CHAPTER-I

INTRODUCTION

1.1 Backgrounds of the Study

Liquidity refers to the ability of bank to ensure the availability of funds to meet financial commitment or maturing obligation at a reasonable price at all times. Bank liquidity means a bank having money where they need it particularly to satisfy the withdrawal needs of the customers. Liquidity is a financial term that means the amount of capital that is available for investment. Today most of the capital is credit fund. that is because the large financial institutions that do most investments prefer using borrowed money(felix and Claudine 2008). Profitability and liquidity are effective indicator of the corporate health and performance of not only the commercial banks, but all profit oriented ventures (Eljelly,2004). These performance indicators are very important to the shareholders and depositor who are major publics of banks.

Though the financial inter-mediation role, the commercial banks reactivate the idle funds borrowed from lenders by investing such funds in different classes of portfolios. The liquidity risk of banks arises from funding of long term assets by short term liabilities, thereby making the liabilities subject to roll over or refinancing risk. Liquidity risk is usually of an individual nature, but in certain situations may compromise the liquidity of the financial system. Liquidity risk management in banks is defines as the risk of being unable either to meet their obligation to depositors or to fund increases in assets as they fall due without incurring unacceptable costs or losses. Effective liquidity risk management helps ensure a bank's ability to meet its obligations as they fall due and reduce the probability of an adverse situation developing (Ahmad, 2009)

A bank is responsible for the sound management of liquidity risk. A bank should establish a robust liquidity risk management framework that ensures it maintain sufficient liquidity, including a cushion of unreimbursed, high quality liquid assets, to withstand a range of stress events,including those involving the loss or impairment of both unsecured

funding source. Supervisors should assess the adequacy of both a bank's liquidity risk management framework and its liquidity position and should take prompt action if a bank is deficient in either area in order to protect depositors and to limit potential damage to the financial system (Kumar and Yadav, 2013)

Profits are a necessary and a goal for many firms. Finance manager mostly direct their efforts to this goal in order to grow shareholders' worth and survive. The role of commercial banks has remained central in financing economic activities in the various segments of the markets. In order to do so they need to remain profitable. Therefore profit are not only a result, but also a necessary for successful banking in a period of growing competition on financial markets. Profit is the essential requisite of a competitive banking institution and the cheapest source of funds. Bank profits provide an important source of equity especially if re-invested in to the business. This should lead to safe banks, and as such high profits could promote financial stability (Olweny and Shipho,2011)

The understanding of firms profitability was advanced by earlier models that predicted which firms will earn high rates of return and how those rates can be sustained in a world in which profits attract entry. The main theories originated in the field of industrial organization (IO) IO theories the Market Power (MP) and Efficiency Structure (ES) were applied on performance of banks. Theoretical analysis shows

The word "Profit" implies a compensation of the operation of business between two specific dates, which are usually separated by an interval dated, which are usually separated by an interval of one year. In order to optimize those corporate course those of wealth in which national prosperity depends or those corporate financial objectives of the company is to maximize within social acceptable limits, profit from the use of the funds employed by them. The maximization of profit within a socially acceptable limit implies that a proper regard to public interests has been paid. No company survive long

without profit, for profit is the ultimate measure of its effectiveness and in capitalized society there is no is a profit, which really is a measure of how will a business performs economically; profit is signal for the allocation of resources and a yardstick for judging managerial efficiency *(Kulkarni 1987, P-245).*

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

Profit is vital to the success and survival of a business firm. Without profit panning, management cannot know the direction the business is taking out. Organizations that do not plan are likely to wonder aimlessly and ultimately succumb to the swirl of current events. Therefore, understanding of profit planning is very essential to conduct a business. Profit does not just happen; they are managed in an economy, if firm is not able to earn profit then it fails to hold the capital for long period. When business firm cannot hold to capital, it cannot secure and retain other sources, such as work force, machine, equipment etc. In other words, the more profitable firm/ enterprises are more attractive to the holders of the available capital (Saxena and Vasist, 2008).

The real banking started with the establishment of Nepal bank limited in 1994 B.S which was founded by JuddaSamser. It was the first bank of Nepal. Its main function was to provide loans and accept deposits. Later Nepal Rastra Bank was established as a central bank in 2013 B.S. Similarly, the joint venture of commercial banks were established in Nepal after the liberalization policy of Nepal especially after 1990 A.D.

In banking sector, under liquidity stand for availability of funds to meet financial commitment or maturing obligation at a reasonable price at all times. Bank liquidity means a bank having money where they need it particularly to satisfy the withdrawal needs of the customers. Hence, this chapter mostly focused on the banking terms while analyzing the liquidity and profitability of sample joint venture commercial banks. Liquidity and profitability analysis in banking sector is necessary to find out the liquidity position and profitability position of joint venture commercial banks.

1.2 Statement of the Problem

The major problem in almost all underdeveloped countries like Nepal is the lack of capital formation and their proper mobilization. In such countries, commercial banks should act as a development bank. Nepal is a small and poor country even though she has sufficient natural resources. To utilize those resources, capital is required. Commercial banks gather monetary resources from different areas in the form of deposits and provides loan to investing areas like industry, agriculture etc. Therefore the fate of the country is greatly determined by the active role of commercial banks. Banks provide facilities to their customers by providing loans, remitting funds, purchase and sale of bills and other market information. These services help to run the business and other economic activities rapidly as well as smoothly which ultimately helps in economic development (Sayers,2009).

Profitability ratios are often used in a high esteem as the indicators of credit analysis in banks, since profitability is associated with the results of management performance. ROE and ROA are the most commonly used ratios, and the quality level of ROE is between 15% and 30%, for ROA is at least 1% (Waymond,2007).

The present study seeks to explore the efficiency and weakness of sample banks with the help of liquidity and profitability ratio. These banks are competing in the same economic environment and financial market and are operating fully under computerized system to meet the growing competition in banking system.

Liquidity and profitability management is an important function of any business because it is the determinant of whether the entity will be in operation in the foreseeable future. Moreover, a position considered adequate for a bank in one time period may not be so in another. This study especially answers the following questions:

1. What is the liquidity position of the sample banks?
2. what is the profitability position of sample banks?
3. Is there relationship between total loan and advances and net profit?

1.3Objective of the Study

The main objective of the research is to study the financial performance of EBL through liquidity and profitability analysis. The other objectives are as follows:

1. To evaluate the liquidity position of banks.
2. To analyzed and compare the profitability of sample banks.
3. To test the relationship between total loan and advances and net profit.

1.4Significance of the Study

Liquidity and profitability position plays vital role in the economic growth of an organization. Every organization has to analyse its financial performance in every step of its operation, promotion, and expansion. There should be an appropriate equilibrium between the earning and non-earning assets. Commercial banks are always guided by the objective of profitability. There should be an effective system of funds allocation in order to safeguard the banks from the danger of liquidity. An appropriate level must be achieved between them.

The study like this will be most important for the bankers, economists, shareholders, financial agencies, stock exchange, stock traders, customers, depositors, and debtors who can objectively identify the better banks to deal with. It provides the literature to the researcher who wants to carry research in the future in this field.Thus, it realizes the

necessity to evaluate the liquidity and profitability position and this study will be a helpful tool for maintaining balance between principalities of liquidity and profitability.

1.5Limitations of the Study

Each and every study has its own limitation. Since this study is conducted for the partial fulfillment of MBS it possesses limitation of its own kind which are depicted as under.

1. This study is based on only two joint venture commercial banks as a representative of Joint venture commercial banks in Nepal.Thus,its findings can not be generalized in all the commercial banks.
2. This study is covered the relevant data of five years from fiscal year 2011/12 to 2015/16. Thus, it cannot be measure in other year.
3. This study is based on secondary data. so it cannot be perceived by organization.

1.6 Organization of the Study

The organization of the study can be classified into five chapters. Each chapter is describing below:

Chapter I: Introduction

The first chapter is introduction which provides an overall description of the study to be carried out. It includes background of the study, statement of the problem, objective of the study, significances of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

Review of literature has mainly two parts. One is conceptual framework and other is review of related studies. This chapter includes conceptual reviews of liquidity abd profitability Analysis and Reviews of previous studies.

Chapter III: Research Methodology

It gives the idea of research design, sources of data, method of data collection procedure, Data collection tools and techniques of analysis.

Chapter IV: Presentation and Analysis of Data

This chapter includes analyzes of the data, figures of the table and graphs and interpretation of the data.

Chapter V: Summary, Conclusion and Recommendation:

This chapter includes Reports finding that are related to the purpose of the study, Summarize the finding, Conclusion of the study clearly and Recommendation for future study that are realistic and applicable

CHAPTER-II
REVIEW OF LITERATURE

The review of literature is presented as consisting conceptual review and theoretical review in the following manner.

2.1 Conceptual Review

Financial institution is the lifeblood of economic development of the country. Generally, an institution established by law, they simply comes out the work of exchanging money, providing loan, accepting deposit and transferring the money. They help to mobilize the frizzed and scattered saving of the people and play an intermediary role to make investment of the collected fund in different productive sectors. They purse economic growth rapidly developing the banking habit among the people by collecting the small scattered resource in one bulk, using them in the future productive purpose and rendering other valuable service to the country.

Financial market and institutions play a predominant role in the transmission of the macro-financial policy actions to the various sectors of the economy. The role of financial sector has made everyone to have their specific goals attuned to take tangible financial benefits from the efficient functioning of the financial system. In broader understanding prosperity and development of every nation depend much on the manner how financial market plays a role in the transfer of funds from savers to users. The total networks of the financial system in the economy constitute financial institutions and countless cooperatives. These institutions differ in age, scope, size, capital base, magnitude, function, and risk-return consideration. Because of the government's economic and financial liberalization policies, funds transfer effects between users and suppliers of capital tend to be positive.

Banks are the most important and essential financial institution in nay nation. A bank can play an important role in the development of the nation. Without economic development, we cannot get a certain economic growth rate. Bank helps to utilize the capital and

provide loan for the business sector. There is no possibility of economic development of a banking system. Therefore, a bank is necessary to make all round economic development.

A bank is one who is ordinary course of his business receives money which repays by honoringcheque of person from whom of on whose he receive it.

“A banker or a bank is person firm or company having a place of business where credits are opened by the deposit or collection of money or currency subject to be paid or remitted upon draft cheque or order of where money is advanced or loaned on stocks, bonds, billions of bills of exchange, and promissory notes are received for discount and sale.” (Upadhya&Tiwari, 1982, pg- 167)

A single banking institution cannot offer all the services hence different types of banks, e.g., commercial banks, development bank, merchant bank, industrial bank, insurance company, etc emerged in the financial institution to concentrating in particular sectors.

Taking the case of our own country, financial system is slowly bringing significant macro-economic policy transformation effect as well as multiplying financial fortunes of the individual investors actively participating in financial markets. Moreover, the government’s role is proving vital to the growth of financial institutions and financial market. In our own country, the short financial history shows totally government initiated and to what extent there has been a major dominance of the single commercial bank namely, Nepal Bank Limited for a number of consecutive years to perform the major banking functions.

2.1.1 Financial Statement Analysis

Financial analysis means the analysis of financial statement. It is the process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and the income statement. It also provides the framework for financial planning and control. A financial manager needs

information provided by the analysis both to evaluate the firm's past performance and to framework for future planning and policies. Financial analysis is not possible without availability of the financial statements, but what information to be picked from financial statements depends upon the wisdom and the skill of the financial analyst. Financial information helps to analyse the performance and position of the company in a right way.

Financial statement analysis is important not only for the firm's mangers, but also for the other stakeholders like employees, researcher, government and their agents, but it is more useful to the managers internally and to the stakeholders externally. Internally, the financial managers use the information provided by the financial analysis to help to take financing and investment decisions. Externally, the other stakeholders use financial statement analysis to evaluate the attractiveness of the firm.

2.1.2 Income Statement

Income statement is a statement summarizing the firm's revenues and expenses over an accruing period, generally a quarter or a year. The income statement is also known as profit and loss account.

The income statement of commercial banks is a statement of banks earning power and cost. Banks have to be efficient to prove their viability depending upon their income generating power and cost minimizing strategy. The success of failure of bank is determined by the difference between income and expenditure. Income statement shows the net result of the business operations. The income statement reflects the earning capacity of the bank. Generally, banks earn profit by providing higher rate of interest on loan than the rate of interest paid on deposits. The income statement also includes non-interest income and non-interest expenses.

