CHAPTER - I
INTRODUCTION

This chapter is concerned with introductory phenomenon of the study. It highlights the problems of NBL with respect to liquidity management. It also explains why the research is brought and what it aims, limitations and significance.

1.1 Background of the Study

Bank & Financial Institutions play significant role for development of the economy. They are considered as one of the main sources of economy. They do the several economic and financial activities. But in our context most of them are not operating well. They are suffering from various problems directly and indirectly.

Organized banks are not the pioneers of financial transactions. There was lot of actors who contributed to this field. Even before the establishment of banking system in Nepal, financial transactions were in practice as under taken by some money lenders like goldsmith, sahu-mahajan & Jamindars. The transactions that help during those days were not in an organized manner. Such unorganized way of financial affairs could not direct the nation towards the economic development. Hence, to fulfill the growing need of economy; Nepal Bank Limited came into existence in 1937 as the first commercial bank of Nepal even before the establishment of central bank i.e. Nepal Rastra Bank.

Nepal Bank Limited started the act of consolidating the scattered capital since its establishment in order to mobilize in productive sector. It developed a systematic tradition & culture of modern banking system in Nepal. Such system could able to established a strong base for the uplifted the National economy.

Liquidity is the company's capacity to liquidate maturing short-term debt (within one year). Maintaining adequate liquidity is much more than a corporate goal is a condition without which it could not be reached the continuity of a business. Liquidity is also the ability to meet expected and unexpected demands for cash through ongoing cash flow or the sale of an asset at fair market value.

Liquidity refers to the conversion of assets into cash. Commercial bank has to maintain satisfactory level of liquid assets they are easy to sale at market price with less transaction cost. A commercial bank holds liquid assets balance in the form of currency, bank balance, marketable securities and other assets immediately converted into cash. But this can be invested for some period to earn interest then to keep idle cash balance. In other to determine optimal investment in liquid assets, a commercial bank must weigh the benefits and costs of holding these various liquidity assets balance; the determination of an optional liquid assets balance reflects the classic risk return trade off facing the commercial bank. Effective cash management calls for a careful balancing of the risk and return aspects of cash management.

Liquidity is the availability of funds, or assurance that funds will be available, to honor all cash outflow commitments (both on -and off-balance sheet) as they fall due. These commitments are generally meet through cash inflows, supplemented by assets readily convertible to cash or through the institution's capacity to borrow. The risk of illiquidity may increase if principle and interest cash flow related to assets, liabilities and off- balance sheet items are mismatched.

Liquidity is the ability of a bank to pay cash depositors on demand. It is the arrangement and the allocation of funds in such a way that can be drawn immediately without any loss of principle. Liquidity can be viewed in terms of liquidity stored in the balance sheet and in terms of liquidity available through purchased funds.

The ability of a financial institution to meet demand for deposit withdrawals and other cash outflows is a visible indicator of its viability. The level of liquidity which is maintained must at a minimum meet regulatory requirements. Liquidity must also be sufficient to satisfy demand for cash withdrawals, financing commitments for approved loans, and routine operating cash outflows. Too much liquidity (excess liquidity), on the other hand, can be an inefficient use of funds, and can restrict the profitability.

At present, there is no secured investment opportunity for the Nepalese commercial banks. The banks are facing the problem vague liquidity in term of monetary firm. The idle money does not make any return. Therefore, the high liquidity may cause of low profitability and inefficient performance overall Banking sectors. It may cause failure of banking performance in long term.

High liquidity is not good for the commercial Banks and the crises of liquidity too are not good. How much liquidity exists in the economy in a particular period depends on the policy for the central bank, the commercial bank, commercial bank, common people and government. The directives made by the central bank to fix the standard of money. What amount of money the commercial bank should keep as liquid assets or give loan and advance, or more much amount is to be invested.

In the present situation, it seems that most of the banks are in trouble of managing liquidity. Due to high liquidity in the form of cash, the banks are not being able to proper utilize the cash collected from depositors. In this situation, the banks earn less return from lending then borrowing.

1.2 Commercial banks in Nepal

A banker or bank is a person or company carrying on the business of receiving money collecting draft for customers subject to the obligation of honoring cheque drawn upon them from time by the customer to the extent of the amounts available in their currents accounts.

A bank is a business organization that received and holds deposits of funds from others and makes loans or extends credit and transfers funds by written orders deposits (Encyclopedia, World Book, America, 2002).

A commercial bank means the bank which deals in exchanging currency accepting deposit, giving loans and doing commercial transaction (Bank and financial Institution Act, 2063 B.S).

Thus, a bank is financial institution established for the transaction of money. It deals from public and lends money to the borrowers as a loan. It also creates credit and exchanges the foreign currency. It is established to fulfill certain objectives such as to facilitated public economics interest, to advance loans for the development of agriculture, industries, trade and provide banking services to the public.

Commercial banks are very important for the development of national economy. They accept public saving as deposit and advance them as loans to the persons, business organization and

government when they required. The development of commercial banks is in increasing trend after the restoration of democracy in 1990 A.D. The first commercial bank is Nepal Bank Ltd. that was established in 30 Kartik, 1994 B.S.(1935 A.D.). And second is RBB established in 10/10/2022 B.S. After a long period of establishment of these two banks, Nabil Bank Ltd. is the first commercial bank for the private sector. This is the first joint venture bank of Nepal also. There after many other joint venture and non joint venture banks were set up under the Commercial Bank Act, 2031 and Company Act, 2063. Now, Commercial banks are operating in the country which is as follows:

Table-1.1

Commercial Banks in Nepal

S.N.	Names	Operation Date (A.D.)	Head Office	Paid up capital (in thousands)
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	3804
2	Rastriya Banijya Bank Ltd.	1966/01/23	Kathmandu	3853
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	94375
4	Nabil Bank Ltd.	1984/07/16	Kathmandu	20298
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	24091
6	Standard Chartered Bank Nepal Ltd..	1987/01/30	Kathmandu	16102
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	20000
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	18693
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu	20103
10	Everest Bank Ltd.	1994/10/18	Kathmandu	11196
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	13595
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi	13997
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh,Chitawan	13000
14	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski	16272

15	Kumari Bank Ltd.	2001/04/03	Kathmandu	14850
16	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	16140
17	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	15610
18	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	15000
19	Citizens Bank International Ltd.	2007/06/21	Kathmandu	19223
20	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	22457
21	Sunrise Bank Ltd.	2007/10/12	Kathmandu	18554
22	DCBL Bank Ltd.	2008/05/25	Kamaladi, Kathmandu	19209
23	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu	16517
24	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	20000
25	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	14000
26	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	16310
27	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	14000
28	Civil Bank Litd.	2010/11/26	Kamaladi, Kathmandu	12000
29	Century Commercial Bank Ltd.	2011/03/10	Putalisadak , Kathmandu	10800
30	Sanima Bank Ltd	2004/12/06	Naxal, Kathmandu	20160
31	NIC Asia Bank Ltd	2013/06/30	Thapathali, Kathmandu	28291

Source: www.nrb.org.np

Functions of commercial banks

There are many functions of commercial banks and principle function as follows:

a) To accept deposit

b) To provide loans and advances

c) To create credits

d) To perform agency functions

e) To carry out utility functions.

The commercial bank and banker has its own right and duties. The rights are mentioned point as follows:

a) Banker enjoys a general lien over customer's securities in his possession.

b) It has implied right to change a reasonable commission for his service and interest upon loans.

c) It has to right of set-off like any other debtors

d) It has the right to appropriate payment as per the rules laid down in clayton's case.

e) Banker need not seek out the creditor to make the payment. It is the creditor who should demand payment.

Similarly, the duties of banker are as follows:

a) To receive his customer's money and cheques and other instruments for collection.

b) To repay the customer's deposit on the presentation of customer's mandate known as the cheque.

c) To maintain secrecy in respect of customer's account and affairs.

d) To gave a reasonable notice before closing customer account.

1.3 Profile of Nepal Bank Limited

Nepal Bank Limited, The first bank of Nepal was established in November 15, 1937 A.D (Kartik, 30, 1994). It was formed under the principle of Joint venture (Joint venture between govt. & general public). NBL's authorized capital was Rs. 10 million & issued capital Rs. 2.5 million of which paid-up capital was Rs. 842 thousand with 10 shareholders. The bank has been providing banking through its branch offices in the different geographical locations of the country.

Vision Statement:

"To remain the leading financial institution of the country"

Mission Statement:

Nepal Bank Limited seeks to provide an environment within which the bank can bring unique financial value and services to all customers. It will be a sound institution where depositors continue to have faith in the security of their funds and receive reasonable returns; borrowers are assured of appropriate credit facilities at reasonable prices; other service- seekers receive prompt and attentive service at reasonable cost; employees are paid adequate compensation with professional career growth opportunities and stockholders receive satisfactory return for their investment.

Values Statement:

At Nepal Bank Limited, we believe that our banking should be based on:

* Respect, service and safety for the customers we serve
* Respect, reward and opportunity for the people with whom we work
* Respect, cooperation and support for the economic community of Nepal

Objectives:

Nepal Bank Limited has the following objectives

* Continue to maintain leading share of banking sector with a significant presence in all major geographical areas in the country.
* Provide competitive and customer oriented banking services to all customers through competent and professional staff.
* Reclaim leadership within the national financial community.

1.4 Statement of the Problem

The competition environment of the financial institutions is to tense that any commercial bank that aims to survive must be aware of the challenges of its liquidity and profitability obligation as both variable can make or destroy its future.

When the bank is not able to meet their financial obligations, the public begins to loss confidence and these will cause lot of competition to the financial sector. With the high increase of competition in the banking industry, every commercial bank should strive to

operate on profit and at the same time meet the financial demand of its depositors by maintaining adequate liquidity. The problem then becomes how to select the optimum point at which commercial bank can maintain its assets in order to optimize these two objectives. These problems become more difficult as a large number of banks are basically engaged with profit maximization.

The main objectives of the commercial banks are high profitability, wealth maximization and the achievement of organizational objectives contributes to the national economy. Therefore it is important to determine the factors affecting the liquidity and its management. The commercial banks are facing an acute problem of the resource mobilization. We have 30 banks commercial bank in Nepal, which are very much considered to be vital financial institutions to mobilize domestic resources. They have of course a good performance in the course mobilizing the idle deposits.

This study tries to solve the following research questions.

a) How the commercial banks are managing liquidity in existing practice?
b) What are the main causes of increasing or decreasing liquidity in commercial banking sector?
c) What is the gap between deposits and investments of the commercial banks?
d) What is the relationship between investment, loan, advances and total deposits?
e) How to make optimal management of liquidity and Profitability analysis in commercial banks?

1.5 Objectives of the Study

The main objective of this study is to analyze the liquidity and profitability management of Nepal bank limited. The following are the specific objectives of the study:

a) To analyze the liquidity of Nepal bank limited.
b) To analyze the relationship between deposits, investment, loans and advances.
c) To analyze the profitability position of Nepal bank limited.
d) To provide suggestion for the improvement based on findings.

1.6 Limitation of the Study

The limitations of the study are as follows:

i) The analysis is based upon secondary data, provided by Nepal bank limited.

ii) This study is mainly based on balance sheet and income statement maintained by the company and published in annual reports.

iii) The study covers the information of only data from 2065/066 to 2069/070.

iv) This study is only concerned with the liquidity and profitability factors.

1.7 Organization of the Study

This study has been divided into five chapters:

Chapter 1 – INTRODUCTION

This chapter consists of general background of the study, a brief introduction of Nepal bank limited, statement of problem, objectives of the study, significance of the study, limitations of study and organization of the study.

Chapter 2 – REVIEW OF LITERATURE

This chapter includes review of conceptual framework, related article and previous related studies.

Chapter 3 – RESEARCH METHODOLOGY

This chapter consists of research design, population and sample, period covered, data collection procedure and tools & techniques of analysis.

Chapter 4 – DATA PRESENTATION & ANALYSIS

This chapter includes the presentation and analysis of collected data through tables, diagrams, graphs, formats, financial techniques and tools.

Chapter 5 – SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter deals with the summary of the study, conclusion, suggestions and recommendations.

Bibliography

Appendixces

CHAPTER - II
REVIEW OF LITERATURE

In this chapter, the focus has been made on review of literature relevant to the problems, conceptual framework given by different authors, articles and also reviewed studies performed previously by thesis writers.

2.1 Conceptual Review

2.1.1Meaning of Liquidity

Liquidity is defined as bank's capacity to pay cash exchange of deposits. Liquidity and profitability are interlinked with each other in banking business. Inadequate liquidity may lead to collapse of bank while excess liquidity is detrimental bank's profitability. In order to remove demerits associated with maintaining inadequate and excess liquidity, bank should maintain optimum level of liquidity ratio. Bank has to keep liquidity according to directives and guideline of Nepal Rastra Bank.

Liquidity is the status and part of the assets that can be used to meet the obligation in the commercial banks. Liquidity can be viewed in terms of liquidity stored in the balance sheet and in term of in terms of liquidity available through purchased funds (Bhandari, 2004).

The amount of liquidity that of commercial bank or the commercial banking system should maintain is one of the basic problems of the bank management. If too much liquidity is maintained, it means that the banks and the banking system are foregoing income. Too little, however may be fetal not only to the commercial banking system as a whole, the financial system of the country, and the economy of the nation. Too little liquidity and the demands of the depositors in the form of run on banks are like oil and water, they do not mix well.

Liquidity denotes the money in use, in the current account, saving account, fixed account and the money in margin account of the economic system. But, definition is not made by Nepal Rastra Bank Act 2058/2002, the Commercial Bank Act 2031/1974 and Financial Company Act 2042/1985. But definition about what "liquid asset" means is found in the acts. Liquid

assets means, the cash balance of the bank, balance held by a bank in the Nepal Rastra Bank and liquidity appears in the economy.

