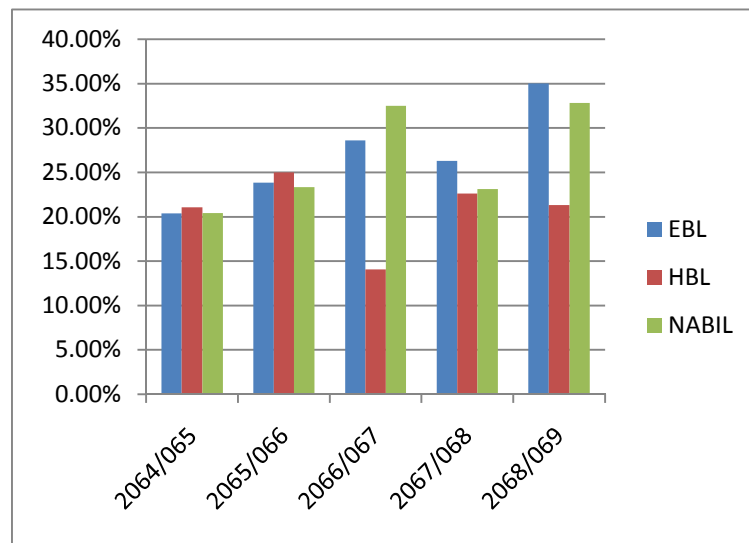
4.6 Correlation Co-efficient (r)

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

Correlation Co-efficient between Total Deposit and Net Profit

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

Table 4.9
Correlation Co-efficient between Total Deposit and Net Profit

Banks	r	r^2
EBL	0.98	96.53%
HBL	0.72	70.22%
NABIL	0.96	93.96%

Source: Appendix 4, 5 and 6

From the computation it has been found that EBL and NABIL have high degree of positive correlation whereas NABIL has low degree of positive correlation between total deposit and profit. Moreover, the coefficient of determinants (r^2) of EBL, HBL and NABIL are 96.53%, 70.22% and 96.96% respectively.

4.7 Hypothesis (t-test)

Hypothesis test is one of the important aspects of the theory of decision making. It consists of decision rules required for drawing probabilistic inferences about the population parameters. The testing of hypothesis enables to find out whether it deserves the acceptance or rejection of the hypothesis.

T-test of correlation Co-efficient between Total Deposit and Net Profit

In order to test whether the correlation co-efficient between total deposit and net profit is significant or not, t-test is applied.

Table 4.10

T-test of correlation Co-efficient between Total Deposit and Net Profit

Banks	t_{cal}	t_{tab}	Remarks
EBL	9.95	3.182	$t_{cal} > t_{tab}$: Significant
HBL	2.27	3.182	$t_{cal} < t_{tab}$: Insignificant
NABIL	6.64	3.182	$t_{cal} > t_{tab}$: Significant

Source: Appendix 7, 8 and 9

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According to the table no 4.14, for EBL and NABIL the calculated value of t(t_{cal}) is greater than the tabulated value of t (t_{tab}) thus, it is significant which means that the variables are correlated in the population i.e. r is significant of correlation in the population.

But under HBL, the calculated value of t(t_{cal}) is less than the tabulated value of t (t_{tab}) thus, it is insignificant which means that the variables are uncorrelated in the population i.e. r is insignificant of correlation in the population.

4.8 Trend Analysis

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

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

**Table 4.11**

Trend Value of Net Profit

Year	Banks		
	EBL	**HBL**	**NABIL**
2064/65	474.46	592.69	747.94
2065/66	631.59	671.27	969.39
2066/67	788.72	749.85	1190.84
2067/68	945.85	828.43	1412.29
2068/69	1102.98	907.01	1633.74
2069/70	1260.11	985.59	1855.19
2070/71	1417.24	1064.17	2076.64
2071/72	1574.37	1142.75	2298.09
2072/73	1731.50	1221.33	2519.54
2073/74	1888.63	1299.91	2740.99

Source: Appendix 1, 2 and 3

The above table clearly indicates that the net profit of EBL is in the increasing trend in the successive fiscal years. It has increased from Rs. 474.46 in FY 2064/65 to Rs. 1,888.63 in the FY 2073/74. Whereas, the table showed that the net profit of HBL is also in the increasing trend in the successive fiscal years. It has increased from Rs. 592.69 in FY 2064/65 to Rs. 1,299.91 in the FY 2073/74. On the other hand, NABIL

has also an increasing trend of net profit in the successive fiscal years. It has increased from Rs. 747.94 in FY 2064/65 to Rs. 2,740.99 in the FY 2073/74.

