ANALYSIS ON LIQUIDITY AND PROFITABILITY OF COMMERCIAL BANKS IN NEPAL

(With reference to Comparative Study on NABIL and Nepal SBI Bank Limited)

Thesis

By

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RECOMMENDATION LETTER

It is certified that thesis entitled "**Liquidity and Profitability of Selected Commercial Banks of Nepal"** submitted by **Anita Adhikari** is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registration of the proposal. Thesis is forwarded for examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"Liquidity and Profitability of Selected Commercial Banks of Nepal"** presented by Anita Adhikari, a candidate for the degree of **Masters of Business Studies (**MBS Semester) and conducted the viva-voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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TABLE OF CONTENTS

CHAPTER- III RESEARCH METHODOLOGY

CHAPTER- IV RESULTS

CHAPTER I

INTRODUCTION

1.1 Background of the Study

A day-to-day management of a firm's short-term assets and liabilities plays an important role in the success of the firm. Firms with glowing long-term prospects and healthy bottom lines do not remain solvent without good liquidity management. Hence, despite maximization of shareholder wealth still remaining the ultimate objective of any firm, preserving the liquidity of a firm is equally an important objective and as such a firm should balance among the different interest objectives. Increasing profits at the cost of liquidity can bring serious problems to the firm and a tradeoff between these two objectives of the firms needs to be struck. If a firm does not care about profit, it will not survive for a longer period while on the other hand if it does not care about liquidity, it may face the problem of insolvency or bankruptcy. For these reasons, therefore, liquidity management should be given proper consideration and will ultimately affect the profitability of the firm.

A firm can have a large sale level through adopting a generous credit policy and thus extending the cash cycle though the action may increase the level of profitability. However, the traditional view of the relationship between a firms liquidity level is such that, all other factors remaining constant, the longer cash conversion cycle hurts the profitability of the firm (Deloof, 2003). This therefore requires that the level of working capital that a firm maintains need to be kept at an optimum point that will maximize the profits. Liquidity and profitability are crucial elements that organization keeps in mind while assessing their financial position. These are considered one of the most important issues in corporate finance and are essential for the survival of any bank. Short term survival of a bank is dependent on its liquidity while, its long term growth and survival depends on its profitability. The basic function of commercial bank is to receive deposits and to lend money. At the same time, it has to maintain adequate liquidity. If case of negligence, the bank may face risk. At the same time,

increased liquidity would reduce the profits. So the banks must maintain a balance between the profitability and liquidity.

Every stakeholder has its interest in the liquidity position of a bank. In this research we have analyzed how a bank's liquidity affects its profitability. Profitability is actually the return which a company earns from its operations. Basic purpose of a business is to earn profits and so does banks. Banks profit is calculated as the difference between the interest it charges on the loans it grants to its customers and the interest which it pays to its account holders. For determining the impact of liquidity on profitability of the banks, certain ratios are considered that would be further discussed in the methodology section.

Several studies has been undertaken to inquire the major determinants of a bank's profitability and liquidity has always remained one of the major determinants. Several studies has been undertaken to inquire the major determinants of a bank's profitability and liquidity has always remained one of the major determinants. (Bourke, 1989) found a positive relationship among liquid assets and profitability of about 90 banks in Europe, North America and Australia for the period of 1972- 1981.In most economies developed and developing, banks are the most important financial institutions. The banking sector is an important element in any economy as it plays the roles of satisfying the needs of investors with new financial instruments that offer a wider range of opportunities for risk management and transfer of resources, lowering transactions costs or increasing liquidity by creating financial instruments such as loans and also works as the operator of the payment system. Other roles played by the banking sector include the fundamental role in financial intermediation by mobilizing deposits from members of the public and employing such deposits by way of loans and investments. The significance of the banking sector underlines the need for stability in the sector that is vulnerable to financial distortions. Key drivers of stability for any commercial entity are profitability and liquidity.

Vieira (2010) describe profitability business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. Potential investors are interested in dividends and appreciation in market price

of stock, so they pay more attention on the profitability ratios. Managers on the other hand are interested in measuring the operating performance in terms of profitability. Hence, a low profit margin would suggest ineffective management and investors would be hesitant to invest in the company. Niresh (2012) opined that liquidity is of major importance to both the internal and external analysts' because of its close relationship with day to day operations of a business. A weak liquidity position poses a threat to the solvency as well as profitability of a firm and makes it unsafe and unsound.

Credit is regarded as the heart of the commercial banks in the sense that; it covers the main part of the investment; the most of the investment activities based on credit; it is the main factor of creating profitability. It is the main source of creating profitability: it determines the profitability. It's effect the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer status similarly, it provides to trade and industry of the Government. Will get tax from then and help to increase the national economy. It is the security against depositors. It is proved from very beginning that credit is the shareholders wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Credit management refers to fund and working capital management. However, most people have some miss concepts. They only consider heredity management is a short-term process. In fact, if it relates to working capital, it may be right. However, if it relates to fund management, it can be a long-term basis. We may imagine asset valuation for credit evaluation, i.e. a credit management step, refer to fixed assets usually. Value of fixed assets will change over its life. In other words, your credit evaluation will adjust all the time. Credit Management is the process of mitigating the risk involved in granting the credit. It is a key to successfully utilize our credit by minimizing our risks and losses. Credit is regarded as the most income generating assets especially in commercial banks.

A credit facility is said to be performing if payment of both principal and interest are up to date in accordance with agreed repayment terms. The non- performing loans (NPL) represent credits which the banks perceive as possible loss of funds due to loan default. They are further classified into substandard, doubtful or lost. Bank credit in lost category hinders bank from achieving their set targets (Kolapo, Ayen, & Oke, 2012).

The wave of financial globalization that started in the 1980s transformed financial markets and institutions around the world. As a result of this trend of financial integration, global banks increased their footprint within their domestic markets and across both emerging and advanced economies. In this process, banks developed different business models to manage the funds raised from external sources. One of those business models operates by centrally managing liquidity within the banking organization. The central office in this type of banking organization allocates resources across its branches depending on the objectives of the officers of the bank. Thus, external liquidity raised throughout the bank is moved internally across offices in different countries or regions within a country (Campello, 2002).

Liquidity means allocation of funds in close relation to their respective sources. Liquidity is the status and part of the assets which can be used to meet the obligation in the commercial banks. Liquidity can be viewed in terms of liquidity stored in the balance sheet and in terms of liquidity available through purchased funds. Liquidity is the ability of a bank to pay cash to depositors on demand. It is the arrangement and the allocation of funds in such a way that can be drawn immediately without any loss of principle. At present, there is no secured investment opportunity for the Nepalese commercial banks. The banks are facing the problem of vague liquidity in term of monetary firm.The idle money does not make any return. Therefore, the high liquidity may cause of low profitability and inefficient performance of the overall Banking sector. It may cause failure of banking performance in long term (Pandey, 2000).

Liquidity is a financial term that means the amount of capital that is available for investment. Today most of this capital is credit, not cash. Bank Liquidity simply means the ability of the bank to maintain sufficient funds to pay for its maturing

obligations. It is the bank's ability to immediately meet cash, cheques, other withdrawals obligations and legitimate new loan demand while abiding by existing reserve requirements. Nwaezeaku (2006) defined liquidity as the degree of convertibility to cash or these with which any asset can be converted to cash (sold at a fair market price).

Liquidity management therefore involves the strategic supply or withdrawal from the market or circulation the amount of liquidity consistent with a desired level of short-term reserve money without distorting the profit making ability and operations of the bank. It relies on the daily assessment of the liquidity conditions in the banking system, so as to determine its liquidity needs and thus the volume of liquidity to allot or withdraw from the market. The liquidity needs of the banking system are usually defined by the sum of reserve requirements imposed on banks by a monetary authority (CBN, 2012).

The liquidity is a vital factor in business operations. For the very survival of business, the firm should have requisite degree of liquidity. It should be neither excessive nor inadequate. Excessive liquidity means accumulation of ideal funds. Which may lead to lower profitability, increase speculation, and unjustified extension, extension of liberal credit terms, liberal dividend policy etc; whereas inadequate liquidity result in interruptions of business operations. A proper balance between these two extreme situations therefore should be maintained for efficient operation of business through skill full liquidity management. The need of efficient liquidity management corporate sector has become greater in recent years.

The need for liquidity of current assets could not be over emphasized. The efficient management of liquidity is integrated part of overall finance management and has a bearing on the objective of the consolidation of short-terms solvency position to achieve this. It is necessary to generate sufficient liquid fund. The extent to which liquidity can be gained will naturally depend upon the magnitude of the sales. The efficiency of collection department the lowest period of operating cycle etc. a successful collection programmer is in other words, necessary for maintaining

liquidity by any business enterprises. Those sales don't convert into cash is instantly remain a time lag between the sales of goods and receipt of cash.

Many people do not realize just how dramatically a single bad mark on your credit can alter your ability to obtain good interest rates. The impact is even more dramatic the more negative items appear on your credit file. Someone with bad credit has a very difficult time obtaining credit of any form, including a job at times. Keeping your credit file clean is often one of the only ways to ensure that you will be able to obtain a good job, as well as qualify for the lowest interest possible in order to save money while still purchasing the things you need in life.

1.1.1 Measurement of Liquidity

Liquidity position of commercial banks is normally monitored and measured by liquidity ratio (Rychtarik, 2009). The significant items that was diagnosed includes the liquidity position measures such as total deposit to core funding position, liquid assets to demand liabilities and gross loans to demand liabilities. This study will examine a set of commercial banks providing services to the same economy and operating in the same environment. Moreover this study will be interested in establishing differences, if any, in relative degrees of liquidity position of these commercial banks. The ratio of total deposit to total Funding, liquid assets to demand liabilities and gross loans to total deposit were used as the measurement criteria.

1.1.2 Measurement of Profitability

There is general agreement that bank profitability is a function of internal and external factors. Koch (1995) observed that the performance differences between banks indicate differences in management philosophy as well as differences in the market served. Profitability is a function of internal factors that are principally influenced by a bank's management decisions and policy objectives such as the level of liquidity, provisioning policy, capital adequacy, expense management and bank size, and the external factors related to industrial structural factors such as ownership, market concentration and stock market development and other macroeconomic factors (Athansasoglou, Brissimis, & Delis, 2006).To identify the relevant factors influencing

commercial bank profitability in Liberia, this research will be concentrated on bank-specific factors based on the CAMEL framework and market structural factors; ownership and market concentration. CAMEL is a widely used framework for evaluating bank performance. The Central Bank of Liberia also uses the same to evaluate the performance of commercial banks in Liberia.

Numerous studies have used CAMEL to examine factors affecting bank profitability with success Elyor (2009), Uzhegova (2010). CAMEL is an acronym Capital adequacy, Asset quality, Management efficiency, Earnings performance and Liquidity. Though some alternative bank performance evaluation models have been proposed, the CAMEL framework is the most widely used model and it is recommended by Basle Committee on Bank Supervision and IMF (Baral, 2005).

According to Kosmidou (2009) refers Capital adequacy to the sufficiency of the amount of equity to absorb any shocks that the bank may experience. The capital structure of banks is highly regulated. The main reason is that capital plays a crucial role in reducing the number of bank failures and losses to depositors when a bank fails as highly leveraged firms are likely to take excessive risk in order to maximize shareholder value at the expense of finance providers (Kamau, 2009).

Credit risk is one of the factors that affect the health of an individual bank. The extent of the credit risk depends on the quality of assets held by an individual bank. The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers (Baral, 2005). Aburime (2008) asserts that the profitability of a bank depends on its ability to foresee, avoid and monitor risks, possibly to cover losses brought about by risks arisen. Hence, in making decisions on the allocation of resources to asset deals, a bank must take into account the level of risk to the assets.

1.2 Statement of the Problem

Liquidity management is the essence of commercial banking; consequently the formulation and implementation of second lending policies are among the most important responsibilities of directors and management. Well conceived liquidity

management policies and careful lending practices are essential if a bank is to perform its credit. Liquidity management effects on the company's profitability, so it is one of the crucial decisions for the commercial banks.

Holding more liquid assets diminishes a commercial bank's profit and hinders the investment prospect of the bank, which could lead to growth and expansion. However, if it wishes to maximize profit, the commercial bank will have to reduce the level of liquid assets it holds on the balance sheet. Holding too much illiquid asset will expose the commercial bank to liquidity risk and huge interest charges in an even of fire sales (Casu, et al 2006). Eljelly (2004) opines that firms with high liquidity have majority portion of their investments in short term assets, which have lower return than the long term assets. Dernberg (1985) observed that in managing their portfolios, the commercial banks have two main aims that may conflict; maintenance of stock of liquid assets in case their cash is under pressure and the wish to earn high return on their assets in order to maximize profits. Smith (1980) observed that excessive dependence on liquidity indicates the accumulation of idle funds that don't fetch any profits for the firm. On the other hand, insufficient liquidity might damage the firm's goodwill, deteriorate firm's credit standings and that might lead to forced liquidation of firm's assets. Wahiu (1999) did a study to establish the determinants of liquidity of commercial banks in Kenya. The study involved all the commercial banks operating in Kenya during the period 1989 to1998. He observed that one of the two most important requirements of liquidity is profitability. In the modern and current liberalization of banks and financial institution in Nepal many difficulties and complexities also have been emerging along with increasing demand and supply of lending (liquidity management). In other word, some time high liquidity condition affect to the credit and performance of the banks that due to ineffective management of high liquidity by converting to lending in productive sectors with in time. The increasing situation of non-performing loan is also badly affecting to the credit and liquidity management of the banks.

The research questions to be raised for covering the issues of this study are as below:

i. What is the Liquidity position of selected commercial banks of Nepal?

ii. What is the status profitability and risk position of selected commercial banks of Nepal?

iii. What is the trend and relation of the total deposit, investment and total loans of the selected commercial bank of Nepal?

1.3 Purposes of the Study

The specific objective of the study is to examine the liquidity management & profitability of Nepalese commercial banks along with this the other objectives are as follows:

i. To identify the liquidity position of the selected Commercial banks.

ii. To identify the status of profitability and risk position of selected Commercial Banks of Nepal.

iii. To examine the trend and relations of total deposit, investments and total loans of the selected commercial banks.

1.4 Significance of the Study

This study is very important from the point of view of liquidity management of the banks. Because of the usefulness of recently updated data concerned with liquidity and profitability evaluation to take decision on how can we go ahead in future to control if any risks were emerged at present. The main strategy of every commercial bank is to achieve the better creditability position, which has directly impacted the financial performance of an organization. Beside it helps to build positive attitude and perceptions non customer that helps to make the organizational successes in terms of better transaction, better turnover and better profitability. The study helps for following concern parties.

i. This study will help to support for sample banks to forecast about credit and liquidity.
ii. This study can be based for further research on concern topic.
iii. This study will help to formulated plan and policy for sample banks.

iv. This study will help for investor and creditor to identify the real financial position that make considered whether expand additional money for further investment.

v. This study can become the support documents to achieve academic degree.

vi. This study can be useful to concerned stakeholders (customer, suppliers, businessmen, households, society, agent and government) to get information about financial position of sample banks

This study is based on specifically in case of joint-venture commercial banks in Nepal and such study are rarely found in the Nepalese context. Moreover, this study seems to provide roadmap for the formulation of different policies for the management regarding liquidity management i.e lending viewing to maximize the return i.e profitability.

1.5 Limitations of the Study

The study focused to fulfill the partial requirement course of M.B.S. of T.U. It has some limitations. There have limited resources and it is difficult to explore researcher to find out new aspect. Reliability of statistical tools used and lack of research experience are the major limitation. The study is based on following limitations.

i. This research is limited to liquidity management practice of sample banks.

ii. This study is limited on secondary data, which are used to analyze for result interpretations, so the accuracy of the finding depends on the reliability of available information.

iii. This study is limited on quantitative analysis which does not consider on qualitative variable.

iv. It focuses on only two joint venture commercial banks in Nepal covering the period of five years study. (I.e. 2012/13 to 2016/17).

v. This research conducts limited study upon commercial banks which has left the other part of financial institution such as development banks, finance companies, micro finance companies and so on.

vi. Result of this study may differ according to different state of nature.