2.1.2 Importance of Liquidity

A bank can't run without liquidity. The Nepal Rastra Bank changes the legal provision about the liquidity from time to time. The compulsion that the commercial banks should keep the cash in various funds shows the importance of liquidity. The commercial banks and financial institutions should maitain the balance of cash fund in required quantity that law and rules made by the Nepal Rastra Bank. The importance of the liquidity is considered very sensetive because if it cannot maintain the liquidity, it has to pay fine. The commercial banks financial institution should keep the stock of liquid assets in the ratio of their deposit liability, as fixed by the Nepal Rastra Bank. The central bank can give the interest with the rate fixed by bank from time to time to the amount in the fund. The importance of liquidity is briefly descibed in point wise as follows (Khadka, 2001):

a) To pay all short deposit

A bank open the current, saving and fixed account for its customer's and accepts the deposits from customers. According to nature of deposit from the customer, the bank should pay in the time when customers ask. The liquidity needs for it. It can't pay the deposits without liquidity. That is why liquidity is necessary for the payment of all types of deposits.

b) To fulfill deamand of the debtor

A bank provides loan to debtors and earns income from it. Many kinds of people come to the banks with purpose of loan. After the loan is granted, the bank is obliged to give the loan to the debtor. therefore, there is necessary of liquidity in bank to provide fresh loan to the debtors.

c) To provide security of the banks

A bank is a sensetive institution because it is an institution of banking transaction. Hence, the deposits are deposits are deposited in different types of account of common people, industrialists and businessmen. Apart from it, the bank itself invests the cash in different sectors. The cash as a form of loan can bedistributed in different sectors from the bank. So, the bank is regarded as a sensentive and important institution. Such institution can be saved from the the various risks at any distributed in different sectors from the bank. So, the bank is

regarded as a sensentive and important institution. Such institution can be saved from the the various risks at any situation. Hence, to provide all kinds of security to the bank, the liquidity is necessary.

d) To meet the expenses for the bank's daily administrative work

Many type of expenses go on taking place in bank daily. A bank is legal person. With the lack of expenses, it is nearly impossible for the bank to do its transaction. So the liquidity is necessary for the daily expenses that it is spent in an administrative function. The administative expenditure can't be fulfilled without liquidity. Hence liquidity is important for the banks.

e) To maintain liquidity to meet the Cash Fund Ratio and Legal Liquidity Ratio

The commercial bank should keep 5% Cash Reserve Ratio to accounts in the Nepal Rastra Bank's account in their own name. in addition to it, there are some small funds in the bank. There is an obligation on a bank to keep cash in such fund. Therefore, to fulfill all these demands or to maintain the balance, liquidity is necessary.

f) To control the economic fluctuation and to keep safe from the risk

It can't be said, there will be the same situations of transaction in the bank and bank will always remain in balance condition. There will be effect of internal and external circumstances in the nation. Such condition may have effect on economic sector. The commercial banks too can't remain safe from the effect of economic sector. There is important of liquidity to keep free from economic rise and fall or economic crises. The bank should maintain some liquidity of certain percent cash fund to keep safe from such situations.

2.1.3 Liquidity Management Model

Under the liquidity management any institution may generate liquidity by managing its profitability. Although tradition model shows an important part of cash management, it doesn't help to show the appropriate utilization of fun. Therefore several models have been developed to determine cash balance and to maintain profit position. One of the techniques of mixing the cash balance with loan investment is Baumol model which is based on high low cash balance. The following model described as follows (Bhandari, 2004):

a) Baumol Model

According to this model, minimizing the opportunity cost of holding cash and maximizing the return of the fund, cash balance should be maintained at a minimum level and funds not required for immediate use, be invested Baumol Model indentifies the cash maintenance as analogous to inventory maintenance and demonstrates that the model of economic order quantity.

Baumol Model based on the assumption that:

1) Cash is used at constant rate.
2) The periodic cash requirement is more or less save.
3) There are some cost such as the opportunity cost that increase and the other cost such as transaction cost that decrease cash balance.

Hence Baumol Model has conducted that the minimum size is the amount of cash that is enough to start with at beginning of the period to meet the cash need of the period transaction.

b) Miller Model

Due to high opportunity cost, all liquidity need should not be maintained in cash that bears no returns. It is necessary to maintain cash balance for transaction and compensation balance requirement but the liquidity need for other purpose doesn't need to be in cash. Therefore any financial institution can take advantage by appropriately balancing the available funds between the cash loan investment. The size of cash needs depends on the pattern and degree of regulating of inflows and outflows. Hence Miller had developed model know as Miller Model, which takes into account the realistic pattern of cash flow and prescribes which and how and prescribes which and how much to transfer format to investment account vice-versa. This model is based on the assumption that daily net cash flows receipt minus payment is random in size as well as in the matter of negative or positive flow. Hence this model set range of high and limits within which cash balance is allowed to fluctuate and set the target cash balance between these two limits.

2.1.4 Principles of Liquidity Management

There are apparent conflicts between objectives of liquidity, safety and profitability relating to a commercial bank. Economists have tried to resolve these conflicts by lying down certain theories from time to time. These principles or theories, in fact, govern the distribution of

assets keeping in view these objectives. They have also known as the theories of liquidity management which are discussed as under (Bhandari, 2004):

a. Commercial Loan Theory or Real Bills Doctrine

This theory evolved in early 1920s. The real bills doctrine states that a commercial bank should advance only short term self- liquidating productive loans to business firms. Self liquidating loan are those, which are meant to finance the production, storage, transpiration and distribution. When goods are ultimately sold, the loans are considered to liquidate themselves automatically.

Such short term self-liquidating productive loan passes three advantages. First, they posses liquidity that is why, they liquidate themselves automatically. Second, since they mature in the short run and are for productive purposes, there is no risk of their running into bad debts. Third, being productive such loans earn income for the banks.

b. Asset Conversion or Siftability Theory

This theory is developed by in half of 1940's. H.G. Moulton, who asserted that if the commercial banks maintain a substantial amount of assets that can be shifted on to the other banks for cash without materials, propounded the shiftability theory of bank liquidity. According to this view, an asset to be perfectly shiftable must be immediately transferable without capital loss when the needs for liquidity arise. But in a general crisis requires that all banks should possess such assets, which can be shifted on the central bank, which is the lender of the last resort. This theory has certain element of truth.

But it has its weakness. First, mere shiftability of assets does not provide liquidity to the banking system. It entirely depends upon the economic circumstances. Second, the shiftability theory ignores the fact that in times of acute depression, the shares and debentures can't be shifted on to others by the bank. In such a situation, there are not buyers and all who possess them want to sell them. Third, a single bank may have shiftable assets in sufficient quantities but if it tries to sell them when there is a run on the bank, it may adversely affect the entire banking system. Fourth, if all the banks simultaneously start sifting their assets, it would have disastrous effect soon both the lenders and borrowers.

c. The Anticipated Income Theory

The anticipated income theory developed by H. V. Proch in 1950 on the basis of the practice of extending term loans by the U.S.A. commercial bank. According to this theory, regardless of the nature and character of a borrower's business, the bank plans the liquidation of the long term loan from the anticipated income of the borrower. A term loan is for a period exceeding one year and extending to less than 5 years. It is granted against the hypothecation of machinery, stock and even immovable property .The bank puts restriction on the financial activities of the borrower while granting this loan. At the time of granting a loan, the bank takes into consideration not only the security but the anticipated earnings of the borrower. In fact, the anticipated income is the main consideration.

This theory is superior to the real bills doctrine and the shiftability theory because, it fulfills the three objectives of liquidity, safety and profitability. Liquidity is assured to the bank when the borrower saves and repays the loan regularly in installments. It satisfies the safety principle because the bank grants a loan not only on the basis of a good security but also on the ability of the borrower term-loan and is assured of a regular income. Lastly, the term-loan is highly beneficial for the business.

d. The liabilities Management Theory

This theory was development in 1960s and early 1970s. According to this theory, there is no need for banks to grant self-liquidating loans and keep liquid assets because they can borrow reserve money in the money market in case of need. A bank can acquire reserves by creating addition liabilities against it, from the different sources. These securities includes the issuing of time certificates of deposit, borrowing from other commercial banks borrowing from the central bank, raising of capital funds by issuing shares and by ploughing back of profits. We discuss these sources of the bank briefly:

) Time Certificate of Deposits

Times of certificate of deposits are negotiable in the money market. So a bank can have access to liquidity by selling them in the money market. But there are two limited term. First, if during a boom, the interest rate structure in the money market is higher than the ceiling rate set by the central bank, time deposit certificate can't be sold in the market. Second, they are not dependable source of fund for the commercial bank. Bigger commercial are at an

advantage in selling these certificates because they have larger certificates, which they can afford to sell at even low interest rate. So the smaller banks are at a disadvantage in this respect.

- **Borrowing from Other Commercial Banks**

A bank may create additional liabilities by borrowing from other banks having excess reserves. But such borrowings from bank having excess reserves are only for a very short duration, for a day or week at the most. The interest rate of borrowings depends upon the prevailing rate in the money market. But borrowings from other banks are only possible during normal economic conditions. In abnormal times, no bank can afford to lend of other.

- **Borrowing from The Central Bank**

Bank also creates liabilities on themselves by borrowing from the central bank of the country. They borrow to meet the liquidity needs for short term and by discounting from central bank. But such borrowings are relatively costlier than borrowing from other sources.

- **Raising Capital Funds**

Commercial banks acquire funds by issuing debentures. But the availability of funds through this source depends on the amount of dividend or interest rate, which the bank is prepared to pay. Usually, the banks are not in a position to pay rate higher than paid by manufacturing are trading companies. So they are not able to get sufficient funds from these sources.

- **Ploughing Back of Profit**

Another source of liquid funds for a commercial bank is the ploughing back of its profits. But how much it can get from this source will depend upon its rate of profit and its dividend policy. It is larger banks that can depend on this source rather than the smaller banks.

2.1.5 Why Bank Face Liquidity Problem

Banks borrow large amounts of short-term deposits and reserves from individuals and businesses and from other lending institution and then turn around and make long term credit available to their borrowing customers. Thus, most banks face some imbalances between the maturity dates on their assets and the maturity dates attached to their liabilities. Rarely will incoming cash flows from assets exactly balance the cash flowing out to cover liabilities.

A problem related to the maturity mismatch situation is that banks hold an unusually high proportion of liabilities subject to immediate payment, such as demand deposits, NOW account and money market borrowings. Thus, banks must always stand ready to meet immediate cash demand that can be substantial at times, especially near the end of a week, at the first of each month and during certain seasons of the year.

Another source of liquidity problem is the bank's sensitivity to change in interest rates. When interest rates rise, some depositors will withdraw their funds in search of higher returns elsewhere. Many loan customers may postpone new loan request or speed up their drawing on those credit lines that carry lower interest rates. Thus, changing interest rate affects both customers demand for deposits and customers demand for loans, each of which has a potent impact on a bank's liquidity position. Moreover, movements in interest rates affect the market values of assets the bank may need tom sell in order to rise additional liquid funds and they directly affect the cost of borrowing in the money market. Beyond these factors, a bank must give high priority to meeting demand for liquidity. To fail in the area may severally damage public confidence in the institution. We can imagine the reaction of bank customers if the teller windows and teller machine had to be closed one morning because the bank was temporarily. Out of cash and could not cash cheques or meet deposits withdrawals (as happened to a bank in Montena several years ago, prompting a federal investigation). One of the most important tasks of a bank's liquidity manager is to keep close contract with the bank's largest depositors and holders of large unused credit lines to determined if an when withdrawals of funds will be made and to make sure adequate funds are available.

2.1.6 Factor Affecting Needs of Bank Liquidity

Basically, need of bank is affected by the following factors (Bhandari, 2004):

a) External environmental factors

- **Prevailing interest rate**: If bank interest rate is high, the demand of cash is low that why there will be low liquidity needs.

- **Saving and investment**: High level of income and saving produce low level of liquidity high level of investment produce high level of liquidity needs.

- **Growth and slackening position of the financial market**: Growth and progress of economic and financial market produce low level of liquidity needs but opposite to this slackening position of economic and financial market produces high level of liquidity needs.

b) Internal Environmental factor

- **Lending policy of bank**: Level of liquidity requires to the bank if it has adopted a long term or mid term loan policy. Otherwise low level of liquidity requirement is applicable for the short-term investment policy adopting bank.

- **Management liquidity:** Low level of liquidity needs to high-risk bearing and capable risk handing management. Other high level of liquidity needs for risk averter and relatively low capable or inefficient management.

- **Strategic planning and fund flow situation**: Liquidity needs is affected by bank's investment policy, strategic planning and objectives. It is also affected by the fund flow situation and lending policy. If the bank has collected more amount in current account relatively there will be high level need of liquidity otherwise there is low level of need of liquidity. It depends on maturity matching of assets and liability of banks.

2.1.7 Criterion for Measuring Bank Liquidity

It is very important to study criteria for measuring bank liquidity. The bank liquidity is the most important aspect of a bank. It there is less bank liquidity, the bank can't be run. If there is much liquidity, the bank should bear great lost economically. Both high liquidity and low liquidity are not good omen for the bank. The bank should be able to keep the liquidity in balance. This is very difficult task. However the bank liquidity can be measured by following criterion (Khadka, 2001):

a) Deposit Investment Ratio

We can measure the liquidity by the deposit investment ratio. The depositors deposit the cash in the current, saving and fixed amount. Bank received the most liquidity as deposit. The bank invests the capital collected by deposit in various profitable and productive sectors in the form of loan by earning much profit from it. The bank has the nature of paying lower interest to the depositors and taking higher interest from the place it invested. And the bank

doesn't invest all the cash as loan. Apart from the deposit invested, the bank also has other cash.

b) Investment in Assets

The criteria of measuring liquidity in a bank, depends on the type asset, which the bank has made investment. The bank doesn't waste cash stock received from different source of capital. The bank can invest the money, it possess in different types of assets: such as house land for the bank and other permanent sort of assets. In such condition, the bank has low liquidity because the investment made in such nature of asset needs much cash. And the banks gains income very low from such nature of asset. But in contract to it, if the has invested in the share of various company. The Investment in government securities and treasury bills and in the debenture of different business institution, bank liquidity is abundant. In this way, the investment that the bank did can be used as the criteria of measuring liquidity.

c) Cash Reserve ratio

The cash reserve ratio too can be taken as criteria of measuring bank liquidity. The commercial bank should maintain the cash reserve ratio as fixed by the central bank by opening as account in central bank and also should maintain the statutory liquidity ratio, in its own treasury. It changes from time to time.

d) Profitability

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

e) Investment in Loan

The bank distributes loan in different sectors. The source of loan investment is important from the various sources of the bank. It is an important to know what sort of loan and how much loans the bank has distributed, while the bank distributes the loan. If the bank is intensified with the concept of gaining profit, the bank flow loans on a long term and midterm basis. If it has paid it attention to the safety, it invests in short term loan. If a great deal of amount is invested in the short-term loan, bank retains high liquidity. If it has invested in long term, midterm, there is lower liquidity. Thus, loan invested too can be the criteria of measuring the liquidity.

f) Structure of Bank

The organizational structure of a bank: i.e. division, sub division, branches too gives speculation of bank liquidity. If the structure of the bank is in single nature, there is a higher liquidity in the bank. If the banks have many branches, liquidity is lower because the liquidity remains scattered in different branches and sub branches.

g) Position of Business

The business organization, Institution and company have special role in the rising and falling of a bank's investment. If the bank is in the position of profit in investment, the investor comes to the bank with the proposal for loans. The bank too invests by evaluating the business, its investment time and situation. On the contrary to it, the bank goes on lessening the loan, if the position of business time and situation is not good. If the business environment is good, liquidity remains low. If the business environment is not good, Liquidity remains high in the bank. In this way the position of business can be the medium to guess the criteria of measuring liquidity.