2.1.3 Balance Sheet

Balance sheet is a statement of the firm's financial position of a specific point and time. The balance sheet is a list of the firm's assets and liabilities at that movement. The difference in assets and liabilities is the net worth of the firm also called stockholders or stockholders' equity. Like income statement balance sheet is standardized in presentation.

The balance sheet of commercial bank is a statement of the total assets liabilities of a bank at a particular date usually the last day of the accounting period. In fact, commercial banks are able to form concrete opinion about the interest earning assets that include mostly loan and investment and interest paying liabilities that cover mainly deposit and borrowing. As such balance sheet is the most important financial statement that helps the bank to have indicative signal of the financial condition and position. Further, the thorough study of balance sheet provides and contributes more other information about the resources and obligations of a bank.

2.1.4 Loan Management

The term 'loan' refers to the amount borrowed by one person from another. The amount is in the nature of loan and refers to the sum paid to the borrower. Thus, from the view point of borrower, it is 'borrowing' and from the view point of bank, it is 'lending'. Loan may be regarded as 'credit' granted were the money is disbursed and its recovery is made on a later date. It is a debt|for the borrower. While granting loans, credit is given for a definite purpose and for a predetermined period. Interest is charged on the loan at agreed rate and intervals of payment. 'Advance' on the other hand, is a 'credit facility granted by the bank. Banks grant advances largely for short-term purposes, such as purchase of goods traded in and meeting other short-term trading liabilities. There is a sense of debt in loan, whereas an advance is a facility being availed of by the borrower. However, like loans, advances are also to be repaid. Thus a credit facility-repayable in installments over a period is termed as loan while a credit facility repayable within one year may be known

as advances. However, in the present lesson these two terms are used interchangeably. (federal reserve bank 2001)

2.1.4.1 Utility of Loans and Advances

Loans and advances granted by commercial banks are highly beneficial to individuals, firms, companies and industrial concerns. The growth and diversification of business activities are effected to a large extent through bank financing. Loans and advances granted by banks help in meeting short-term and long term financial needs of business enterprises. It can discuss the role played by banks in the business world by way of loans and advances as follows:-

1. Loans and advances can be arranged from banks in keeping with the flexibility in business operations. Traders may borrow money for day to day financial needs availing of the facility of cash credit, bank overdraft and discounting of bills. The amount raised as loan may be repaid within a short period to suit the convenience of the borrower. Thus business may be run efficiently with borrowed funds from banks for financing its working capital requirements.
2. Loans and advances are utilized for making payment of current liabilities, wages and salaries of employees, and also the tax liability of business.
3. Loans and advances from banks are found to be 'economical' for traders and businessmen, because banks charge a reasonable rate of interest on such loans/advances. For loans from money lenders, the rate of interest charged is very high. The interest charged by commercial banks is regulated by the Reserve Bank of India.
4. Banks generally do not interfere with the use, management and control of the borrowed money. But it takes care to ensure that the money lent is used only for business purpose.
5. Bank loans and advances are found to be convenient as far as its repayment is concerned. This facilitates planning for future and timely repayment of loans. Otherwise business activities would have come to a halt.

6. Loans and advances by banks generally carry element of secrecy with it. Banks are duty-bound to maintain secrecy of their transactions with the customers. This enhances people's faith in the banking system.

2.1.4.2 Objectives of loan/Credit Policy

Credit is always a matter of judgment, based on one's own experience and conviction. The ultimate result may be either good or bad of loan approval and from such experience one has to arrive at a proper credit policy. Encouraging maximum number of loan of small amounts ensures liquidity and with less incidence of bad loan. Concentration in particular type of loan should be avoided. Necessary conditions have to be incorporated in the sanction letter of loan for safety and liquidity of loans, performing loans have multiple benefits to the society were as non performing loans erodes even existing scared loan. The objectives of a written loan policy are to assure compliance by lending personnel with the banks policies and objectives regarding the portfolio of loans, to provide personnel with a framework of standard with they can operate. *(Dahal, 2002:115*) The objectives of sound credit policy are as follows:

a) To have performing assets

Performing assets are those loans that repay principal and interest to the bank from the generated cash flow. The basic objective of sound loan policy is to maintain the financial health of the bank which results in the safety of depositor's money and increase in the returns to the shareholders.

b)To Contribute to Economic Development

Sound loan policy says that loans are given to the productive sector which multiple benefit to the society as direct and indirect employment generations, capital creation tax to the government, uplift the living standard of the people and many more.

c) There should not be any discrimination whether he deals with one officer or another and one branch or another. There should be a uniform standard procedure throughout the organization, which helps, in consistent judgment by individual loan officers.

d) Periodic follow of each essential for proper implementation of any loan policy. A sound policy helps in identifying the deviation between actual and standard performance along with corrective action to be taken.

2.1.4.3 Components of Loan Policy

Normally the established loan policy consists following components (*Dahal, 2002:116)*

Loan volume

The policy should contain the credit deposit ratio of the bank has to maintain. Credit ratio is much influenced by the behavior of the bank's liabilities. High volatility of deposit and borrowing will result low loan volume and vice versa. Bank should fix amount granted to single borrower as per the regulatory authorities.(Dahal 2002)

Loan mix

Banks should loans to various sectors for its long term survival. It should not put all its fund in one sector even through the sector is doing well. Investment is only one sector may cause bankruptcy of the bank. Even if two individual borrowers of two sectors same level of risk, the portfolio risk is minimized due to diversification. Similarly, there must be clear cut specification regarding the short term and long term loan mix which is very much affected by deposit mix and interest rate movement.(Dahal 2002)

Pricing

Being the custodian of public money, the banks should not take the risk beyond certain level irrespective of how high the lending rate. There is practice in fixing prime lending rate. Based on the risk, certain percentage is added in the prime lending rate. The rate follows higher the risk, higher will be rate and vice versa. The policy should specify whether the bank adopts fixed or floating or mixed type of interest in its loan portfolio (.Dahal 2002)

Lending Authority

It is one of the most critical aspects of loan management. The lending authority of bank adopts both centralized and decentralized approach. A certain limit is given to the branch office staffs and beyond the branch limit the proposal should be submitted to head office.

The last lending authority of bank is the board of directors having cap like single borrower limit prescribed by NRB. Nowadays some bank tied up this lending authority on the basis of knowledge and experience of lending staff not on the basis of level of the staffs.(Dahal 2002)

Securities

The loan policy should prescribe the acceptable securities of the bank. Some banks accept bullions and personal guarantees as securities whereas other go more than and demand collateral like land, building, etc. likewise, policy should cover the selection of valuators. The factors like marketability, convenience and transferability should be considered while selecting the securities. (Dahal 2002)

Risk Analysis

The policy should states the acceptable criteria of the borrowers for granting loans. The policy should specify the acceptable liquidity, leverage, coverage, efficiency and Profitability ratios so that there can be consistency in the risk perceived by all lending officials. (Dahal 2002)

Loan administration and control mechanism

Structure of loan administration plays important role in the loan management. As loan is the risk assets, there should be proper control in every steps of loan management. The banks having separate department for credit appraisal, documentation, disbursement, relationship maintenance and inspection can find the mistake of one department by others which helps in maintaining the non performing assets as low level. (Dahal 2002)

2.1.4.4Factors Affecting Credit Policy

A credit policy is a set of decisions that includes a firm's credit standards. Setting a credit standards implicitly require a measurement of credit quality that is define in terms of the probability that a customer will default, hence not repay the credit. The estimation of probability for a given customer is for the most part of the judgment. Credit evaluation is a well- established practiced, and a good credit manager can make reasonably accurate

judgments of probability of default exhibited by different classes of customers. Here are some factors, which affects the credit policy of the commercial banks. Before setting a credit policy, credit managers need to analyze the following factors carefully.(AmoAgyapong 2014)

Industry Environment

It determines the nature of the industry structure, its attractiveness and the company's position within the industry. It helps to determine the company's overall positions on behalf of environment.

Financial Condition

It refers to the borrower's capacity to repay through cash flow as the first way out basis. Collateral liquidation is assessed. Furthermore, the possibility to fall back on income of sub concerns in case of financial crisis of the company condition there after repayment capacity assessed.

Management Quality

It determines the integrity, competence and nature of alliances of borrower's management team, weakness in replacement needs to be evaluated.

Technical Strength

It determines the strength and quality of the technical support required for sustainable operation of the company in terms of availability of work force and technology used. Appropriate technical competencies of the workers, the viability of the technology uses, availability of after sales services, cost of maintenance and replacement need to be evaluated**.**

Security Realization

It determines the control over various securities obtained bank to the loan provided excitability of the security documents and present value of the properties mortgaged with the bank. Weakness in security threatens the bank is secondly way out.

Lending Criteria

Best credit standard need to be set for lending criteria. Credit standards refer to the strength and credit worthiness a customer exhibit in order to quality for credit. The firm's credit standards are applied to determine which customers qualify for the regular credit terms and how much credit each customer should receive. The methods used to measure credit quality are concerned with evaluating the five areas. Generally, they are considered important to determine a customer's credit worthiness, whether the customer is business or individual.

Character:

It refers to the likelihood that a credit customer will try to repay the debt. Character of a borrower is the most important issue in credit evaluation performances, both for businesses and for individuals. Credits reports will be discussed in details to determine credit reputation; talking with its bankers, its suppliers, its customers and even its customers. It is extremely important in determining whether the credit will be granted.

Capacity:

It is subjective judgment of a customer's ability to pay. Capacity is a measure of the ability of the of the credit customers to generate cash sufficient to service the debt. Evaluation of this factor is based on primarily on the cash income received by the borrower. It is gauged in part by the customers past record can be observations of firms' plants and stores.

Capital:

It is measured by the general financial condition of the borrower as indicated by an analysis of financial statements. Special focus is given to the ratios such as current ratio, debt to assets ratio, time interest earned ratios etc.

Collateral:

It is the security proposed by the borrower. It is represented by assets offer to obtain credit by borrowers.

Conditions:

Condition both refers both general economic trends to special developments in certain geographic regions. It may affect the borrower's ability to meet its obligations.

2.1.4.5 Lending / credit process

Commercial bank follows several steps to disburse loan to the borrowers. The lending policies might be different form one bank to another. In general, steps are as follows. Application: the needy are required to submit an application to the bank along with required documents. The documents required for credit proposal appraisal and processing by banks are as follows:

Loan application, Citizenship certificate of applicant, Firm/ company registration certificate (if self employed) ,Income tax registration certificate (if self employed) Authenticated partnership deed in case of partnership firm, and memorandum and article of association in case of company Attested copy of board resolution in case of company resolved to avail loan and banking facilities form bank against the pledge, hypothecation, and mortgage of fixed property owned by company or property of third party named. Letter of authority authorizing to sign loan deed and other relevant document paper, which are deemed necessary while dealing with bank on behalf of firm/company. Feasibility report/scheme (for new project) (Walter McLaughlin 2012)

2.1.4.6 Directives Relating to Loan Classification and Loan Loss Provisioning

Banks should classify outstanding loans and advances based on aging of principal amount. Loans and advances should be classified into the following four categories:

a) **Pass:** Loans and Advances whose principle amount are not past due and the past due for a period up to three months shall be included in this category. These are classifies and defines as Performing Loans.

b) **Substandard:** All loan and advances that are past due for a period of 3 months to 6 months shall be included in this category.

c) **Doubtful:** All loans and advances, which are past due for a period of 6 months to 1 year, should be included in this category.

d) **Loss:** All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loans and advances falling in the category of sub-standard, doubtful and loss are defined as non-performing loan. Here, if it is appropriate in the views of the bank management, there is not restriction in classifying the loan and advance from new risk category to high-risk category. For instance, loans falling under sub- standard category may be classified in to doubtful or loss and loans falling under Doubtful may be classified into loss category. In addition, the term Loans and Advance also include Bills Purchased and Discounted.

Loan Loss Provisioning

The Loan Loss Provisioning, based on the outstanding loans and advances and bills purchased as above should be provided as follows:

Table 2.1

Loan loss provisoning

Classification of Loan	**Loan Loss Provision**
Pass	1%
Sub-Standard	25%
Doubtful	50%
Loss	100%

Loan loss provision set aside for performing loans is defined as General Loan Loss Provision and loan loss provision set aside for non-performing loan is defined as Specific Loan Loss Provision.(Marquis Codjia 2017)

2.1.5Concept of Profitability and liquidity analysis

Profit: We have to clarify the meaning of profit first**.** Generally, profit is the making of gain in business activity for the benefit of the owners of the business whereas profitability indicates the ability to earn a profit. An Income Statement is traditionally used to measure

profitability of acompany.A pro-forma income statement shows projected profitability of company.