1.6 Chapter plan

This part includes the structure and chapter plan of the study. The study is organized in five chapters which are as follows.

Chapter- I: Introduction

This chapter deals with the background of the study, state of the problems, objective, significance limitations and organization of the study.

Chapter – II: Review of Literature

This chapter focused on the review of literature which includes review of theories. It also included review of previous studied and research gap.

Chapter –III : Research Methodology

This chapter includes the research design, sources of data, analysis of data, population and sampling and tools for analysis of data.

Chapter – IV: Results

In this part excel used to analysis and interpretation of the data, the presentation and analysis of relevant though define course of research methodology with the financial and statistical analysis related to loan management of banks. Major findings of the study also included in thesis chapter.

Chapter-V: Conclusion

This chapter includes discussion, conclusion and implication of the study. Reference and appendices are also attached at the end of the study.

CHAPTER II

LITERATURE REVIEW

This chapter will includes the review of literature which includes review of books, journals, bulletins and annual reports published by the banks and other related authorities, review of related articles and studies and previous thesis as well.

2.1 Theoretical Review on Liquidity Management

The theories and liquidity management are outlined and explained in this section.

2.1.1 Anticipated Income Theory

This theory holds that a bank's liquidity can be managed through the proper phasing and structuring of the loan commitments made by a bank to the customers. Here the liquidity can be planned if the scheduled loan payments by a customer are based on the future of the borrower. The doctrine of anticipated income, as formalized by Herbert V. Prochnow in 1949, embodied these ideas and equated intrinsic soundness of term loans, which were of growing importance, with appropriate repayment schedules adapted to the anticipated income or cash flow of the borrower. The credit demands of business were well accommodated under this system of banking policy, and the use of loan commitments was freely pursued. Changing economic conditions, however, placed extra demands on the banking system that resulted in a new approach to balance sheet management, and businesses faced new financial challenges. Under this emerging state of affairs, bank loan commitment policies would come to play a more important part in the credit process. This theory has encouraged many commercial banks to adopt a ladder effects in investment portfolio.

2.1.2 Shiftability Theory

This theory posits that a bank's liquidity is maintained if it holds assets that could be shifted or sold to other lenders or investors for cash. This point of view contends that a bank's liquidity could be enhanced if it always has assets to sell and provided the Central Bank and the discount Market stands ready to purchase the asset offered for

discount. Thus this theory recognizes and contends that shiftability, marketability or transferability of a bank's assets is a basis for ensuring liquidity. This theory further contends that highly marketable security held by a bank is an excellent source of liquidity. The Shiftability theory liquidity replaced the commercial loan theory and was supplemented by the doctrine of anticipated income. Formally developed by Harold G, Moulton in 1915, the shiftability theory held that banks could most effectively protect themselves against massive deposit withdrawals by holding, as a form of liquidity reserve, credit instruments for which there existed a ready secondary market. Included in this liquidity reserve were commercial paper, prime bankers' acceptances and, most importantly as it turned out, Treasury bills. Under normal conditions all these instruments met the tests of marketability and, because of their short terms to maturity, capital certainty.

A major defect in the Shiftability theory was discovered similar to the one that led to the abandonment of the commercial loan theory of credit, namely that in times of general crisis the effectiveness of secondary reserve assets as a source of liquidity vanishes for lack of a market (Casu et al 2006). The role of the central bank as lender of last resort gained new prominence, and ultimately liquidity was perceived to rest outside the banking system. Further- more, the soundness of the banking system came to be identified more closely with the state of health of the rest of the economy, since business conditions had a direct influence on the cash flows, and thus the re- payment capabilities, of bank borrowers. The shiftability theory survived these realizations under a modified form that included the idea of ultimate liquidity in bank loans resting with shiftability to the Federal Reserve Banks. Under this institutional scheme, the liquidity concerns of banks were partially returned to the loan portfolio, where maintenance of quality assets that could meet the test of intrinsic soundness was paramount (Allen and Gale, 2004).

2.1.3 Commercial Loan Theory

This theory has been subjected to various criticisms by Dodds (1982) and Nwankwo (1992). From the various points of view, the major limitation is that the theory is inconsistent with the demands of economic development especially for developing

countries since it excludes long term loans which are the engine of growth. The theory also emphasizes the maturity structure of bank assets (loan and investments) and not necessarily the marketability or the shiftability of the assets.

Adam Smith provided the first systematic exposition of the doctrine in his Wealth of Nations (1776). Basically, it is a theory of asset management that emphasized liquidity; the doctrine held that banks should restrict their earning assets to "real" bills of exchange and short-term, self-liquidating advances for commercial purposes. In this way, it was argued; individual banking institutions could maintain the liquidity necessary to meet the requirements of deposit withdrawals on demand. Under a somewhat modified character this basic doctrine came to be known in the U. S. as the commercial loan theory of credit. The commercial loan theory of credit became obsolete both because of its conceptual flaws and its impracticality. A critical underlying assumption of the theory held that short-term commercial loans were desirable because they would be repaid with income resulting from the commercial transaction financed by the loan. It was realized that this assumption would certainly not hold during a general financial crisis even if bank loan portfolios did conform to theoretical standards, for in most commercial transactions the purchaser of goods sold by the original borrower had to depend to a significant extent on bank credit. Without continued general credit availability, therefore, even short-term loans backing transactions involving real goods would turn illiquid. Rigid adherence to the orthodox doctrine was, furthermore, a practical impossibility if banks were to play a role in the nation's economic development (Casu, 2006). Moreover, the practice of continually renewing short- term notes for the purpose of supporting long-term capital projects proved unacceptable. The failure or inability of banks to tailor loan arrangements to the specific conditions encountered with longer-term uses in fact contributed to the demise of the practice.

2.2 Review of Related Research Studies

Fredrick (2012) analyzed the impact of liquidity management on the financial performance of commercial banks in Kenya. The study has used CAMEL model as a

proxy for liquidity management. The author found that the strong impact of CAMEL (credit risk components) on the financial performance of commercial banks.

Funso et. al. (2012) examined the effect of credit risk on the performance of commercial banks in Nigeria over the period of 11 years (2000-2010). Panel model analysis was used to estimate the determinants of the profit function. The results showed that the effect of credit risk on bank performance measured by the Return on Assets of banks is cross-sectional invariant. That is the effect is similar across banks in Nigeria, though the degree to which individual banks are affected is not captured by the method of analysis employed in the study. Based on our findings, it is recommended that banks in Nigeria should enhance their capacity in credit analysis and loan administration while the regulatory authority should pay more attention to banks' compliance to relevant provisions of the Bank and other Financial Institutions Act (1999) and prudential guidelines

Hoseininassab et al. (2013) examined effects of risk parameters (credit, operational, liquidity and market risk) on banking system efficiency (studying 15 top banks in Iran) recognizing the importance of efficiency and risk as two fundamental important categories in banking industry, seeks to review the effectiveness of two popular models: parametric (SFA) method with economic basis and nonparametric (MEA) method with mathematical optimization basis to evaluate bank efficiency and rank and select an optimal model and also to identify the impact of credit, operational, market and liquidity risks on banking system efficiency. The 15 banks were selected as statistical research community over the last six years (2005-2011). Using average performance provided by the above two methods, banks were ranked with Deap and Frontier software, and then to examine the presence or absence of significant correlation between the rankings provided by these two methods, the Pearson correlation coefficient was used. The results suggest differences in the two methods with regard to performance evaluation and ranking of banks, and show a relative superiority of SFA method, compared to MEA method. In addition, to examine the impact of efficiency on risk, for the four studied risks based on selected indicators, four models were estimated using econometric methods and the ordinary least squares

(OLS). The results showed that each of the studied risks and their related indicator and their specific coefficient, significantly affect on efficiency.

Kumar & Yadav (2013) assessed on liquidity risk management in bank that Liquidity is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. In the context of banking, liquidity, or the ability to fund increases in assets and meet obligations as they come due, is critical to the ongoing viability of the banking institution. Since there is a close association between liquidity and solvency of banks, sound liquidity management reduces the probability of banks becoming insolvent, thus reducing the possibilities of bankruptcies and bank runs. Ultimately, prudent liquidity management as part of the overall risk management of the banking institutions ensures a healthy and stable banking sector. Effective liquidity risk management helps ensure a bank's ability to meet its obligations as they fall due and reduces the probability of an adverse situation developing. They examined the sound practices for the liquidity risk management in banks. They went along with the suggestions of the Basel Committee and Reserve Bank of India on management of liquidity risk. They explained the meaning of liquidity, liquidity risk and liquidity risk management. It also discussed the process of building up of a liquidity risk management system.

Kaitibi .B. et al (2018) assessed the impacts of efficient liquidity management on profitability of commercial bank in Sierra Leone. For this purpose, the rokel commercial bank was selected as case study. Relevant data were collected from five years financial statements and annual reports of the bank. The analysis of the data was quantitatively as well as qualitatively done using ratio analysis and charts. Results showed that profitability of commercial banks in Sierra Leone is significantly influenced by the efficiency of credit management. Noor .A. et al (2018) examined the impact of credit risk management on financial performance of banks. This study was descriptive and analytical natured based on secondary data sample of four different commercial bank. The analysis of data was based on simple regression analysis of percentage of classified loan on ROI, ROE, ROA and so on financial

indicators. The study concluded that there is significant relationship between the variables during short run.

Ibe O.S. (2013) investigated the impact of liquidity management on the profitability of banks in Nigeria. The work is necessitated by the need to find solution to liquidity management problem in Nigerian banking industry. Three banks were randomly selected to represent the entire banking industry in Nigeria. The proxies for liquidity management include cash and short term fund, bank balances and treasury bills and certificates, while profit after tax was the proxy for profitability. Elliot Rothenberg Stock (ERS) stationary test model was used to test the run association of the variables under study while regression analysis was used to test the hypothesis. The result of this study has shown that liquidity management is indeed a crucial problem in the Nigerian banking industry. The study therefore recommends that banks should engage competent and qualified personnel in order to ensure that right decisions are adopted especially with the optimal level of liquidity and still maximize profit.

Abdullah & Jahan (2014) focused on two important issues of main stakeholders of bank which are liquidity and profitability. The shareholders desire maximum profitability as a return on their investment, while the depositors opt for a maximum liquidity as a guarantee for safety and ability to pay their money on demand. Statistical significance of liquidity on profitability can be a great factor for existing and potential stakeholders. Therefore, this study had attempted to investigate the impact of liquidity and profitability of the private commercial banks of CSE-30 in Bangladesh by focusing on certain ratios over a period of five years. Five private commercial banks have been selected to undertake the research. Profitability measures - ROA and ROE are dependent variables and liquidity measures - Loan Deposit Ratio, Deposit Asset Ratio and Cash Deposit Ratio are selected as independent variables. The research carried out simple regression analysis to test the hypotheses. However, the null hypothesis is accepted in this study indicating that there is no significant relationship between liquidity and profitability.

Smail (2016) referred the mounting importance of liquidity and profitability as a key concern in today’s competitive business environment to generate funds internally.

This study has examined the impact of the liquidity management on the performance of the 64 Pakistani non-financial companies constituting Karachi Stock Exchange (KSE) 100 Index for the period of 2006-2011. To derive the results of the study; descriptive statistical analysis, correlation analysis and multivariate regression tools of analysis were applied. According to the results of analyses, it is found that liquidity variables current ratio and the cash conversion cycle have significant positive impact on profitability (ROA). Further, results indicate that high current ratio and longer cash conversion cycle lead firms towards better performance. This study suggested firms to relax their credit sales policies, and devise inventory & collection turnover system in a wise manner to be more accessible to a large number of customers.

Begum (2016) investigated the relationship between banks' liquidity and profitability and the impact of liquidity on bank's profitability. The paper applies the ordinary least square (OLS) method for the sample period from 1997 to 2014 to examine the impact of liquidity on banks' profitability. The paper finds that the advance deposit ratio positively impacts banks' profitability while profitability is defined as return on asset (ROA). Call money rates, non performing loans (NPLs), and excess liquidity impact banks' profitability in a negative fashion. The negative relationship between NPLs and ROA has been a major concern for the policymakers in the banking industry of Bangladesh since NPLs in the banking sector have increased during the last three years in the post 2011 period.

Ali et. al (2011)examined the profitability indicators of public and private commercial banks of Pakistan explored in 2006-2009. The return on assets (ROA) and return on equity (ROE) are used as profitability measures to determine the affect of bank-specific and macroeconomic indicators on profitability. The descriptive, correlation and regression analysis results are derived with the help of SPSS. The efficient asset management and economic growth establish positive and significant relation with profitability in both models (measured by ROA & ROE). The high credit risk and capitalization lead to lower profitability measured by return on assets (ROA). The operating efficiency tends to exhibit the higher profitability level as measured by return on equity.

Olweny and Shipho (2011) determined and evaluate the effects of bank-specific factors; Capital adequacy, Asset quality, liquidity, operational cost efficiency and income diversification on the profitability of commercial banks in Kenya. The second objective was to determine and evaluate the effects of market structure factors; foreign ownership and market concentration, on the profitability of commercial banks in Kenya. This study adopted an explanatory approach by using panel data research design to fulfill the above objectives. Annual financial statements of 38 Kenyan commercial banks from 2002 to 2008 were obtained from the CBK and Banking Survey 2009. The data was analyzed using multiple linear regressions method. The analysis showed that all the bank specific factors had a statistically significant impact on profitability, while none of the market factors had a significant impact. Based on the findings the study recommends policies that would encourage revenue diversification, reduce operational costs, minimize credit risk and encourage banks to minimize their liquidity holdings. Further research on factors influencing the liquidity of commercials banks in the country could add value to the profitability of banks and academic literature.

Aboila and Olausi (2014) investigated that the impacts of credit risk management on the performance of commercial banks in Nigeria. Financial reports of seven commercial banking firms were used to analyze for seven years (2005–2011). Panel regression model was employed for the estimation of the model. In the model, return on equity (ROE) and return on assets (ROA) were used as the performance indicators while non-performing loans (NPL) and capital adequacy ratio (CAR) as credit risk management indicators. The study revealed that credit risk management has a significant impact on the profitability of commercial banks‟ in Nigeria. The results of the study revealed that there was a significant relationship between credit management and bank profitability and there was a significant relationship between bank liquidity and profitability among deposit money banks in Nigeria.

Danjuma (2015) examined out a conceptual review of credit risk management and customers' satisfaction in Deposits Money Banks (DMBs) in Nigeria. It examined concepts of credit and credit risk management based on credit and credit risk, credit management and risk assessment tools The Credit Appraisal Process was also

examined from the corporate strategy and portfolio strategy perspectives. Conceptual issues relating to customer satisfaction, consumer behavior and dimensions of customer satisfaction: emotional, behavioral affective, cognitive and intention to repurchase were discussed. The study proposes a conceptual framework for measuring link between credit risk management and customer satisfaction in DMBs. Also, the framework proposes that perceptions of customers about satisfaction can be determined based on their gender, age and occupation.

Alshatti (2015) examined the effect of credit risk management on financial performance of the Jordanian commercial banks during the period 2005-2013 using capital adequacy ratio, credit interest/credit facilities ratio, provision for facilities loss/ net facilities ratio, leverage ratio and non-performing loans/gross loans ratio as independent variables. The dependent variables represent the profitability measured by ROA and ROE. The author concludes that all the credit risk management indicators used in the study have significant effect on the financial performance of the Jordanian commercial banks.

Onuko et al. (2015) investigated the effect of credit risk management on loan portfolio quality of tier one commercial banks in Kenya. The study used loan pricing as the independent variable while loan portfolio quality as the dependent variable. The quality of the loan portfolio was measured by use of nonperforming assets (NPA).The study employed descriptive research design. Five tier one commercial banks in Kenya were analyzed. Financial reports for the five banks were analyzed between the years 2009-2013. Data was collected through both primary and secondary methods. The findings indicated loan pricing had significant positive effect on the level of NPA and it accounted for 57.4% change in level of NPA. It is therefore recommended that financial institutions charge affordable interest rates that will attract more creditors hence increasing their revenue from interest earned. Further studies should carried out on other factors not included in this study such as loan exposure limits.