2.1.8 Policies in Liquidity Management

Cash Reserve Ratio (CRR)

The reserve provision of certain percentage of deposit in own vault and certain percentage with Nepal Rastra Bank (NRB) is known as CRR. The CRR depends on the monetary policy of NRB and it is modified time to time as per the requirement of economy. It is a tool of

monetary policy. Nepal Rastra Bank had started to declare CRR from 1st Ashwin, 2023. Now the CRR rate is 5% for the fiscal year 2068/069.

a) Provision to Minimize Liquidity Risk

Commercial bank should separate its assets and liabilities based on time interval of maturity period in order to minimize liquidity risk. Commercial bank shall be liable to report this liquidity profile to Banking Inspection, supervision department and Bank Management Department quarterly (i.e. the end of Ashwin, Poush, Chaitra and Ashadh) (www.nrb.org.np).

The time interval of maturity period is calculated as follows:

- 0-90 days maturity period assets and liabilities
- 91-180 days maturity period assets and liabilities
- 181-270 days maturity period assets and liabilities
- 271-365 days maturity period assets and liabilities
- More than 1-year days maturity period assets and liabilities

Provision of having infinite maturity period assets and liabilities:

- Out of total current deposit, core deposit and compensating balance should be included in the more than one-year maturity period level interval.
- Current deposit is considered as core deposit.
- Saving deposit is considered as long-term liabilities and included in more than one - year maturity period interval.
- The commercial bank should calculate the difference of interval-wise assets and liabilities. The cumulative difference may be positive or negative.

b) Practice of Liquidity Management in Nepalese Commercial Banks

Nepal Rastra Bank (NRB) is the regulatory body of the banking industry. NRB issues rules and regulation to facilitate the banking operation in Nepal like other regulation. There is a regulation for maintaining liquidity by commercial banks. Revision in monetary policy and operational procedure is continuation from time to time. Regulation is called Cash Reserve Ratio (CRR). It is directly related to the liquid assets of commercial bank. The regulation specifies the cash reserve ratio of commercial to central bank and its own vault to operate day-to-day transaction. It is a policy instrument of central bank for money supply. Money

supply is a variable of monetary policy through which the bank plans to maintain adequate liquidity in the economy. It changes as per the requirement of the economy. According to the central bank's regulation, commercial banks need to consider the following rules to calculate CRR.

Total deposit means current, saving and fixed deposit account as well as call money deposit and certificate the deposit (CD). For this purposes, deposit held in convertible foreign currency, Employee guarantee amount and Margin account would not be included:

- Fixed deposit means a deposit in local currency accepted with condition to repay on completion of stipulated time period.
- Current and saving deposit means all deposit accounts other than fixed deposit.
- Cash in vault shall include only the local currency and foreign currency (except clearing cheque).

A complete procedure for compliance lest is in place. Failure in any respect under the regulation is liable to pay penalty at a very high rate of interest. Procedures for compliance test are as follows:

- The cash reserve requirement shall be examined on a weekly basis.
- Only the balance held in ordinary account with NRB shall be illegible for inclusion in cash reserve. Balance held with NRB in special accounts opened for specific purpose and foreign currency account shall not be included for this purpose.
- Any amount of local currency fund transfer meant to be credited in the account with NRB and lying in transit shall be included in the balance held with NRB.
- The cash reserve requirement shall be examined against the average weekly balance of deposit liabilities of immediately preceding forth week. In case of fill holiday in the proceeding forth week, the average deposit immediately preceding 5th week shall be considered.
- For the purpose of calculation of weekly average of total deposit, cash balance in vault and balance held with NRB, the total aggregate amount of daily balance from Monday through Friday should be divided in five. In case a holyday falling in the week, the balance of the preceding day shall be considered as the balance for the day.
- In case of full holydays during the entire week, cash reserve requirement for the week shall not be calculated.

- For the purpose, all branches offices of the bank shall constitute as one unit.
- The central bank monitors that the regulation is follow or not.

2.1.9 Strategic for Liquidity Management in Existing Practice

Nepal Rastra Bank implements monitory policy to extend or narrow the loan flowing capacity a commercial banks to manage the liquidity foreign capital and internal loan are the main reason of liquidity growth. It becomes impossible for the central bank to control the growth of the forcing capital by the implementation of the monetary policy. The central bank used its monetary policy with its internal loan because the main sources of flowing internal loans are the commercial banks and they use the monetary policy as a main device of managing liquidity. In managing the liquidity, the central bank pays attention mainly in two assets (Bhandari, 2004):

a) Not to make less liquidity, this is necessary for the commercial banks to run their transactions.

b) To save the economy from the sustainable effect, they cause to arise, high liquidity and liquidity crisis.

The commercial bank should attract the deposit because it is called the raw materials of banking without which the commercial bank can't run. A decision to the effect that in which sector deposit shall be flowed is important. The amount of the current account is the most important liabilities for commercial bank. But, it should return immediately at the time of demand. So, there must be a liquid fund. Though, the loan and advance are the most profitable sector in the side of asset, it is not be recovered at the time of demand. Therefore, to make arrangements for liquid assets from its own asset, to give loan, to fix the quantity of investment and to make the coordination between the assets and liquidity are the most important factor for a commercial bank. The central bank too pays attention to this fact while giving the instruction about liquidity to the commercial banks. In preparing the strategy of liquidity management, the bank should considered many factors. If the banks fail to prepare a good strategy, at can be an in fortunate event for the bank. Bank liquidity has a great importance. Therefore, bank should set the following strategies for the management liquidity.

a) Strategy Relating to Deposit

The bank can allow opening current, saving and fixed account for its customer. Common people, organization and institution in the bank according to their need, they can deposit the cash. Such cash may be accumulated in a great deal as deposit in the bank. The banks should do all works like determination of how much money will be deposited, which account and what interest rate shall be maintained for which deposit and fixing of minimum and maximum period of the deposits. To set strategy of liquidity, it can analyze the amount accumulated as deposit. It is an internal matter of bank to set up their strategy for the management of liquidity from this the bank may get success in its goal.

b) Strategy Relating to Investment

The bank can't invest if there is scarcity of liquidity. But the bank should invest to gain profit. For this purpose, the liquidity is necessary. The commercial banks are established with objective of earning profit. So, the bank can't meet its goal in lack of liquidity. Keeping the stock, a bank needs daily liquidity. The bank should set the strategy to invest the rest of the cash fund.

c) Strategy Relating to Reserve Fund

A bank should deposit money in different fund. There is some fund in which it should compulsorily deposit cash. If it can't deposit the account this fund, it will have to face the disaster. It should be able to manage liquidity well to save itself from such disaster. It establishes a reserve fund. Some percent of amount gained from profitability is kept in this reserve fund. The bank should set a on such subject as how much cash is to be kept in a bank from the amount of such reserve and how much is to be flowed as investment.

d) Strategy relating to dividend

A bank distributes some dividend from profit to its shareholders. But if it lacks liquidity, it can issue share certificates instead of distribution of cash. But the bank management should understand that whether such condition prevail in the bank or not. If there is scarcity of liquidity, it should precede the strategy of distributing the share certificate. it is better to set the strategy of distributing the cash, if there is adequate liquidity in the bank.

e) Strategy Relating to Capital

After a bank established, it needs capital for its operation. It can open another branch or sub branches. It may need a lot of capital for this. In such condition, the bank can collect capital by issuing its share and debenture. Somehow, it lessens the problem from liquidity. The bank should adopt a strategy whether it should issue the share, debenture or not.

In this way, the bank can carry out a healthy transaction by adopting above mentioned strategies for management of liquidity. There is also a provision to pay fine, if the cash stock is less then prescribed by the Nepal Rastra Bank. Hence, the management of liquidity is really significant aspect for the banks for the purpose of maintaining liquidity in balance.

2.1.10 Predicting Bank's Liquidity Needs

Different methods have been developed for predicting bank's liquidity requirements. The estimation depends upon the nature of the bank, its operational coverage and movement of the economy etc. Some of the mostly used methods are sources and usage of funds approach, the structure of funds approach and the experience indicator approach. Each method is based on some specific assumptions. Each of the methods for the prediction of liquidity needs is discussed as follows (Shrestha, 2010)

a) The Sources and Usage of Funds Approach

The estimation of bank's liquidity can be done by the help of its sources and usage of funds. Bank liquidity raises as a result of deposit Increases or decreases in demand for loans or loans outstanding or vice versa. Whenever sources and usage of liquidity do not match, the back has a liquidity gap indicated by the total gap of the funds either favorably or unfavorably.

Once the bank notices such gap, it will have ample time to decide for managing both position and negative liquidity gap in order to make more accurate, the bank must forecast the loans and deposits for given a period of liquidity planning period.

Secondly, the bank must also assess the change in the loan and deposits for the planning period. The bank uses several statistical techniques for judging the required amount of liquidity. The liquidity need can be calculated by the help of the following formula:

Liquidity need for the future period = Estimated change in total loan

b)

c) The Structure of Fund Approach

It is also one of the methods of predicting banks liquidity requirement. It indicates the likely change in deposits and loan over a period of time based on the analysis of trend of both on the past. It is simply the analysis of sources of funds to find out the probability of withdrawals over a period. For example, the interest sensitive funds are highly volatile i.e. the bank must e prepared to fulfill its payment even at the present level. Similarly large accounts known as vulnerable funds of which the substantial portion is likely to withdraw at any time which must be analyzed thoroughly by bank for its liquidity maintenance and finally, stable funds are the most secured funds for the bank for which the bank can maintain some percentage of its funds for liquidity.

d) Experience Approach

Many banks estimate liquidity management based on experience and the economic movement. There are some indicators monitored continuously by the bank management so as to define the problem need for liquidity for a bank over a period of time. Some indicators are deposits to total assets, liquid securities to total assets, risk less assets to deposit assumption ratio etc. All these ratios assist the bank one why or the often to find out the net liquidity requirement of the bank. These ratios will be playing role directly or indirectly in fund management.

2.2 Review of Related Studies

2.2.1 Review of Journals and Books

There are very few independent studies in finance in Nepalese perspective. On the core concept of liquidity management and factors affecting to liquidity position in the commercial banks, very negligible studies have been made. During the study the following independent studies have reviewed about liquidity management in Nepalese commercial banks:

Radhe Shyam Pradhan has done a research for which he carried out a survey of 78 enterprises. Through his research entitled, “Financial Management Practices in Nepal”. He found some of the major features of the Nepalese financial management. According to him “the most important one appeared to be maintaining good relation with stockholder. The finding reveals that banks and retained earnings are most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to

bank whichever offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the bank's loan, bank loan of less than one year are more popular in public sector where as banks loan of 1-5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly, he concluded that the majority of enterprises in traded sector find that bank's interest rate is just right while the majority of non-traded sector find that the some is one higher side".

Liquidity management of a bank basically deals with bank's two conflicting goals namely liquidity and profitability. Liquidity is the bank's ability to pay depositors on demand. In a broad sense, it is the bank's ability to convert its assets into cash without delay and minimum loss. The main technique of liquidity management is to trade off between profitability and liquidity. Managers of bank can obtain the trade off following the method of cash planning managing cash flow, managing optimum cash level and investing idle funds in shiftable assets.

A Bank must manage liquid assets efficiently as they are non- earning assets. Management of liquid assets minimizes the amount invested in cash assets without taking exercise risk. A bank's liquidity need and its ability to meet such needs are difficult to measure because perception and confidence of actual and potential depositors and money market are all important but very difficult to qualify liquidity need of a bank may be short-term, cyclical and contingent. There as also a statutory provision of maintaining reserves.

Sunity Shrestha has analyzed in her article. "Financial Performance of Commercial Banks using both Descriptive and Diagnostic Approach". In her studies she has concluded the following points:

a) The structural ratio of commercial banks show that banks invest on the average 75% of their total deposit on the government securities and the shares.
b) The analysis of resources position of commercial banks should quit high percentage of deposit as cash reserve.
c) Return ratio of all the banks show that most of the time foreign banks have higher return as well as higher risk than Nepalese banks.
d) The debt-equity ratios of commercial banks are more than 100% in most of the time period under study period. It led to conclude that the commercial banks are highly

leveraged and highly risk. Joint venture banks had higher capital adequacy ratio but has been dealing every day.

e) In case of the analysis of the management achievement foreign banks have comparatively higher total management achievement index.

2.2.2 Review of Unpublished Thesis

There are numerous thesis reports for the partial fulfillment of masters of Business Administration, master of Business studies and masters in Arts in T.U. Among those thesis reports some are related to the performance, investment and liquidity in Nepalese commercial banks. Very few thesis reports are related to liquidity management in Nepalese commercial banks. Some of those unpublished thesis reports are viewed here.

Ghimire, (2003) had conducted a research on a topic of "Financial Performance of Commercial Banks: A comparative case study of NB Bank HBL and EBL". He had mainly focused on his study in examining the financial performance of those three banks such as liquidity, profitability, activity and capital structure analysis. He had taken the five years data and the necessary data and other information were primarily based on secondary data such as annual reports and other related journals and books etc. In this research Ghimire, had pointed out various findings.

