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Relationship Between Liquidity and Profitability of Commercial Banks in Nepal

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Abstract

This paper investigated the relationship between liquidity and profitability of Nepalese commercial banks. The main objective was to explore and examine the liquidity position, profitability status and relationship between liquidity and profitability in of Nepalese commercial banks. This study based on secondary data from the annual reports of the Nepalese commercial banks and NRBover a period of past 10 fiscal years from 2007/08 to 2019/17in Nepal. Correlation and regression analysis were employed to examine the relationship between liquidity and profitability. The ROA, ROE and net profit margin was used to measure profitability status and current ratio, cash and bank balance to total deposit and cash and bank balance to current deposit ratio was used to measure liquidity position. The findings of this paper are based on a study conducted on the selected banks. Hence, the results show that ADBL and NABIL have good liquidity position and profitability position. Therefore, the results are valid for banking sector.

Keywords: Liquidity, Profitability, Deposit, Ratio and Nepalese Commercial Banks

Introduction

Liquidity management is an important tool for the management of organizations; it reflects the organization's ability to repay short-term liabilities, which include operating expenses and financial expenses resulting within the organization in the short term. As well as part of long-term debt during the financial year or the operating cycle, whichever is longer? There are many liquidity ratios used by organizations to manage their liquidity such as (current ratio, quick ratio, cash ratio, defensive interval ratio) which can greatly affect the financial performance of companies, (Robinson, Henry, Pirie, Broihahn, & Cope, 2015).

Profitability refers to the net income of the company (Bank) where company's revenues exceed its expenses. Income is generated from the activities of the companies (Banks) and expense is the cost of resources which are used to generate profit. Profitability is the main objective of the companies. Businesses cannot survive in the market for the long run without profitability. So evaluating past profitability, calculating current profitability and foretelling future profitability is very important for the company. Revenue and expense are shown at

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the income statement which refers to the profitability of the company while cash inflow & cash outflow are shown at cash flow statement which refers to the liquidity of the company, (Das, Chowdhury, Rahman, & Dey, 2015).

Liquidity and profitability has got tremendous importance in the corporate world. Liquidity refers to the management of current assets and current liabilities of a company. It plays key role in defining, whether a firm is able to effectively manage it short term obligations. Due to its dire importance it is important for firms to maintain a reasonable amount their assets in the form of cash in order to meet their short term obligations. Balanced liquidity level is necessary for the effectiveness and profitability of a firm. Therefore, firms need to determine the optimum level of the liquidity in order to ensure high profitability. Liquidity should neither be too low nor too high. Rather, it should maintain a reasonable level. Whereas, profitability refers to the revenues earned by firms, against their operations and incurred expenses. In order to find the profitability level of firms, Profitability ratios are used, whereby it can clearly be examined that where the firm stands in terms of profitability. Enhancement of profitability is the ultimate purpose of every firm, and each of them strives to achieve optimum profitability. Since, there is a significant relationship between liquidity and profitability of the firm, so the firm is required to maintain optimum level of liquidity(Ali Khan & Ali, 2016).

This study will basically focus its attention to reveal the struggle and success achieved by the joint venture banking. Commercial banks' main motive is to make profit by providing services to the customers. In Nepal, the profitability rate, operating expenses, dividend distribution among the shareholders etc. have been found inconsistent. This study tries to examine the liquidity position and to identify the profitability of Nepalese commercial banks as well as try to find out the relationship betweenliquidity and profitability.

Methodology

The research design is descriptive and analytical research approach has been adopted. It tries to describe and analyze all these facts that have been collected for the purpose of the study. There are 28 commercial banks operating in Nepal. All the listed commercial banks in the country are the target population. Among all the commercial banks ten banks have been selected which have highest paid- up capital as sample are ADBL, Everest, Himalayan, Nepal SBI, Nepal Investment, Nabil, Laxmi, Global Ime, Kumari and Prime Commercial Banks. The sample had selected on the basis of convenience sampling technique.Data was mainly collected from secondary sources. Data used from the annual report. Financial tools are those which are used for the analysis and interpretation of financial data. Here in this study, the financial tools include: Liquidity Ratio, Current Ratio, Cash and Bank Balance to

Total Deposit Ratio, Cash and Bank Balance to Current Deposit Ratio, Profitability Ratio Return on Total Assets (ROA) and relationship shows by correlation analysis.