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

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

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

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

Simply, Profit means income over expanses. The basic objectives of running business organization are to generate profit. Profit is a reward for enterprise and the fourth factor of production. Profit determines the financial position, liquidity and solvency of the company. Profit result when selling price of the goods exceeds the cost of production. It serves as yardstick for judging the competence and efficiency of the management. Profit is primary measure for success of an organization.

Accountant defines profit as the excess of firms revenue over the expense of producing revenue in a given fiscal year i.e. Profit = total revenue – total expenses. For CVP analysis, this definition is applied. But Economist from time to time has expressed diverse and conflicting views about the profit.

Profits are residual income left after the payment of the contractual rewards to the other factor of production. He pays wages to the worker, rent on the land employed, interest on loan taken at the rate already been fixed by contract (Ahuja, 2001:933-943).

Profit planning is a fundamental part of the management function and is a vital part of the total budgeting process. Profit planning involves forecasting activity level in order to gain or maintain specified amount of profit. Under profit planning start is made from the end result. Profit figure is planned and activity level necessary for yielding that profit is attempted. The management should determine the profit goals and prepare budget that will lead them to the realization of these goals.

Profit planning is a short term financial plan. It is an action plan to guide manger in achieving the objective of a firm. A profit plan is a comprehensive plan of an enterprise for same specified period in future (Myers, 1995:250).

profits. Some of important factor affecting profit are selling price, cost, volume and product mix (Maheshwori, 2002:175-176).

Under profit planning, the ultimate objectives of management are to maximize profit over the long term consistent with its social responsibility. To plan profit intelligently, management needs to know:

1. The economic characteristics of the firms operation.
2. The nature of the market for its products
3. The cost of its factors of production: the material, the labor, the productive capacity, the capital.
4. The relationship of the price it can get for its good to the expenses of producing and selling those (Lynch & Williamson, 2003:100).

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

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

are examples of liquid assets. Therefore, liquidity is the state in which one can change its assets into cash soon.

Profitability tells us whether the business is "sustainable". Will it keep functioning? If a company is making a profit--even if only a little one--than it has no reason to close its doors. Similarly, liquidity tells us if the business has enough cash to pay its obligations. Dell (the computer company) has survived for years because it was profitable (until recently) even though it had billions of dollars in debt. Both are important, and neither measure alone can give you a true picture of any company's ability to continue. But at some point--if it doesn't gain profitability--it will fail (Lorenjo, 2010).

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

Net Profit after Tax- is calculated by then taking away overhead taxes, provision, bonus expenses from operating profit.

In accordance with the study Waymond A G. (2007), profitability ratios are often used in a high esteem as the indicators of credit analysis in banks, since profitability is associated with the results of management performance. ROE and ROA are the most commonly used ratios, and the quality level of ROE is between 15% and 30%, for ROA is at least 1%.Basically profitability can be described as a continuous process, where any good or services would create much more benefit than the consequences either in monetary terms and non-monetary terms. In terms of finance and account, profitability analysis means to determine the amount of the profit that a business can make with regards of cost and revenue, profitability analysis is very important to make an investment decisions. That's why profitability is one of the most important factor, which should be considered in

directing a business venture. Determining in which way assets will be available to a business or organization must be considered to use in evaluating profitability of all possible ventures and choosing the maximum paying in. In most of the case profitability is considered as the result of minimizing the various inputs to get the desired result. The least input required to get the optimum result is considered as more profitable. In the sector of real estate businesses profitability analysis should be done in terms of up front cost, interest on lending , valuation of property, opportunity cost, holding period cost etc.

Leverage Analysis

Leverage means ability to move a large object with a small force. For manager leverage means ability to achieve a large increase in profit (in percent) with only a small increase in sales. Managers need to decide how to structure the cost function for their organization. He should know the advantage and disadvantage of those costs. One of the major disadvantages of fixed cost is that they may be difficult to reduce quickly if activity levels fail to meet expectation, thereby increasing the organizations risks of incurring loss.

Leverage measure the proportion of fixed costs in a company's cost structure and is used as a indicator of how sensitive profit is to change in sales volume. It is greatest in companies that have high fixed costs and low per unit variable cost and vice versa. If a company has high operating leverage, then profit will be very sensitive to changes in sales, i.e., small percentage increase in sales yields a large percentage increase in profit.

2.2 Review of Previous Studies

2.2.1 Review of Articles and Journals

Shrestha (2013) conducted on *"Financing of PSE in Nepal* " published in The Economic review.His research reveals that i) Turnover of public enterprises is sometimes seriously hampered by not allowing public enterprises suffered from turnover due to lower price. ii) The fixed assets turnover is not much satisfactory as expected be achieved. Account receivable turnover of public enterprises is very high, collection period in aggregate records is taken at a period of nine months for all public enterprise. iv) There seems to be much fluctuation in inventory in turnover as it deviates from the lower of 1.09 to highest of 18. v) Most of the corporation have experienced lower turnover of working capital. vi) The net worth turnover shows two different results. Some public enterprises have lowest turnover but does not seem to be much deviated and some public enterprises faced serious variation in net worth turnover.

Olokoyo (2013) conducted on liquidity and profitability Model for Commercial banks".The main objective of the research is to assess the lending is to maximize profit and Commercial banks remain dominant in the banking system in terms of their shares of total assets and deposit liabilities and to investigate the factors that affect interest rates, degree of lending volume and collateral setting in the loan decision of bank. The researcher found that commercial banking witnessed an era of impressive profitability, characterized by high competition, huge deposits and varied investment opportunities; in an effort to make quick profits the commercial banks relied essentially on self liquidating loans and diversified their portfolio into less risky investments with safe margin. The current trend in banking and finance sector, suggest that the days of cheap profits are now over and only banks with well conceptualized lending and credit administration policies and procedures can survive the emerging competition. Similarly, Banks have to be careful with their pricing decisions as regards to lending as banks cannot charge loan rates that are too low because the revenue from the interest income will not be enough to

cover the cost of deposits, general expenses and the loss of revenue from some borrowers that do not pay. Moreover, charging too high loan rates may also create an adverse selection situation and moral hazard problems for the borrowers. Lastly the result also depicted that commercial banks remain dominant in the banking system in terms of their shares of total assets and deposit liabilities. Their total loans and advances, a major component of total credits to the private sector are still on the increase in spite of the major constraints posted by the government regulations, institutional constraints and other macro-economic factors.

A book of "Financial Markets & Institutions" written by Manohar K. Shrestha&DipakBahadurBhandari, a readable book with a general overview of financial market and institution dividing into different topics. On their view, financial market is a place that facilitates financing and investment of financial assets. Financial market operates the economic functions and finance functions. Commercial bank is the main financial institution. These types of banks' main functions are accepting deposits, providing loans and investments. Commercial banks have to maintain satisfactory level of liquid assets that are easy to sell at market price with less transaction cost. Nepal Rastra Bank has directed commercial banks not to have more than 0.5 present spread difference between lending and deposit interest rate although at present the interest rate comes within the range of 5% to 6%. In Nepalese context, commercial banks investment in government Treasury bill is more than 50% and then followed by 40% investment in foreign banks and other 10% in other sectors. The profitability of a commercial bank can be measured in various ways. Writer's main focus is placed on understanding net interest margin, return on assets and return on equity. In addition, bankers follow very closely the spread between the average rate on interest, earning assets and the average rate on interest paying liabilities. If the spread becomes negative as happened during period of the 1980s, many banks may suffer losses. In our country, the failure of the local commercial banks like Nepal Bank Limited and RastriyaBanijaya Bank compared to joint

venture commercial banks lies in their gross incompetence in the management of assets and liabilities.

Morris (1980) in a paper on "Latin America's Banking System in the 1980s," has concluded that most of the books concentrated on compliance with central bank rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. The author has further added that mismanagement in financial institutions has involved inadequate and over optimistic loan appraisal, high risk diversification of loan portfolio and investment, high risk concentration related parties lending, etc. are major cause of investment and loan that has gone bad.

Dr.Manohar K. Shrestha (2057) in his article "Commercial Banks Comparative Performance Evaluation" concluded that joint venture banks are new operationally more efficient having superior performance while comparing with local banks. Better performance of joint venture banks is due to their sophisticated technology, modern baking method and skill. Their better performance is also due to the government's branching policy in rural areas and financing PEs. Local banks are efficient and expertise in rural sectors but having number of deficiencies. So local banks have faced growing constraints of socio-economic, political system on one hand spectrum and that of the issues and challenge of joint venture banks commanding significant banking business on other spectrum.

Monetary policy for fiscal year 2009/10 NRB, central office, Baluwatar, Kathmandu, Nepal

Under the provision in Nepal Rastra Bank (NRB) Act 2002, the NRB has formulated and implemented five annual monetary polices so far. The focus of monetary policy has been to insure price, external and financial sector stability so as to create the environment supportive for high and sustainable economic growth.NRB issues new monetary policy on 2008 for F/Y 2008/09. The provisions under this policy are as follows:

I. The compulsory cash reserve ratio (CRR) has been kept unchanged at minimum 5% on account.

II. The bank rate has been kept unchanged at 6.25%. This rate has been used to impose penalty on the amount of shortfall of any commercial bank fails to maintain the CRR.

III. The refinance rate on export credit in Nepalese currency has been lowered by 1% point to 2.5% from 3.5%. The refinance rate to rural development banks however has been kept unchanged at 3.5%.

IV. The sick industries refinance rate has been kept unchanged at 1.5%.

V. The sick industry refinance facility of Rs. 2 billion has been continuing for 2008/09 as well. The sick industry refinance facility has been put in place since 2002/03.

VI. NRB will continue the refinance facility of R. 500 million, similar to sick industry refinance, on the loans used by dalits, indigenous backward madheshi and marginalized group as defined by the NGO and on the loans used for foreign employment with objectives of providing relief to these sections of society and promoting foreign employment.

VII. In the context of commercial banks providing substantial amount of short-term credit to the development banks and finance companies, the penal rate has been increased from 1.5% to 2% to check the misused of standing liquidity facility.

2.2.2 Review of Previous Thesis

In this section, different types of related research studies have been reviewed because change of duplication will be avoided from present study and some new change can be created for achieving the objective.

Vijay Kumar Yadav, MBS, 2011, on his unpublished thesis "A Comparative Study on Working Capital Management of NABIL and KBL," he found that the current ratio of NABIL is greater than KBL, so NABIL is better than KBL. Similarly, cash and bank balance to total deposit ratio of KBL is better. He found that net profit to total assets ratio of NABIL is better, it means NABIL utilizes its assets effectively than KBL, but KBL's ROA is more consistent on the view of interest earned to total assets, KBL is better than NABIL and return on deposit of NABIL is better but KBL is more consistent. Cash and bank balance of NABIL is getting better position.

KishorPoudel's (2002) on his unpublished thesis "Liquidity and Investment Position of Joint Venture Commercial Bank in Nepal" had made an attempt to evaluate liquidity and investment of JVBs' special reference to EBL and NABIL. He has concluded that liquidity position of EBL is comparatively better than NABIL. Growth rate of investment is higher in EBL than NABIL. A commercial bank at its own judgement may decide to maintain an appropriate level of liquid assets. There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. He further found the banks do not have constant and consistent liquidity and investment policy. So he has recommended exploring such investment and to increase its investment so share and debenture and the bank should have laid policy for timely review of portfolio and to maintain risk and return.

Mr.Tika Joshi (2011) on his Master's thesis, "A Comparative Study of Financial Performance of Nepal Investment Bank Ltd. and EBL," found that the liquidity position of Nepal Investment Bank Ltd. (NIBL) is comparatively better than EBL. NIBL has

highest current ratio, cash and bank balance to total deposit ratio and cash and bank balance to total deposit ratio and cash and bank balance to current assets ratio than EBL.

NIBL has been more successful in mobilization of its investment to total deposit saving deposit to total deposit ratio. On the other hand, EBL appears to be stronger in mobilization of total investment to total deposits.

The trend value of deposits, loan and advances, investment and net profit of EBL and NIBL are in an increasing trend.

Ashok Kumar Thakur (2010) on his thesis "Financial Performance Analysis of Commercial Banks of Nepal (Himalayan Bank Ltd. and NABIL) found the liquidity position of the banks is in fluctuating trend. The Himalayan bank's cash and bank balance to current assets, cash reserve ratio is more than NABIL, but current ratio of NABIL is more than Himalayan Bank. Return on equity, return on assets, return on total deposits and interest earned to total assets of NABIL is better than Himalayan Bank Ltd. So NABIL's profitability position is better than HBL. Investment trend, total deposit trend, net profit, operating income, interest earned, etc. of NABIL is increasing trend than HBL throughout the study period. All of correlation is almost positive relation.