Figure 4.9

Trend Value of Net Profit
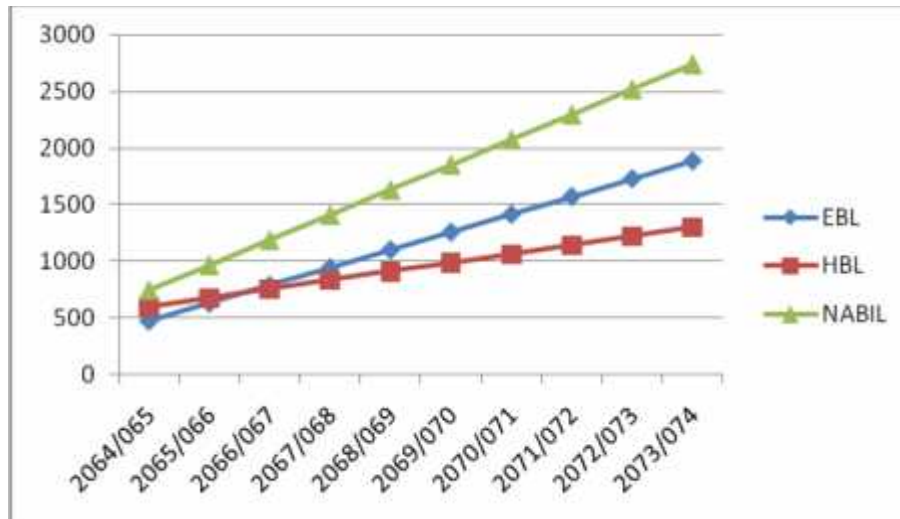
4.9 SWOT Analysis

It is an analysis of organization's Strengths, Weaknesses, Opportunities and Threats in order to identify a strategic niche that the organization can exploit. The SWOT analysis serves as the starting point of strategic plan formulation. Thus, an attempt has been made regarding SWOT analysis of 3 JVBs under study.

(a) Strengths

Strengths are inherent capacity which organization can use to gain advantage over its competitors. They come from technology, structure, and people. It is inherent capacity which can be used to gain strategic advantage over competitors. The main strength of all the 3 JVBs under study is that their employees are highly motivated, trained and equipped with modern and latest technologies. The general working environments and, the services and facilities provided by these banks are highly appreciable. In fact, these banks under study are the icons of the nation in the field of financial institutions. EBL, HBL and NABIL all these 3 JVBs have maintained a proper balance between liquidity and profitability, which also adds in their advantage. These banks goodwill and prestige are so high that anyone can trust blindly simply in their names only.

Moreover, all the financial and statistical ratios and tools used, applied and tested also suggests the same. Thus, all these subjects may be regarded as one of the major strengths of EBL, HBL and NABIL.

(b) Weaknesses

Weaknesses are internal to organization. It is also related to internal environment of the organization. It is inherent limitation which creates a strategic disadvantage over competitors. In the present context, these banks are found depending upon their reward and gift schemes to attract the customer's deposits. Such programs may affect negatively. Apart from it, these JVBs under study highly focuses their banking transactions in urban and central areas only. Moreover, inconsistent dividend pay-out ratio is also one of their main disadvantages. Furthermore, maintaining high liquidity than standard rate, focusing more on only and only on profit, under utilizing the owner's, shareholder's and creditors fund, lack of efficient management on some aspect also adds in their disadvantages. Thus all these subjects may be regarded as the weaknesses of EBL, HBL and NABIL.

(c) Opportunities

Opportunities come from external environment such as political, economic, technological, socio cultural forces. It is favorable condition in the environment. The end of conflict between Maoists and the government may be regarded as the favorable environment for the financial institutions. Moreover, the changing policies of the government and the central bank have also spread diversified opportunities for these banks under study. The development of infrastructures, transportation and communications etc. in the rural areas by the government are the opportunities for these JVBs to operate their banking transactions in such areas. Moreover, having high liquidity within the bank and having high deposits of customers in their vault, these JVBs under study are always in a better position to make some huge investments in productive and profitable sectors. Thus, all these subjects add as opportunities of EBL, HBL and NABIL.