- The liquidity position of the all banks was not satisfactory
- The HBL was more efficient in utilizing the deposits in loan and advances or other more-profit-Generating sectors.
- The banks did not do a lot of exercise in more credit creation and reducing the interest rate for loan and advances for more competitiveness.
- The EPS of NB Bank and EBL had been increasing trend but the EPS of HBL had been rapidly decreasing over the period.

S. Tandukar, (2003) Conducted research on the topic of "Role of NRB in Deposit Mobilization of Commercial Bank" has tried to examine role of NRB in deposit collection by the commercial banks and to analyze the trends of deposits mobilization towards total investment and loan and advances. Projection is for five years i.e. (1998 to 2002). The data used in that study is both secondary and primary nature. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 17

commercial banks as population and three banks i.e. Nepal Arab Bank Limited (NABIL), Standard Chartered Bank Nepal Limited (SCBNL) found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks. And deposit and loan and advances of NBBL are higher than EBL but in case of the investment EBL is able to mobilize more funds than NBBL in this sector.

- In the study, only concentrate on two banks. The researcher has recommended to NBBL that diversification of loan and investment is highly suggested to the bank. As NBBL has given priority in investment in treasury bills, which is risk free, but it yields very low return to the bank and recommended to EBL to collect the deposit by initiating various new programs to attract the customer for this it can pay a higher interest rate than other banks recently providing.

P. Shrestha, (2004) on his thesis, entitled "Role of Rastriya Banijya Bank in Priority Sector Credit & its Recovery" has tried to reveal the following objectives:

- To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
- To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
- To examine the situation of deprived sector credit (DSC) of RBB.
- To analyze the disbursement, recovery status & NPA position under priority sector credit (PSC) of RBB. (purpose wise)

The major findings made by the researcher are as follows:

- Bank's total no of borrowers in PSC about 76% to 78% of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28% to 29% has been invested under DSC.
- RBB is very much success in complying the NRB policy.
- Bank was not able to fully utilize the collected deposits in a proper way.
- The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.

- Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.
- The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Gupta, (2005) had conducted a research on a topic "Financial Performance Analysis of Everest Bank Ltd.". He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity, profitability ratios of EBL. The period covered by the research was five years and Necessary data and other information had been collected from the primary and secondary sources of data. In this research Mr. Gupta pointed out some remarkable findings these are.

- The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.
- EBL should be encouraging the small depositors for promoting small investors.
- The EBL should utilize its risky assets and shareholder fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.

Sapkota, (2006), in his thesis paper "A Study on Fund Mobilizing Policy of Standard Chartered Bank Ltd. in Comparison to Nepal Bangladesh Bank Ltd. and Himalayan Bank Ltd.". Having main objectives to examine the fund mobilizing policy adopted by three joint venture banks viz. SCBNL, NBBL and HBL and the way these banks mobilized their funds during five year study period i.e. from 1998/99 to 2003/2004.

He found the overall condition of SCBNL seems in satisfactory position in comparison to NBBL and HBL. In other words, he recommends that banks are strongly recommended to provide information about its services, facilities and extension of their services towards rural areas. These three banks are recommended to increase cash and bank balance to meet the need of investment and demand of loan and advances. And banks are to be investing its funds in the purchase of shares and debentures of other financial, non-financial companies, hotels and government companies.

Mr. Sapkota has not explained about the risk, which has to be faced by these joint venture banks. His study cannot show the fund mobilizing policy of the selected banks for the succeeding years because of time limitation i.e. up to 2003/2004.

Tuladhar, (2007) had undertaken a study entitled "A Comparative Study of Working Capital Management of NABIL and Standard Chartered Bank Nepal Ltd.". The main objective of her study was to study the current assets and current liabilities and their impact on liquidity and profitability as well as to analyze the liquidity, assets utilization, long-term solvency and profitability position of those two banks. She had analyzed five years published data of selected banks and mostly used statistical and financial tools to analyze them in order to achieve the set objectives. In her study, she has mentioned the following findings.

- NABIL and SCBNL had maintained current ratio of 1.55 and 1.31 respectively.
- The average quick ratio of NABIL and SCBNL were 0.64 and 0.75 respectively. Liquidity of SCBNL was always better than NABIL during the study period.
- SCBNL had more short term and less costly resources of fund than NABIL.
- NABIL had better investment efficiency on loans and Advances.
- Both banks follow conservative working capital policy.
- Profitability position of SCBNL is better than NABIL.

S. Poudel, (2009) made a thesis report entitled "A Study on Liquidity and Investment Position of Joint Venture Commercial Banks in Nepal", the study had based on the special reference to the Everest Bank Ltd and NABIL Bank Ltd. The major findings from the study were:

- There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. The manager may decide to maintain an appropriate level of liquid assets based on his own judgment.
- Liquidity Management decision should be made based on the relation to the source of funds and statutory obligation. Nature of a source of fund may very with the other. Like there are demand deposit and time deposit bearing different natures. Demand deposit has nature of high turnover. Therefore it requires high level of liquid assets to support withdrawals.

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- There is no standard and uniform rate or ratio for maintaining liquid assets by the commercial banks. The manager may decide to maintain an appropriate level of liquid assets based on his own judgment.
- Liquidity Management decision should be made based on the relation to the source of funds and statutory obligation. Nature of a source of fund may very with the other. Like there are demand deposit and time deposit bearing different natures. Demand deposit has nature of high turnover. Therefore it requires high level of liquid assets to support withdrawals. Since the 80-90 percent of funds of commercial banks is deposit, the proportion of demand deposit to total liability largely determined the level of liquid fund.
- The banks do not have constant and consistent liquidity and investment policy. Both the banks are adopting discretionary fund management approach. The banks are adhering to theory of shiftability while investing on marketable securities, especially on government securities. Anticipated income approach is also adopted in case of long-term loans.

Khadka, Arun (2011) conducted study under topic Cash flow analysis of NBL and RBB, unpublished master level thesis submitted to faculty of management, T.U.

The main objectives of his study are:

- To analyze the cash flow position of NBL and RBB.
- To example analyze and compare the cash flow of NBL and RBB.
- To evaluate different activities of NBL and RBB.
- To recommend the appropriate suggestion to the concerned authorities for future improvement.

His major findings:

- Cash flow from operating activities of NBL and RBB positive and negative too.
- But total cash flow of NBL and RBB is in volatile in nature. These again increasing and decreasing trends.
- Cash flow from operating activities only negative of NBL for the fiscal year 2062/063 and 2063/064.

- RBB excess positive cash flow from operating activities than NBL due to highest interest income, commission income and discount income.
- Significant amount of cash receipt from exchange gain for these two banks. But NBL has highest amount of exchange gain due to highest amount of foreign transaction.
- Total cash payments of these banks are in increasing trend but trend of NBL is little bit higher than RBB.
- Cash flow from investing activities is not increasing or decreasing trend. They are volatile in nature.
- Total cash flow from financing activities are increasing and decreasing trend.
- NBL and RBB seem to have held more cash and bank balance then other commercial bank.
- Cash debt coverage ratio meets standard ratio on fiscal year 2063/064 and 2065/066 of NBL and on fiscal year 2065/066 and 2066/067. That is short term liquidity position of the firm is satisfactory.
- The cash in current ratio of NBL and RBB both standard ratio which shows poor cash management in this banks.
- Cash holding ratio is found positive because both banks meet standard ratio i.e. NBL and RBB has faro usable cash holding capacity for debt paying.

Kayastha, S. M. (2013), has studied on Liquidity Management in Commercial Bank in Nepal with reference to NABIL, NIBL and HBL. The basic objective of his study is to analyze the liquidity management of commercial banks.

The other specific objectives of the study are given below:

e) To analyze the liquidity management of selected commercial banks.

f) To evaluate the relationship between deposits, investment, loans and advances.

g) To analyze the deposits and investment position of the banks.

h) To provide suggestion for the improvement based on findings.

The major findings of the study drawn from the analysis of secondary data of sampled banks are given below:

a. Cash and bank balance to current deposit ratio of NIBL is high and HBL and NABIL are significantly low. This implies that the liquidity position of NIBL is strong. HBL and NABIL are in moderate.

b. Short term investment to total deposit ratio of HBL is high and following by NABIL and NIBL respectively. This implies that short term investment to total deposit ratio of HBL is strong. NABIL and NIBL are in moderate.
c. Short term investment to total investment ratio of HBL is high and following by NIBL and NABIL respectively. This implies that HBL is capable to meet the necessary short term obligations by short term investment and it is efficient to manage liquidity position than other banks. But NABIL has low ratio of short term investment to total investment ratio, which may arise liquidity crisis in the bank.
d. Total investment to total deposit ratio of NABIL and HBL are in hgh and NIBL has low ratio among them. This implies that NABIL and HBL are efficient to utilize total deposit is investment and NIBL in low amongst them.
e. Loans, Advances and Bills purchased to total deposit ratio of HBL is the highest and NABIL is the lowest, which means that HBL is investing its deposit to long term loans and advances but NABIL is not doing so. It is depicted that the liquidity risk is high in HBL and other are in average.
f. NIBL and HBL have maintained adequate balance with NRB which is high than required CRR limit but NABIL has not maintained sufficient reserve in bank for liquidity provisions.
g. Balance with NRB to current deposit of NIBL is high. This implies that NIBL has strong liquidity position. HBL has middle level of ratio, which implies that HBL has moderate liquidity position but NABIL has lower liquidity position.
h. Investment in Government securities to total deposit ratio of HBL and NABIL are in highest and NIBL is lower, which implies that HBL and NABIL have made more investment in Government securities out of total deposit. Government securities are risk free investment and returns comparatively low. When banks find investment opportunities in other sector they prefer to invest in other areas.
i. Cash in vault to current deposit ratio of NIBL is significantly higher than other two banks. This implies that liquidity position of NIBL is strong which depicts the capacity of prompt payment to current depositors but at the time of idle cash balance decreases profitability. The liquidity position of HBL and NABIL is too low.
j. The ratio of current assets and current liabilities is good position and almost same of three banks and are sufficient to meet current liabilities.
k. As prescribed by NRB, CRR should be 5%. NIBL has maintained double above standard ratio and NABIL and HBL has also maintained above standard of 5%.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance, credit management and liquidity mobilization of various commercial banks. The study on liquidity management and profitability analysis determined by various factors with respect to Nepal bank limited is not done yet. This is the research gap for this study.

CHAPTER - III
RESEARCH METHODOLOGY

This chapter refers to the overall approach to the research process, from the theoretical underpin to the collection and analysis of data.

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied tin the entire subject of the study.

Research methodology is a way to systematically solve the research problem (Kothari 1990). In the new, complex and competitive business scenario, Development Banks have faced different challenges.

The main objective of the study is cash flow analysis of NBL. This study has been based mainly on secondary data. In the course of this study the following process has been considered.

3.2 Research Design

A research design is the arrangement of conditions and analysis of data that aims to combine relevance to the research purpose with economy in procedure (Claire S. and *et. al.*, 1962).

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research question and to control variance (Wolf and Pant, 1975).

Basically, the research design has two purposes. The first is to answer the research question and second is to control variance (Wolf and Pant, 1975).

The research design has been followed for the study is descriptive as well as analytical.

A research design is a plan for the collection and analysis of data. For this study, certain research design basing on the objectives of the study is used for collection of data & their presentation, analysis, interpretations.

3.3 Population & Sample

Among the 31 commercial banks, only one government commercial banks are taken for the study. They are:

- Nepal Bank Limited (NBL)

3.4 Data collection Procedure

For collection of required data, questionnaires and schedule was prepared according to the data requirements. This study is used only secondary source of data. The secondary data is collected through published journals, newspapers and annual reports of NBL.

This research work is based on secondary data. Secondary data are collected from annual reports, brochure, banks news & articles published by NBL, webside,, Economic bulletins and banking and statistics etc. published form NRB. The required primary information is also used in the study. The main source of primary information for this study is taken as the concerned personality of the topic of the study such as concerned teacher, students, financial advisors as well as senior staffs and managers of the concerned banks.

3.5 Period Covered

This thesis has covered five years, i.e. from Fiscal Year 2065/66 to 2069/70 for the purpose of cash flow analysis.

3.6 Data Analysis Tools

The ratio analysis system is an important financial tool to evaluate and compare the financial performance and position. It is very simple analyzing tools under which ratios are taken to express the relation between two or more than two variables. Various financial tools have been used in the study to get the meaningful result and to meet the research objective. Financial ratios are the major tools for analysis. In addition to the financial tools were also used. The major tools applied in the study are described in the following sections.

3.6.1 Financial Tools

Financial tools are used to examine the strength and weakness of firm. In this study, financial tools like ratio analysis and financial statement analysis have been used. Ratio analysis is the one of the most important tool of financial tool that has been used in this study. Financial ratio is the mathematical relationship between two accounting figures. Ratios are relevant relationship expressed in mathematical terms between figures, which are connected with each other in some manner. The relevant relationship between the numbers can be expressed by means of dividing one figure by the other. Ratio analysis is a widely used tool as it is defined as, the systematic use of ratio to interpret the financial statements. So that strength and weakness of a firm as well as its historical performance and current financial conditions can be determined.

