COMPARATIVE STUDY ON LIQUIDITY MANAGEMENT OF EVEREST BANK LIMITED AND HIMALAYAN BANK LIMITED

By:

SUNITA KHANAL

Roll No: 929/060

T. U. Reg. No: -5-1-283-68-96

Shanker Dev campus

Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree of
Masters of Business Studies (M. B. S)

Kathmandu, Nepal

March, 2010

Use Only For Thesis

(Thesis Supervisor)

TRIBHUVAN UNIVERSITY

Faculty of Management

Shaker Dev Campus

	RECOMMENDATION
	This is to certify that the thesis:
	Submitted by:
	SUNITA KHANAL
	Entitled:
"COMPARAT	IVE STUDY ON LIQUIDITY MANAGEMENT OF EVEREST
BAN	K LIMITED AND HIMALAYAN BANK LIMITED''
•	pared as approved by this department in the prescribed format of of Management. This thesis is forwarded for examination.

(Head of Research Department)

(Campus Chief)

Use Only For Thesis

TRIBHUVAN UNIVERSITY

Faculty of Management

Shaker Dev Campus

Ref. No	
VIVA -VOCE SHEET	
We have conducted the viva-voce of the thesis	
Submitted by:	
SUNITA KHANAL	
Entitled:	
"COMPARATIVE STUDY ON LIQUIDITY MANAGEMENT OF EVEREST	
BANK LIMITED AND HIMALAYAN BANK LIMITED"	
And found the thesis to be the original work of the student written according to the	
prescribed format. We recommend the thesis to be accepted as partial fulfillment of the	
requirements for	
Master's Degree in Business Studies (M.B.S.)	
Viva-Voce Committee	
Head, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	
Date:	

DECLARATION

I hereby declare that the work done in thesis entitled "COMPARATIVE STUDY ON

LIQUIDITY MANAGEMENT OF EVEREST BANK LIMITED AND HIMALAYAN

BANK LIMITED" has been submitted to Shanker Dev Campus, Faculty of Management,

Tribhuvan University, is my own created work reported in the form of partial fulfillment

of the requirement of Master's of Business studies (M.B.S.) course under the guidance of

respected teacher supervisor Asso. Prof Ruchila Pandey lecturer of Shanker Dev Campus

Sunita Khanal

Researcher

ACKNOWLEDGEMENT

This entitled thesis "COMPARATIVE STUDY ON LIQUIDITY MANAGEMENT OF

EVEREST BANK LIMITED AND HIMALAYAN BANK LIMITED" has been prepared

for the partial fulfillment of the requirement of Master's Degree of Business Studies

(M.B.S) under the Faculty of Management, Tribhuvan University, is based on research

models involving the use of quantitative as well as qualitative aspect.

I extend my deep sense of indebtedness to my respected supervisor Asso. Prof. Ruchila

Pandey teacher of Shanker Dev Campus for their precious guidelines, inspiration and

suggestion thoroughly during the period of this research. Without their valuable insight, I

would not think of accomplishment of this thesis paper. I acknowledge my profound

gratitude to Sample Banks for the cooperation shown and providing necessary data.

I want to give thanks for the staff members of T.U. Central Library, Shanker Dev

Campus Library who provided the reference and reading materials during the period of

research.

Finally, I would like to express my sincere gratitude to all my family members for their

assistance, timely encouragement in every steps and financial support. In addition, the

special thanks to Mr Ram Limbu and all my family members who provided me crucial

support, is also part of my sincere thanks.

Sunita Khanal

Researcher

TABLE OF CONTENTS

	Page No
Recommendation	
Viva-Voce sheet	
Declaration	
Acknowledgement	
Table of Content	
List of table	
List of figure	
Abbreviation	
CHAPTER - I	
INTRODUCTION	1
1.1 Background of the Study	1
1.2. Profile of the Sample Banks	3
1.3 Focus of the Study	6
1.4. Statement of the Problem	7
1.5. Objectives of the Study	8
1.6. Significance of the Study	8
1.7. Limitations of the Study	9
1.8. Chapter Plan	9
CHAPTER – II	
REVIEW OF LITERATURE	11
2.1 Conceptual/Theoretical Review	11
2.1.1 Concept of Bank	11

2.1.2 History of Banking in Nepal	12
2.1.3 Concept of Commercial Bank	13
2.1.4 Functions of Commercial Bank	15
2.1.5 Resources of Nepalese Commercial Bank	16
2.1.6 Concept of Joint Venture Bank	17
2.1.7 Concept of Liquidity	18
2.1.8 Needs for Liquidity Mobilization	19
4.2.9 Liquidity Maintenance (CRR) of Commercial Banks and NRB F	Provision
	20
2.1.10 Mobilization of Liquidity	21
2.1.11 Meaning of Deposit	23
2.1.12 Types of Deposits	23
2.1.13 Investment, Investment Policy and Its Principles	25
2.1.13.1 Investment	25
2.1.13.2 Investment Policy	25
2.1.13.3 Principles of Sound Investment Policy	36
2.2 Review of Related Studies	29
2.2.1 Review of Thesis	31
2.3 Research Gap	39
CHAPTER - III	
RESEARCH METHODOLOGY	40
3.1 Research Design	40
3.2 Sources of Data	40
3.3 Population and Sample	40
3.4 Data Collection Procedure	41
3.5 Data Analysis Tools	41