(d) Threats

Threats are also related to external environment. It is an unfavorable condition in the environment. The political instability and emerging of violence and nuisance within the country has negatively affected and threatened the financial institutions. Moreover, the rapid growth and emergence of different kinds of financial institutions such as, banks, development banks, finance companies, co-operative organizations are seen as the competitors for these 3 JVBs under study. However, the banks established under foreign joint investment are giving big challenges to these JVBs. In this era of cut-throat competition, a minor mistake or policy below the standard than other banks may cost high for these banks. Moreover, the adoption of new and modern technologies, using systematic and scientific work procedures, better and increasing the services and facilities by other banks etc. also creates a kind of threats for EBL, HBL and NABIL.

4.10 Major Findings of the Study

- The average current ratio of EBL, HBL and NABIL are 4.97%, 2.85% and 2.23% respectively. Moreover, the C.V. of such banks is 25.75%, 21.08% and 25.83% respectively. It shows that HBL is more consistent in maintaining the current ratio among the other two banks.

- The average quick ratio of EBL, HBL and NABIL are 4.77%, 2.55% and 1.79% respectively. It shows that EBL is in a better position of liquidity in terms of quick ratio as compared to HBL and NABIL whereas; the position of NABIL seems to be week on such regard.

- The average cash and bank balance to current deposit ratio of EBL, HBL and NABIL are 148.05%, 78.07% and 74.80% respectively. The high mean ratio of cash & bank balance to current deposit of EBL indicates the sound liquidity position of the bank than that of HBL and NABIL.

- The average mean ratio of cash and bank balance to total deposit of EBL, HBL and NABIL are 17.72%, 11.05% and 10.77% respectively. It reveals that EBL has maintained adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits.

- The average net profit ratio of EBL, HBL and NABIL are 41.21%, 33.74% and 43.71% respectively. It shows that NABIL is comparatively earning higher rate of profit than EBL and HBL.

- The average ROE of EBL, HBL and NABIL are 33.43%, 25.37% and 38.14% respectively. It reveals that NABIL has been efficiently utilizing the owners' investment comparatively better than EBL and HBL.

- The average ROA of EBL, HBL and NABIL are 1.83%, 1.64% and 2.17% respectively. The higher mean ratio of NABIL states that NABIL has been able to utilize its overall resources in efficient way in comparison with EBL and HBL during the study period. The high ratio also reflects the successes of NABIL's management.

- The average ROCE of EBL, HBL and NABIL are 26.83%, 20.81% and 26.44% respectively. The higher mean ratio of EBL reveals efficient utilization of available resources supplied by the owners and creditors.

- The trend analysis of net profit of EBL, HBL and NABIL shows that all these 3 JVBs have an increasing trend. However, NABIL increasing trend of net profit is better than EBL and HBL.

- The correlation co-efficient between total deposit and net profit of EBL, HBL and NABIL are 0.98, 0.72 and 0.96 respectively. It shows that there exists high degree of positive relationship between total deposit and net profit in EBL and NABIL, whereas moderate degree of relationship exists in HBL.

- The calculation of t-test showed that the correlation co-efficient between total deposit and net profit are significant under EBL and NABIL whereas, it showed insignificant under EBL.

- Simply looking on the investment report of these 3 JVBs under study, it is found that these banks invest their funds in government treasury bills, government securities, foreign banks and in corporate shares..

- The analysis of different financial and statistical tools clearly shows that NABIL is best, healthier and sound bank than EBL and HBL on almost every aspect of the study. It reveals that NABIL has maintained a proper balance between liquidity and profitability. Due to the proper equilibrium between the liquidity and profitability, NABIL has clearly dominated the race as compared of EBL and HBL. But it does not imply that EBL and HBL have failed to

maintain the proper balance between liquidity and profitability. The have also tried their best in their own way in maintaining the proper equilibrium between the liquidity and profitability but comparatively less or below than NABIL.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1   Summary

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

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

In the first chapter, the background and subject matter of the study consisting statement of the problem, significance and limitations of the study has been dealt. In the second chapter, the relevant review of literature has been made in terms of theoretical background of banking principles as well journals; articles and previous thesis have been reviewed. Third chapter deals with the research methodology that has been used to evaluate the liquidity and profitability position of JVBs under study. In the fourth chapter, the data and information are presented, analyzed and interpreted

by the help of financial and statistical tools. Finally, in the fifth and last chapter, summary, conclusion and recommendations have been made regarding the entire study.

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

Correlation analysis such as correlation co-efficient between total deposit and net profit deals to determine the degree of relationship between two variables. Furthermore, T-test has been conducted in order to test the significance of correlation co-efficient between correlation co-efficient between total deposit and net profit.