Ratio analysis does not provide an end in itself but only mean to understand the business unit's financial position. There are number of ratios which can be computed from a single set of financial statements, but only few can be used in particular situations to focus on the position of the business houses. Therefore, to find out the liquidity and profitability position of sampled commercial banks, the following ratios are examined:

I) Cash and Bank Balance to Current Deposit Ratio

This ratio is designed to measure the bank's ability to meet immediate obligations. This ratio is obtained by dividing cash and bank balance by current deposits i.e.

$$\text{Cash and Bank Balance to Current Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Deposit}} \times 100$$

II) Current Ratio

It is a test of liquidity. It measures short term debt paying ability of the firm. In order words, it measures the availability of current assets for meeting current liabilities. It is computed by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100$$

III) Short Term Investment to Total Deposit Ratio

This ratio is designed to analyze the liquidity position of commercial banks. It shows the portion of the total deposits in short term investment. Higher ratio indicates the better liquidity position where as lower ratio is the symptom of liquidity risks which may arise in the future. It is computed by using the formula as under:

$$\text{Short Term Investment to Total Deposit Ratio} = \frac{\text{Sort Term Investment}}{\text{Total Deposit}} \times 100$$

IV) Short term investment to total investment ratio

This ratio shows the percentage of short term investment on total investment of sampled banks. this ratio is calculated by dividing short term investment by total investment and formula is:

$$\text{Short term investment to total investment ratio} = \frac{\text{Sort Term Investment}}{\text{Total investment}} \times 100$$

V) Total investment to Total deposit Ratio

This ratio is used to find out the ratio of total investment on total deposits. The ratio can be completed by using following formula:

$$\text{Total investment to Total deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}} \times 100$$

VI) Current deposit to total deposit ratio

This ratio measures the portion of current deposit on total deposit. It clarifies what percentage of total deposits is collected from the current deposit. It is computed by dividing current deposit by total deposit and formula is:

$$\text{Current deposit to Total deposit Ratio} = \frac{\text{Current deposit}}{\text{Total Deposit}} \times 100$$

VII) Balance with NRB to Total deposit ratio

Nepal Rastra Bank(NRB), the central bank, is the regular body of all the commercial banks. In order to enable to smooth functioning of the commercial banks NRB has compelled them to hold a certain percentage of their total deposit as a reserve. This is particularly done in

order to maintain the strength of commercial banks regarding the liquidity position. This ratio is calculated by using following formula:

Balance with NRB to total deposit ratio= $\frac{\text{Balance with NRB}}{\text{Total Deposit}} \times 100$

VIII) Cash Reserve Ratio (CCR)

Commercial banks are directed by Nepal Rastra Bank, the central bank to maintain certain percentage of their deposits liabilities with NRB in own account in order to enable them to maintain the sound liquidity position. Cash reserve ratio (CRR) describe whether the commercial banks have met the liquidity requirement as prescribes whether the commercial banks have met the liquidity requirement as prescribed by NRB or not. It is computed by dividing cash reserve of commercial banks by total deposit and the formula is:

Cash Reserve Ratio (CCR) = $\frac{\text{Cash reserve}}{\text{Total Deposits}} \times 100$

IX) Balance with NRB to Current Deposit Ratio

This ratio presents the portion of balance with NRB on current deposit. It is used to measure the liquidity position of commercial banks and capacity to pay depositors amount promptly. This ratio can be calculated by using following formula:

Balance with NRB to current deposit Ratio = $\frac{\text{Balance with NRB}}{\text{Current Deposit}} \times 100$

X) Return on Assets

The Return on Assets ratio is an important profitability ratio because it measures the efficiency with which the company is managing its investment in assets and using them to generate profit. It measures the amount of profit earned relative to the firm's level of investment in total assets. The return on assets ratio is related to the asset management category of financial ratios.

The return on assets ratio is calculated dividing Net Income by Total Assets. Net Income is taken from the income statement and total assets are taken from the balance sheet. The higher

the percentage is the better, because that means the company is doing a good job using its assets to generate sales.

$$\text{Return on Assets} \; X \; \frac{\text{Net Income}}{\text{Total Assets}} \; | \; 100$$

XI) Return on Equity

The Return on Equity ratio is perhaps the most important of all the financial ratios to investors in the company. It measures the return on the money the investors have put into the company. This is the ratio potential investors look at when deciding whether or not to invest in the company.

The return on equity is calculated dividing Net Income by Stockholder's Equity. Net income comes from the income statement and stockholder's equity comes from the balance sheet. In general, the higher the percentage is the better, with some exceptions, as it shows that the company is doing a good job using the investors' money.

$$\text{Return on Equity} \; X \; \frac{\text{Net Income}}{\text{Total Equity}} \; | \; 100$$

XII) Net Working Capital

Working capital refers to the resources of the firm that are used to conduct day to day operation that makes business successful. Net Working capital is calculated by subtracting current liabilities from current assets. Due to differences in businesses and the fact that working capital is not a ratio but an absolute amount, it is difficult to predict what the ideal amount of working capital would be for a business.

3.5.2 Statistical Tools

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

a. Average (Mean)

An average is a single value related from a group of values to represent them in some way, a value which is supposed to stand for whole group of which is it part, as typical of all the values of the group. There are various type of averages. Arithmetic mean (A.M. simple and weighted), median, mode, geometric mean, harmonic mean, are major types averages. The most popular and widely used measure representing the entire data by one value is the A.M. The value of A.M. is obtained by adding together all the items and dividing this total by the number of items.

Mathematically,

Arithmetic Mean (A.M.) is given by, $\bar{X} = \frac{\sum x}{n}$

b. Coefficient of Correlation Analysis

Karl Person's co-efficient of correlation is determined. Karl Person's co-efficient of correlation is the most commonly used measure of the relationship between two or more two variable. The value of co-efficient of correlation denoted by 'r' and it always lies between +1 and -1,+1 indicate that there perfectively positively correlated and -1 indicate perfectively negative correlated.

Mathematically,

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Where,

X and Y are two variables

r = Coefficient of Correlation

x = $X - \bar{X}$

Y = $Y - \bar{Y}$

One very convenient and useful way of interpreting the value of coefficient of correlation (r) between the two variable if coefficient if determination, which if denoted by r2. It explains the total variation in dependent variable is explained by independent variable.

Karl Person's Coefficient is used to measure the degree of relationship between the following variables.

I) Coefficient if Correlation between Total Deposit and Investment
II) Coefficient of Correlation between Total Deposit and Cash Reserve
III) Coefficient of Correlation between Total Deposit and Balance With NRB

CHAPTER – IV
DATA PRESENTATION AND ANALYSIS

This chapter deals with analysis and presentation of available data. Necessary figure, tables, various tools & techniques are also presented in this chapter to describe and analysis of the study.

4.1 Financial Ratio Analysis

4.1.1 Cash and Bank Balance to Current deposit Ratio

This ratio is designed to measure the bank's ability to meet the immediate obligations. This ratio is obtained by dividing cash and bank balance by current deposits.

$$\text{Cash and Bank Balance to Current Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Deposit}} \times 100$$

Table 4.1

Cash and bank balance to current deposit ratio

Fiscal Year	Cash and bank balance	Current deposit	Ratio
2065/66	1515654833	31,284,260,635	4.84
2066/67	1603487197	27,313,755,561	5.87
2067/68	1570315796	22,501,339,470	6.98
2068/69	1940995312	24,909,160,409	7.79
2069/70	2378430277	28,232,162,691	8.42
Average	1801776683	26848135753	6.78

Source: Annual Reports of NBL

The above table shows that the year wise cash and bank balance, current deposit and cash and bank balance to current deposit ratio over the study period. The cash and bank balance of Nepal Bank Limited in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 1515654833, Rs. 1603487197, Rs. 1570315796, Rs. 1940995312 and Rs. 2378430277 respectively.

Likewise, the current deposit of Nepal Bank Limited in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 31,284,260,635, Rs. 27,313,755,561, Rs.

22,501,339,470, Rs. 24,909,160,409 and Rs. 28,232,162,691 respectively. The cash and bank balance to current deposit ratio of Nepal Bank Limited in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 4.84%, 5.87%, 6.98%, 7.79% and 8.42% respectively. The average cash and bank balance to current deposit ratio is 6.78%.

Cash and Bank Balance to Current Deposit Ratio

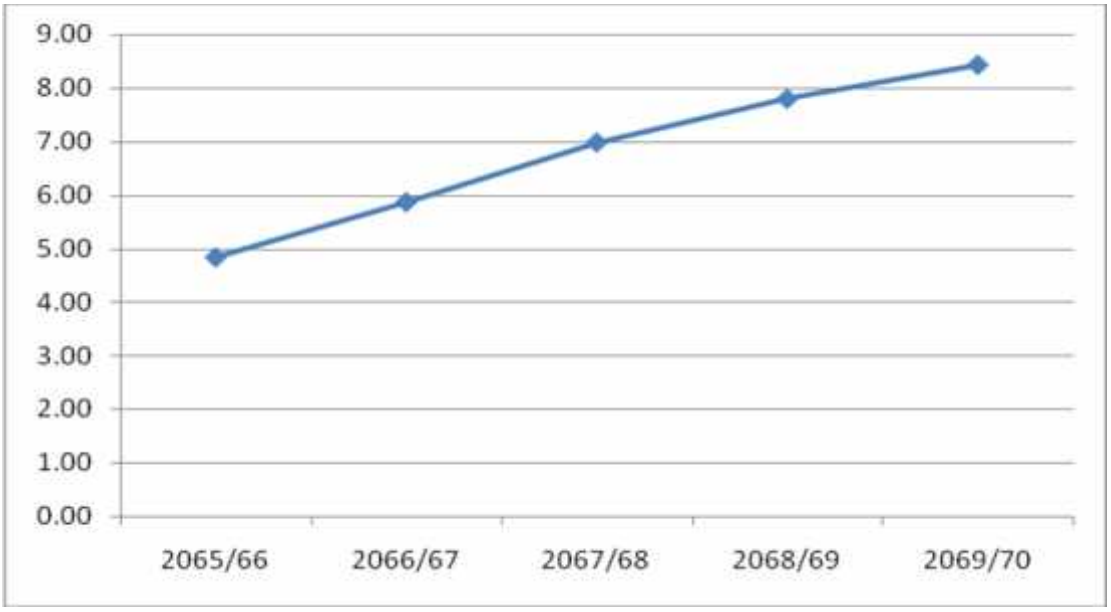

Figure 4.1 Trend Line Showing Cash and Bank Balance to Current Deposit Ratio

The above trend line shows that the year cash and bank balance to current deposit ratio is increasing trend from FY 2065/66 to FY 2069/70.

4.1.2 Short term Investment to Total Deposit Ratio

This ratio is designed to analyze the liquidity position of commercial banks. It shows the portion of short term investment in total deposit. Higher ratio indicates the better liquidity position where as lower ratio is the symptom of liquidity risks which may arise in the future. It is computed by using the formula as shown below:

$$\text{Short Term Investment to Total Deposit Ratio} = \frac{\text{Sort Term Investment}}{\text{Total Deposit}} \times 100$$

Table 4.2

Short Term Investment to Total Deposit Ratio

Fiscal Year	Short Term Investment	Total Deposit	Ratio
2065/66	6725468859	45,194,232,465	14.88
2066/67	4948555834	42,882,039,669	11.54
2067/68	6153009652	46,808,435,445	13.15
2068/69	8138197622	56,052,372,757	14.52
2069/70	9430835206	62,984,350,047	14.97
Average	7079213435	50784286077	13.81

Source: Annual Reports of NBL

The above table shows that the year wise short term investment, total deposit and short term investment to total deposit ratio over the study period. The short term investment in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 6725468859, Rs. 4948555834, Rs. 6153009652, Rs. 8138197622 and Rs. 9430835206 respectively. Likewise, the total deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 45,194,232,465, Rs. 42,882,039,669, Rs. 46,808,435,445, Rs. 56,052,372,757 and Rs. 62,984,350,047 respectively.

The short term investment to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 14.88%, 11.54%, 13.15%, 14.52% and 14.97% respectively. The average short term investment to total deposit ratio is 13.81%.

Short Term Investment to Total Deposit Ratio

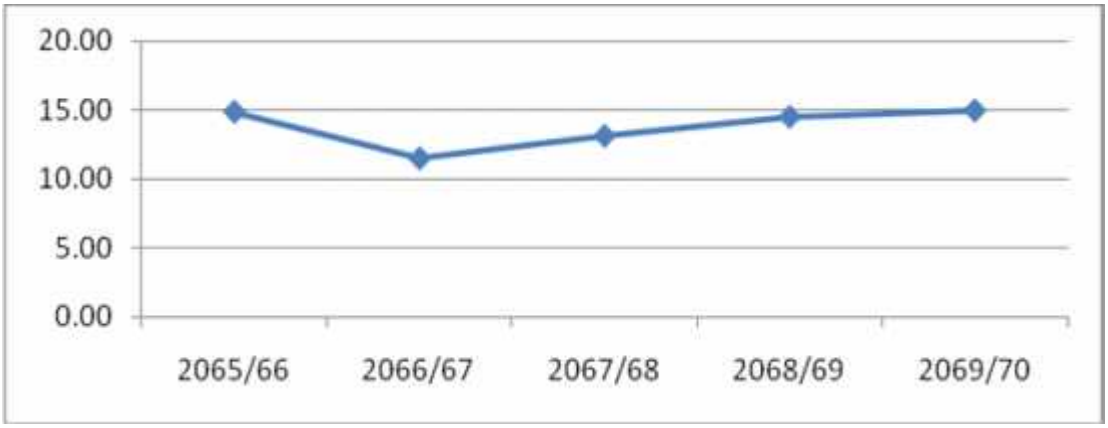

Figure 4.2 Trend Line Showing Short Term Investment to Total Deposit Ratio

The above trend line shows that the year short term investment to total deposit ratio is slowly increasing trend from FY 2066/67.

4.1.3 Short Term Investment to Total Investment Ratio

This ratio shows the percentage of short term investment on total investment of sampled banks. That's ratio is calculated by dividing short terms investment by total investment amount and the formula is:

$$\text{Short term investment to total investment ratio} = \frac{\text{Sort Term Investment}}{\text{Total investment}} \times 100$$

Table 4.3

Short Term Investment to Total Investment Ratio

Fiscal Year	Short Term Investment	Total Investment	Ratio
2065/66	6725468859	37737927370	17.82
2066/67	4948555834	34293883958	14.43
2067/68	6153009652	38409835728	16.02
2068/69	8138197622	44200763776	18.41
2069/70	9430835206	56021655001	16.83
Average	7079213435	42132813167	16.70

Source: Annual Reports of NBL

The above table shows that the year wise short term investment, total investment and short term investment to total investment ratio over the study period. The short term investment in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 6725468859, Rs. 4948555834, Rs. 6153009652, Rs. 8138197622 and Rs. 9430835206 respectively.

Likewise, the total investment in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 37737927370, Rs. 34293883958, Rs. 38409835728, Rs. 44200763776 and Rs. 56021655001respectively.

The short term investment to total investment ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 17.82%, 14.43%, 16.02%, 18.41% and 16.83% respectively. The average short term investment to total investment ratio is 16.70%.