3.6.1 Financial Tools	
2.6.2 Statistical Tools	48
CHAPTER - IV	
PRESENTATION AND ANALYSIS OF DATA	50
4.1 Financial Analysis	50
4.1.1 Ratio Analysis	53
4.1.1.1 Liquidity Ratio	53
4.1.1.2 Assets Management Ratio	57
4.1.1.3 Profitability Ratio	61
4.1.1.4 Activity Risk Ratio	67
4.1.1.6 Other Ratios	70
4.2 Statistical Analysis	73
4.2.1 Coefficient of Correlation Analysis	73
4.2.2 Time Series Analysis (Trend Analysis)	80
4.3 Major Findings of the Study	88
CHAPTER – V	
SUMMARY, CONCLUSION AND RECOMMENDATION	93
5.1 Summary	93
5.2 Conclusions	94
5.3 Recommendations	97
Bibliography	
Appendix	

LIST OF TABLE

I	Page No
Table No. 1.1 Capital Structure of Everest Bank Limited	4
Table No. 1.2 Capital Structure of Himalayan Bank Limited	6
Table No. 4.1 Total Deposit and Total Investment of Sample Banks	50
Table No. 4.2 Growth Rate of Liquidity Position of Sample Bank	52
Table No. 4.3 Current assets to current liability (in times)	53
Table No. 4.4 Cash and Bank Balance to Total Deposit Ratio	54
Table No. 4.5 Cash and Bank Balance to Current Asset Ratio	55
Table No. 4.6 Investment on Government Securities to Current Assets Ratio	56
Table No. 4.7Loan and Advance to Total Deposit Ratio	57
Table No. 4.8 Total Investment to Total Deposit Ratio	58
Table No. 4.9 Loan and Advances to Total Assets Ratio	59
Table No. 4.10 Investment on Government Securities to Total Assets ratio	60
Table No. 4.11 Return on Loan and advances	61
Table No. 4.12 Return on Total Assets Ratio	63
Table No. 4.13 Return on Equity Ratio	63
Table No. 4.14 Total Interest Earned to Total Assets Ratio	64
Table No. 4.15 Total Interest Earned To Total outside Assets Ratio	65
Table No. 4.16 Interest Earned to Operating Income Ratio	66
Table No. 4.17 Interest Paid to Total Assets Ratio	67
Table No. 4.18 Credit Risk Ratio	68
Table No. 4.19 Liquidity Risk Ratio	69
Table No. 4.20 Asset Risk Ratio	70
Table No. 4.21 Earning Per Share	70
Table No. 4.22 Dividend per Share	71

Table No. 4.23 Price Earning Ratio	72
Table No. 4.24 Correlation between Deposit and Loan and Advances	74
Table No. 4.25 Correlation between Deposit and Total Investment	75
Table No. 4.26 Correlation between Loan and advance and Net profit	76
Table No. 4.27 Correlation between Total Investment and Net Profit	77
Table No. 4.28 Correlation between Total Deposit of EBL and HBL	78
Table No. 4.29 Correlation between Total Investment of EBL and HBL	78
Table No. 4.30 Correlation between Loan and Advances of EBL and HBL	79
Table No. 4.31 Correlation between Net Profit of EBL and HBL	79
Table No. 4.32 Trend analysis of Total Deposit of EBL and HBL	81
Table No. 4.33 Trend line of Total Loan and Advance of EBL and HBL	83
Table No. 4.34 Trend Line of Total Investment Between EBL and HBL	85
Table No. 4.35 Trend Analysis of Net Profit Between EBL and HBL	87

LIST OF FIGURE

	Page No
Figure No 4.1Condition of Total Deposit of EBL and HBL	51
Figure No 4.2 Liquidity condition of EBL and HBL	51
Figure No 4.3 Trend analysis of Total Deposit of EBL and HBL	81
Figure No 4.4 Trend line of Total Loan and Advance of EBL and HBL	83
Figure No 4.5 Trend Line of Total Investment Between EBL and HBL	85
Figure No 4.6 Trend Analysis of Net Profit Between EBL and HBL	87

ABBREVIATION

ADB Agricultural Development Bank

AGM Annual General Meeting

BOK Bank of Kathmandu Limited

BPS Book-value Per Share

BS Bikram Sambat (Abbreviation of Bikram Era)

CEO Chief Executives Officer

CV Coefficient of Variation

DPS Dividend per Share

EBL Everest Bank Limited

EPS Earning Per Share

GDP Gross Domestic Product

HBL Himalayan Bank Limited

G/N Government of Nepal

IMF International Monetary Fund

MBL Machhapuchre Bank Limited

MPS Market Price of Share

NABIL Nabil Bank Limited

NBL Nepal Bank Limited

NEPSE Nepal Stock Exchange

NIB Nepal Investment Bank Limited

NICB Nepal Industrial & Commercial Bank Limited

NPV Net Present Value

NRB Nepal Rastra Bank

PE Price Earnings

RBB Rastra Banijya Bank

SBI Nepal State Bank of India Limited

SCBNL Standard Chartered Bank Nepal Limited

SEBO/N Security Board of Nepal