Ugoani (2015) examined the relationship of poor credit risk management and bank failures in Nigeria using survey research design. The results from the Chi-square statistics revealed that weak corporate governance accelerates bank failures and the

credit risk management function is to the greatest extent the most diverse and complex activity in banking business. The author concludes that poor credit risk management influences bank failures.

Michael et al. (2015) developed an effective credit risk management that the credit management starts with the sales and does not stop until the full and final payment has been received. The central bank annual supervision report 2015 indicated high incidence of credit risk reflected in the rising levels of non-performing loans by the commercial banks in the last 10 years. This results in loan losses when ultimately loan recovery flops and also creation of provision for doubt debts thus affecting overall profitability. Therefore, this study aims at assessing the effectiveness of credit appraisal on loan performance in commercial banks in Kenya. It was intended to be of significance to various parties namely the banks management, customers, investors and even the government. It was suffered difficulties due confidentially of credit information but the researcher obtained an introductory letter from the university and assured responds of confidentiality. Descriptive research design was used. The population comprised of 86 respondents. Data was collected using a self-administered questionnaire through drop and pick later method. The questionnaire was both open and closed ended. Test retest method was used to ensure reliability while piloting was used to check the validly of the research instrument .data was analyzed using to frequencies, percentages and means. Correlation was used to compute the degree of association between variable. The hypotheses were tested using chi square. Data was thereafter presented using table and pie charts. Credit appraisal was found to be very important in influencing performance of commercial banks. Findings revealed that lending placed much reliance on use of past information and thus credit referencing and credit history were applied more in credit appraisal. It was recommended that credit appraisal should be carried out by the technical people who are experienced and competent credit officers. Use of a multi-variety approach to credit risk appraisal was also recommended.

Shing & Shahid (2016) investigated that how well the banking sector of Oman is managing their liquidity risk by comparing them with some of the leading multinational banks. The liquidity ratios are used to compare the liquidity risk of

domestic banks with the multinational banks. Frequently used liquidity ratios were calculated and compared for the period of three years from 2012 to 2014 using descriptive and analytical approach. On the basis of liquidity ratios the two domestic banks of Oman are weak in liquidity management as compared to their international counterpart .However, Central bank of Oman monitors the liquidity reports of each bank, policies are reviewed and approved by the risk committee of banks. Moreover, the Omani local banks also frequently conduct stress testing based on the market situations and bank conditions as per the standard laid down by the Basel Committee.

Bassey et al. (2016) examined the liquidity management and the performance of banks in Nigeria within the period 2000-2010. It investigated the relationship between the variables of bank performance and those of liquidity management using bank deposit, cash reserve requirement, bank investment, and cash ratio as indicators. Data were mainly collected from CBN's statistical bulletin. Data were analyzed using simple percentages and simple regression model. Findings indicated that a strong relationship exists between bank deposit and bank reserve requirement, and bank investment and cash ratio. Thus, these finding which had re-echoed results from similar studies re-emphasize the fact that successful operations and survival of banks anchored on efficient and effective liquidity management. Therefore, it was recommended that banks should not concentrate purely on deposits but rather other measures be adopted to reduce illiquidity in this sector.

Wambui & Wanjim (2016) determined the effect of credit risk on corporate liquidity of deposit taking microfinance institutions (DTMs) in Kenya. The population of the study comprised all the nine DTMs in Kenya. The data for the study was collected from secondary sources for the period between 2011 and 2013. Regression analysis was used to determine the strength of the relationship between the variables. The findings of the study indicated that credit risk has a strong and a statistically significant effect on corporate liquidity of deposit taking microfinance institutions in Kenya.

Davronov (2016) studied the existing mechanisms of liquidity management in practice of commercial banks in Uzbekistan. In addition, it presents description and

grouping of theoretical approaches to the liquidity management in commercial banks. He also formulated main requirements to the mechanism of liquidity management process. Moreover, it proposes and demonstrates the results of testing mathematical model of analysis and forecast of bank cash flows which is based on ARIMA method. It should be noted that the model, proposed in the article, cannot entirely optimize the activity of the bank and minimize risks of liquidity management. On the one hand, it is connected with the fact that the forecast for future cash flows of the bank is made with the certain probability. Thus if we raise the time series, the reliability of the results will be decreased.

Coleman et al. (2017) explained the patterns of internal liquidity management and their effect on bank lending, using a novel branch-level dataset of Brazilian banks. The results suggest that internal liquidity management increases during times of financial stress. Privately owned banks are most affected by a liquidity shock, and increase the level of internal funding to maintain their branch lending, while their government-owned competitors react strategically. Private and government banks increase the funding of branches in concentrated and riskier areas. This funding translates into more lending, as the sensitivity of lending to internal funding remains high after the liquidity shock. Altogether, the paper provided branch-level evidence of the way that banks ration internal liquidity, both in normal times and in times of stress, and the effect this has on bank lending.

Ejong et al. (2014) examined the impact of credit risk and liquidity risk management on the profitability of deposit money banks in Nigeria with particular reference to First bank of Nigeria Plc. Descriptive research design was used for the study where questionnaires were administered to a sample size of eighty (80) respondents. The data obtained were presented in tables and analyzed using simple percentages. The formulated hypotheses were tested using the Pearson product moment correlation.

2.2.1 Review Article in the National Context

Koirala (2010) assessed the record of accomplishment of potential borrowers and innocent characters termed as the best borrower. The bank, on the other hand is an

institution established have been responsible for the existence of huge volume of NPA in state-owned commercial banks. In order to improve the situation, there is a need to evolve a more acceptable working system backed by cooperation and realization by the banks employees as well as the politicians and stakeholders, who can influence in banks operation.

Gautam (2012) analyzed financial performance of commercial banks using both descriptive and diagnostic approach. It was concluded the following points:

i. The structural ratio of commercial banks shows that banks invest on the average of 75% of their total deposit on the government securities and the shares.
ii. The analysis of resource position of commercial banks should quit high percentage of deposit as cash reserve.
iii. Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
iv. The debt – equity ratios of commercial banks are more than 100% in most of the time period under studies period. It led to conclude that the commercial banks are highly leveraged and highly risky. JVBs had higher capital adequacy ratio but has been dealing every day.
v. In case of the analysis of the management achievement, foreign banks have comparatively higher total management achievement index.

Shrestha (2012) conducted the role of deposit mobilization and its problems and prospects in context of Nepal using descriptive and diagnostic approach for the study of banks and has presented that following problems in the context of Nepal:

i. People do not have knowledge and proper education for institutional manner. They so do not know financial organizational process, withdraw system, depositing system etc.
ii. Financial institutions do not want to operate and provide their services in rural areas.

iii. He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas and by adding various services.

iv. By operating rural banking programs and unit, mobilize the deposit collection by the financial institutions by rendering their service in rural areas, by adding various services.

v. Nepal Rastra Bank must organize training programs to develop the skill human resources.

vi. By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public in deposit collection to the rural areas.

Poudel (2012) examined the impact of credit risk management on the financial performance of commercial banks in Nepal using the financial report of 31 banks for eleven years (2001-2011). The methods of data analysis in the study were descriptive, correlation and multiple regressions. The financial performance indicator used in the study was return on assets (ROA). The predictors of the banks‟ financial performance used in the study were: default rate, cost per loan assets and capital adequacy ratio. The author asserts that all these parameters have an inverse impact on banks‟ financial performance. However, among the risk management indicators, default rate (NPLR) is the single most influencing predictor of bank financial performance in Nepal whereas cost per loan assets is not significant predictors of bank performance. The author concludes that credit risk management is crucial on the bank performance since it have a significant relationship with bank performance.

Bhattarai (2016) examined the effect of credit risk on performance of Nepalese commercial banks. The descriptive and causal comparative research designs have been adopted for the study. The pooled data of 14 commercial banks for the period 2010 to 2015 have been analyzed using regression model. The regression results revealed that 'non-performing loan ratio' has negative effect on bank performance whereas 'cost per loan assets' has positive effect on bank performance. In addition to credit risk indicators, bank size has positive effect on bank performance. Capital adequacy ratio and cash reserve are not considered as the influencing variables on

bank performance. This study concludes that there is significant relationship between bank performance and credit risk indicators.

2.3 Research Gap

The many research have been conducted on liquidity management analysis of commercial banks in foreign country as well in Nepalese context. All the previous research and studies were focused on different aspect of credit and liquidity by linking it with the performance of the commercial banks. Also the many research in process to conduct in micro topic concern with financial instruments but there was no any research and studies conducted on liquidity and profitability analysis of two joint venture commercial banks in Nepal. The research gap among the previous studies and current studies firstly, cover the relevant data and information from the year 2012/13 to 2016/17. Secondly, no research has been undertaken regarding comparative analysis of liquidity and profitability performance between Nabil Bank Ltd. and Nepal SBI Bank Limited that itself demonstrates the gap of this research from the previous one because the researchers have not found any research done on this bank in collective form.

While the Nepalese banking sector is being more competitive, on the basis of creation of credit and liquidity management processes to achieve high earning. It is difficult to identify that which commercial banks have well financial strength and poor performance. Banks are walking on a tight rope to maintain the balance between providing more credit and maintaining enough liquidity. The banks that are able to maintain this balance are the ones that are enjoying huge returns. Hence, this research was conducted to understand whether the sample banks have been successful on maintaining this balance. Every year financial performance is changing according to the environment of the country. Hence this study fulfils the prevailing research gap about the depth analysis of liquidity and profitability performance evaluations. The research work will help acquire knowledge regarding tools and techniques used and extra knowledge for the further researcher who is going to study in the concern topic. Therefore, this study fulfills the confusion and uncertainty about credit and liquidity management by analyzing various financial ratios of sample commercial banks in Nepal.

CHAPTER- III

RESEARCH METHODOLOGY

This chapter refers to the overall research method followed by us in analyzing the objectives outlined.

This study covers quantitative methodology in greater extent and also uses the descriptive part based on both technical aspects and logical aspects. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools.

3.1 Research Design

The study basically follows the descriptive as well as analytical research design. Financial and statistical tools have been applied to examine facts and descriptive techniques have been adapted to evaluate investment performance of CBs. Besides these, some simple questions have been asked to the concerned personnel in the course of visiting the bank. This report also contains other primary data. This report is mainly based on secondary data, which include annual reports published by the concerned banks and other publications related to the concerned topic.

3.2 Sources of Data

The study is based on secondary data. The data required for the analysis are directly obtained from the balance sheet and P\L account of concerned banks' annual reports. Supplementary data and information are collected from number of institutions and regulating authorities like NRB, SEBON, NEPSE, Ministry of Finance, and budget speech of different fiscal years and economic survey.

All the secondary data are complied, processed and tabulated in the time series as per the need and objectives of the study. Likewise various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published & unpublished reports and documents from various sources. Formal and

informal talks with the concerned authorities of the banks are also very helpful to obtain the additional information of the related problem.

3.3 Population and Sample

There are altogether 28 commercial banks functioning in the country. Out of 28 commercial banks in Nepal there are 6 joint venture natured banks and for the study only Nabil Bank and Nepal SBI Bank Limited has taken as a sample by In this study, using convenience sampling method and also be taken 5 years data from the time period of 2012/13to 2016/17.

Their data relating to investment policy (liquidity management) are studied and compared.

3.4 Method of Analysis

Various financial, accounting and statistical tools are used to make the analysis more effective, convenience, reliable and authentic. The analysis of data is done according to the pattern of data available because of limited time and resources. Simple analytical statistical tools such as percentage, Karl Person's coefficient of correlation, regression, and the method of least square and test of hypothesis are used in this study. Similarly, some accounting tools such as ratio analysis and trend analysis have also been used for financial analysis. The various tools applied in this study have been briefly presented as under:

3.4.1 Financial Tools

Financial tools are used to examine the financial strength and weaknesses of bank in this study.

Ratio Analysis

Ratio analysis is the relationship between two accounting figures expressed mathematically. It is computed by dividing one item of relationship with the other. Management itself can use these parameters to improve the organization's performance. The knowledge regarding strengths and weakness is necessary for

exploiting maximum benefits and to repair the weaknesses to meet the challenges. The financial ratios, which are calculated and analyzed in this study, are as follows:

A) Liquidity Ratios

Liquidity ratios measure the firm's ability to meet current obligations. It reflects the short-term financial strength of the business. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. A bank should ensure that it does not suffer from luck of liquidity and also it does not have excess liquidity. Both condition of liquidity are not in favor of the banks. The following ratios are evaluated under liquidity ratios.

i) Current Ratio

The ratio between current assets and current liabilities is known as current ratio. It shows the relationship between current assets and current liabilities. Current assets are those assets, which can be converted into cash within short period of time, normally not exceeding one year. Current liabilities are those obligations, which are payable within a short period, normally not exceeding one year.

Mathematically it is expressed as,

$$\textbf{Current Ratio} = \frac{\textit{Total Current Assets}}{\textit{Total Current Liabilities}}$$

Higher the current ratio better is the liquidity position. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio.

This ratio measures the bank's short-term solvency i.e. its ability to meet short-term obligations. As a measure of creditors versus current assets, it indicates each rupee of current assets available for each rupee of current liability.

ii) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

Cash and Bank Balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the

depositor. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. Mathematically, it is expressed as,

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

Hence, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks whereas the total deposits include current deposits, saving deposits, fixed deposits, money at call and short-term notice and other deposits.

iii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and balance among the total current assets of the bank. Higher ratio shows the banks' ability to meet its demand for cash.

This ratio is calculated by dividing cash and bank balance by current assets.

Mathematically, it is expressed as,

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

iv) Investment on Government Securities to Current Assets Ratio

Investment on government securities includes treasury bills and development bonds etc. This ratio is calculated to find out the percentage of current assets invested in government securities.

This ratio is calculated by dividing investment made on government securities by current assets. Mathematically it is expressed as,

Investment on Govt. Securities to Current Assets Ratio = $\frac{Investment\ on\ Govt\ Securities}{Current\ Assets}$

v) Loan and Advance to Current Assets Ratio

Loan and advances to current assets ratio shows the percentage of loan and advances in the total current assets, where loan & advances by current assets.

Mathematically it is expressed as,

Loan and Advances to Current Assets Ratio = $\frac{Loan\ and\ Advances}{Current\ Assets}$

B) Assets Management Ratio (Activity Ratios)

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Assets management ratio measures how efficiently the bank manages its resources.

The following ratios are used under asset management ratio.

i) Loan and Advances to total Deposit Ratio

This ratio is calculated to find out that which banks are able to utilize their total deposits on loans and advances for profit generating purpose. This ratio can be obtained by dividing loan and advances by total deposits, which can be stated as,

Loan and Advances to Total Deposit Ratios = $\frac{Loan\ and\ Advance}{Total\ Deposit}$

ii) Total Investment to Total Deposit Ratio

This ratio implies the utilization of firm's deposit invested in government securities and share & debentures of other companies and bank.

This ratio can be calculated by dividing total investment by total deposit. It can be stated as,

Total Investment to Total Deposit Ratio = $\frac{Total\ Investment}{Total\ Deposit}$

iii) Loan and Advances to Working Fund Ratio

Loan and advances indicates the ability of any bank to canalize its deposits in the form of loan and advances to earn high return. This ratio is computed by dividing loan and advances by total working fund, which can be stated as,

Loan and Advances to Working Fund Ratio = $\frac{\boldsymbol{Loan\ and\ Advance}}{\boldsymbol{Working\ Fund}}$

Where, total working fund consists of current assets, net fixed assets, loan for development banks and other miscellaneous assets.

iv) Investment on Government Securities to Total Working Fund Ratio

This ratio shows that banks' investment on government securities in comparison to the total working fund.