Short Term Investment to Total Investment Ratio

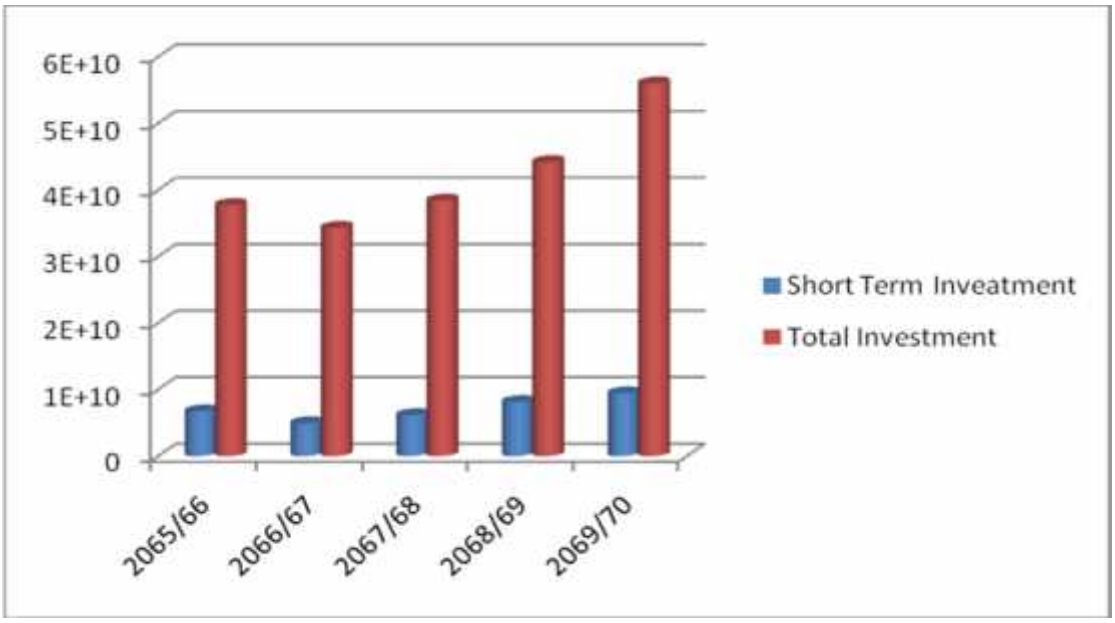

Figure 4.3 Bar Diagram Showing Short Term Investment and Total Investment Ratio

The above bar diagram shows that the year short term investment and total investment ratio is increasing trend from FY 2066/67.

4.1.4 Total Investment to Total Deposit Ratio

This ratio is used to find out the ratio of total investment to total deposits. This ratio shows the percentage of total investment on the basis of total deposit. It measures portion of total deposit in total investment. The ratio can be computed by using following formula.

$$\text{Total investment to Total deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}} \times 100$$

Table 4.4

Total Investment to Total Deposit Ratio

Fiscal Year	Total Investment	Total deposit	Ratio
2065/66	37737927370	45,194,232,465	83.50
2066/67	34293883958	42,882,039,669	79.97
2067/68	38409835728	46,808,435,445	82.06
2068/69	44200763776	56,052,372,757	78.86
2069/70	56021655001	62,984,350,047	88.95
Average	42132813167	50784286077	82.67

Source: Annual Reports of NBL

The above table shows that the year wise total investment, total deposit and total investment to total deposit ratio over the study period. The total investment in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 37737927370, Rs. 34293883958, Rs. 38409835728, Rs. 44200763776 and Rs. 56021655001 respectively. Likewise, the total deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 45,194,232,465, Rs. 42,882,039,669, Rs. 46,808,435,445, Rs. 56,052,372,757 and Rs. 62,984,350,047 respectively.

The total investment to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 83.50%, 79.97%, 82.06%, 78.86% and 88.95% respectively. The average total investment to total deposit ratio is 82.67%.

Total Investment to Total Deposit Ratio

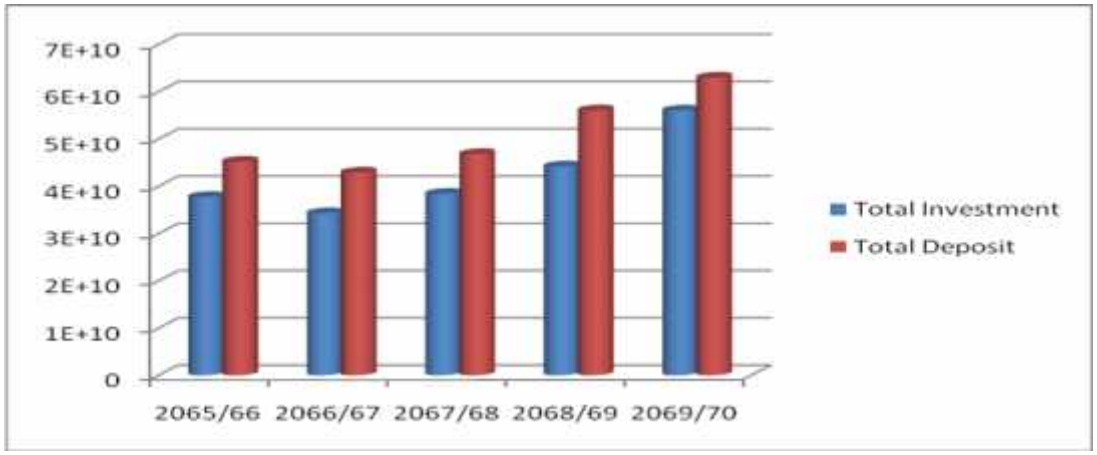

Figure 4.4 Bar Diagram Showing Total Investment and Total Deposit Ratio

The above bar diagram shows that the year total investment and total deposit ratio is increasing trend after FY 2066/67.

4.1.5 Loans and Advances to Total Deposit

This ratio measures the portion of Loans and Advances on total deposit. It clarifies how much percentage of the total deposits is invested to loans and advances. It is computed by dividing Loans, Advances and Bills purchased by Total Deposit and formula is:

Loans and Advances to Total Deposit= $\frac{\text{Loan and Advances}}{\text{Total Deposit}} \times 100$

Table 4.5

Loans and Advances to Total Deposit Ratio

Fiscal Year	Loan and Advance	Total Deposit	Ratio
2065/66	17614898825	45,194,232,465	38.98
2066/67	23560955729	42,882,039,669	54.94
2067/68	24671281894	46,808,435,445	52.71
2068/69	27670840071	56,052,372,757	49.37
2069/70	35611699549	62,984,350,047	56.54
Average	25825935214	50784286077	50.51

Source: Annual Reports of NBL

The above table shows that the year wise loan and advance, total deposit and loan and advance to total deposit ratio over the study period. The loan and advance in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 17614898825, Rs. 23560955729, Rs. 24671281894, Rs. 27670840071 and Rs. 35611699549 respectively.

Likewise, the total deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 45,194,232,465, Rs. 42,882,039,669, Rs. 46,808,435,445, Rs. 56,052,372,757 and Rs. 62,984,350,047 respectively.

The loan and advance to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 38.98%, 54.94%, 52.71%, 49.37% and 56.54% respectively. The average loan and advance to total deposit ratio is 50.51%.

Loan and Advances to Total Deposit Ratio

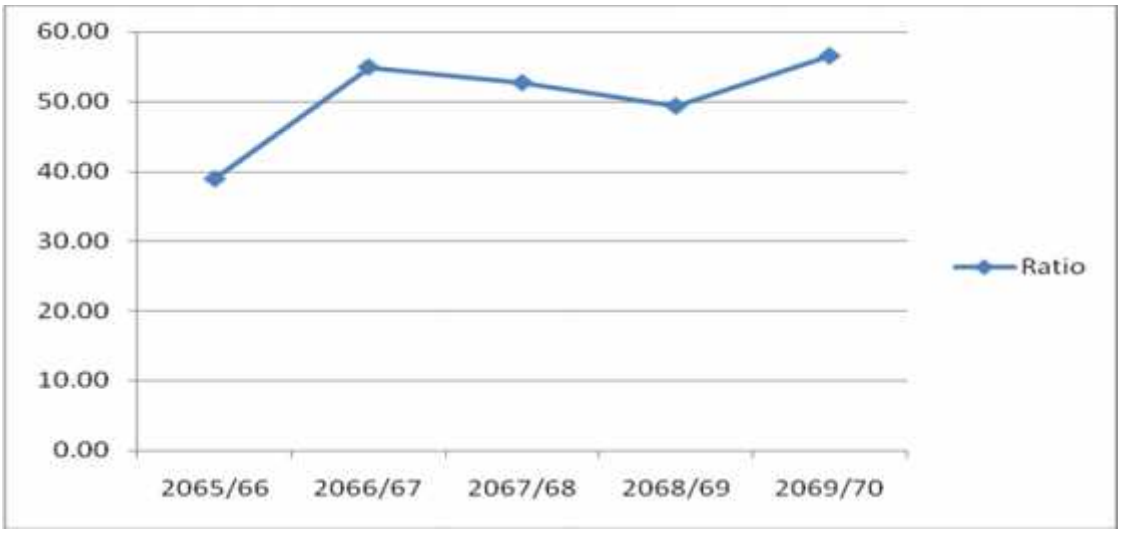

Figure 4.5 Trend Line Showing Loan and Advances to Total Deposit Ratio

The above trend line shows that the loan and advance to total deposit ratio is in fluctuating trend over the study period.

4.1.6 Balance with NRB to total deposit ratio

Nepal Rastra Banks (NRB), the central bank is the regulatory body of all the commercial banks. NRB has compelled them to hold a certain percentage of their total deposit as a reserve. This is particularly done in order to maintain the straight of commercial banks regarding the liquidity position. This ratio is calculated by using the following formula:

Balance with NRB to total deposit ratio= $\frac{\text{Balance with NRB}}{\text{Total Deposit}} \times 100$

Table 4.6

Balance with NRB to Total Deposit Ratio

Fiscal Year	Balance with NRB	Total Deposit	Ratio
2065/66	6619700019	45,194,232,465	14.65
2066/67	7493117731	42,882,039,669	17.47
2067/68	9343275261	46,808,435,445	19.96
2068/69	10635913746	56,052,372,757	18.97

2069/70	10411747656	62,984,350,047	16.53
Average	8900750883	50784286077	17.52

Source: Annual Reports of NBL

The above table shows that the year wise balance with NRB, total deposit and balance with NRB to total deposit ratio over the study period. The balance with NRB in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 6619700019, Rs. 7493117731, Rs. 9343275261, Rs. 10635913746 and Rs. 10411747656 respectively. Likewise, the total deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 45,194,232,465, Rs. 42,882,039,669, Rs. 46,808,435,445, Rs. 56,052,372,757 and Rs. 62,984,350,047 respectively.

The balance with NRB to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 14.65%, 17.47%, 19.96%, 18.97% and 16.53% respectively. The average balance with NRB to total deposit ratio is 17.52%.

Balance with NRB to Total Deposit Ratio

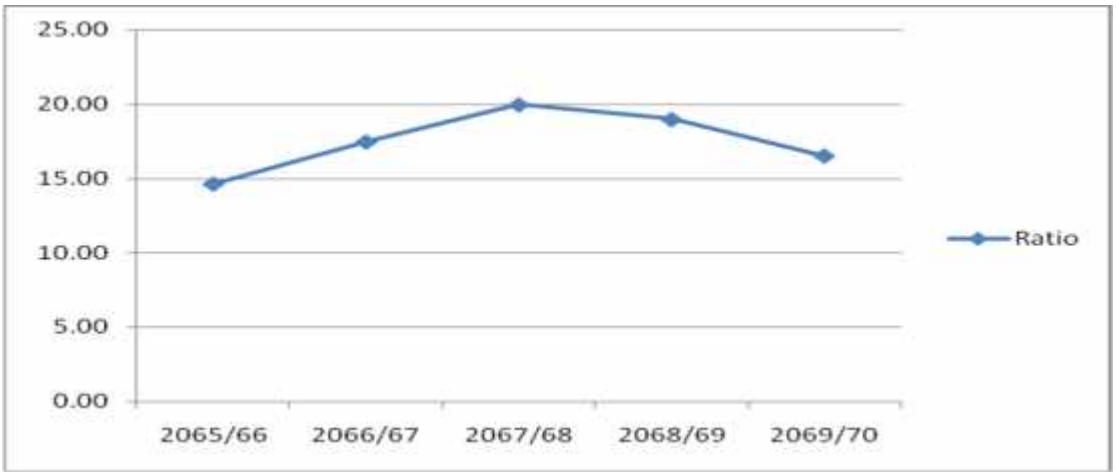

Figure 4.6 Trend Line Showing Balance with NRB to Total Deposit Ratio

The above trend line shows that the balance with NRB to total deposit ratio is in increasing trend upto FY 2067/68 then decreasing trend over the study period.

4.1.7 Balance with NRB to Current Deposit Ratio

This ratio presents the portion of balance with NRB on current deposit. It is used to measure the liquidity position of commercial banks and capacity to pay depositors amount promptly. This ratio can be calculated by using the following formula:

$$\text{Balance with NRB to current deposit Ratio} = \frac{\text{Balance with NRB}}{\text{Current Deposit}} \times 100$$

Table 4.7

Balance with NRB to Current Deposit Ratio

Fiscal Year	Balance with NRB	Current Deposit	Ratio
2065/66	6619700019	31,284,260,635	21.16
2066/67	7493117731	27,313,755,561	27.43
2067/68	9343275261	22,501,339,470	41.52
2068/69	10635913746	24,909,160,409	42.70
2069/70	10411747656	28,232,162,691	36.88
Average	8900750883	26848135753	33.94

Source: Annual Reports of NBL

The above table shows that the year wise balance with NRB, current deposit and balance with NRB to current deposit ratio over the study period. The balance with NRB in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 6619700019, Rs. 7493117731, Rs. 9343275261, Rs. 10635913746 and Rs. 10411747656 respectively.

Similarly, the current deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 31,284,260,635, Rs. 27,313,755,561, Rs. 22,501,339,470, Rs. 24,909,160,409 and Rs. 28,232,162,691 respectively.