ShreedharAdhikari (MBA 2001), on his thesis, "A Comparative Study of Financial Performance of Nepal SBI Bank Ltd. and Everest Bank Ltd.," found out the liquidity position of both banks. Overall liquidity position of EBL has found slightly stronger than the NSBI. It showed that EBL can to meet its current liabilities more efficiently than NSBI and concluded that both banks have used higher proportion of debt in their capital structure and also found that overall capital structure of NSBI appears more levered than the EBL. He suggested that both of banks have maintained NRB balance sheet to deposit ratio remarkable higher than the standard by NRB.

Shankar BahadurLimbu (2006), on his thesis, "A Comparative Study of Financial Performance of NSBI, EBL & NABIL," found that profitability position of NABIL is best, EBL has better position than NSBI. In terms of income structure, interest paid to

interest income, ROA, ROE, etc reflects that NABIL is most capable to utilize the fund to productive sector and EBL pays highest amount of interest.

Liquidity position of three sample banks is good because cash and bank balance to deposit ratio of NSBI, EBL & NABIL shows that the three banks have constantly maintained liquidity ratio (i.e. cash reserve ratio) as defined by NRB. But on the view of current ratio, NABIL can maintain highest liquidity.

After the detailed study, it can be concluded that financial market is the place that facilitate financing and investment of financial assets. Commercial is the main financial institution. In our country, failure of local banks as compare to joint venture commercial banks lies in their gross incompetence in the management of assets and liabilities. Mismanagement in financial institutions is involved inadequate and over optimistic loan appraisal, high risk divaricating of loan portfolio and investment etc are major cause's investment and loan that has gone bad. NRB is focusing on monetary policy to insure prise, external and financial sector stability so as to create the environment supportive for high and sustainable economic growth.

Review of thesis is concluded that the working capital management of NABIL is better than KBL because of its efficient management. The ROA of NABIL is better due to the effective utilization of its assets. The growth rate of investment is higher in EBL than NABIL.There is no any fixation of standard and uniform rate for maintaining liquid assets by commercial banks so there is need of exploring the investment and to increase its investment so share and debenture of the bank should have laid policy for timely review of portfolio and to maintain risk and return. Liquidity position of four banks i.e. EBL, NABIL, NSBI and KBL is good as it has consistently maintained liquidity ratio defined by NRB. At last, it is better to say that NABIL can maintain highest liquidity from the view of current ratio.

2.3 Research Gap

There is a gap between the present research and the previous researches.The previous research study dealt with liquidity and profitability, as an aggregate. And, mostly, all the researches applied are mostly similar-same financial tools, statistical tools and also results also resembles very much. Most of the past research studies about liquidity and profitability analysis basically related with any trading company or industries. It is hardly done in the field of banking sector. Previous researcher mostly concerned the liquidity and profitabilityanalysis in the manufacturing industries and public enterprise while analyzing the results. Few researcherhad taken the liquidity and profitability analysis in the banking industries. Broad liquidity and profitability techniques would not be effective to dig out the real causes. So, liquidity and profitability analysis, as being the major tool to find out the profitability of the short-term tactical plan, that's why, this study has been performed

CHAPTER-III

RESEARCH METHODOLOGY

In this chapter i have included data collection procedure, nature of data, identify the population, making confidence of the sampling method and sampling variables, data selecting styles presentation style of collected information and data and interpreting it. Hence, it is helpful to attain the objectives of the research.

3.1 Research Design

Before examining type of research, it is important to be clear about the role and purpose of research design, so that the whole research process from framing a question to finally analyzing and reporting data. In this research, Descriptive research is used. This study explains the cost of deposit volume of investment , return from the investment and planning and decision making with the help of liquidity and profitability analysis. It deals with the situation of liquidity and profitability positionofvarious factors. thus, this study has descriptive research design.

3.2 Population and Sample

In Nepal, six (6) commercial banks are operating as Joint Venture commercial banks. They are: Standard Chatered Bank Nepal Limited, NABIL Bank Limited, Everest Bank Limited, Nepal SBI Bank Limited, Himalayan Bank limited and Nepal Bangaladesh Bank Limited. Hence, total population for this study is six joint venture banks. In this scenario, two of them NABIL Bank Limited and Everest Bank Limited have been selected as sample for the present study which is (33.33%). Hence, the purposive judgement sampling method have been used while selecting them.these two joint venture commercial banks are selected for the research because they are highest profit gaining banks in short period of time.

3.3 Nature and Sources of Data

The nature and sources of data used in this study is secondary. The secondary data will be collected from annual reports of the concerned banks, financial statistics of Nepal Rastra Bank.

3.4 Method of Data Analysis and presentation

To make study more specific and reliable, the researcher uses two types of tool for analysis,

1. Financial Tools
2. Statistical Tools
3. Tabular presentation
4. Diagrammatic Representation
5. Graphical Presentation

3..4.1 Financial Tools

For sake of analysis, various financial tools were used. The basic tools used were ratio analysis; beside it income and expenditure analysis and cash flow analysis have been used.

3.4.1.1 Ratio Analysis:

Ratio analysis is a powerful and most widely used tool of financial analysis.

Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short-term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined.

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance. To find out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. Basically, CRR (Cash Reserve Ratio) is the major indicator of liquidity measured in the bank.

Cash Reserve Ratio (CRR):

To maintain sound liquidity position, all commercial banks are required to maintain a certain portion of total deposits with NRB in their own account. This portion is called Cash Reserve Ratio (CRR) and is 6%. The CRR shows whether the banks have complied with the NRB requirements or not. It is computed as follows:

Cash Reserve Ratio =

Total deposit consists of both interest bearing deposit &non interest bearing deposits i.e. current deposits, saving deposit, fixed deposit, money at call and short notice and other deposits.

3.4.1.2 Leverage Ratio

Like other ratio leverage ratio is also very necessarily important tool in measuring financial performance of any institution. This ratio reveals the proportion of funds used by the institution either from the creditors side or from other side. In order to maintain healthy financial position any institution need to maintain proper of loan and advances and equity. There are various tools in order to measure leverage of the institution among other.

Total loan and advances to Total Assets

It measures the portion of the creditor's fund used by the institution to acquire the assets. The increased proportion of debt indicates the risk burden of the institution. The loan and

advances is considering more risky and cheap source of financing needs regular payment of interest in any condition of an economy.

Total Loan and Advances to Total Shareholder Equity

Shareholder equity is consisted of share capital, share premium, reserve and retained earning. The ratio between loan and advances to shareholder's equity provides the measure regarding how far the shareholder equity has been able to generate assets to multiply its wealth.

3.4.1.3 Credit Volume Efficiency ratio

Total Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how the banks are successful utilizing the outsider's fund I.e. total deposits for profit generating purpose in the form of extending loan and advances.

Total Loan and Advances to Total Assets

This ratio is calculated to find out how the banks are successful utilizing the fund for generating profit in the form of extending loan and advances out of total assets.

Interest Income to Total Loans& Advances Ratio:

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

Interest income to Loans & advances ratio =

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

3.4.1.4Measurement of Profitability

There are basically two types of profitability ratios in short term, those showing profitability in relation to investment and in relation to sales. In the present analysis, the profitability ratios are given below:

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

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

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

3.4.2 Statistical Tools

Various statistical tools may be used for the evaluation of financial performance of the banks such as Correlation Analysis, Measure of Central Tendency, Theory of Dispersion, and Estimation whatever is required. "Statistical analysis is one particular language which describes the data and makes possible to talk about the relations and the difference of the variables. Without the adequate understanding of statistics, the investigator in social science may frequently be liked a blind man groping in a dark closet for a black cat that is not there. The method of statistics is useful in an ever-widening range of human activities in any field of thought in which numerical data may be had. Under this heading, statistical tools such as coefficient of correlation between variables and trend analysis of important variables have been used. Statistical tools are the mathematical techniques used to analyze and interpret performance. It is used to describe the relationship between variables and interpret the result. Statistics is also used to test the hypothesis that is set to know the information of population.

3.4.2.1 Mean ($\overline{X}$)

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure of central tendency. In this study it is used in data related to dividend of sample banks over five years.

3.4.2.2 Standard Deviation (S.D.)

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. S.D. is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. In simple term high SD means very less similarity in the values and low SD means high similarity among the values.

3.4.2.3 Trend Analysis

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

3.4.2.4 T- Test

t-test is calculate to test the validity of assumption of the study for small samples, t- test is used. For applying t distribution, the t- values are calculated first and compared with the critical values at a certain level of significance for given degree of freedom.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter stands for presenting and analysing of data in order to achieve the formulated objectives. This section is classified into five different sub- sections. Among them, First section presents for the evaluation of the banks' liquidity position. Second section presents profitability position of the banks. Similarly, third section presents the case of resource utilization by the banks. Forth section is for the evaluation of linear relationship between selected dependent and independent variables regarding profitability and liquidity of the banks. Likewise, the major findings is also drawn from the analysis.

4.1 Evaluation of Liquidity Position of the Bank

Under credit management liquidity position of the banks is very crucial and it is depicted as stated below.

4.1.1 Liquidity Ratio

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

4.1.1.1 Cash Reserve Ratio (CRR)

The Cash Reserve Ratio (CRR) is 6.0%. It shows whether the banks have complied with the NRB requirements or not. CRR of NIBL and NABIL has been computed as follows.

Table 4.1

Cash Reserve Ratio in (%)

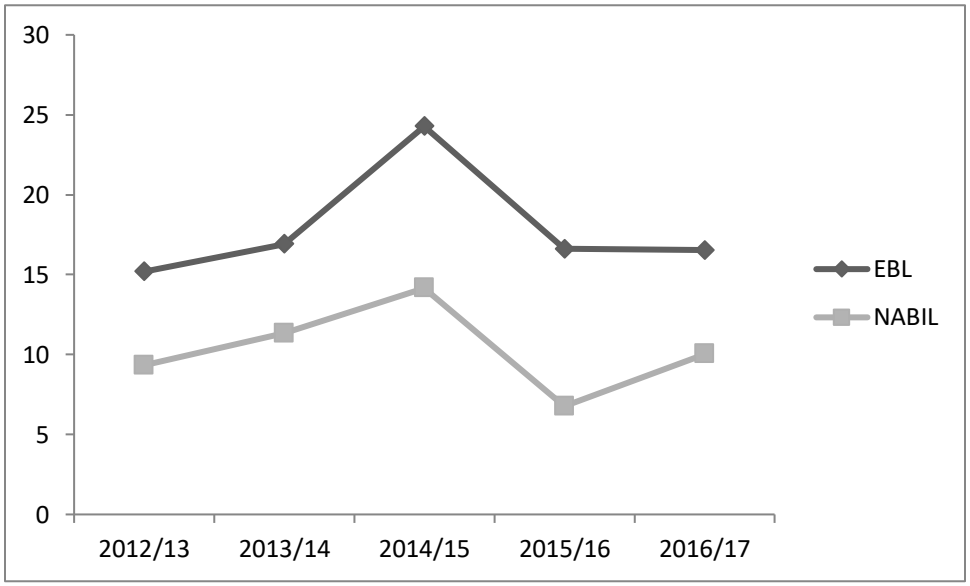
Fiscal Year	EBL	NABIL
2012/13	15.19	9.32
2013/14	16.91	11.32
2014/15	24.27	14.15
2015/16	16.61	6.77
2016/17	16.52	10.02
Mean	17.9	10.31
S.D.	3.23	2.42
C.V.	18.04	23.46

Sources: Appendix I & II

The table 4.1 presents the cash reserve ratio of sample banks during the last five fiscal years. The average cash reserve ratio is 17.9% and 10.31% for EBL and NABIL respectively. This indicates that the cash reserve ratio of sample banks is maintained as directed by NRB standard. I.e. to generate the liquidity. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 18.04% and 23.46% for EBL and NABIL respectively. From the analysis, cash reserve ratio of EBL is higher than NABIL in an average. From this, it can be easily seen that the CRR of NABIL is less risky as compared to EBL since it has lesser CV. It is also shown in the following figure.