Results

Liquidity Ratio: Current Ratio

The table 4.1 measured the current ratio of the sampled banks. The table showed that the current ratio of ADBL fluctuated during the ten years periods. The ratio was highest (1.31 times) in the fiscal year 2009/10 and lowest (1.18 times) in the fiscal year 2015/16. In average, ADBL maintained 1.23 times as the current ratio to meet the obligations. Similarly, the current ratio of EBL was highest (1.16 times) in the fiscal year 2016/17 and lowest (1.06 times) in the fiscal year 2013/14. In average, the current ratio of EBL was 1.10 times and the coefficient of variation in the ratio was 3.11%.

Likewise, the current ratio of HBL was stable for first two fiscal years, i.e. 1.08 times, and then decreased to 1.07 which was stable next three fiscal year 2009/10, 2010/11 and 2011/12. And it fluctuated during the five years periods. In average HBL maintained 1.09 times and the coefficient of variation in the ratio was 1.54%. Also, the current ratio of SBI fluctuated during the ten years periods. The ratio was highest (1.22 times) in the fiscal year 2007/08 and lowest (1.05 times) in the fiscal year 2011/12. In average, SBI maintained 1.11 times as the current ratio to meet the obligations.

Table 1: Current Ratio

year	ADBL	EBL	HBL	SBI	NIBL	NABIL	LBL	GBIME	KBL	PCB
2007/08	1.19	1.09	1.08	1.22	1.09	1.10	1.14	1.09	1.13	1.18
2008/09	1.25	1.07	1.08	1.08	1.09	1.00	1.12	1.10	1.13	1.12
2009/10	1.31	1.08	1.07	1.06	1.10	1.07	1.12	1.10	1.13	1.11
2010/11	1.30	1.08	1.07	1.06	1.12	1.10	1.12	1.12	1.16	1.13
2011/12	1.25	1.07	1.07	1.05	1.12	1.08	1.10	1.09	1.11	1.10
2012/13	1.26	1.08	1.12	1.06	1.13	1.08	1.12	1.09	1.09	1.10
2013/14	1.19	1.06	1.09	1.09	1.13	1.09	1.09	1.11	1.10	1.10
2014/15	1.22	1.13	1.08	1.11	1.12	1.08	1.08	1.12	1.12	1.10
2015/16	1.18	1.15	1.10	1.17	1.16	1.11	1.09	1.15	1.10	1.11
2016/17	1.19	1.16	1.11	1.19	1.16	1.13	1.14	1.11	1.15	1.16
mean	1.23	1.10	1.09	1.11	1.12	1.08	1.11	1.11	1.12	1.12
SD	0.04	0.03	0.02	0.06	0.02	0.03	0.02	0.02	0.02	0.03
CV	3.65	3.11	1.54	5.30	2.10	3.01	1.79	1.60	1.90	2.38

Source: Field study, 2018.

The highest current ratio of LBL is 1.14 times in the fiscal year 2007/08 and 2016/17 and the lowest current ratio is 1.08 times in the fiscal year 2014/15. This shows that the current ratio of LBL fluctuated throughout the period of study having average current ratio of 1.11 times. Whereas the highest current ratio of GBIME was in the year 2015/16 i.e. 1.15 times and the lowest was in the fiscal year 2007/08, 2011/12 and 2012/13 i.e. 1.09. The average current ratio of GBIME was found to be 1.11 times throughout the period of study.

Finally, current ratio of KBL was 1.15 times in the fiscal year 2016/17 showing the highest current ratio whereas the lowest current ratio was 1.09 times in the fiscal year 2012/13. The average current ratio of KBL is 1.12 times. The highest current ratio of PCB is 1.18 times in the fiscal year 2007/08 and lowest was 1.10 times in the fiscal year 2011/12, 2012/13, 2013/14 and 2014/15. The average current ratio was 1.12 times throughout the period of study.

Cash and Bank Balance to Total Deposit Ratio

The table 2 measures the cash and bank balance kept by the banks in respect to the total deposit collected.The table presented that the cash and bank balance to total deposit of ADBL was in fluctuating trend. The ratio was highest 17.51% in the fiscal year 2012/13 and lowest 11.13% in the fiscal year 2007/08. In average, ADBL kept 14.09% of the total deposit as cash and bank balance to meet the cash requirement. However, the coefficient of variation is 12.91%. Also, the ratio of EBL fluctuating during the entire period and thus ranged from 11.13% in the fiscal year 2007/08 to 30.23% in the fiscal year 2014/15. In average, EBL kept 20.44% of the total deposit as cash and bank balance. The coefficient of variation is 25.33%.