The balance with NRB to current deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 21.16%, 27.43%, 41.52%, 42.70% and 36.88% respectively. The average balance with NRB to current deposit ratio is 33.94%.

Balance with NRB to Current Deposit Ratio

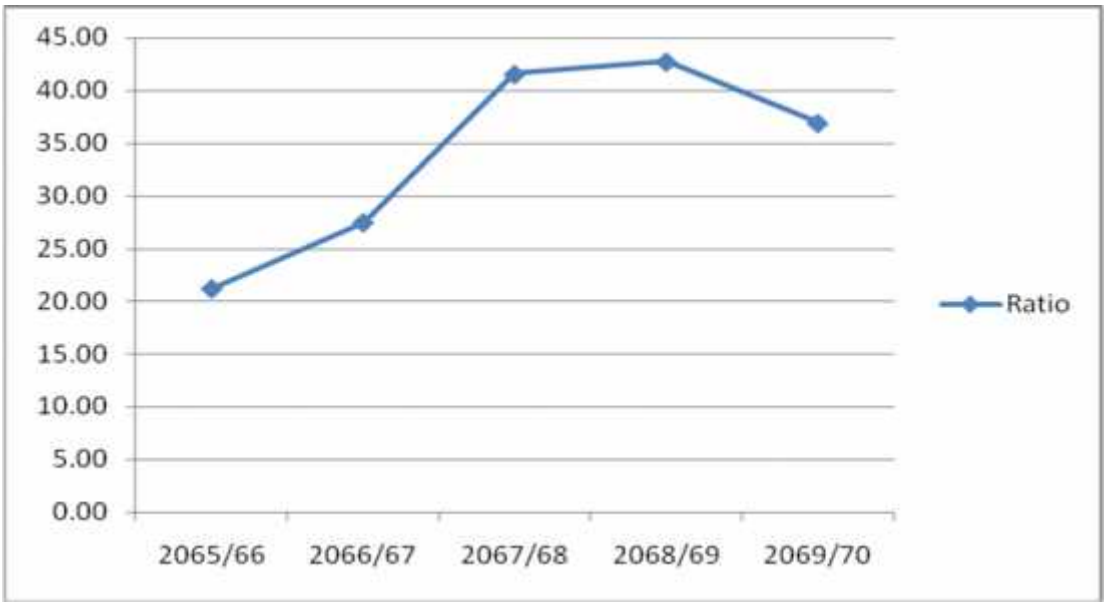

Figure 4.7 Trend Line Showing Balance with NRB to Current Deposit Ratio

The above trend line shows that the balance with NRB to total deposit ratio is in increasing trend upto FY 2068/69 and decreased in FY 2069/70 over the study period.

4.1.8 Current Ratio

It is a test of liquidity. It measures short term debt paying ability of the firm. In order words, it measures the availability of current assets for meeting current liabilities. It is computed by dividing current assets by current liabilities.

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100$

Table 4.8

Current Ratio

Fiscal Year	Current Assets	Current Liabilities	Current Ratio
2065/66	9277558780	5236498544	1.8
2066/67	7596709120	4268465157	1.8
2067/68	8823599705	6986593411	1.3
2068/69	11565976991	3317129969	3.5
2069/70	13207508619	5658874198	2.3

Average	10094270643	5093512256	2.1

Source: Annual Reports of NBL

The above table shows that the year wise current assets, current liabilities and current ratio over the study period. The current assets in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 9277558780, Rs. 7596709120, Rs. 8823599705, Rs. 11565976991 and Rs. 13207508619 respectively.

Similarly, the current liabilities in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 5236498544, Rs. 4268465157, Rs. 6986593411, Rs. 3317129969 and Rs. 5658874198 respectively.

The current ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 1.8:1, 1.8:1, 1.3:1, 3.5:1 and 2.3:1 respectively. The average current ratio is 2.1:1.

The average current ratio is more the standard value of current ratio 2:1 but upto FY 2067/68, the value of current ratio is less than the standard value of current ratio 2:1 which indicates that it has not able to meet current obligation in that year.

Current Assets and Current Liabilities

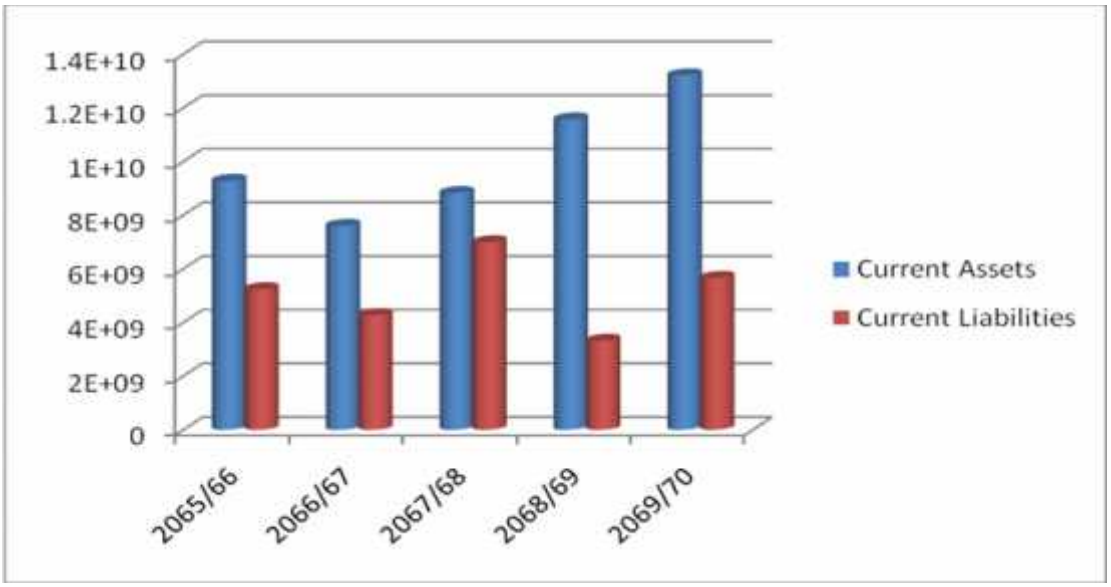

Figure 4.8 Bar Diagram Showing Current Assets and Current Liabilities

The above bar diagram shows that the current assets is increasing trend from FY 2066/67 to FY 2069/70 but the current liabilities is in fluctuating trend over the study period.

4.1.9 Working Capital

Working capital refers the difference between current assets and current liabilities. Net Working capital is calculated by subtracting the current liabilities from current assets. Net Working capital can be positive or negative.

Positive net working capital indicates the firm has ability to pay its current obligations and the negative working capital indicates the inability to pay its current obligations. Net working capital refers the different between current assets and current liabilities. It is calculated as:

Working capital = Total Current Assets – Total Current Liabilities

Table 4.9

Working Capital

Fiscal Year	Current Assets	Current Liabilities	Working Capital
2065/66	9277558780	5236498544	4041060236
2066/67	7596709120	4268465157	3328243963
2067/68	8823599705	6986593411	1837006294
2068/69	11565976991	3317129969	8248847022
2069/70	13207508619	5658874198	7548634421
Average	10094270643	5093512256	5000758387

Source: Annual Reports of NBL

The working capital in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 4041060236, Rs. 3328243963, Rs. 1837006294, Rs. 8248847022 and Rs. 7548634421 respectively. The average working capital is Rs. 5000758387.

Current Assets and Current Liabilities

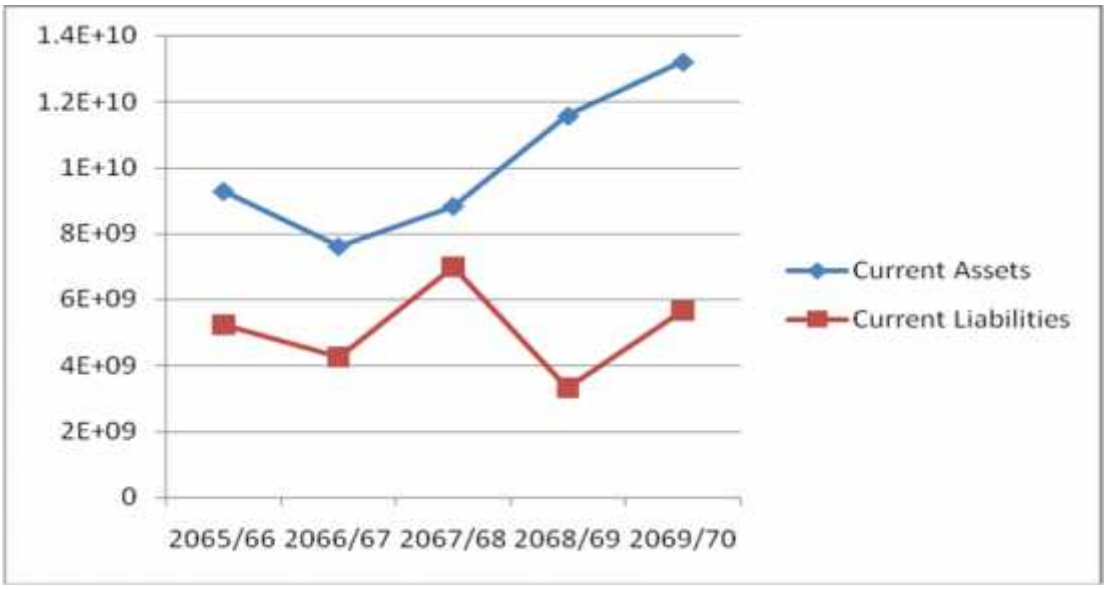

Figure 4.9 Trend Line Showing Current Assets and Current Liabilities

The above trend line shows that the current assets is increasing trend from FY 2066/67 but the current liabilities is in fluctuating trend over the study period.

4.1.10 Cash Reserve Ratio (CRR)

Commercial banks are directed by Nepal Rastra Bank, the central bank to maintain certain percentage of their deposits liabilities with NRB in own account in order to enable them to maintain sound liquidity position.

Cash Reserve Ratio (CRR) describes whether the commercial have met the liquidity requirement as prescribe by NRB or not. Presently commercial banks have to maintain 5% of their total deposit in NRB and own in hand. It is computed by dividing the cash in reserve by total deposit and the formula is:

Cash Reserve Ratio (CCR) = $\frac{\text{Cash reserve}}{\text{Total Deposits}} \times 100$

Table 4.10

Cash Reserve Ratio

Fiscal Year	Cash Reserve	Total Deposit	Ratio
2065/66	2552089921	45,194,232,465	5.65
2066/67	2648153286	42,882,039,669	6.18
2067/68	2670590053	46,808,435,445	5.71
2068/69	3427779369	56,052,372,757	6.12
2069/70	3776673413	62,984,350,047	6.00
Average	3015057208	50784286077	5.93

Source: Annual Reports of NBL

The above table shows that the year wise cash reserve, total deposit and cash reserve to total deposit ratio over the study period. The cash reserve in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 2552089921, Rs. 2648153286, Rs. 2670590053, Rs. 3427779369 and Rs. 3776673413 respectively.

The total deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 45,194,232,465, Rs. 42,882,039,669, Rs. 46,808,435,445, Rs. 56,052,372,757 and Rs. 62,984,350,047 respectively.

The cash reserve to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 5.65%, 6.18%, 7.71%, 6.12% and 6.00% respectively. The average cash reserve to total deposit ratio is 5.93%. It indicates that the bank has able to meet the required cash reserve ratio set by NRB i.e. 5%.

Cash Reserve Ratio

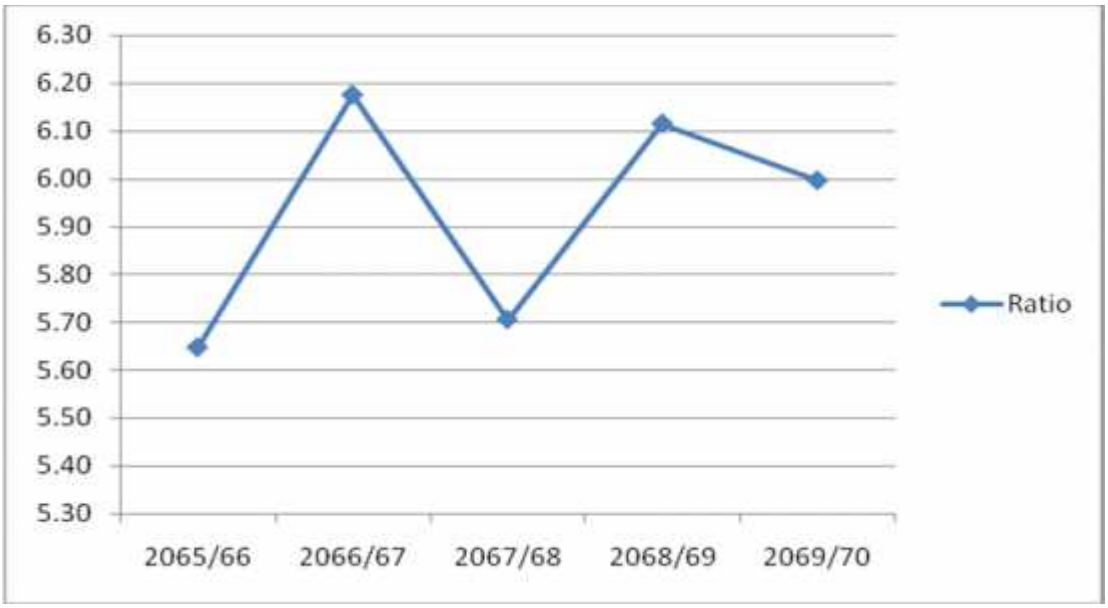

Figure 4.10 Trend Line Showing Cash Reserve Ratio

The above trend line shows that cash reserve ratio is in fluctuating trend over the study period.