This ratio is calculated by dividing investment on government securities by total working fund, which can be stated as,

Investment on Government Securities to Total Working Fund Ratio = $\frac{\boldsymbol{Investment\ on\ Govt,Securities}}{\boldsymbol{Total\ Working\ Fund}}$

Investment on government securities includes treasury bills and development bonds etc.

C) Profitability Ratios

Profit is the difference between revenues and expenses over a period of time. A company should earn profit to survive and grow over a long period of time. Therefore, the financial manager should continuously evaluate the efficiency of its company in terms of profits. The profitability ratios are calculated to measure the operating efficiency of a company. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. The following ratios are taken into account under this heading.

i) Return on Total working Fund Ratio

This ratio measures the overall profitability of all working funds I.e. total assets. A firm has to earn satisfactory return on assets or working fund for its survival. This ratio is calculated by diving net profit by total working fund.

This can be expressed as,

Return on Total Working Fund Ratio = $\frac{Net\ Profit}{Working\ Fund}$

ii) Return on Loan & Advance Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This ratio is computed by dividing net profit by loan and advances.

This ratio can be expressed as,

Return on Loan & Advances Ratio = $\frac{Net\ Profit}{Loan\ \&\ Advance}$

iii) Total Interest Earned to total outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by diving total interest earned by total outside assets.

It is expressed as,

Total Interest Earned to Total outside Assets Ratio = $\frac{Total\ Interest\ Earned}{Total\ Assets}$

iv)Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out the percentage of earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working fund. This ratio is calculated by diving total interest earned by total working fund.

It can be expressed as,

Total Interest Earned to Total Working Fund Ratio $= \frac{\boldsymbol{Total\ Interest\ Earned}}{\boldsymbol{Total\ Working\ Fund}}$

Where, total interest earned includes, interest on loan, advances and overdraft, government securities, investment debentures and other inter-bank loans.

v) Total Interest Paid to Total Working Fund Ratio

This ratio is calculated to find out the percentage of paid on liabilities with respect to total working fund. This ratio is calculated by dividing total interest paid by total working fund which is expressed as,

Total Interest Paid to Total Working Fund Ratio $= \frac{\boldsymbol{Total\ Interest\ Paid}}{\boldsymbol{Total\ Working\ Fund}}$

Where, total interest paid includes total expenses on deposits, loan and advances, borrowings and other deposits.

D) Risk Ratios

Risk taking is the prime business of banks' investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operations, which ultimately influences the banks' investment policy.

The following ratios are taken into account under this heading.

i) Liquidity Risk ratio

This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance etc. that are kept in the bank for the purpose of satisfying the depositors' demand for cash. Higher the ratio, lower is the liquidity risk.

Mathematically it is presented as,

Liquidity Risk Ratio $= \frac{\boldsymbol{Total\ Cash}\ \&\ bank\ balance}{\boldsymbol{Total\ deposit}}$

ii) Credit Risk Ratio

This ratio measures the possibility that loan will not be repaid or the investment will deteriorate in quality or result in loss to the bank. By definition, it is expressed as the percentage of non-performing loan to total loan & advances.

Mathematically it is presented as,

$$\textbf{Credit Risk Ratio} = \frac{\textbf{Total Loan} \,\&\, \textit{Advances}}{\textbf{Total Assets}}$$

3.4.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such as trend analysis of important variables, co-efficient of correlation between different variables as well as test of hypothesis have been used which are as follows:

a) Trend Analysis

This topic analyzes the trend of loan and advances to total deposit ratio and trend of total investment to total deposit ratio of NABIL & SBI bank from 2012\2013 to 2016\2017 and makes the forecast for the next five years. Under this topic following sub- topic have been presented.

i) Trend analysis of loan and advances to total deposit ratio.

ii) Trend analysis of total investment to total deposit ratio.

b) Co-efficient of Correlation Analysis

This analysis identifies and interprets the relationship between the two or more variables. In the case of highly correlated variables, the effect on one variable may have effect on other correlated variable under this topic. Karl Pearson's co-efficient of correlation has been used to find out the relationship between the following variables.

i.) Co-efficient of correlation between deposit and loan and advances.

ii.) Co-efficient of correlation between deposit and total investment.

iii.) Co-efficient of correlation between total outside assets and net profits.

These tools analyze the relationship between these variables and help the banks to make appropriate policy regarding deposit collection, fund utilization (loan & advances and investment) and maximization of profit.

This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

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

Where,

N = no. of observation in series X and Y

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

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

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

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

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

The result of coefficient of correlation is always between -1 to +1, where r= +1 means there is a positive relationship between two variables and where r=-1, means there is a negative relationship between two variables.

II. Coefficient of Determination (r^2)

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

III. Probable Error of Correlation

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

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

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

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

CHAPTER – IV

RESULTS

In this chapter an attempt has been made to analyze and evaluate major financial items, which have an impact on investment management and fund mobilization of NABIL and SBI bank. A number of financial ratios that are crucial in evaluating the fund mobilization system of commercial banks have been calculated and analyzed in this chapter. After this, the investment policy of the banks has been explored.

4.1 Financial Analysis

We have tried to analyze and evaluate those major financial items, which are mainly related to the investment management and fund mobilization of NABIL and SBI bank. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical procedure to derive relationship between two or more variables. The important financial ratios, which are to be calculated for this study, are as follows:

4.1.1 Liquidity Ratio

This ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community, to meet demands for deposits, withdraws, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate needs without loss to bank and consequent impact in long run profit. In fact, it analyzes liquidity needs, which is helpful for the preparation of cash budget and fund flow statement.

The following ratios are evaluated and interpreted under liquidity ratio:

4.1.1.1 Current Ratio

Current ratio indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institutions. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case

of banking and seasonal business ratio such as 1:1 etc. Mathematically it has been represented as:

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

Where, current assets consist of cash and bank balance, money at call or short-term notice, loan advance investment in government securities, other interest receivable and miscellaneous current assets whereas, current liabilities consist of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1 Current Ratio (times)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	0.76	1.02
2	2013/2014	0.81	1.05
3	2014/2015	0.92	1.06
4	2015/2016	0.94	1.07
5	2016/2017	0.96	1.09
Total		4.39	5.29
Mean		0.878	1.058
S.D.		0.079	0.02315
C.V.		0.0895	0.022

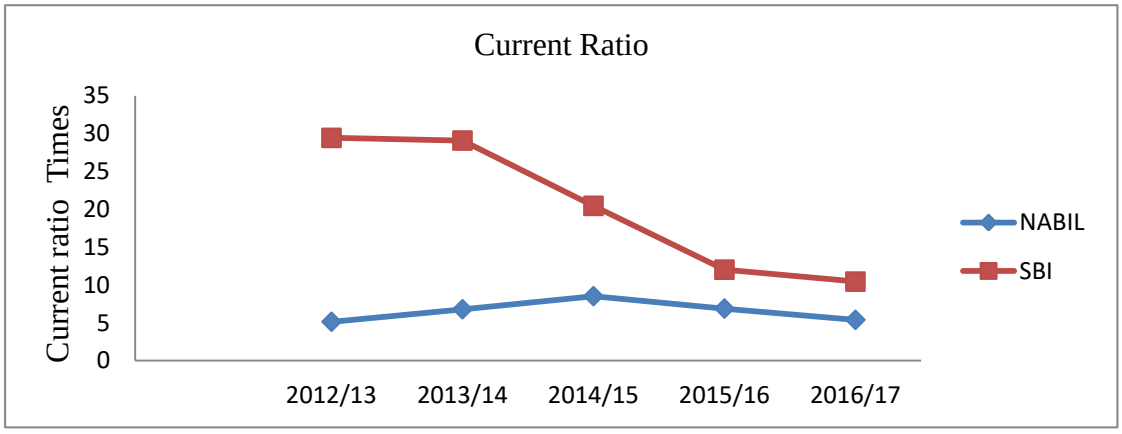

Fig 4.1

The table 4.1 shows that the current ratio of these commercial banks. Total mean standard deviation and coefficient of variation have also been calculated. Although the current ratio of Nabil has been fluctuating it is always around one or less than one. Current ratio of SBI, on the other has always remained at 1:1. In fact, the ratio of both the banks seems to be appropriate. But, the lower ratio of Nabil indicates that it may often not be in a proper liquidity position. SBI's liquidity position is better than that of Nabil Bank.

The coefficient of variation between the current ratio of Nabil is 8.95% that is greater than that SBI i.e.2.2%. It shows that current ratio of Nabil is fewer consistencies than that of SBI bank.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio (CRR Ratio)

Cash and bank balance are the most liquid assets. This ratio measures the ability of the bank to meet the unanticipated cash and all types of deposits.

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

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks whereas the total deposits include current deposits, saving deposits, fixed deposits, money at call and short-term notice and other deposits.

Table 4.2 Cash and Bank Balance to Total Deposit Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	5.13	29.42
2	2013/2014	6.78	29.07
3	2014/2015	8.51	20.44
4	2015/2016	6.87	12.01
5	2016/2017	5.38	10.43
Total		32.67	101.37
Mean		6.534	20.274
S.D.		1.215	8.078
C.V.		0.186	0.398

The table 4.2 shows the total mean, standard deviation and co-efficient of variation of cash and bank balance to total deposit ratio of these two commercial banks. It is clear from the above table that CRR of the banks quite fluctuating, although SBI's CRRis quite high as compared to that of Nabil's. It indicates that Nabil bank is maintaining appropriate CRR ratio if SBI bank can maintain a consistent CRR, the remaining fund can be used for further investment.

Mean and standard deviation of Nabil bank is less that of SBI bank. C.V. ratio of Nabil and SBI bank are 0.186 and 0.398 respectively. From this, we can conclude that Nabil has better maintained its liquidity than SBI bank.

4.1.1.3 Cash and Bank Balance to Current Asset Ratio

This ratio shows the banks' liquidity capacity on the basis of cash and bank balance that is the most liquid asset. So, this ratio visualizes higher liquidity position than current ratio.

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

Where, cash and bank balance represent total of local currency, foreign currencies, cherubs in hand and various bank balances in local as well as foreign banks whereas the current assets consist of cash and bank balance, money at call, short-term notice, loan and advance, investment in government securities and other interest receivable and other miscellaneous current assets.

Table 4.3 Cash and Bank Balance to Current Assets Ratio

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	6.18	27.14
2	2013/2014	7.90	23.87
3	2014/2015	8.25	18.01
4	2015/2016	7.81	15.36

5	2016/2017	6.17	9.41
Total		36.31	93.79
Mean		**7.262**	**18.758**
S.D.		0.899	6.259
C.V.		0.124	0.334

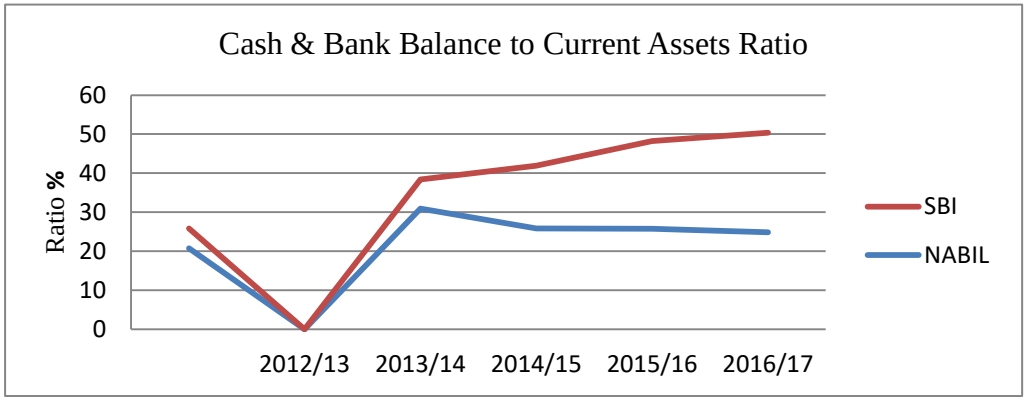

Fig.4.2

Table no.4.3 shows the total mean, standard deviation and C. V. of cash and bank balance to current assets ratio of commercial banks. This ratio of these two banks is better as they show the ability to manage the deposit withdrawals by the customers.

The above table shows that the cash and bank balance to current assets ratio of Nabil bank is at fluctuating trend. It has ranged from 6.18 (in FY 2012\13) to 8.25 (in FY 2014\15). But, SBI bank has decreasing trend in FY 2012\13 i.e. 27.14 to FY 2016/17 i.e. 9.41 From the above analysis we can conclude that liquidity position (only cash and bank balance) of Nabil bank is lesser than that of SBI bank. But, Nabil bank has higher consistency than SBI bank. The table also reveals that Nabil has utilized its funds more efficiently.

Similarly, the figurative representation concludes that there is highly volatility in the ratio of SBI Bank in comparison to that of Nabil Bank.

4.1.1.4 Investment on Government Securities to current Assets Ratio

The government securities are not so much liquid as cash and bank balance. But they can easily be sold in the market or they can be converted in to cash. Investment on government securities includes treasury bills and development bonds etc.

Table 4.4 Investment on Government Securities to Current Assets Ratio

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	20.76	5.09
2	2013/2014	30.95	7.41
3	2014/2015	25.88	16.06
4	2015/2016	25.78	22.43
5	2016/17	24.87	25.49
Total		128.24	76.48
Mean		25.648	15.296
S.D.		3.246	8.022
C.V.		0.127	0.524

Fig 4.3 Investment on Government Securities to Current Assets Ratio

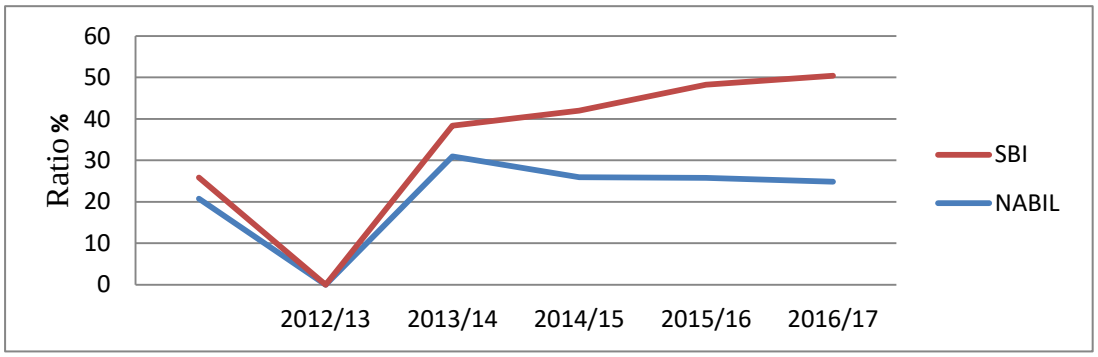

Table 4.4 shows the table mean, standard deviation and coefficient of variation of investment on government securities to current assets ratio of commercial banks. Figure in the above table shows that investment on government securities to current assets ratio of Nabil bank has increasing trend in the first two years i.e. 20.76 to 30.95 (FY 2012/13 to 2013/14) but then after, it follows decreasing trend i.e. 25.88 (FY 2014/15) to 24.87 (FY 2016/17). SBI bank has increasing trend, i.e. 5.09 to 25.49 in

the FY 2012/13 to 2016/2017 respectively. The mean ratio of investment on government securities to current assets of Nabil bank is higher than that of SBI bank i.e. 25.648>15.296. On the other hand, coefficient of variation of Nabil bank is lesser than that of SBI bank i.e. 0.127<0.524.

It can be concluded that Nabil has invested its current assets in government securities more than SBI bank and its investment is also quite stable than that of SBI bank through the figurative representation also.

4.1.1.5 Loan and Advances to Current Assets Ratio

To make an appropriate profit, a commercial bank should not keep its all collected fund as cash and bank balance but they should be invested as loan and advances to the customers. In the present study, loan and advances represent local and foreign bills discounted & purchased loans, cash credit and overdraft in local currency as well as inconvertible foreign currency.