The data that have been analyzed by such financial and statistical tool includes from FY 2064/65 to FY 2068/69. This study is mainly conducted on the basis of secondary data. Therefore, the study has inherent limitation of the secondary data. All the information gathered through primary sources has been assumed to true and correct. The authenticity of the study depends on the authenticity of the data provided and collected. For the systematic analysis of study, chapter plan have been made.

Basically, the entire research work has focused on the comparative study on relationship between liquidity and profitability of Nepalese joint venture banks. In this study attempts are made to get knowledge about the relationship between liquidity and profitability, operational efficiency of the management, efficient use of total

assets by the management etc. by identifying the strengths and weakness of the three respective banks.

5.2   Conclusion

Liquidity is the most sensible and crucial aspect of the bank, which is often compared to lifeblood of the human being. Lack of adequate liquidity is often one of the first signs that a bank is in serious financial trouble and lead to the loss of public faith upon banks. Thus, ensuring adequate liquidity is a never-ending problem for the bank management that will always have significant implications for the bank's profitability. On the basis of the study, the liquidity position of EBL is comparatively better than HBL and NABIL according to current ratio and quick ratio.Similary, on the basis of cash and bank balance to current deposit ratio and cash and bank balance to total deposit ratio, the liquidity position of EBL seems to be sounder than HBL and NABIL. The average net profit ratio, ROE, ROA, ROCE, EPS, and DPS, Dividend pay-out Ratio of NABIL are comparatively better than EBL and HBL. It clearly shows that NABIL is a far better bank than EBL and HBL in almost every aspect that have been analyzed and evaluated in the study. The trend analysis of net profit ratio of all these 3 JVBs has an increasing trend. But when compared among these 3 JVBs, the trend of net profit shows that NABIL have a better increasing trend. The correlation co-efficient between total deposit and cash & bank balance of EBL, HBL and NABIL are such that EBL and NABIL have high degree of positive relationship and HBL has low degree of positive relationship. Moreover, there exists high degree of positive relationship between total deposit and net profit in EBL and NABIL, whereas moderate degree of relationship exists in HBL. However, the t-test of total deposit and net profit of EBL and NABIL are significant whereas, HBL is insignificant.

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

5.2 Recommendations

There is a direct effect of current state of political instability of our country in the field of commercial and financial sector. Due to the violating environment in the country, people have not been able to mobilize and utilize the resources. Despite such conditions, it is found that the JVBs under this study are running on profit for the period 2007/08 to 2011/12A.D. Thus, all these JVBs should be appreciated for their banking transactions inspire of the present critical situation.

- Since, the average current ratio and quick ratio of NABIL is comparatively lower than the other 2 JVBs under study. So NABIL is strongly suggested to increase its liquidity position in terms of current and quick ratio so that it can be able to meet the demand of the customers when required.

- The coefficient of variation (C.V.) of HBL in terms of cash & bank balance to current deposit and total deposit are high. It implies that HBL is less consistent in maintaining the cash and bank balance from the deposits. Thus, HBL is advised to be more consistent under this regard.

- Nepalese shareholders are very much concerned about the payment of cash dividend by the banks. So, the banks are suggested to pay the cash dividend consistently. Hence, the bank especially NABIL with having high C.V. is recommended to maintain consistent dividend policy.

- The banks are found that the saving from the rural communities are neglected, without which they can't contribute much to the economic development of the country. Thus, these JVBs under study are suggested to open their branches in the rural areas too and provide their services which will consequently be helpful for the upliftment of the nation.

- The bank should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level. The bank should remain consistently vigilant in enhancing their moral and motivation. Similarly, the bank should enhance effectiveness, efficiency and proper co-ordination of its departmental tasks by continuously reviewing its structural design in accordance with the need of the changing time and situation.

- All these JVBs under study are suggested to concentrate more on their performance, business growth rate, asset quality and governance practices.

Apart from these, market reputation, diversified service range and rate of shareholders should also be taken into account by the banks. So, it not only be beneficial for the bank but will also play a vital criteria or tool in regarding a reward as one of the best bank of the nation.

- The study may be helpful to fulfill the gap of proper research about the relationship between liquidity and profitability. It may provide the knowledge about liquidity management in Nepalese commercial banks and their profitability position. This research covers the existing liquidity management practice, existing liquidity position and its trend, factors affecting the liquidity and profitability. It also provides different banking tools for liquidity management as well as for profitability position, so other researcher may make their study wider by selecting different topic such as credit position, stock position, and right share issues, impact of liquidity and profitability in share price etc with the help of this study. Similarly one can select other financial institutions as well as other companies like manufacturing companies, other service companies for study. For the further study and analysis, this study may be guideline to other researchers.

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