4.1.11 Return on Assets

This ratio measures the overall profitability of all working fund i.e. total assets. ROA refers to the percentage of net income out of total assets. Bank with hither ROA is better than other and vice versa. This ratio is very much crucial for measuring the profitability of funds in invested in the bank's assets. It measures the return on assets is computed by using following formula:

$$\text{Return on Total Assets } X \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \mid 100$$

Table 4.11

Return on Assets

Fiscal Year	Net Profit After Tax	Total Assts	Return on Assets
2065/66	894254182	47,559,110,605	1.88
2066/67	249382295	44,736,652,431	0.56
2067/68	128346584	51,158,657,445	0.25

2068/69	176361505	58,615,520,783	0.30
2069/70	755180353	70,776,982,567	1.07
Average	440704983.8	54569384766	0.81

Source: Annual Reports of NBL

The above table shows that the year wise net profit after tax, total assets and return on assets over the study period. The net profit after tax in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 894254182, Rs. 249382295, Rs. 128346584, Rs. 176361505 and Rs. 75518035 respectively. The total assets in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 47,559,110,605, Rs. 44,736,652,431, Rs. 51,158,657,445, Rs. 58,615,520,783 and Rs. 70,776,982,567 respectively.

The return on assets in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 1.88%, 0.56%, 0.25%, 0.30% and 1.07% respectively. The average return on assets is 0.81%.

Return on Assets

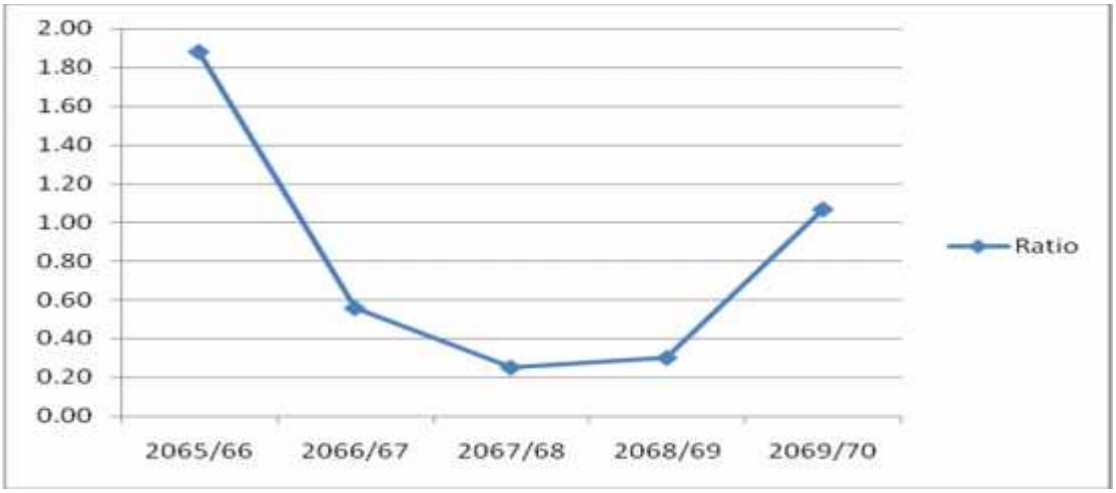

Figure 4.11 Trend Line Showing Return on Assets Ratio

The above trend line shows that the return on assets is decreased from FY 2065/66 to FY 2067/68 then increased over the study period.

4.1.12 Coefficient of Correlation Analysis

To study the correlation between total deposit and total investment, the correlation between total deposit and cash reserve, the correlation between Balance with NRB and total deposit, karl Pearson's co-efficient of correlation is determined.

karl Pearson's co-efficient of correlation is the most commonly used measure of the relationship between two or more two variable. The value of co-efficient of correlation denoted by 'r' and it always lies between + land - 1. +1 indicate that there is perfectively positively correlated and -1 indicate perfectively negative correlated.

One very convenient and useful way of interpreting the value of coefficient of correlation (r) between the two variables is coefficient of determination. This is denoted by r^2. It explains the total variation in dependent variable is explained by independent variable.

Table 4.12

Correlation Analysis

Particulars	Correlation coefficient (r)	coefficient of determination (r^2)
Correlation between Investment and Deposit	0.97	0.95
Correlation between Cash Reserve and Deposit	0.98	0.96
Correlation between Bal. with NRB and Deposit	0.83	0.68

The above table shows that the association of investment with deposit is very high i.e. the investment is perfectly correlated with deposit (i.e. r = 0.97). The coefficient of determination (r^2) is 0.95 which means 95% total variation in investment is explained by deposit.

The association of cash reserve with deposit is also very high i.e. coefficient correlation (r) = 0.98 shows that cash reserve is perfectly correlated with total deposit. The coefficient of determination (r^2) is 0.98 which means 96% total variation in cash reserve is explained by total deposit.

The balance with NRB and total deposit is also correlated i.e. coefficient correlation (r) = 0.83. It shows that balance with NRB is perfectly correlated with total deposit. The coefficient of determination (r^2) is 0.68 which means only 68% total variation in balance with NRB is explained by total deposit.

4.2 Major Findings

The cash and bank balance of Nepal Bank Limited in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 1515654833, Rs. 1603487197, Rs. 1570315796, Rs. 1940995312 and Rs. 2378430277 respectively.

The current deposit of Nepal Bank Limited in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 31,284,260,635, Rs. 27,313,755,561, Rs. 22,501,339,470, Rs. 24,909,160,409 and Rs. 28,232,162,691 respectively.

The cash and bank balance to current deposit ratio of Nepal Bank Limited in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 4.84%, 5.87%, 6.98%, 7.79% and 8.42% respectively. The average cash and bank balance to current deposit ratio is 6.78%.

The short term investment in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 6725468859, Rs. 4948555834, Rs. 6153009652, Rs. 8138197622 and Rs. 9430835206 respectively. Likewise, the total deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 45,194,232,465, Rs. 42,882,039,669, Rs. 46,808,435,445, Rs. 56,052,372,757 and Rs. 62,984,350,047 respectively.

The short term investment to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 14.88%, 11.54%, 13.15%, 14.52% and 14.97% respectively. The average short term investment to total deposit ratio is 13.81%.

The total investment in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 37737927370, Rs. 34293883958, Rs. 38409835728, Rs. 44200763776 and Rs. 56021655001respectively.

The short term investment to total investment ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 17.82%, 14.43%, 16.02%, 18.41% and 16.83% respectively. The average short term investment to total investment ratio is 16.70%.

The total investment to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 83.50%, 79.97%, 82.06%, 78.86% and 88.95% respectively. The average total investment to total deposit ratio is 82.67%.
The loan and advance in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 17614898825, Rs. 23560955729, Rs. 24671281894, Rs. 27670840071 and Rs. 35611699549 respectively.

The loan and advance to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 38.98%, 54.94%, 52.71%, 49.37% and 56.54% respectively. The average loan and advance to total deposit ratio is 50.51%.

The balance with NRB in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 6619700019, Rs. 7493117731, Rs. 9343275261, Rs. 10635913746 and Rs. 10411747656 respectively.

The balance with NRB to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 14.65%, 17.47%, 19.96%, 18.97% and 16.53% respectively. The average balance with NRB to total deposit ratio is 17.52%.

The balance with NRB to current deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 21.16%, 27.43%, 41.52%, 42.70% and 36.88% respectively. The average balance with NRB to current deposit ratio is 33.94%.

The current assets in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 9277558780, Rs. 7596709120, Rs. 8823599705, Rs. 11565976991 and Rs. 13207508619 respectively.

The current liabilities in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 5236498544, Rs. 4268465157, Rs. 6986593411, Rs. 3317129969 and Rs. 5658874198 respectively.

The current ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 1.8:1, 1.8:1, 1.3:1, 3.5:1 and 2.3:1 respectively. The average current ratio is 2.1:1.

The average current ratio is more the standard value of current ratio 2:1 but upto FY 2067/68, the value of current ratio is less than the standard value of current ratio 2:1 which indicates that it has not able to meet current obligation in that year.

The working capital in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 4041060236, Rs. 3328243963, Rs. 1837006294, Rs. 8248847022 and Rs. 7548634421 respectively. The average working capital is Rs. 5000758387.

The cash reserve in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 2552089921, Rs. 2648153286, Rs. 2670590053, Rs. 3427779369 and Rs. 3776673413 respectively.

The total deposit in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 45,194,232,465, Rs. 42,882,039,669, Rs. 46,808,435,445, Rs. 56,052,372,757 and Rs. 62,984,350,047 respectively.

The cash reserve to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 5.65%, 6.18%, 7.71%, 6.12% and 6.00% respectively. The average cash reserve to total deposit ratio is 5.93%. It indicates that the bank has able to meet the required cash reserve ratio set by NRB i.e. 5%.

The net profit after tax in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 894254182, Rs. 249382295, Rs. 128346584, Rs. 176361505 and Rs. 75518035 respectively. The total assets in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 47,559,110,605, Rs. 44,736,652,431, Rs. 51,158,657,445, Rs. 58,615,520,783 and Rs. 70,776,982,567 respectively.

The return on assets in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 1.88%, 0.56%, 0.25%, 0.30% and 1.07% respectively. The average return on assets is 0.81%.

The association of investment with deposit is very high i.e. the investment is perfectly correlated with deposit (i.e. r = 0.97). The coefficient of determination (r^2) is 0.95 which means 95% total variation in investment is explained by deposit.

The association of cash reserve with deposit is also very high i.e. coefficient correlation (r) = 0.98 shows that cash reserve is perfectly correlated with total deposit. The coefficient of determination (r^2) is 0.98 which means 96% total variation in cash reserve is explained by total deposit.

The balance with NRB and total deposit is also correlated i.e. coefficient correlation (r) = 0.83. It shows that balance with NRB is perfectly correlated with total deposit. The coefficient of determination (r^2) is 0.68 which means only 68% total variation in balance with NRB is explained by total deposit.

CHAPTER - V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

This preceding chapter have discussed and explored the facts and matters required for the various parts of the study. Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist findings issues and gaps of the study and give suggestions for further improvement. This part is a complete suggestive package, which contains summary, conclusion and actionable plans

5.1 Summary

In the modern competitive and globalize universe, commercial banks have significant role to play in the economic development of the country. At present there are 31 commercial banks operating in the country aiming to develop economy of the country. Commercial banks itself have facing many problems in its operation. Liquidity analysis is the most important management tools used to evaluation their operations. The effective operation commercial banks resulting into the excess income over expenditure by investing & promoting an economic and business sector fully depends upon as to what extent the management follows proper planning, effective co-ordination, control expenses and proper utilization of funds. Without good planning of its resources and proper utilizing capital, commercial banks cannot achieve its goals and objectives effectively. So, liquidity analysis has become one of the most important management tools used to evaluate strengths & weakness of a bank.

The researcher of this study tries to analyze liquidity analysis of Nepal Bank Limited. For this purpose various tools like different financial tools have been measured by the researcher.

This research work has been designed by the student of MBS in partial fulfillment of the requirements for degree of Master of Business Studies. So, the work may not be out of some limitations. First limitation of the study is that it bases its outcome only on Nepal Bank Limited over a period of 2065/66 to 2069/70. Secondly the data used are of secondary data. The time dimension and money constraints are also considered as the limitations of the study.

To achieve the objectives of the study, the researcher has used an analytical and descriptive research design. This research work is conclusion oriented study of Nepal Bank Limited.

5.2 Conclusion

After analyzing the liquidity of Nepal Bank Limited on the basis of major findings, the following conclusions can be set:

- The cash and bank balance to current deposit ratio of Nepal Bank Limited in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 4.84%, 5.87%, 6.98%, 7.79% and 8.42% respectively. The average cash and bank balance to current deposit ratio is 6.78%.

- The short term investment to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 14.88%, 11.54%, 13.15%, 14.52% and 14.97% respectively. The average short term investment to total deposit ratio is 13.81%.

- The short term investment to total investment ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 17.82%, 14.43%, 16.02%, 18.41% and 16.83% respectively. The average short term investment to total investment ratio is 16.70%.

- The total investment to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 83.50%, 79.97%, 82.06%, 78.86% and 88.95% respectively. The average total investment to total deposit ratio is 82.67%.

- The loan and advance to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 38.98%, 54.94%, 52.71%, 49.37% and 56.54% respectively. The average loan and advance to total deposit ratio is 50.51%.

- The balance with NRB to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 14.65%, 17.47%, 19.96%, 18.97% and 16.53% respectively. The average balance with NRB to total deposit ratio is 17.52%.

- The balance with NRB to current deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 21.16%, 27.43%, 41.52%, 42.70% and

36.88% respectively. The average balance with NRB to current deposit ratio is 33.94%.

- The current ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 1.8:1, 1.8:1, 1.3:1, 3.5:1 and 2.3:1 respectively. The average current ratio is 2.1:1. The average current ratio is more the standard value of current ratio 2:1 but upto FY 2067/68, the value of current ratio is less than the standard value of current ratio 2:1 which indicates that it has not able to meet current obligation in that year.

- The working capital in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are Rs. 4041060236, Rs. 3328243963, Rs. 1837006294, Rs. 8248847022 and Rs. 7548634421 respectively. The average working capital is Rs. 5000758387.

- The cash reserve to total deposit ratio in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 5.65%, 6.18%, 7.71%, 6.12% and 6.00% respectively. The average cash reserve to total deposit ratio is 5.93%. It indicates that the bank has able to meet the required cash reserve ratio set by NRB i.e. 5%.

- The return on assets in FY 2065/66, FY 2066/67, FY 2067/68, FY 2068/69 and FY 2069/70 are 1.88%, 0.56%, 0.25%, 0.30% and 1.07% respectively. The average return on assets is 0.81%.

- The association of investment with deposit is very high i.e. the investment is perfectly correlated with deposit (i.e. r = 0.97). The association of cash reserve with deposit is also very high i.e. coefficient correlation (r) = 0.98 shows that cash reserve is perfectly correlated with total deposit. The balance with NRB and total deposit is also correlated i.e. coefficient correlation (r) = 0.83. It shows that balance with NRB is perfectly correlated with total deposit.

5.3 Recommendations

On the basis of the study, following suggestions may be recommended for consideration to improve the existing situation:

- The current ratio should be improved because the standard current asset ratio is not maintained by NBL

- The return on assets is too low. So, it is suggested that to improve the net profit after tax to maintain the return on assets.

- The major head of expenses of NBL is interest expenses. So, they are suggested to invest the deposits and borrowings in profitable sectors to pay interest.

- The staff expense of NBL is high. So, it is suggested to reduce staff expenses or to utilize available human resource property to increase revenue.

- The bank is suggested to pay attention to reduce their operating expenses to maximize their operating profit.

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