We have,

Loan and Advances to Current Assets Ratio $=\frac{\boldsymbol{Loan}\ \&\ Advances}{\boldsymbol{Current\ Assets}}$

Table 4.5 Loan and Advances to Current Assets Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	63.25	58.45
2	2013/2014	55.87	63.34
3	2014/2015	55.93	60.35
4	2015/2016	57.50	61.64
5	2016/2017	59.57	62.46
Total		291.94	306.24
Mean		58.388	61.248
S.D.		7.563	2.927
C.V.		0.1295	0.048

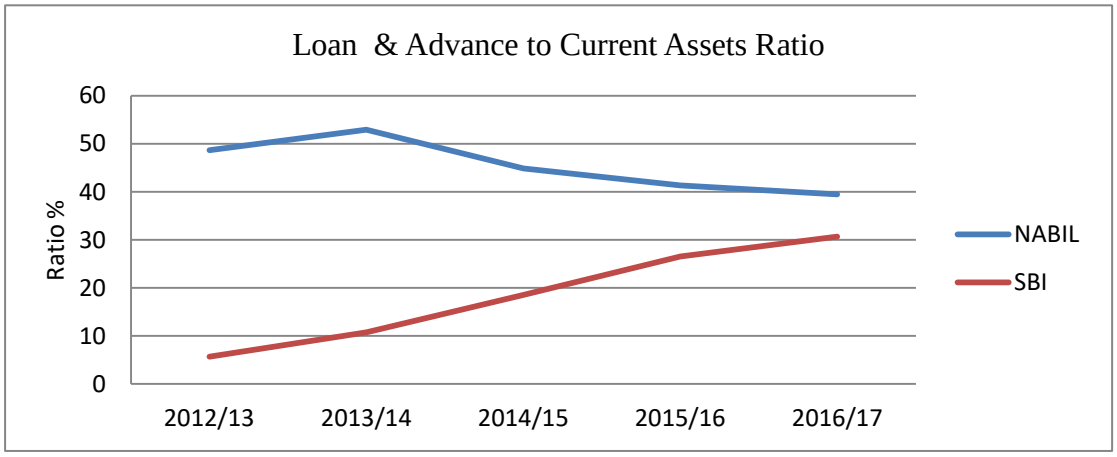

Fig 4.4

Table no 4.5 shows the total mean, standard-deviation and coefficient of variation of loan and advances to current assets ratio of these two commercial banks. Through this table loan and advances to current assets ratios of the sample CBS are analyzed. In the case of Nabil bank, loans and advances to current assets ratio are in fluctuating trand i.e. highest in the FY 2012/13 (63.25%) and lowest in the FY2013/14 (55.87%). Similarly, the ratios of SBI bank are also in fluctuating trend i.e. highest in the FY 2016/17 (62.46%) and lowest in the FY 2012/13(58.45%). Mean value of this ratio of Nabil bank is less than that of SBI bank i.e. 58.388<61.248. But, coefficient of variation of Nabil bank is slightly greater than that of SBI bank i.e. 0.1295>0.048. This analysis shows that Nabil bank provides less loan and advances is less consistence than that of SBI bank.

4.1.2 Asset Management Ratios (Activity Ratio)

Asset management ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory sector. This indicates the ability of the bank to utilize their available resources. Following ratios are discussed under this topic.

4.1.2.1 Loan and advances to Total Deposit Ratio

It shows the relationship between loans and advances to total deposit. This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances.

We have,

Loan and Advances to Total Deposit Ratio = $\frac{\textbf{\textit{Loan}} \text{ \& } \textit{Advance}}{\textbf{\textit{Total Deposit}}}$

Where, loan and advances include loans, advances, cash credit, local and foreign bill purchased and discount. Total deposit include saving, fixed current call at short deposit and others.

Table 4.6 Loan and advances to Total Deposit Ratio (%)

S.N	**Fiscal Year**	**NABIL**	**SBI**
1	2012/2013	57	78
2	2013/2014	53	63
3	2014/2015	48	77
4	2015/2016	58	69
5	2016/17	58	71
Total		274	358
Mean		54.80	71.60
S.D.		3.90	505
C.V.		0.071	0.077

Table no 4.6 shows the total mean, S.D. and C.V. of loan and advances to total deposit ratio of these two commercial banks. Contents of the table show the percentage of loan and advances to total deposit ratio position Nabil and SBI bank. The above table exhibits that the ratio of Nabil bank has decreasing trend in FY 2012/13 i.e. 53% and FY 2013/14 i.e. 48% but it has increasing trend in FY 2014/15 i.e. 58% and it is stable in 2016/2017 i.e. 58%. SBI bank has fluctuating trend i.e. highest in the FY 2012/2013 i.e. 78% and lowest in FY 2013/2014 i.e. 63%.

The mean value of Nabil bank is lower than that of SBI bank. Mean ratio of Nabil and SBI bank are 54.8and 71.60 respectively. Coefficient of variation of Nabil is lower than that of SBI bank i.e. 0.071<0.077.

From table 4.6 it shows that SBI has strong position regarding the mobilization of total deposit on loan and advances and acquiring high profit in comparison. But only higher ratio is no better from the point of view of liquidity as the loan and advances are not as liquid as cash and bank balance. On the other hand, Nabil has less C.V. than that of SBI bank, which indicates that loan and advances of Nabil is stable and consistent than that of SBI bank.

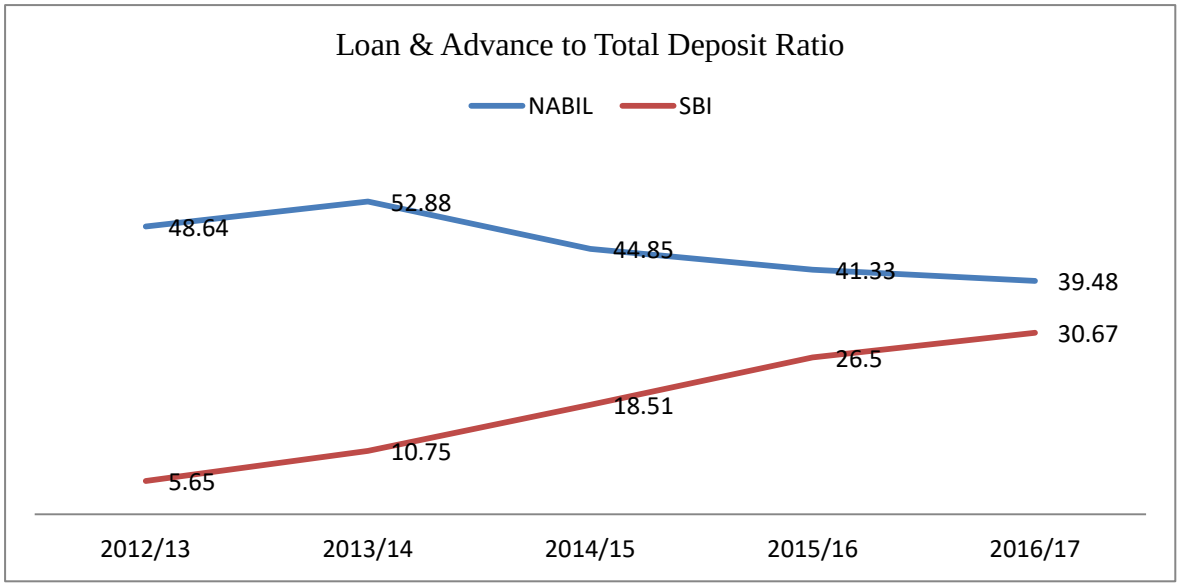

Figure 4.5

Figure 4.5 demonstrate that Nabil bank has its consistency in loan and advance in comparison to that of SBI bank. Which indicates that Nabil Bank is Strong in loan & advance management than SBI bank.

4.1.2.2 Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposit by investing its fund in different securities issued by government and other financial or non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities.

We have,

Total Investment to Total Deposit Ratio $= \frac{Total\ Investment}{Total\ Deposit}$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investments.

Table 4.7 Total Investment to Total Deposit Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	48.64	5.65
2	2013/2014	52.88	10.75
3	2014/2015	44.85	18.51
4	2015/2016	41.33	26.50
5	2016/17	39.48	30.67
Total		227.18	92.08
Mean		45.436	18.416
S.D.		4.865	9.352
C.V.		0.107	0.508

Table no.4.7 shows the total mean, S.D., and C.V. of total investment to total deposit ratio of Nabil and SBI bank. The above table reveals that Nabil has increasing in FY 2012/13 i.e. 48.64 and in FY 2013/14 i.e. 52.88 but it has followed decreasing trend in FY 2014/15 i.e. 44.85 and 2016/17 i.e. 39.48 respectively. But SBI bank has increasing trend; it has ranged from 5.65in FY 2012/13 to 30.67 in FY 2016/17

The mean value of Nabil is higher than that of SBI bank i.e. 45.436>18.416. But, C.V. of Nabil is less than that of SBI bank i.e. 0.1071<0.508.

From the above analysis, it is clear that Nabil is more successful to utilize its deposit than SBI bank and also it has higher consistency to investment in securities than the other. SBI bank has least invested in securities and also has less consistency to invest in securities. Moreover the explanation has been depicted by Figure 4.6

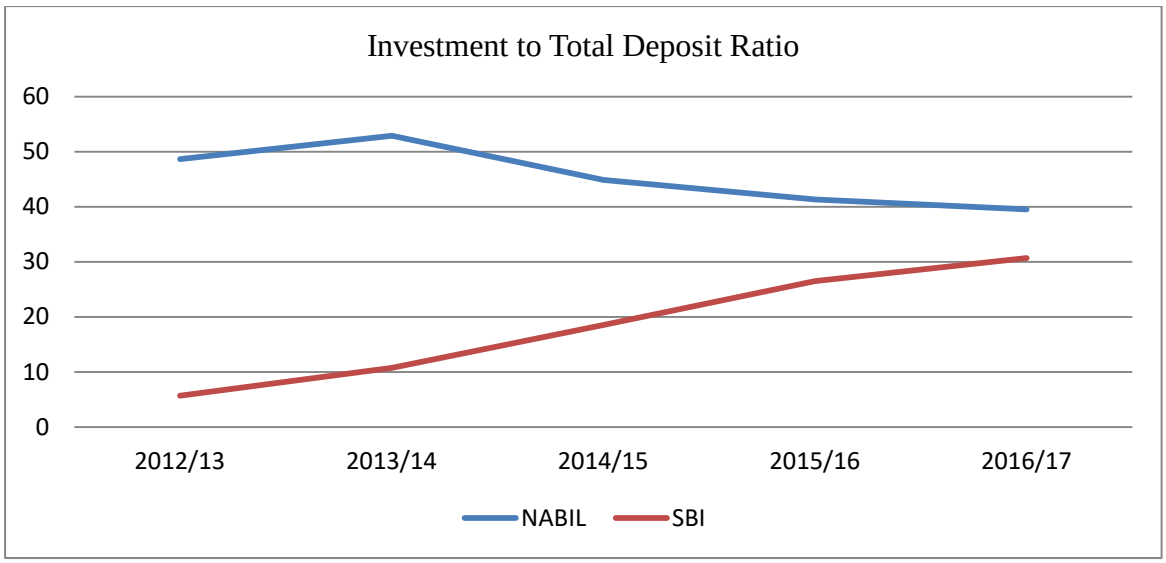

Figure 4.6

Figure 4.6 Shows that Nabil bank seems more successful and strong in deposit utilization and its management to generate higher profit.

4.1.2.3 Loan and Advances to Total Working Fund Ratio

A commercial bank must be very careful in mobilizing its total assets as loan and advances in appropriate lavel to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generating. A high ratio indicates better mobilization of funds as loan and advances and vice-versa.

We have,

Loan and Advances to Total Working Fund Ratio $= \frac{\textbf{\textit{Loan}} \ \& \ \textit{Advance}}{\textbf{\textit{Total Working Fund}}}$

Where, total working fund Consists current assets, net fixed assets, loan for development banks and other miscellaneous assets.

Table 4.8 Loan and Advance to Total Working Fund Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	45.32	69.70
2	2013/2014	42.19	57.50
3	2014/2015	46.83	61.23
4	2015/2016	48.91	59.06
5	2016/17	50.38	60.94
Total		233.63	308.43
Mean		46.726	61.686
S.D.		2.853	4.229
C.V.		0.061	0.069

Table no.4.8 shows the total mean, S.D. and C.V. of loan and advances to total working fund ratio of Nabil and SBI bank. The above table shows that the loan and advances to total working fund ratio of Nabil has decreasing trend in FY 2012/13 i.e. 45.32 and FY 2013/14 i.e. 42.19. But, it has increasing trend in FY 2014/15 i.e. 46.83 and FY 2016/17 i.e.50.38. SBI bank has fluctuating trend, highest in the FY2012/13 i.e. 69.70 and lowest ratio in the FY 2013/14 i.e. 57.50.

Mean value of Nabil is lower than that of SBI bank i.e. 46.726<61.686 and C.V. of Nabil is also lower than that of SBI bank i.e. 0.061<0.069. From the above analysis, we can conclude that SBI bank has done better utilization of funds as loan and advances for the purpose of generation. Nabil has higher consistency than that of SBI bank.

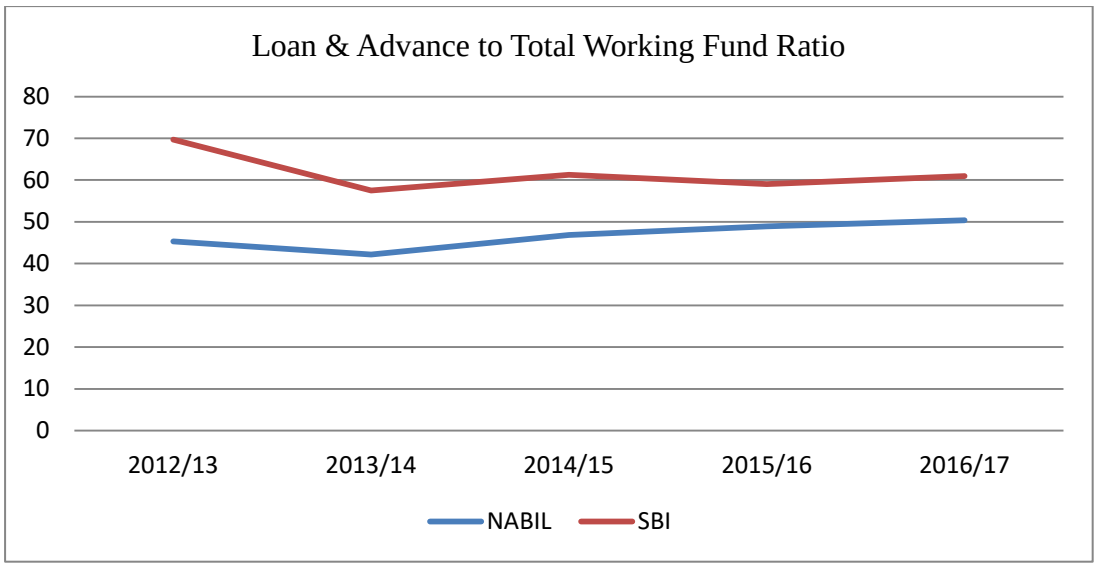

Figure 4.7

4.1.3 Profitability Ratios

Profitability ratios are very help ful to measure the overall efficiency of operation of financial institutions. Here, profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Higher ratio shows the higher efficiency of the bank.

The following profitability ratios are taken into account under this heading.

4.1.3.1 Return on Total Working Fund Ratio

This ratio measures the profit earning capacity of the bank by utilizing its available resources i.e. total asset. Return will be higher if the banks' working fund is well managed and if efficiency is utilized. Maximizing taxes within the legal options available will also improve the return.