Figure 4.1

Cash Reserve Ratio of sample banks in (%)



The figure 4.1 depicts the cash reserve ratio of EBL and NABIL. As shown in the figure, this ratio of EBL is higher than NABIL for all the fiscal years.

cash reserve ratio refers to the certain percentage of total deposit the commercial banks are required to maintain in the form of cash reserve with central bank. so above data shows that cash reserve ratio of EBL is greater than NABIL of all the fiscal year. The cash reserve ratio is 6% so EBL more money will remain idle in the central bank as compared to NABIL.

4.2 Evaluation of Profitability Position of the Banks

Profitability refers to the operating efficiency of firms. The following ratio have been used for the measurement of the profitability position of the banks. These ratios have been presented and analyzed in this section comprehensively.

4.2.1 Return on Equity (ROE)

The ratio NPAT to equity capital refers operating efficiency of the banks. This ratio indicates return to equity. How much revenue is generated by utilizing the equity fund is an issue to be examined the ratios for the banks are fluctuating. It is also known as NPAT to book net worth ratio.

Table 4.2

ROE of Sample Banks in (%)

FY	EBL	NABIL
2012/13	31.52	32.78
2013/14	29.02	27.97
2014/15	23.25	22.09
2015/16	20.61	25.61
2016/17	17.49	25.85
Mean	24.38	26.86
S.D.	5.21	3.51
C.V.	21.37	13.07

Sources: Appendix I & II

Table 4.2 presents the result of return on equity of the sample bank. The average ROE of EBL and NABIL is 24.38% and 26.86% respectively. This indicates that the return on equity investment for NABIL is slightly higher than NABIL. Standard deviation for the EBL and NABIL is 5.21% and 3.51%. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is the highest of 21.37% and 13.07% of EBL and NABIL respectively. It is also shown in the following figure.

Figure 4.2

Return on Equity for the Sample Bank

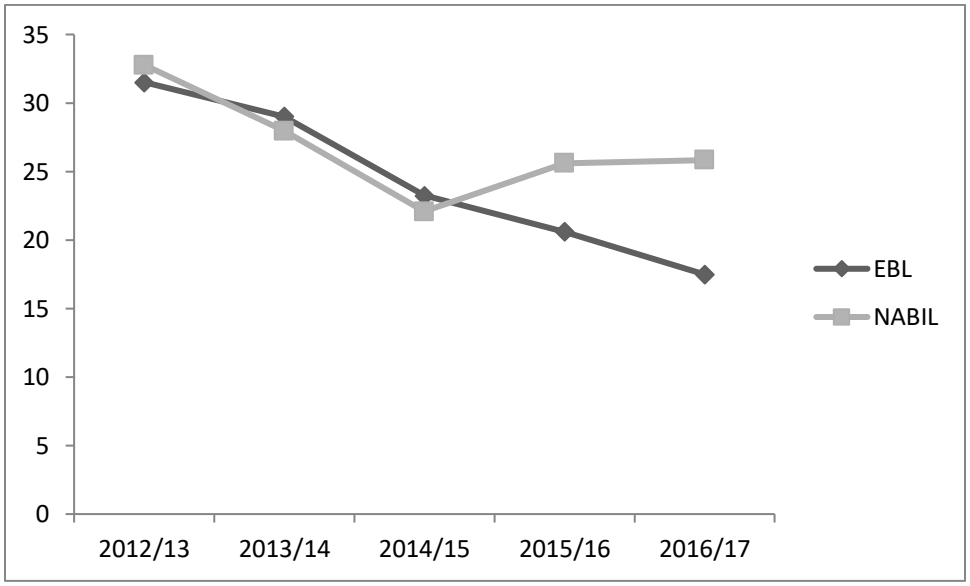


Figure 4.2 presents the return on equity (ROE) for EBL and NABIL. The ROE of both sample banks are fluctuating during the study period.

Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE of both bank are fluctuating during the study period .By observing ROE NABIL has more return to shareholders than EBL.

4.2.2 Return on Assets (ROA)

The NPAT to assets is calculated in order to know the effectiveness of investment on total assets with respect to net profit. Table 4.3 presents the return on assets for the banks.

Table 4.3

Return on Assets (ROA) of sample bank (%)

FY	EBL	NABIL
2012/13	2.39	3.25
2013/14	2.25	2.65
2014/15	1.85	2.06
2015/16	1.61	2.32
2016/17	1.72	2.60
Mean	1.96	2.58
S.D.	0.30	0.39
C.V.	15.31	15.14

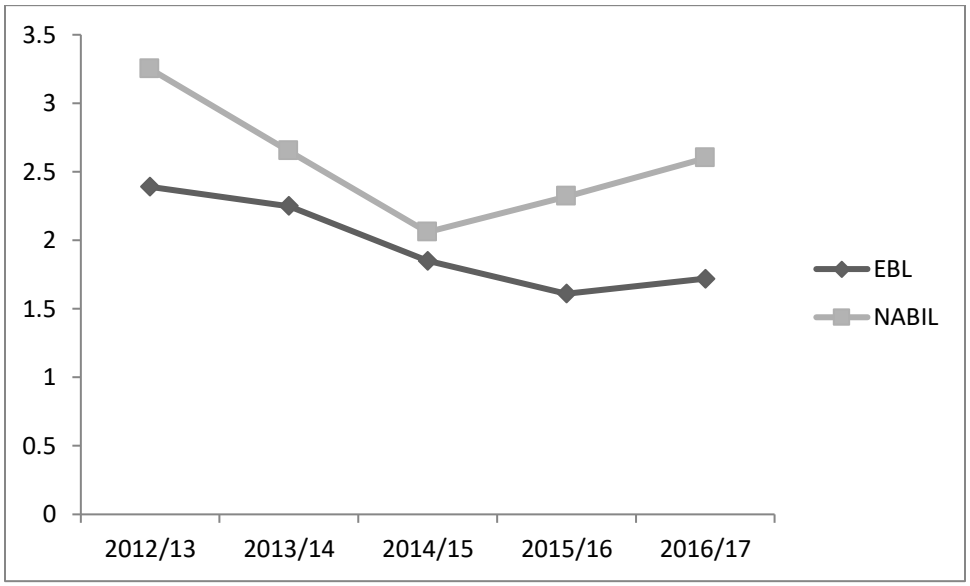
Sources: Appendix I & II

The table 4.3 presents the return on assets of the sample bank. The average ROA for EBL and NABIL is 1.96% and 2.58%. This indicates that the return on assets for the bank is satisfactory. Likewise, Standard deviation is 0.30% and 0.39% of EBL and NABIL respectively. The highest ROA of EBL is 2.39% and the least is 1.61% with the corresponding year 2012/13 and 2015/16 respectively. Likewise, ROA of NABIL is the highest of 3.25% and the least is 2.06% with the corresponding year 2012/13 and 2014/15

respectively. By measuring the coefficient of variation, it is 15.31% and 15.14% of EBL and NABIL respectively. It is also shown in the following figure.

Figure 4.3

Return on Assets for the sample banks



The return on assets of both banks is slightly fluctuating as seen in the figure 4.3.

4.2.3 Net Profit to Total Deposit

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

Table 4.4

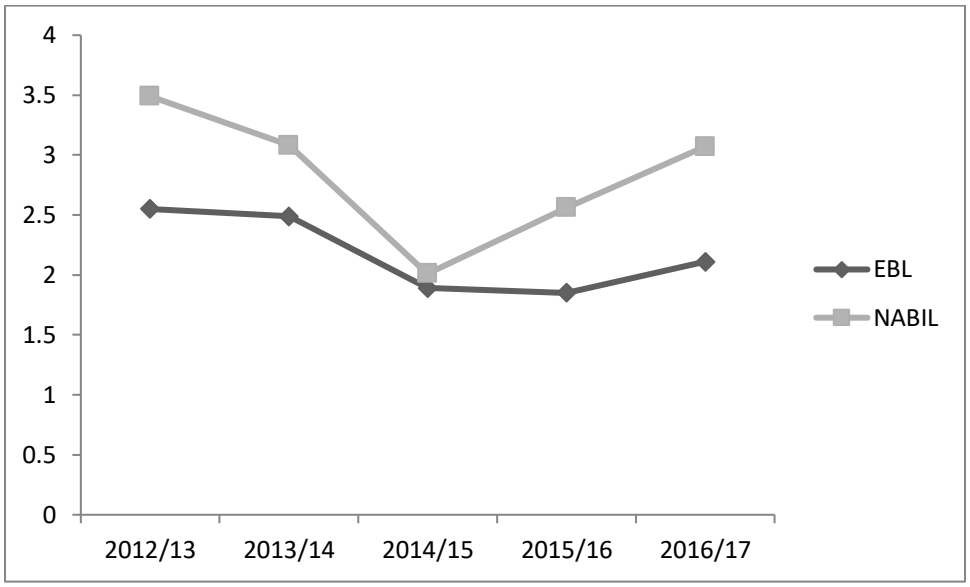
Net Profit to Total Deposit In (%)

FY	EBL	NABIL
2012/13	2.55	3.49
2013/14	2.49	3.08
2014/15	1.89	2.01
2015/16	1.85	2.56
2016/17	2.11	3.07
Mean	2.18	2.84
S.D.	0.29	0.50
C.V.	13.30	17.61

Sources: Appendix I & II

Figure 4.4

Net Profit to Total Deposit Ratio



The table 4.4 and figure 4.4 depicts the Net profit to total deposit gauges the bank's efficiency to generate net profits out of the total deposit it is collected. The average of net profit to total deposit ratio of EBL and NABIL is 2.18% and 2.84% respectively. Likewise, standard deviation is 0.29% and 0.50% for EBL and NABIL respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 13.30% and 17.61% for EBL and NABIL respectively.

4.2.4 Net Profit to Total loan and advances

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

Table 4.5

Net Profit to Total loan and advances in (%)

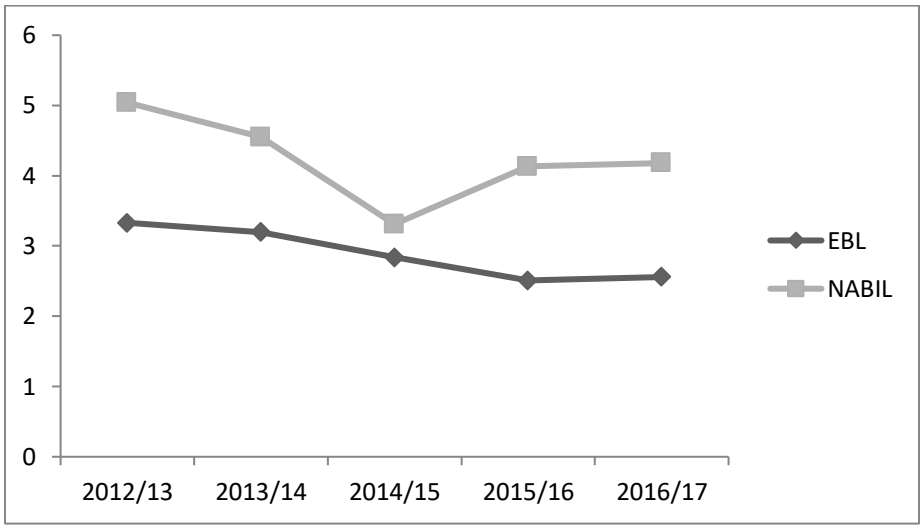
FY	EBL	NABIL
2012/13	3.33	5.04
2013/14	3.20	4.55
2014/15	2.84	3.31
2015/16	2.51	4.13
2016/17	2.56	4.18
Mean	2.89	4.24
S.D.	0.33	0.57
C.V.	11.42	13.44

Sources: Appendix I & II

The table 4.5 depicts the Net profit to total loan and advances gauges the bank's efficiency in order to generate the net profits. The average Net profit to total loan and advances ratio is 2.89% and 4.24% for EBL and NABIL. This indicates that the Net profit to total loan and advances ratio for the bank is satisfactory i.e. to generate the profit. This ratio of EBL is the highest of 3.33% and the least is 2.51% with the corresponding year 2012/13 and 2015/16 respectively. Likewise, this ratio of NABIL is the highest 5.04% and the least 3.31% with the corresponding year 2012/13 and 2014/15 respectively. The Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 11.42% and 13.44% for EBL and NABIL respectively. It is also shown in the following figure.

Figure 4.5

Net Profit to Total loan and advances in (%)



The figure 4.5 depicts the net profit to total loan and advances of sample banks. This ratio of EBL is slightly higher than NABIL in all the fiscal as seen in the figure 4.5.