We have,

Return on total Working Fund Ratio = $\frac{Net\ Profit}{Total\ Working\ Fund}$

Table 4.9 Return on Total Working Fund Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	1.59	0.17
2	2013/2014	1.54	0.58
3	2014/2015	2.51	0.64
4	2015/2016	2.72	0.72
5	2016/17	3.15	0.96
Total		11.51	3.07
Mean		2.302	0.614
S.D.		0.405	0.257
C.V.		0.176	0.418

Table no.4.9 shows the total mean, S.D. and C.V. of return on total working fund ratio of Nabil bank and SBI bank. In the above table, return on total working fund ratio of Nabil has decreasing trend in FY 2012/13 and 2013/14 i.e. 1.59 and 1.54 respectively. Then after, it has increasing trend. The ratio of SBI bank has increasing trend from 2012/2013 (0.17) to FY 2016/17 (0.96).

Mean ratio of Nabil is higher than that of SBI bank i.e. 2.302>0.614.Whereas, C.V. of Nabil is lower than that of SBI bank i.e.0.176<0.418.

From the mean ratio analysis it is fund that Nabil bank is successful to maintain the higher ratio in return on total working fund. The C.V. of Nabil is lower than that of SBI bank, which indicates that return on total working fund ratio of Nabil is stable and consistence. It also reveals that investment policy of Nabil bank is efficient and effortable.

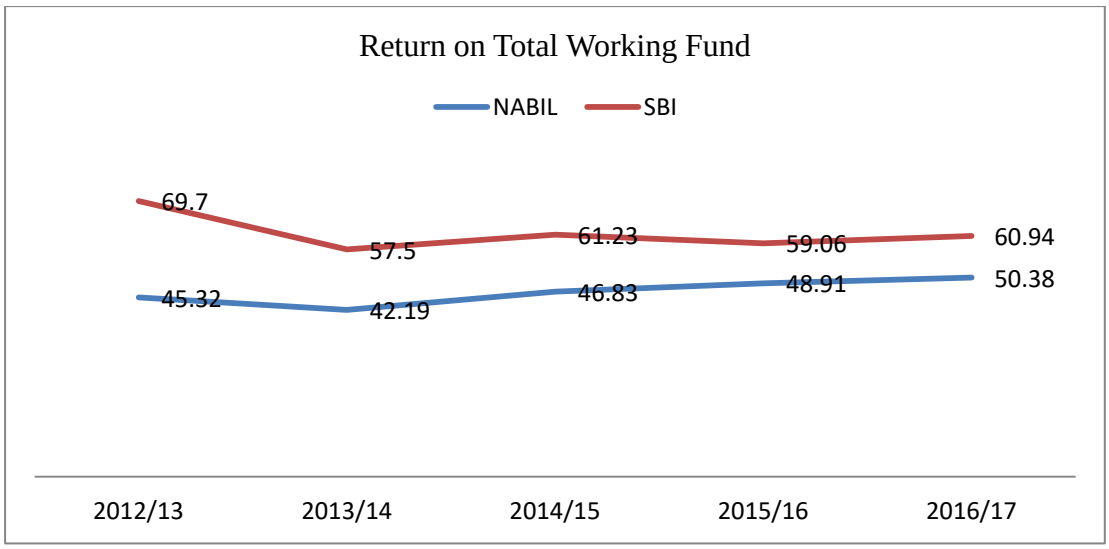

Figure 4.8

As per the figure researcher can conclude that Nabil return on working fund lower than that of SBI bank, which indicates that return on total working fund ratio of Nabil is stable and consistence. It also reveals that investment policy of Nabil bank is efficient and effort able as per the line developed.

4.1.3.2 Return on Loan and Advances Ratio

It measures the earning capacity of a commercial bank on its deposits mobilized on loan and advances. Higher the ratio greater will be the return and vice-versa.

Return on Loan and Advances Ratio = $\frac{\boldsymbol{Net\ Profit}}{\boldsymbol{Loan}\ \&\ Advances}$

Where, loan and advances includes loan cash credit, overdraft bills purchased and discounted.

Table 4.10 Return on Loan and Advances Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	3.50	0.30
2	2013/2014	3.65	0.95
3	2014/2015	5.37	1.09
4	2015/2016	5.56	1.18
5	2016/17	5.96	1.63
Total		24.04	5.15
Mean		4.808	1.03
S.D.		1.026	0.430
C.V.		0.213	0.418

Table no. 4.10 shows the total mean, S.D, and C. V. of return on loan and advances ratio of Nabil and SBI bank.

In the above table, return on loan and advances ratio of Nabil bank has increasing trend from the FY 2012/13 to 2016/17. i.e. 3.50 to 5.96. The ratio of SBI bank has also increasing trend. In the FY 2012/13 to 2016/17 ratio has increased as 0.30 to 1.63.

Mean ratio of Nabil is greater than that of SBI bank i.e. 4.808>1.3 whereas, C.V. of Nabil is less than that of SBI bank i. e.0.213<0.418.

From the above analysis, it is fond that Nabil bank has maintained higher ratio than SBIbank, which indicates that it is successful to earn high return on its loan and advances. It also indicates that investment policy of Nabil bank is more effective than other banks. Moreover, Nabil has consistency investment policy return than other banks.

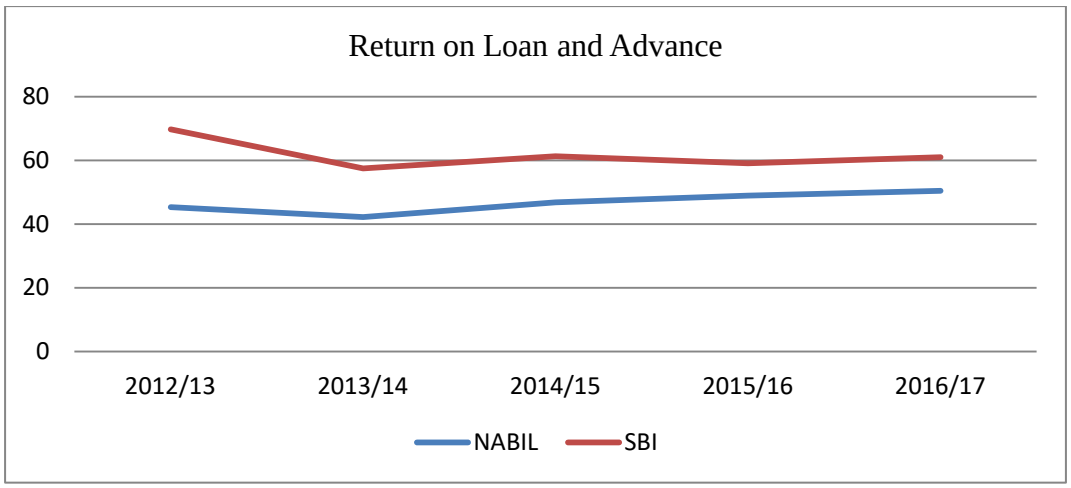

Fig 4.9

Figure 4.9 indicates that investment policy of Nabil bank is more effective than other banks. Moreover, Nabil has consistency investment policy return than other banks.

4.1.3.3 Total Interest Earned to Total outside Assets Ratio

It reflects the extent to which the bank is successful to earn interest as major income on all the outside assets. Higher ratio indicates the higher earning power of total outside assets.

We have,

Total Interest Earned to Total outside Assets Ratio = $\frac{Total\ Interest\ Earned}{Total\ outside\ Assets}$

Where, total outside assets includes loan and advances, investment on government securities, share and debentures and all other types of investment.

Table 4.11 Total Interest Earned to Total outside Assets Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	7.90	9.74
2	2013/2014	7.16	8.16
3	2014/2015	7.38	8.28
4	2015/2016	7.14	7.00

5	2016/17	7.09	6.89
Total		36.67	40.07
Mean		7.334	8.014
S.D.		1.299	1.036
C.V.		0.177	0.129

Table no.4.11 shows the total mean, S.D. and C.V. of total interest earned to total outside assets ratio of Nabil and SBI bank,The above shows that the ratio total interest earned to total outside assets ratio of Nabil bank has decreasing trend in FY 2012/13 to 2016/17 i.e. 7.90 to 7.09 and SBI bank are fluctuating trend. SBI bank has highest ratio in the FY 2012/13 i.e.9.74.and SBI bank's lowest ratio in the FY 2016/17 i.e.6.89.

Mean ratio of Nabil is lower than that of SBI bank i.e. 7.334<8.014.But, C.V. of Nabil is greater than that of SBI bank i.e. 0.177>0.129.

Above analysis shows that SBI bank has better position with respect to the income earned from the total outside asset in comparison to Nabil bank.

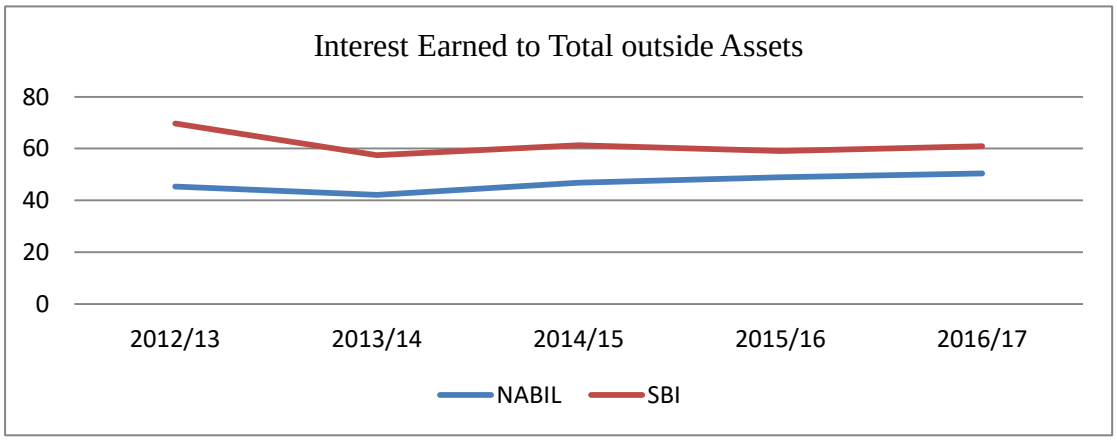

Fig. 4.10

On the basis of figure 4.10 it can be concluded that SBI bank has better position with respect to the income earned from the total outside assets in comparison to that of Nabil bank.

4.1.3.4 Total Interest Earned to Total Working Fund Ratio

It reflects the extent to which the bands are successful in mobilizing their total assets to generate high income as interest. This ratio actually reveals the earning capacity of a commercial bank by mobilizing its working fund. A high radio is the indicator of high earning power of the bank on its total working fund and vice-versa.

We have,

Total Interest Earned to Total Working Fund Ration = $\frac{Total\ Interest\ Earned}{Total\ Working\ Fund}$

Table 4.12 Total Interest Earned to Total Working Fund Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	6.90	7.21
2	2013/2014	6.35	5.69
3	2014/2015	6.15	8.65
4	2015/2016	5.98	6.85
5	2016/17	5.00	5.00
Total		30.38	33.4
Mean		6.076	6.68
S.D.		0.621	1.264
C.V.		0.1022	0.1892

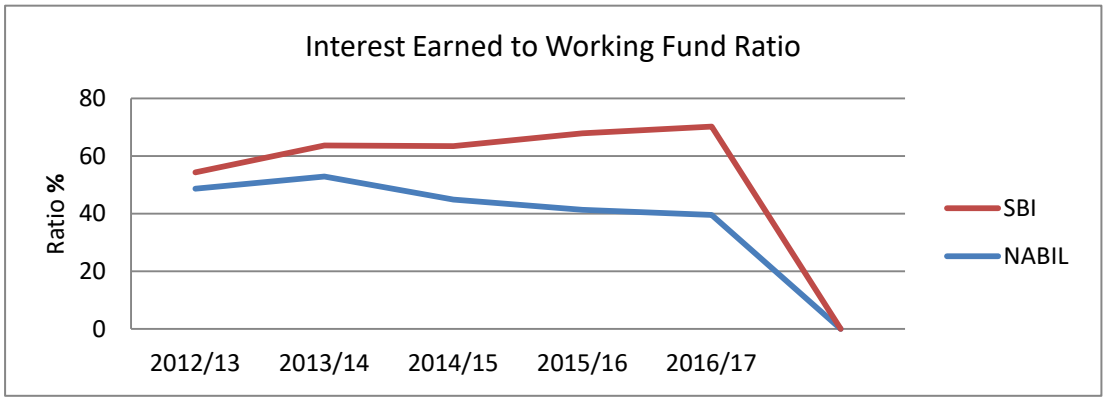

Fig.4.11

Table no 4.12 shows the total mean, S. D., and C.V. of total interest earned to total working fund ratio of Nabil and SBI bank.

The above table shows that the ratio of total interest earned to total working fund ratio of Nabil bank has decreasing trend i.e.6.90 in FY 2012/13 to 5.00 in FY 2016/17. SBI bank has fluctuating trend, it has highest ratio in the FY 2013/14 i.e. 8.65 and lowest in the FY 2016/17i.e. 5.00. Mean ratio of Nabil bank is lower than that SBI bank i.e. 6.076<6.68. C.V. of Nabil is also lower than that of SBI bank i.e. 0.1022<0.1892.

From the above analysis, we can conclude that the ratio of total interest earned to total working fund ratio of Nabil bank is satisfactory in comparision to SBI bank. It means the ratio of Nabil bank is stable and consistence than that of SBI bank.

4.1.3.5 Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice-versa.

We have,

Total interest paid to total working fund ratio = $\frac{Total\ Interest\ Paid}{Total\ Working\ Fund}$

Where, total interest paid includes total expenses on deposit liabilities, loan and advances (borrowings) and other deposits.

Table 4.13 Total Interest Paid to Total Working Fund Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	3.15	3.73
2	2013/2014	2.62	5.11
3	2014/2015	2.20	4.62
4	2015/2016	1.96	3.03
5	2016/17	1.64	2.96
Total		11.57	19.18

Mean	2.31	3.836
S.D.	0.526	0.9178
C.V.	0.228	0.213

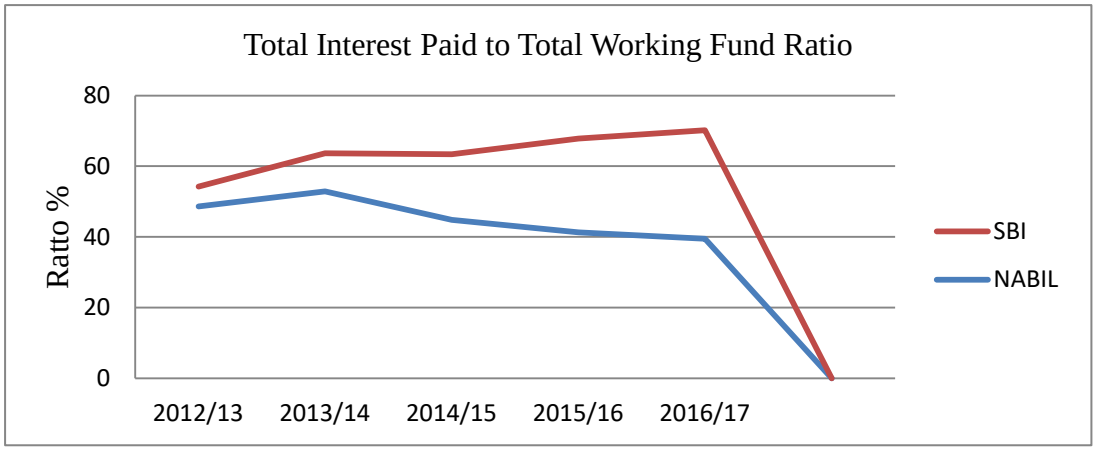

Fig:4.12

Table 4.13 shows the table mean, S.D. and C.V of total interest paid to total working fund ratio of Nabil and SBI bank. The above table shows that the total interest paid to total working fund ratio of Nabil bank has decreasing trend in FY 2012/13 to FY 2016/17. SBI bank has fluctuating trend. It has highest ratio in FY 2012/13 i.e. 5.11 and lowest in the FY 2016/17 i.e. 2.96.

When these ratio are observed, it is found that Nabil bank has the lowest ratio in comparison with that of SBI bank. The mean ratio of Nabil and SBI bank are 2.31 and 3.836 respectively. It means that Nabil has paid lower interest than SBI bank. But C.V. of Nabil is higher than that of SBI bank i.e. 0.228>.0213, which indicates that the total interest paid to total working fund ratio of Nabil is less consistence than SBI bank. We can say that Nabil bank is paying less interest against its working fund.

Similarly, the figure depicts that Nabil Bank has paid lower interest amount to that of SBI bank as per the line developed by Figure.

4.1.4 Risk Ratio

The possibility of risk makes banks' investment a challenging task. Bank has to take risk to get return on investment. It increases effectiveness and profitability of the bank. If a bank expects high return on its investment, it has to accept the risk and manage it efficiently.

Through following ratios, effort has been made to measures the level of risk.

4.1.4.1 Liquidity risk ratio

The liquidity ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance, etc that are kept in the bank for the purpose of satisfying the depositor's demand for cash. Higher the ratio, lower the liquidity risks.

We have,

Liquidity risk ratio = $\frac{Total\ Cash\ and\ Bank\ Balance}{Total\ Deposit}$

Table 4.14 Liquidity Risk Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	8.52	29.42
2	2013/2014	5.13	29.07
3	2014/2015	6.78	20.44
4	2015/2016	8.51	12.01
5	2016/2017	6.87	10.96
Total		35.81	101.90
Mean		7.162	20.38
S.D.		1.267	7.950
C.V.		0.77	0.390

In the table 4.14, liquidity ratios of these commercial banks are in fluctuating trend. Nabil bank has maintained a highest ratio of 8.52 in the FY 2012/2013. Similarly, SBI

bank has maintained a highest ratio of 29.42 in the FY 2012/2013. They have maintained a lowest ratio of 5.13 and 10.96 in the FY 2013/2014 and 2016/2017 respectively.

The mean ratio of Nabil is lower than that of SBI bank i.e. 7.162>20.38 which, indicates that SBI banks' liquidity risk lower than that of Nabil bank. But C.V. of Nabil is lower than that of SBI bank i.e. 0.77<0.390 which, indicates that Nabil's liquidity position is consistence than that of SBI bank.

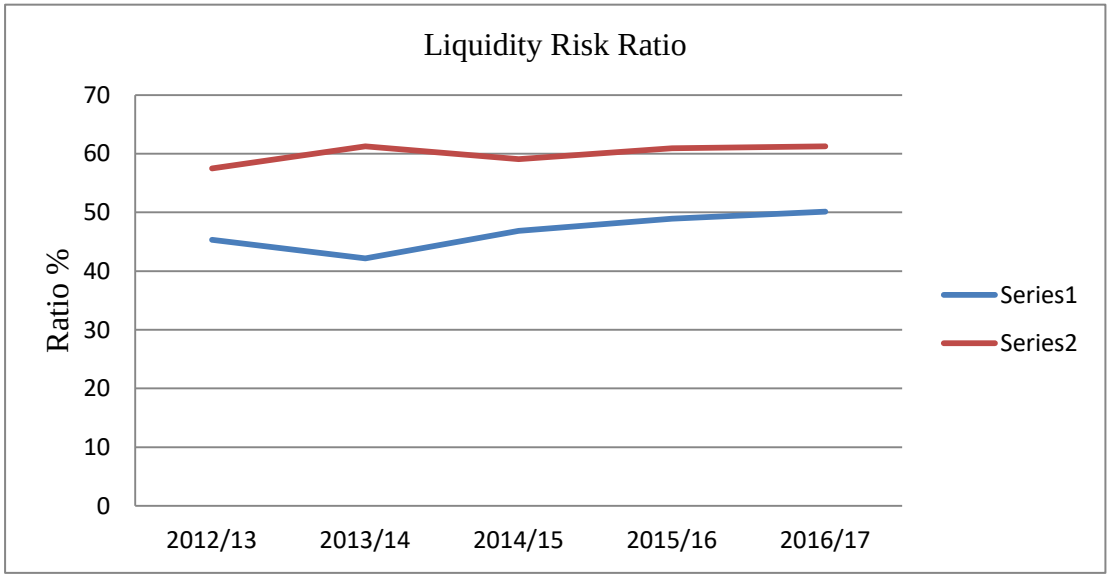

Fig:4.13

4.1.4.2. Credit Risk Ratio

Credit risk ratio measures the possibility that the loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank, actually, credit risk ratio shows the proportion of non-performing assets in total loan an advances of the bank.

We have,

Credit Risk Ratio = $\frac{\textbf{\textit{Total Loan and Advance}}}{\textbf{\textit{Total Assete}}}$

Table 4.15 Credit Risk Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	45.32	57.50
2	2013/2014	42.19	61.23
3	2014/2015	46.83	59.06
4	2015/2016	48.91	60.94
5	2016/2017	50.15	61.27
Total		233.4	300
Mean		46.68	60
S.D.		2.795	4.493
C.V.		0.059	0.075

The above table shows that the credit risk ratio of these two commercial banks are fluctuating in every FY. Nabil bank has maintained highest ratio in the FY 2016/2017 i.e. 50.15 and lowest ratio in the FY 2013/2014 i.e. 42.19. Similarly, SBI bank has maintained highest ratio in the FY 2016/2017 i.e. 61.27 and lowest in the FY 2012/2013 i.e. 57.50.

Mean ratio of Nabil is lower than that of SBI bank i.e. 46.68<60. And also, C.V. of Nabil is lower than that of SBI bank i.e. 0.059<0.075. It indicates that SBI bank has more credit risk than Nabil bank. Similarly, Nabil's risk ratio is more consistence than that of SBI bank.

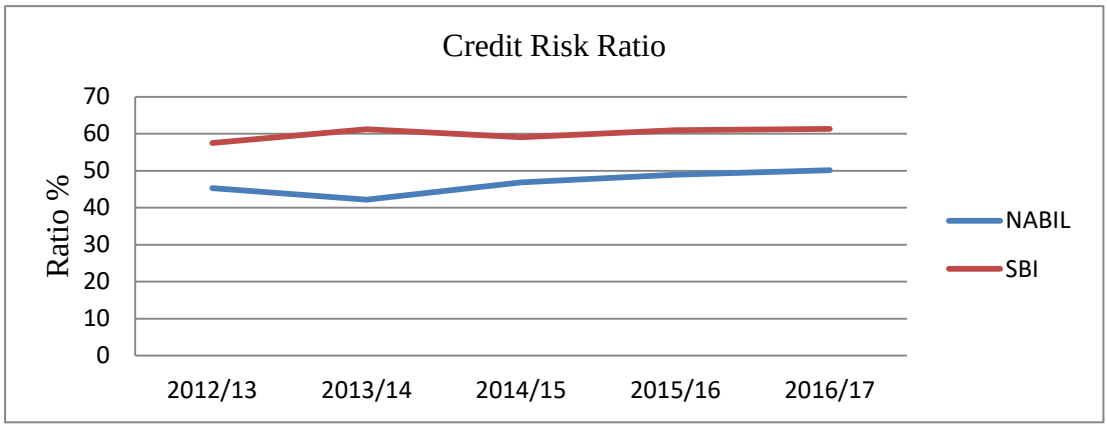

Fig:4.14

4.1.4.3 Capital Risk Ratio

Capital risk ratio measures banks' ability to attract deposits and interbank funds. It also determines the level of profit, a bank can earn of a bank chooses to take high capital risk. The capital risk is directly related to return on equity.

We have,

Capital Risk Ratio $=\frac{Capital(Paid-Up\ Capital+Reserve)}{Risk\ Weighted\ Assets}$

Table 4.16 Capital Risk Ratio (%)

S.N	Fiscal Year	NABIL	SBI
1	2012/2013	12.77	5.60
2	2013/2014	15.41	13.03
3	2014/2015	16.94	12.75
4	2015/2016	18.09	12.18
5	2016/2017	19.31	10.21
Total		88.52	53.77
Mean		16.504	10.754
S.D.		2.268	9.879
C.V.		0.137	0.918

Table no. 4.16 shows the total mean, S.D., and C.V. of capital risk ratio of Nabil and SBI bank. In the above table, capital risk ratio Nabil has increasing trend up 12.77 to 19.31 in FY 2012/2013 to 2016/2017. The ratios of SBI bank are in fluctuating trend it is highest in the FY 2013/2014 i.e. 13.03 and lowest in the FY 2012/2013 i.e. 5.60.

The mean ratio of Nabil bank is higher than that of SBI bank i.e. 16.504>10.754. In the same way, C.V. of Nabil is lower than that of SBI bank i.e. 0.137<0.918. It can be consistence than SBI bank.

4.2 Trend Analysis

Under this topic, trend analysis of loan and advances to total deposit ratio as well as trend analysis of total investment to total deposit ratios of Nabil and SBI bank are calculated and forecasted for next five years. The forecast is based on the following assumptions.

a. The bank will run in the present position.

b. The economy will remain at the present stage.

c. The forecast will remain in the present stage.

d. The forecast will be true only if the limitation of least square method is carried out.

e. Nepal Rastra Bank will not change its guidelines to commercial banks.

f. Other things will remain constant.

4.2.1 Trend Analysis of Loan and Advances to Total Deposit Ratio of Nabil and SBI Bank

In this study, the research has tried to calculate the trend value of loan and advances to total deposit ratio of Nabil and SBI bank for five years from 2007/2008 to 2011-12 and forecast for next five years from 2011/12 to 2016/17. The following table no. 4.14 shows the trend value of deposit for ten years for the Nabil and SBI bank.

Table 4.17 Trend Analysis of Loan and Advance to Total Deposit Ratio of Banks Bank (%)

S.N	Fiscal Year	NABIL	SBI
1	2007/08	54.10	72.40
2	2008/09	54.80	71.60
3	2009/10	55.50	70.80
4	2010/11	56.20	70.00
5	2011/12	56.90	69.20
6	2012/13	57.60	68.40
7	2013/14	58.30	67.60
8	2014/15	59.00	66.80
9	2015/16	59.70	66.00
10	2016/17	60.00	65.89

The calculated and projected trend values of loan and advances to total deposit ratio of Nabil and SBI are fitted in the following trend line.

Figure 4.15 Trend Analysis of Loan and Advances to Total Deposit Ratio of Sample Banks

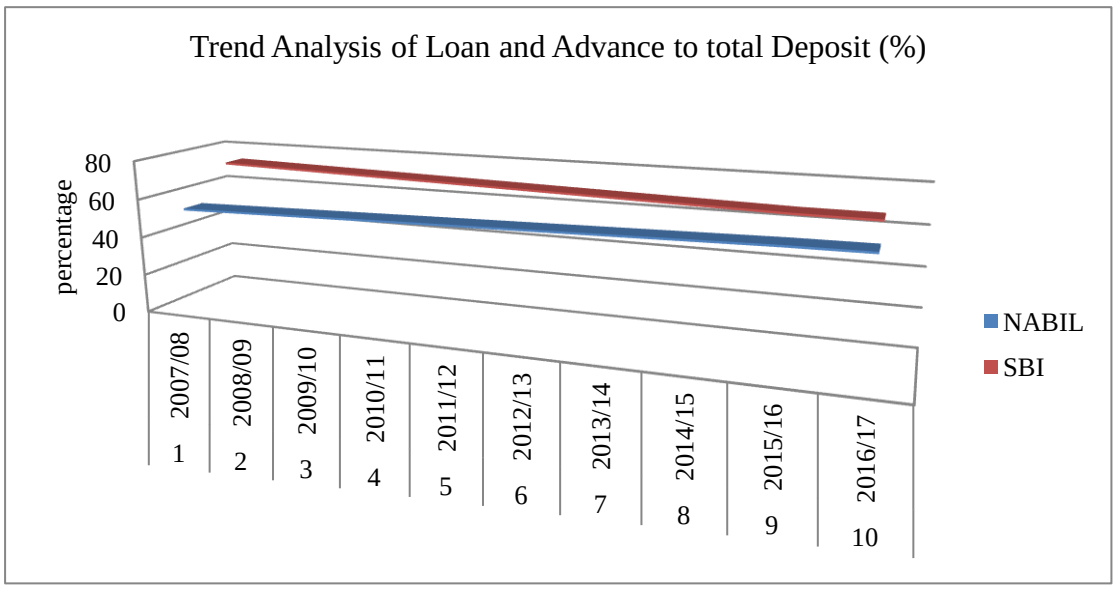

Fig:4.15

From the table 4.17 and graph, we can observe that ratios of loan and advances to total deposit of Nabil bank are in increasing trend but those of SBI bank are in decreasing trend. If our assumptions are applied the ratio of loan and advances to total deposit of Nabil will be 59.70% in the 2015/16 which is lower than that of SBI bank. Similarly, the ratio of SBI bank will be 66.00% investment policy the FY 2015/16.

From the above trend analysis, it is quite obvious that Nabil's deposit utilization position in relation to loan and advances to total deposit ratio is lower than the other bank but it has increasing trend. Its increasing trend ratio is higher than that of SBI bank. These indicate that Nabil may use relatively large portion of its deposit in providing loan. It is also found that Nabil may have better position in the future in the field of providing loan and advances.

4.2.2 Trend Analysis of Total Investment to Total Deposit Ratio of Nabil and SBI bank

The researcher has tried to calculate the trend values of total investment to total deposit ratio of Nabil and SBI bank for five years 2007/2008 to 20011/2012 and forecast for next five years from 2011/12 to 2016/17. The following table 4.15 shows the trend value of total investment to total deposit ratio of Nabil and SBI bank.

Table 4.18 Trend Analysis of Loan and Advance to Total Deposit Ratio of Banks (%)

S.N	Fiscal Year	NABIL	SBI
1	2007/08	33.569	7.476
2	2008/09	39.498	13.172
3	2009/10	45.427	18.868
4	2010/11	51.356	24.564
5	2011/12	57.285	30.26
6	2012/13	63.214	35.956
7	2013/14	69.143	41.625
8	2014/15	75.072	47.348
9	2015/16	81.001	53.044
10	2016/17	86.124	58.834

The calculated and projected trend values of total investment to total deposit ratio of Nabil and SBI bank are fitted in the following trend line

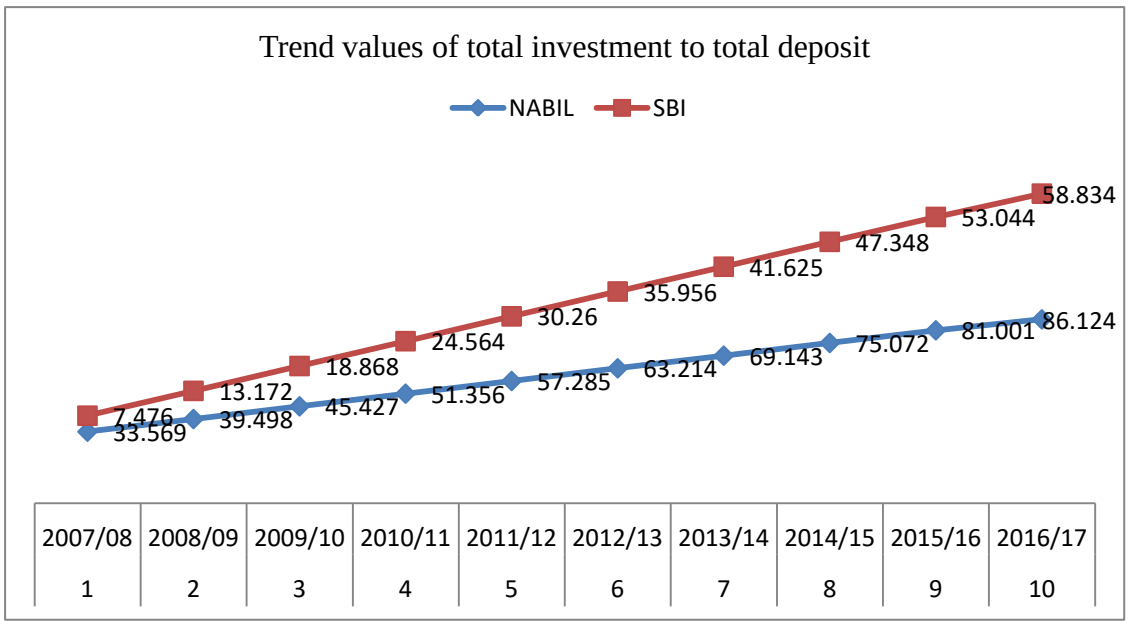

Fig:4.16

The table 4.18 and graph shows the ratio of total investment to total deposit ratio of Nabil and SBI bank. These ratios are in increasing trend for both the banks. If our assumption is applied, the ratio will be 86.124% and 58.834% for Nabil and SBI, respectively in the FY 2016/17.