4.3 Credit Management Analysis

4.3.1 Total Loan/credit to Total Deposit Ratio:

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

Table 4.6

Total Loan and advances/credit to Total Deposit Ratio (in %)

Fiscal Year	EBL	NABIL
2012/13	76.57	74.9
2013/14	78.01	74.55
2014/15	66.63	64.43
2015/16	73.52	70.49
2016/17	82.32	65.38
Mean	75.41	69.95
S.D.	5.22	4.41
C.V.	6.92	6.30

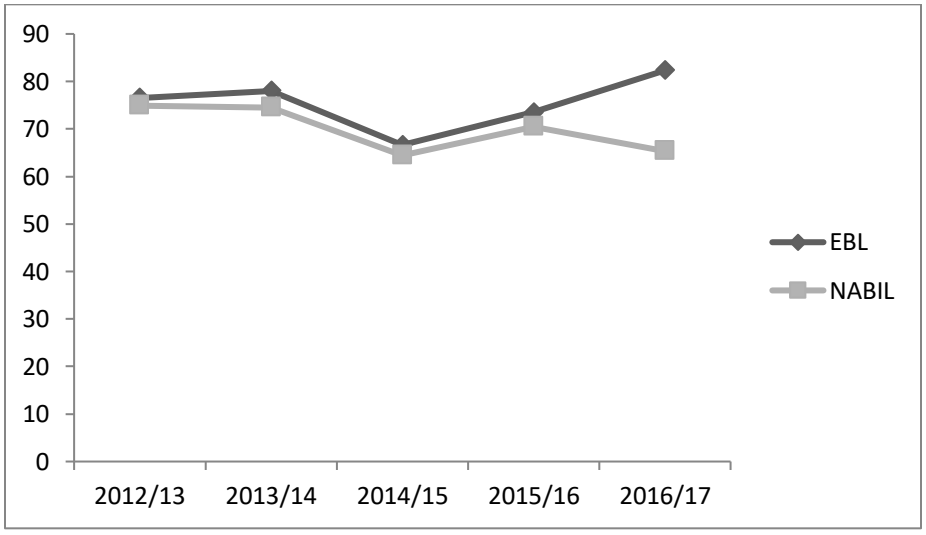
Sources: Appendix I & II

The table 4.6 presents the average ratio of total loan and advances/credit to total deposit ratio for EBL and NABIL is 75.41% and 69.95%. This indicates that the capability of the NIBL is below 80% which is maintained by the bank. It also shows that EBL and NABIL is successful to utilize the total deposits on loans and advances for profit generating purposes in which EBL is slightly higher than NABIL.

Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 6.92% and 6.30% respectively. Thus, higher ratio indicates the efficient and effective utilization of funds while lower ratio indicates the inefficiency of the banks to stop them from remaining idle. It is also presented in following figure.

Figure 4.6

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



The figure 4.6 depicts the total loan/credit to total deposit ratio of EBL and NABIL for the last five fiscal years. This ratio of both bank is slightly volatile during the study period.

4.3.2 Interest Income to Total Loans and Advances Ratio:

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

Table 4.7

Interest Income to Total Loans and Advances Ratio in (%)

Fiscal Year	EBL	NABIL
2012/13	10.49	11.64
2013/14	10.11	10.16
2014/15	8.76	8.5
2015/16	6.94	8.08
2016/17	8.19	8.27
Mean	8.89	9.33
S.D.	1.29	1.37
C.V.	14.51	14.68

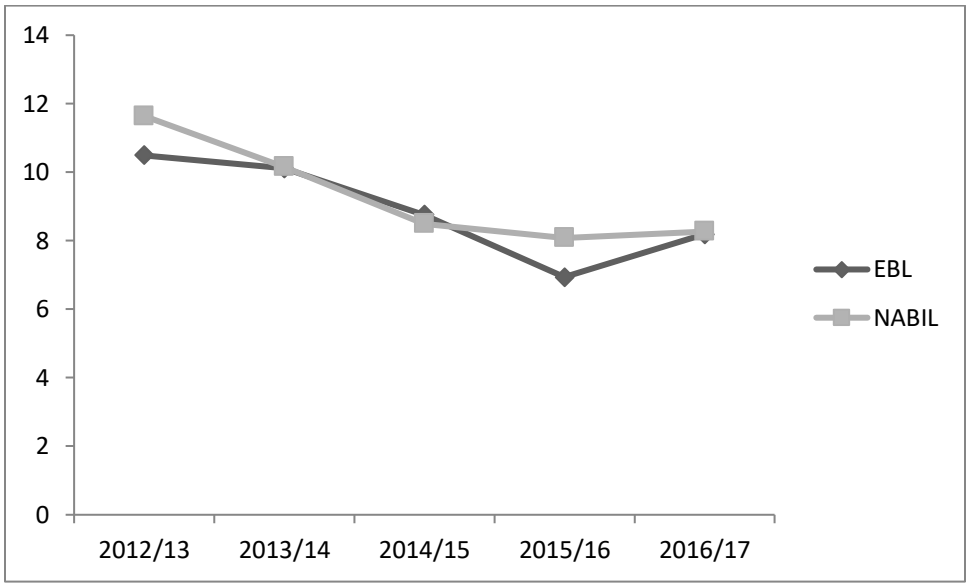
Sources: Appendix I & II

The table 4.7 depicts the interest income to loans and advances ratio of EBL and NABIL during the last five fiscal years. The average of this ratio is 8.89% and 9.33% for EBL and NABIL respectively. This indicates that the capability of the banks to manage the loans and advances in earning higher interest income.

This ratio is the highest of 10.49% initially and the least is 6.94% with the corresponding year 2012/13 and 2015/16 of EBL. Likewise, this ratio is the highest 11.64% and the least 8.08% with the corresponding year 2012/13 and 2015/16 respectively of NABIL. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 14.51% and 14.68% for EBL and NABIL respectively. It is also presented in following figure.

Figure 4.7

Interest Income to total Loans and Advances Ratio in (%)



The figure 4.7 shows the interest income to total loan and advances ratio of sample banks. This ratio of sample banks is in decreasing except the last year for the both banks as shown in the figure.

4.3.4 Credit Risk Ratio:

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

Table 4.8

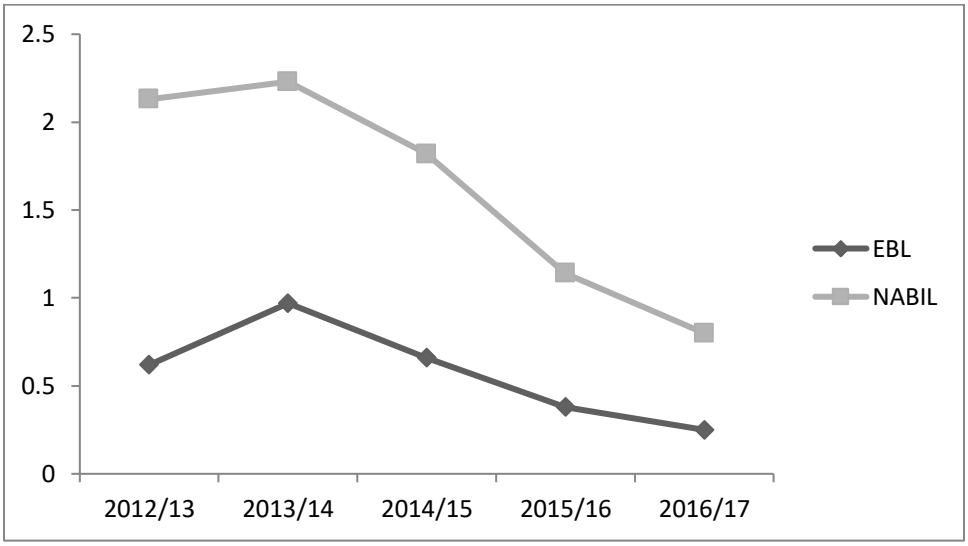
Credit Risk Ratio of sample bank in (%)

FY	EBL	NABIL
2012/13	0.62	2.13
2013/14	0.97	2.23
2014/15	0.66	1.82
2015/16	0.38	1.14
2016/17	0.25	0.80
Mean	0.58	1.62
S.D.	0.25	0.56
C.V.	43.10	34.57

Sources: Appendix I & II

The table 4.8 depicts the nonperforming loans to total loans and advances/credit ratio (credit risk) of EBL and NABIL during the last five fiscal years. The average credit risk ratio is 0.58%. and 1.62% of EBL and NABIL respectively. From the five years analysis, the credit risk ratio of EBL is succeed to decrease in each fiscal year. Likewise, the credit risk ratio of NABIL is also decreasing except the year 2013/14. However, according to NRB directives NPL should not be more than 1% of total loan and advances for the sound credit performance and not more than 5% in general. Hence, both banks meet the NRB standard to meet the NPL obligation. By measuring the coefficient of variation, CV of NABIL is 34.57% which is slightly lower than EBL of 43.10%. It is also presented in following figure 4.8.

Figure 4.8
Credit Risk Ratio of sample banks in (%)



The figure 4.8 depicts the credit risk ratio of EBL during the last five fiscal years. As shown in the figure, NABIL is good performer inregards to credit risk as comapred to NABIL since it has slightly lower of this ratio during the study period.

4.4 Statistical Tools

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

4.4.1 Relationship between the Total loans & advances and Net Profit

The relationship between the total credit (loans and advances) with the net profit of the sample banks indicates how much credits granted has actually resulted in profit. In other words, it tries to analyze whether the total credit and net profit of the banks are moving in the same direction or not. The following table shows the correlation coefficient between the total credit and net profit denoted by 'r'. 'r^2' indicates the coefficient of determination, t_{cal} and t_{tab}refers to calculated value of t- statistic and tabulated value of t-statistic at 5% level of significance at 3 degree of freedom two tailed test for respectively. The following results are worth highlighting.

Table 4.9

Correlation coefficient between Total Loan & advances and Net Profit

Banks	**r**	**r^2**	**t_{cal}**	**t_{tab}**	**Result**
EBL	0.9569	0.9158	5.712	3.182	Significant
NABIL	0.8512	0.7246	2.809	3.182	Insignificant

Source: Appendix III

The table 4.9 clearly highlights the relationship between the total loan and advances and the net profit earned by EBL and NABIL. There is highly positive relationship between total loan and advances and net profit of EBL and NABIL. By testing t statistic, since calculated value (EBL) of t is 5.712 which is greater than tabulated value of 't' at 5% significance level at 3 degree of freedom for two tailed test (3.182), there is significant relationship between net profit and total loan and advances of EBL. On the otherhnad, their relationship is insignificant due to the lower calculated t value than tabulated value at the same level of significance for NABIL.

4.4.2 Relationship between the Total loans and advances and Total deposit

The relationship between the total credit (loans and advances) and total deposit is of great significance as it indicates the direction taken by the total credit with the changes in the volume of total deposit. A bank will be unable to provide large volumes of credit if it does not receive adequate and sufficient deposits in a timely basis. The following table shows the correlation coefficient between the total credit and total deposits denoted by 'r'. 'r^2' indicates the coefficient of determination, t_{cal} and t_{tab} refers to calculated value of t- statistic and tabulated value of t-statistic at 5% level of significance at 3 degree of freedom for two tailed test respectively. The following results are worth highlighting.

Table 4.10

Correlation coefficient between Total Loan and advances and Total Deposits

Banks	**r**	**r^2**	**t_{cal}**	**t_{tab}**	**Result**
EBL	0.9401	0.8838	4.777	3.182	Significant
NABIL	0.8937	0.7987	3.449	3.182	Significant

Source: Appendix III

The table 4.10 depicts the relationship between the total Loan and advancesand the total deposit of EBL is highly positive. The positive relationship shown by their correlation coefficient points out the fact that the changes in each variable are taking place in the same direction, i.e., an increase in total credit is supported by an increase in the total deposit. Likewise, the calculated value t_{cal} of EBL is 4.777 and NABIL is 3.449 which is greater than tabulated 't' at 5% significance level at 3 degree of freedom for two tailed test 3.182. It indicates that their relationship is significant. Hence, There is significant relationship between total loan and advances and total deposit of both EBL and NABIL.

4.5 Major findings

The major findings of the study are depicted as under.