From the above analysis, it can be concluded that Nabil's increasing trend ratio is 5.929, which is greater than that of SBI bank. It means Nabil may use relatively large portion of deposit for investment in different sectors.

From the above trend chart, it is found that Nabil has favorable condition than SBI bank for utilizing the total deposit towards investment.

4.2.3 Co-efficient of Correlation analysis

Under this, Karl Pearson's co-efficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, outside asset and net profit.

Co-efficient of Correlation between deposit and loan and advances

Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. The purpose of correlation analysis between deposit and loan and advances is to find out whether the deposit is significantly used as long and advances or not. In this analysis, deposit is considered as independent variables, (x) and loan and advances as dependent variables (y)

Table 4.19 Co-efficient of Correlation between deposit and loan and advances

Evaluation Criteria	NABIL	SBI
R	0.45	0.88
r^2	0.20	0.78
P.E.r	0.11	0.03
6 P.E.r	0.65	0.18

Source Appendix

Table 4.19 depicts the value of r, r^2, P. E. r and E. r between deposit and loan and advances of Nabil and SBI bank for the period of 2012/2013 to 2016/2017 are tabulated.

From the above table, it is found that the co-efficient of correlation (r) between deposit and loan & advances of Nabil and SBI bank are 0.45 and 0.88 respectively. It shows the highly positive relationship between these two variables. However, co-efficient of determination i.e. r^2 of Nabil bank is 0.20, which means that the 20% of dependent variable i.e. loan and advances has been explained by the independent variable i.e. deposit.

Co-efficient of determination i.e.r^2 of SBI bank is 0.78, which means that the 78% of dependent variable i.e. loan and advances has been explained by the independent variable i.e. deposit. Moreover, while considering the probable error, in case of Nabil bank r^2<6P.E.r i.e. 0.20<0.65 and in case of SBI bank r^2>6P.E.r i.e. 0.78>0.18.

From the above analysis, it can be concluded that the value of 'r' is significant. There is significant relationship between deposit and loan and advances of Nabil and SBI bank. It also reveals that these two banks are successful in mobilizing their deposit as loan and advances. SBI bank has higher value of 'r' indicating that it has better position in mobilizing deposit as loan and advances in comparison to Nabil bank.

Table 4.20 Co-efficient of Correlation between deposit and Total Investment

Evaluation Criteria	NABIL	SBI
R	(0.15)	0.50
r^2	0.02	0.25
P.E.r	0.13	0.10
6 P.E.r	0.79	0.61

Source: Appendix

The above table 4.20 shows the value of r, r^2, P. E. r and E. r between outside assets and net profit of Nabil and SBI bank for the period of 2012/2013 to 2016/2017.

From the table 4.20, it is found that the co-efficient of correlation (r) between outside assets and net profit of Nabil and SBI bank are (0.15) and 0.50 respectively. It shows that there is negative relationship between the variable of Nabil bank. But, there is positive relationship between the variables of SBI bank. However, co-efficient of determination i.e. r^2 of Nabil bank is 0.02, which means that the 2% of dependent variable i.e. net profit has been explained by the independent variable i.e. outside assets. Co-efficient of determination i.e. r^2 of SBI bank is 0.25, which means that the 25% of dependent variable i.e. net profit has been explained by the independent variable i.e. outside. Moreover, while considering the probable error, in case of Nabil bank r^2>6P.E.r i.e. 0.02>0.79 and in case of SBI bank r^2<6P.E.r i.e. 0.2<0.61.

Here we can observe that Nabil bank is not capable to earn net profit by mobilizing its outside assets. In case of SBI bank, there is positive correlation between outside asset and net profit. The relationship is significant and the value of 'r^2' shows high percent in the dependent variable, which has been explained by the independent

variable. Above analysis indicates that SBI bank has significant correlation between mobilization of funds and returns.

4.3 Major Findings of the Study

The main findings of the study are derived with the help of analysis of financial data of Nabil and SBI bank.

1. Liquidity Ratio

The liquidity position of Nabil and SBI bank reveals that:

- The mean ratio of cash and bank balance to total deposit of Nabil bank is less than that of SBI bank. It states that liquidity position of SBI bank is better than that of Nabil bank.
- The mean ratio of cash and bank balance to current assets ratio of Nabil is less than that of SBI bank. But, Nabil bank has higher consistency than SBI bank, which indicates that Nabil has utilized its funds more efficiently.
- From the analysis of current ratio, it is found that Nabil bank has maintained lower current ratio than that of SBI bank, which indicates that liquidity position of SBI is better than that of Nabil bank.
- The mean ratio of loan and advances to current assets of Nabil bank are lower than that of SBI bank but its ratios are more consistence that of SBI bank. It reveals that Nabil provides less loan and advances in comparison to the SBI bank.

The above result shows that the liquidity position of Nabil is comparatively lower than SBI bank. It has lower cash and bank balance to total deposit, cash and bank balance to current assets ratio and loan and advances to current assets but it has average consistency. IT has maintained highest ratio on investment on government securities to current assets.

2. Asset Management Ratio

The asset management of Nabil and SBI bank shows that:

- The mean ratio of total investment to total deposit of Nabil is higher than that of SBI bank, which indicates that Nabil is successful in utilizing its deposit in a better way.
- The mean ratio of loan and advances to working fund ratio of Nabil is lower than that of SBI bank, which indicates that it is utilizing its fund lower than the SBI bank.
- The mean ratio of loan and advances to total deposit of Nabil is lower than that of SBI bank. But Nabil has less CV than the SBI bank, which indicated that loan and advances of Nabil bank are stable and consistent.
- In case of investment on government securities to total working fund ratio, Nabil has higher mean ratio than the SBI bank. It indicates that the investment policy of Nabil is better to utilize its working fund in comparison to the other bank.

From the above analysis, we can conclude that Nabil bank has highest investment in government securities and lower into shares and debentures. And, Nabil bank has stable and consistent ratios than the other bank.

3. Profitability and Risk Position

The analysis of profitability ratio of Nabil and SBI bank shows that:

- The mean ratio of return on loan and advances of Nabil is higher than that of SBI bank. There is consistency in return of Nabil than that of SBI bank.
- The mean ratio of total interest earned to total outside assets of Nabil is lower than SBI bank. It indicates that Nabil has lower position in income earned form total outside assets than SBI bank.

- ❖ The mean ratio of return on total working fund ratio of Nabil is higher than that of SBI bank and it is more consistent. Nabil bank is successful to maintain higher ratio investment return on total working fund.

- ❖ The mean ratio of total interest paid to total working fund of Nabil is lower than SBI bank which means that Nabil has paid low interest than the SBI bank.

4. Risk Ratio

The risk ratios of Nabil and SBI bank reveal that:

- ❖ Nabil has maintained higher mean ratio of capital risk than SBI bank. The ratio of Nabil bank is more consistent than SBI bank.

- ❖ The mean ratio of liquidity risk of Nabil is lower than that of SBI bank.

- ❖ The mean ratio of credit risk of Nabil is lower than that of SBI bank. This ratio of Nabil bank is less variable than that of SBI bank.

From the above findings, we can conclude that Nabil has average risk ratio. The bank should maintain risk against credit fund to earn high profit.

5. Trend of Total Loan and Non-Performing loan

The trend analysis and projection for next five years of Nabil and SBI bank reveals that:

- ❖ The trend analysis of loan and advances to total deposit ratio of Nabil bank has increasing trend but that of SBI bank has decreasing trend. Nabil's increasing trend ratio 0.70 and SBI bank has decreasing trend ratio by (0.80). The increasing trend ratio of Nabil bank shows the better future of Nabil bank.

- ❖ The trend analysis of total investment to total deposit ratio of these two banks have increasing trend. Nabil's increasing trend ratio is 5.929 and that of SBI

bank is 5.696. The increasing trend ratio of Nabil bank shows its better future condition for utilizing the total deposit towards investment.

From the above findings, it can be concluded that, Nabil may use relatively large portion of their deposit to investment in the potential sectors of the country. If it is able to do so, Nabil may have better position in the banking sector.

6. Coefficient of correlation analysis

Coefficient of correlation analysis between different variables of Nabil and SBI bank shows that:

- Coefficients of correlation between deposit and loan and advances of these two banks have positive relationship between the variables. Nabil has the lower value of coefficient of correlation between deposit and loan and advances than the SBI bank. This indicates that SBI bank's position is better than Nabil bank in mobilizing the deposit as loan and advances.

- Coefficient of correlation between deposit and total investment of Nabil is higher than that of SBI bank. It shows the positive relationship between the variables.

From the above findings, we can observe that there is significant relationship between deposit and total investment and deposit and loan and advances but negative relationship between outside assets and net profit of Nabil bank. All the variables of SBI bank have positive relationship with each other.

CHAPTER V

CONCLUSIONS

In this chapter we present the summary and conclusions flown from the analysis in the preceding chapter. Then, based on the finding and our conclusion we recommend certain measures for further improvement. With the help of some important financial as well as statistical tools, the researcher has tried to make a comparative analysis of several of the investment of the concerned commercial banks.

After completing the basic analysis required for the study, the researcher has tried to point out some problems and errors and also has some suggestions for further improvement. This study may be helpful for the management of concerned bank to initiate the action and achieve the desired result.

5.1 Summary

The economic development of a country depends upon the development of the commerce and industry. There is no doubt that banking promotes the development of commerce because banking sector itself is the part of commerce. The process of economic development depends upon various factors. However, economists are now convinced that capital formation and its proper utilization plays a paramount role for rapid economic development. The economic growth was quite sluggish during the first three and a half decade during the Maoist insurgency and later on, the growth rate has been quite dismal. At present, overall economic growth rate is still declining year by year. Reasons behind such decline are insecure economic condition, decrease in the tourist arrival decreasing production and export of carpet, garment and Pashmina industry and political situation of the country.

The evolution of the organized financial system in Nepal has recent history than in any other countries of the world. In Nepalese context, the history of banking is hardly seven decade. However, after the announcement of liberal and free market economy based policy, Nepalese banks and financial sectors started having greater network and access to national markets. Commercial banks play a vital role, which deals with other

people's money, and stimulate saving by mobilizing idle resources to those sectors where the objectives opportunities as available. Modern banks provide various services to their customers in view of facilitating their economic and social life. The objective of the commercial banks is always to earn more profit by investing or granting loan & advances to the profitable, secured and marketable sectors. But they should be careful while performing the credit creation function; the banks should never invest its funds in those securities, which are of fluctuating nature. And, commercial banks must follow the rules and regulations as well as different directions issued by central bank and ministry of finance while mobilizing the funds. For the purpose of the present study two commercial banks namely Nabil and SBI, were taken. In this study, the word investment covers analysis wide range of activities i.e. the investment of income, saving or any other collected fund. If there is no savings, there is no existence of investment. Saving and investment are inter-related. Investment policy is a facet of the overall spectrum of policies that guides banks' investment operations and it ensures efficient allocation of funds to achieve the economic development of the nation. A sound and viable investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. Therefore, the investment policy should be carefully planned and analyzed. Some sources of funds for the investment of bank are capital, general reserves, accumulated profit, deposits and internal & external borrowings. Similarly, some important banking terms, which are frequently used investment this study are loan and advances, investment on government securities, shares and debentures, deposits, etc.

For the analysis and interpretation of the data of this study, different financial & statistical tools are used. In the financial tools liquidity ratios, asset management ratios, profitability ratios, risk ratios and growth ratios have been used. The statistical tools such as mean, standard deviation, co-efficient of variation, mainly; the secondary data are used for the analysis in this study. The data are obtained annual report of concerned banks; likewise, the financial statement of five years i.e. 2013/2014 to 2016/2017 was selected for the purpose of evaluation.

5.2 Conclusion

The above-mentioned major findings led this study to the following conclusions:

- The liquidity position of Nabil is comparatively lower than SBI bank but it has the highest investment in government securities to current assets ratio.
- Nabil bank has highest ratio in investment to total deposit and government securities to total working fund but lower into shares and debentures to total working fund.
- Analyzing the profitability of these two banks, we found that return on total working fund and return on loan and advances of Nabil is higher than that of SBI bank. But, total interest paid to total working fund of Nabil is lower than that of SBI bank.
- From the viewpoint of the risk ratio, liquidity risk and credit risk of Nabil is lower than that of SBI bank whereas it is higher in case of capital risk.
- Through the help of the trend analysis we come to know that, loan and advances to total deposit and total investment to total deposit ratios of Nabil bank are greater than that of SBI bank. It suggests that the position of Nabil bank may be higher than SBI bank.
- SBI bank has good liquidity position and risk ratio.

Through the analysis and findings, we can summarize that investment policy of Nabil bank is better in every sector and profitability ratio is good. Similarly, this trend analysis of loan & advances and total investment to total deposits show that the position of Nabil will be better in the future. However, liquidity position and growth rate is not satisfactory and it has average risk ratio. In the case of SBI it has its good liquidity position as well as minimum risk in comparison to that of Nabil bank reference to capital risk ratio.

5.3 Implications

This study has several implications pointing to interesting avenue for the future research, this study is based on modern scenario of the banking and financial institutions. In current competitive financial markets the commercial banks their own strategies regarding liquidity management and raising the profitability.

1) The study may be literature and base research for further study in future.
2) The Chief Executive Officer (CEOs) of sample commercial banks may use the organized data of the study variables and the results to identify the liquidity position, management and the profitability.
3) On the basis of this study the bankers may formulate several strategic plan and policies to generate the profitability.
4) The study may be useful for investors and creditors to take investment decisions.
5) The study may be implacable for customers, deposit holders and households they consider about banking services that which banks gives more concern to liquidity management.
6) It is an academic document for the research candidate that may be basic evidence to get further study and getting job.
7) The bankers may use tools and techniques used in this study for the financial analysis.
8) The study depicts that sample banks are trying to manage liquidity effectively viewing to minimizing risks to generate maximum profit.

5.4 Recommendations

On the basis of analysis and finding of the study, following suggestion and recommendation can be advanced to overcome weakness, inefficiency and satisfactory improvement policy of Nabil & SBI Bank.

i. The cash and bank balance to total deposit measures the availability of bank's highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. The cash and bank balance of SBI with respect to deposit is better

against the readiness to serve its customer's deposit than Nabil. It implies that better liquidity position of SBI. In contrast, a high ratio of non-earning cash and bank balance may unfit, which indicates the bank's unavailability to invest its fund in income generation areas. Thus SBI is suggested to invest in more productive sectors like short-term marketable securities, treasury bills etc. insuring enough liquidity which will help the bank to improve its profitability.

ii. It is found that Nabil's loan and advances to total deposit ratio is comparatively the highest than SBI bank. SBI's ratios seem much lower than that of Nabil. So it is recommended that SBI should follow liberal policy, invest more and more percentage of total deposit in loan and advances and maintain more stability on the credit policy.

iii. The banks under study are also recommended to strictly follow the NRB directives regarding the loan classification. Since it is found that the banks under study has not been able to maintain certain standards as set by the NRB.

iv. There is highly positive correlation between the total deposit and loan and advances of Nabil and SBI bank Limited. So it is recommended for all the banks to increase their total deposit to make more loan and advances for the generating profit maximization.

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