- The average cash reserve ratio is 17.9% and 10.31% for EBL and NABIL respectively. This indicates that the cash reserve ratio of sample banks is maintained as directed by NRB standard. I.e. to generate the liquidity. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 18.04% and 23.46% for EBL and NABIL respectively. From the analysis, cash reserve ratio of EBL is higher than NABIL in an average. Likewise, CRR of NABIL is less risky as compared to EBL since it has lesser CV.
- The average ROE of EBL and NABIL is 24.38% and 26.86% respectively. This indicates that the return on equity investment for NABIL is slightly higher than EBL. Coefficient of variation indicates the fluctuating trend or measuring the

- uniformity of the banks which is the highest of 21.37% and 13.07% of EBL and NABIL respectively.

- The average ROA for EBL and NABIL is 1.96% and 2.58%. The highest ROA of EBL is 2.39% and the least is 1.61% with the corresponding year 2012/13 and 2015/16 respectively. Likewise, ROA of NABIL is the highest of 3.25% and the least is 2.06% with the corresponding year 2012/13 and 2014/15 respectively.

- The average of net profit to total deposit ratio of EBL and NABIL is 2.18% and 2.84% respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 13.30% and 17.61% for EBL and NABIL respectively.

- The average Net profit to total loan and advances ratio is 2.89% and 4.24% for EBL and NABIL. This indicates that the Net profit to total loan and advances ratio for the bank is satisfactory i.e. to generate the profit. This ratio of EBL is the highest of 3.33% and the least is 2.51% with the corresponding year 2012/13 and 2015/16 respectively. Likewise, this ratio of NABIL is the highest 5.04% and the least 3.31% with the corresponding year 2012/13 and 2014/15 respectively. The Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 11.42% and 13.44% for EBL and NABIL respectively.

- The average total loan and advances/credit to total deposit ratio for EBL and NABIL is 75.41% and 69.95%. This indicates that the capability of the NIBL is below 80% which is maintained by the bank. It also shows that EBL and NABIL is successful to utilize the total deposits on loans and advances for profit generating purposes in which EBL is slightly higher than NABIL.

- The average of this ratio is 8.89% and 9.33% for EBL and NABIL respectively. This indicates that the capability of the banks to manage the loans and advances in earning higher interest income. This ratio is the highest of 10.49% initially and the least is 6.94% with the corresponding year 2012/13 and 2015/16 of EBL. Likewise, this ratio is the highest 11.64% and the least 8.08% with the corresponding year 2012/13 and 2015/16 respectively of NABIL.

- The average credit risk ratio is 0.58%. and 1.62% of EBL and NABIL respectively. From the five years analysis, the credit risk ratio of EBL is succeed to decrease in each fiscal year. Likewise, the credit risk ratio of NABIL is also decreasing except the year 2013/14. However, according to NRB directives NPL should not be more than 1% of total loan and advances for the sound credit performance and not more than 5% in general. Hence, both banks meet the NRB standard to meet the NPL obligation. By measuring the coefficient of variation, CV of NABIL is 34.57% which is slightly lower than EBL of 43.10%.

- There is highly positive relationship between total loan and advances and net profit of EBL and NABIL. By testing t statistic, since calculated value (EBL) of t is 5.712 which is greater than tabulated value of 't' at 5% significance level at 3 degree of freedom for two tailed test (3.182), there is significant relationship between net profit and total loan and advances of EBL. On the otherhnad, their relationship is insignificant due to the lower calculated t value than tabulated value at the same level of significance for NABIL.

- The relationship between the total Loan and advancesand the total deposit of EBL is highly positive. Likewise, the calculated value t_{cal} of EBL is 4.777 and NABIL is 3.449 which is greater than tabulated 't' at 5% significance level at 3 degree of freedom for two tailed test 3.182. Hence, there is significant relationship between total loan and advances and total deposit of both EBL and NABIL

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Commercial bank is one of the vital aspects of this sector, which deals with the process of channeling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are necessity to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the country.

Profit making is the main drive for the operation of business organization which is not an easy task. Profit is a result of proper planning and effective used of available resources. Profit planning & control is an important tool in management accounting to plan the profit. Without planning the cost, volume, price and profit, the estimation of profit is not possible. Cost and Profit efficiency Viz; Cost, volume and profit analysis is a useful forecasting as well as managerial control tool under profit planning & control to study interrelationship among cost, volume & profit.

In present context, banks are under great pressure to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, and investments are sound. The majority of the needs of the stakeholders are related with the profitability of the banks. Thus, the foremost objective of the bank is to maximize the profit. As other types of business entity, commercial banks are also inspired by the profit. In this age of great competition, only the profitable banks can sustain for a long time. Financial policies of any concern are directly or indirectly influenced by its profitability. Thus, it is a base for a bank's survival, growth and expansion.This research liquidity and profitability

Analysis of Joint venture Commercial Bank with reference to EBL and NABIL ' presents the financial mirror of showing the strength and weakness of the banks. Under these, studies cost refered as both operating cost and no-operating cost, Volume considered as total credit volume (total loan and advanes), total deposit, total investment and income. Profit includes the both operating profit and non-operating profit of the bank. Basically, the major source of income in the banking sector is interest income by mobilizing the deposit or sources of fund, return on investment. Similarly, the major cost bearded by the bank is cash in reserve, cash at bank and different financial institution i.e interest beared by the bank or lower market interest rate. Under this study, liquidity, credit volume efficiency, leverage (sensitivity) and profitability position of EBL and NABIL have been analyzed in depth. The main objective of the study is to evaluate the liquidity, credit volume efficiency, leverage and profitability of the bank. For this, secondary data is used for the last five fiscal years.The result have been drawn by analyzing both financial and statistical tools.

The average cash reserve ratio is 17.9% and 10.31% for EBL and NABIL respectively. This indicates that the cash reserve ratio of sample banks is maintained as directed by NRB standard. I.e. to generate the liquidity. Similarly, the average ROE of EBL and NABIL is 24.38% and 26.86% respectively. This indicates that the return on equity investment for NABIL is slightly higher than EBL. Likewise, the average ROA for EBL and NABIL is 1.96% and 2.58%. The highest ROA of EBL is 2.39% and the least is 1.61% with the corresponding year 2012/13 and 2015/16 respectively. Likewise, ROA of NABIL is the highest of 3.25% and the least is 2.06% with the corresponding year 2012/13 and 2014/15 respectively.

The average of net profit to total deposit ratio of EBL and NABIL is 2.18% and 2.84% respectively. Likewise, the average Net profit to total loan and advances ratio is 2.89% and 4.24% for EBL and NABIL. Similarly, the average total loan and advances/credit to

total deposit ratio for EBL and NABIL is 75.41% and 69.95%. This indicates that the capability of the NIBL is below 80% which is maintained by the bank. It also shows that EBL and NABIL is successful to utilize the total deposits on loans and advances for profit generating purposes in which EBL is slightly higher than NABIL. Likewise, the average credit risk ratio is 0.58%. and 1.62% of EBL and NABIL respectively. From the five years analysis, the credit risk ratio of EBL is succeed to decrease in each fiscal year. Likewise, the credit risk ratio of NABIL is also decreasing except the year 2013/14.

5.2 Conclusions

Profitability analysis shows that return on assets ratio, return on equity, net profit on total loan and advances etc. for the bank is above the normal standard indicating that they are able to generate return on both the equity investment and assets employed. While observing the liquidity position, EBL has higher liquidity as the standard directed by NRB and compares as NABIL. Similarly, EBL is most efficient so far as the matter of utilizing owners' equity to generate revenues is concerned regarding resource utilization. Similarly, return on equity investment for EBL is slightly less than 25% which is lesser return on investment than NABIL to the investors.

EBL is most efficient so far as the matter of utilizing owners' equity to generate revenues is concerned regarding resource utilization. Similarly, return on equity investment for EBL is slightly less than 25% which is lesser return on investment than NABIL to the investors. Likewise, the average net profit to total deposit ratio and average net profit to total loan and advances ratio of NABIL is slightly higher than EBL. The average credit risk ratio is 0.58%. and 1.62% of EBL and NABIL respectively. From the five years analysis, the credit risk ratio of EBL is succeed to decrease in each fiscal year. Likewise, the credit risk ratio of NABIL is also decreasing except the year 2013/14. However, according to NRB directives NPL should not be more than 1% of total loan and advances for the sound credit performance and not more than 5% in general. Hence, both banks meet the NRB standard to meet the NPL obligation

By testing t-statistic, there is significant relationship between total loan and advances and net profit of EBL whereas their relationship is insignificant incase of NABIL at 5% level of significance with 3 degree of freedom. Similarly, there issignificance relationship between total loan and advances and total deposit of both banks at the same level of significance i.e. 5%.

5.3 Recommendations

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

- Interest income to total deposit of the bank is in reducing. Hence, both banks should focus on the interest generating investment by managing the portfolio of different sectors.
- Return on equity of both sample banks are also fluctuating and slightly reducing. Hence, both banks should increase it in order to motivate its shareholders and investors.
- Sample bank should utilize their deposit in long term return rather than short term return. For this, they should focus the deposit in productive sector which help to growth the national economic activities.
- Credit risk (non-performing loan to total loan and advances) ratio of NABIL is higher than 1% in an average. Hence, it should reduce this ratio below 1 percent in order to strength it's financial effectiveness.
- Bank should make investment decision in the marketable securities and portfolio investment in order to raise the volume of investment and earning interest and profit.

APPENDIX

Appendix-I

Summary of the Financial Transactions of EBL from FY 2012/13 to 2016/17

(NPR in millions)

Details	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Total Deposit	57720	62108	83094	93735	95094
Total Loans &Advances	44198	48450	55363	68911	77287
Total assets	65741	70445	99153	113885	116510
Net Profit After Tax	1471	1549	1574	1730	2006
Shareholder's equity/ book value of net worth	4667	5337	6770	8394	11464
Interest income	4937	5177	4996	5057	6747
Cash and bank balance	11216	13173	25117	23117	21383
Non-Performing Loan	276	470	367	264	198

Source: Annual report of EBL

EBL

Fiscal Year	2012/13	2013/14	2014/15	2015/16	2016/17
Financial highlight					
CRR (in %)	15.19	16.91	24.27	16.61	16.52
TL/credit to Total deposit (in%)	76.57	78.01	66.63	73.52	82.32
Interest income to TL and Adv.(in %)	10.49	10.11	8.76	6.94	8.19
ROE (in %)	31.52	29.02	23.25	20.61	17.49
ROA (in %)	2.39	2.25	1.85	1.61	1.72
NPAT to total deposit	2.55	2.49	1.89	1.85	2.11
NPAT to total loan and advances	3.33	3.20	2.84	2.51	2.56
Non-performing loan to total loan and Advances	0.62	0.97	0.66	0.38	0.25

Source: Annual report of EBL

Summary of the Financial Transactions of NABIL from FY 2012/13 to 2016/17 (Rs in millions)

Details	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Total Deposit	63609	75388	104237	110267	118896
TotalLoans&Advances	54691	46369	65501	76106	89877
Non Performing loan	1015	1256	1221	889	728
Total assets	73241	87274	115986	127300	140332
Net Profit After Tax	2219	2314	2093	2823	3645
Shareholder equity	6701	7648	9473	11606	14102
Interest Income	5636	5702	5762	6155	8116
Cash and bank balance	7517	10731	16326	11082	13226

Source: Annual Reports of NABIL

FY	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
CRR (in %)	9.32	11.32	14.15	6.77	10.02
TL/credit to Total deposit (in %)	74.90	74.55	64.43	70.49	65.38
Interest income to TL and Adv.(in %)	11.64	10.16	8.5	8.08	8.27
ROE (in %)	32.78	27.97	22.09	25.61	25.85
ROA (in %)	3.25	2.65	2.06	2.32	2.60
NPAT to Deposit (in %)	3.49	3.08	2.01	2.56	3.07
NPAT to TL and ADV./Credit(in %)	5.04	4.55	3.31	4.13	4.18
NPL to TL and ADV./ (%)	2.13	2.23	1.82	1.14	0.80

Source: Annual Reports of NABIL

Appendix-II

Calculation of Mean, Standard Deviation (S.D.) and Coefficient of Variation (CV) of EBL

Cash Researve Ratio

Fiscal Year	CRR (X)	X-mean	(X- Mean)2
2012/13	15.19	-2.71	7.3441
2013/14	16.91	-0.99	0.9801
2014/15	24.27	6.37	40.5769
2015/16	16.61	-1.29	1.6641
2016/17	16.52	-1.38	1.9044
SUM	**89.5**		**52.4696**

EBL	$\bar{X} = \frac{89.5}{5}$ = 17.9	$(\sigma) = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \sqrt{\frac{52.4696}{5}} = 3.23$	$(C.V.) = \frac{\sigma}{\bar{x}} \times 100$ $= \frac{3.23}{17.9} \times 100$ = 18.04%

Other values are calculated in the same manner and which results are presented as below.

Return on Equity

Fiscal Year	ROE (X)	X-mean	(X- Mean)2
2012/13	31.52	7.14	50.9796
2013/14	29.02	4.64	21.5296
2014/15	23.25	-1.13	1.2769
2015/16	20.61	-3.77	14.2129
2016/17	17.49	-6.89	47.4721
	121.89		135.4711
Mean	24.38		
S.D.	5.21		
C.V.	21.37		

Return on Assets

Fiscal Year	ROA (X)	X-mean	(X- Mean)2
2012/13	2.39	0.43	0.1849
2013/14	2.25	0.29	0.0841
2014/15	1.85	-0.11	0.0121
2015/16	1.61	-0.35	0.1225
2016/17	1.72	-0.24	0.0576
	9.82		0.4612
Mean	1.96		
S.D.	0.30		
C.V.	15.31		

Net Profit After tax to Total Deposit

Fiscal Year	NP to TD(X)	X-mean	(X- Mean)2
2012/13	2.55	0.37	0.1369
2013/14	2.49	0.31	0.0961
2014/15	1.89	-0.29	0.0841
2015/16	1.85	-0.33	0.1089
2016/17	2.11	-0.07	0.0049
	10.89		0.4309
Mean	2.18		
S.D.	0.29		
C.V.	13.30		

Net Profit after tax to total loan and advances

Fiscal Year	NP to TL(X)	X-mean	(X- Mean)2
2012/13	3.33	0.44	0.1936
2013/14	3.2	0.31	0.0961
2014/15	2.84	-0.05	0.0025
2015/16	2.51	-0.38	0.1444
2016/17	2.56	-0.33	0.1089
	14.44		0.5455
Mean	2.89		
S.D.	0.33		
C.V.	11.42		

Total loan and advances to total deposit

Fiscal Year	TL to TD(X)	X-mean	(X- Mean)2
2012/13	76.57	1.16	1.3456
2013/14	78.01	2.6	6.76
2014/15	66.63	-8.78	77.0884
2015/16	73.52	-1.89	3.5721
2016/17	82.32	6.91	47.7481
	377.05		136.5142
Mean	75.41		
S.D.	5.22		
C.V.	6.92		

Interest Income to Total loan and advances

Fiscal Year	II to TL(X)	X-mean	(X- Mean)2
2012/13	10.49	1.6	2.56
2013/14	10.11	1.22	1.4884
2014/15	8.76	-0.13	0.0169
2015/16	6.94	-1.95	3.8025
2016/17	8.19	-0.7	0.49
	44.49		8.3578
Mean	8.89		
S.D.	1.29		
C.V.	14.51		

Non-performing loan to total loan and advances

Fiscal Year	NPL to TL(X)	X-mean	(X- Mean)2
2012/13	0.62	0.04	0.0016
2013/14	0.97	0.39	0.1521
2014/15	0.66	0.08	0.0064
2015/16	0.38	-0.2	0.04
2016/17	0.25	-0.33	0.1089
	2.88		0.309
Mean	0.58		
S.D.	0.25		
C.V.	43.10		

Calculation of Mean, Standard Deviation (S.D.) and Coefficient of Variation (CV) of NABIL

Cash reserve ratio

Fiscal Year	CRR (X)	X- Mean	(X-mean)2
2012/13	9.32	-0.99	0.9801
2013/14	11.32	1.01	1.0201
2014/15	14.15	3.84	14.7456
2015/16	6.77	-3.54	12.5316
2016/17	10.02	-0.29	0.0841
SUM	51.58	0.03	29.3615

NABIL	$\overline{X} = \frac{51.58}{5}$ = 10.31	$(\sigma) = \sqrt{\frac{\Sigma (x - \overline{x})^2}{n}} = \sqrt{\frac{29.3615}{5}} = 2.42$	$(C.V.) = \frac{\sigma}{\overline{x}} \times 100$ $= \frac{2.42}{10.31} \times 100$ = 23.46%

Other values are calculated in the same manner and which results are presented in following manner.

Return on equity

Fiscal Year	ROE (X)	X- Mean	(X-mean)2
2012/13	32.78	5.92	35.0464
2013/14	27.97	1.11	1.2321
2014/15	22.09	-4.77	22.7529
2015/16	25.61	-1.25	1.5625
2016/17	25.85	-1.01	1.0201
SUM	134.3	3.55E-15	61.614
Mean	26.86		
S.D.	3.51		
C.V.	13.07		

Return on Assets

Fiscal Year	ROA (X)	X- Mean	(X-mean)2
2012/13	3.25	0.67	0.4489
2013/14	2.65	0.07	0.0049
2014/15	2.06	-0.52	0.2704
2015/16	2.32	-0.26	0.0676
2016/17	2.6	0.02	0.0004
SUM	12.88	-0.02	0.7922
Mean	2.58		
S.D.	0.39		
C.V.	15.14		

Net Profit After tax to Total Deposit

Fiscal Year	NPAT/TD (X)	X- Mean	(X-mean)2
2012/13	3.49	0.65	0.4225
2013/14	3.08	0.24	0.0576
2014/15	2.01	-0.83	0.6889
2015/16	2.56	-0.28	0.0784
2016/17	3.07	0.23	0.0529
SUM	14.21	0.01	1.3003
Mean	2.84		
S.D.	0.50		
C.V.	17.61		

Net Profit after tax to total loan and advances

Fiscal Year	NPAT/TL (X)	X- Mean	(X-mean)2
2012/13	5.04	0.8	0.64
2013/14	4.55	0.31	0.0961
2014/15	3.31	-0.93	0.8649
2015/16	4.13	-0.11	0.0121
2016/17	4.18	-0.06	0.0036
SUM	21.21	0.01	1.6167
Mean	4.24		
S.D.	0.57		
C.V.	13.44		

Total loan and advances to total deposit

Fiscal Year	TL/TD (X)	X- Mean	(X-mean)2
2012/13	74.9	4.95	24.5025
2013/14	74.55	4.6	21.16
2014/15	64.43	-5.52	30.4704
2015/16	70.49	0.54	0.2916
2016/17	65.38	-4.57	20.8849
SUM	349.75	-1.4E-14	97.3094
Mean	69.95		
S.D.	4.41		
C.V.	6.30		

Interest Income to Total loan and advances

Fiscal Year	II/TL (X)	X- Mean	(X-mean)2
2012/13	11.64	2.31	5.3361
2013/14	10.16	0.83	0.6889
2014/15	8.5	-0.83	0.6889
2015/16	8.08	-1.25	1.5625
2016/17	8.27	-1.06	1.1236
SUM	46.65	0	9.4
Mean	9.33		
S.D.	1.37		
C.V.	14.68		

Non-performing loan to total loan and advances

Fiscal Year	NPL/TL (X)	X- Mean	(X-mean)2
2012/13	2.13	0.51	0.2601
2013/14	2.23	0.61	0.3721
2014/15	1.82	0.2	0.04
2015/16	1.14	-0.48	0.2304
2016/17	0.8	-0.82	0.6724
SUM	8.12	0.02	1.575
Mean	1.62		
S.D.	0.56		

Appendix-III

Correlation of total loan and advances, total deposit and net profit of EBL

Year	**Total loan and advances (X)**	**NPAT (Y)**	XY	X^2	Y^2
2012/13	44198	1471	65015258	1953463204	2163841
2013/14	48450	1549	75049050	2347402500	2399401
2014/15	55363	1574	87141362	3065061769	2477476
2015/16	68911	1730	119216030	4748725921	2992900
2016/17	77287	2006	155037722	5973280369	4024036
SUM	**294209**	**8330**	**501459422**	**18087933763**	**14057654**

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

$$= \frac{5 \times 501459422 - 294209 \times 8330}{\sqrt{5 \times 18087933763 - (294209)^2}\sqrt{5 \times 14057654 - (294209)^2}}$$

$r = 0.9569$

Coefficient determination (r^2) = 0.9158

For t-test

Null hypothesis H_0: There is no significance difference between total loan and advances and net profit of EBL or the variables are uncorrelated.

Alternative hypothesis H_1: There is significance difference between total loan and advances and net profit of EBL or the variables are correlated.

Under H_0, the t statistic is:

Calculation of t statistic:

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

$$t = \frac{0.9569}{\sqrt{1 - (0.9569)^2}} \times \sqrt{5 - 2}$$

$t = 5.7117$

Degree of freedom = 5-2 = 3

Tabulated/Critical value:

At 3 degree of freedom for two tailed test at 5% level of significance tabulated value of $t_{0.05,\ 3d.f.} = 3.182$

Decision: since calculated value of t is greater than tabulated value of t H_0 is rejected and H1 is accepted. Hence, there is **significance difference** between total loan and advances and total deposit of EBL **or the variable are correlated**.

(**Decision**: if Calculated t is less than tabulated t H_0 is accepted and if calculated t is greater than tabulated t H_0 is rejected i.e. accept H_1.**Note:** similar method has been applied for the calculation of others).

Correlation between total loan and Total Deposit

Year	**Total loan and advances (X)**	**Total deposit (Y)**	XY	X^2	Y^2
2012/13	44198	57720	2551108560	1953463204	3331598400
2013/14	48450	62108	3009132600	2347402500	3857403664
2014/15	55363	83094	4600333122	3065061769	6904612836
2015/16	68911	93735	6459372585	4748725921	8786250225
2016/17	77287	95094	7349529978	5973280369	9042868836
SUM	**294209**	**391751**	**23969476845**	**18087933763**	**31922733961**

Correlation (r)	0.9401
$\mathbf{r^2}$	0.8838
$\mathbf{t_{cal}}$	4.777
$\mathbf{t_{tab}}$	3.182

Correlation of total loan and advances, total deposit and net profit of NABIL

Year	**Total loan and advances (X)**	**NPAT (Y)**	XY	X^2	Y^2
2012/13	54691	2219	121359329	2991105481	4923961
2013/14	46369	2314	107297866	2150084161	5354596
2014/15	65501	2093	137093593	4290381001	4380649
2015/16	76106	2823	214847238	5792123236	7969329
2016/17	89877	3645	327601665	8077875129	13286025
SUM	**332544**	**13094**	**908199691**	**23301569008**	**35914560**

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

$$= \frac{5 \times 908199691 - 332544 \times 13094}{\sqrt{5 \times 23301569008 - (332544)^2}\sqrt{5 \times 35914560 - (13094)^2}}$$

$r = 0.8512$

Coefficient determination (r^2) = 0.7246

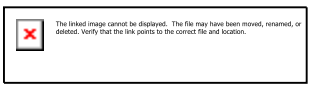
For t-test

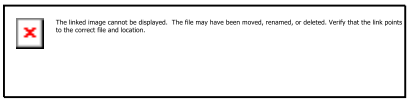
Null hypothesis H_0: There is no significance difference between total loan and advances and net profit of NABIL or the variables are uncorrelated.

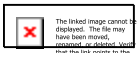
Alternative hypothesis H_1: There is significance difference between total loan and advances and net profit of NABIL or the variables are correlated.

Under H_0, the t statistic is:

Calculation of t statistic:







Degree of freedom =5-2 = 3

Tabulated/Critical value:

At 3 degree of freedom for two tailed test at 5% level of significance tabulated value of $t_{0.05,\ 3d.f.} = 3.182$

Decision: since calculated value of t is less than tabulated value of t H_0 is acepted and H1 is rejected. Hence, there is **nosignificance difference** between total loan and advances and total deposit of NABIL **or the variable are uncorrelated**.

(**Decision**: if Calculated t is less than tabulated t H_0 is accepted and if calculated t is greater than tabulated t H_0 is rejected i.e. accept H_1.**Note:** similar method has been applied for the calculation of others).

Correlation between total loan and Total Deposit

Year	**Total loan and advances (X)**	**Total Deposit (Y)**	XY	X^2	Y^2
2011/12	54691	63609	3478839819	2991105481	4046104881
2012/13	46369	75388	3495666172	2150084161	5683350544
2013/14	65501	104237	6827627737	4290381001	10865352169
2014/15	76106	110267	8391980302	5792123236	12158811289
2015/16	89877	118896	10686015792	8077875129	14136258816
SUM	**332544**	**472397**	**32880129822**	**23301569008**	**46889877699**

Correlation (r)	0.8937
$\mathbf{R^2}$	0.7987
$\mathbf{t_{cal}}$	3.449
$\mathbf{t_{tab}}$	3.182

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