Likewise, the cash and bank balance to total deposit of HBL was in fluctuating trend. The ratio was highest 13.33% in the fiscal year 2011/12 and lowest 6.87% in the fiscal year 2012/13. In average, HBL kept 8.97% of the total deposit as cash and bank balance. The coefficient of variation is 27.37%. Also, the ratio of SBI fluctuating during the entire period and thus ranged from 6.81% in the fiscal year 2008/09 to 16.34% in the fiscal year 2014/15. In average, SBI kept 12.21% of the total deposit as cash and bank balance. The coefficient of variation is 26.22%.

Consequently, the cash and bank balance to total deposit of NIBL was in fluctuating trend. The ratio was highest 22.68% in the fiscal year 2013/14 and lowest 10.90% in the fiscal year 2007/08. In average, HBL kept 16.43% of the total deposit as cash and bank balance. The coefficient of variation is 24.35%. Also, the ratio of NABIL fluctuating during the entire period and thus ranged from 3.02% in the fiscal year 2009/10 to 15.35% in the fiscal year 2014/15. In average, NABIL kept 9.13% of the total deposit as cash and bank balance. The coefficient of variation is 39.40%.

Table 2: Cash and Bank Balance to Total Deposit Ratio

Year	ADBL	EBL	HBL	SBI	NIBL	NABIL	LBL	GBIME	KBL	PCB
2007/08	11.13	11.13	4.55	9.79	10.90	8.37	11.34	17.32	7.31	5.65
2008/09	14.81	18.50	8.79	6.81	16.96	9.03	11.42	12.64	11.30	11.71
2009/10	12.81	21.17	10.30	9.86	13.61	3.02	10.18	16.19	15.63	19.62
2010/11	13.98	14.89	7.24	11.50	16.24	4.96	15.16	11.64	6.88	15.45
2011/12	14.54	20.73	13.33	10.33	20.70	7.77	19.49	18.46	16.93	23.31
2012/13	17.51	19.43	6.87	13.09	21.23	9.25	13.36	16.25	13.46	18.90
2013/14	13.45	21.21	8.57	12.21	22.68	13.26	17.43	14.80	17.75	21.35
2014/15	14.83	30.23	11.40	16.34	15.79	15.35	12.34	12.72	14.93	16.15
2015/16	12.20	24.66	9.02	15.93	11.99	9.31	11.32	11.57	11.89	16.19
2016/17	15.64	22.49	9.60	16.20	14.24	11.01	10.34	18.58	14.94	18.82
Mean	14.09	20.44	8.97	12.21	16.43	9.13	13.24	15.02	13.10	16.71
S.D.	1.82	5.18	2.45	3.20	4.00	3.60	3.15	2.73	3.75	5.08
CV	12.91	25.33	27.37	26.22	24.35	39.40	23.82	18.17	28.61	30.40

Source: Field study, 2018.

Similarly, the cash and bank balance to total deposit of LBL was in fluctuating trend. The ratio was highest 19.49% in the fiscal year 2011/12 and lowest 10.18% in the fiscal year 2009/10. In average, LBL kept 13.24% of the total deposit as cash and bank balance. The coefficient of variation is 23.82%. Also, the ratio of GBIME fluctuating during the entire period and thus ranged from 11.57% in the fiscal year 2015/16 to 18.58% in the fiscal year 2016/17. In average, GBIME kept 15.02% of the total deposit as cash and bank balance. The coefficient of variation is 18.17%.

Finally, the cash and bank balance to total deposit of KBL was in fluctuating trend. The ratio was highest 17.75% in the fiscal year 2013/14 and lowest 6.88% in the fiscal year 2010/11. In average, KBL kept 13.10% of the total deposit as cash and bank balance. The coefficient of variation is 28.61%. Also, the ratio of PCB fluctuating during the entire period and thus ranged from 5.65% in the fiscal year 2007/08 to 23.31% in the fiscal year 2011/12.. In average, PCB kept 16.71% of the total deposit as cash and bank balance. The coefficient of variation is 30.40%.

Profitability Ratio

Return on Total Assets (ROA)

The table 3 shows that the return on assets ratio of selected banks for last ten consecutive years. The returns on assets ratio of selected banks are fluctuating trend during the study period.The average rate of return on assets of ADBL is 2.60%, EBL 1.86%, HBL 1.67%, SBI 1.31%, NIBL 2.01%, NABIL 2.48%, LBL 1.30%, GBIME 1.12%, KBL 1.24% and PCB 1.40%. This shows ADBL has highest ROA i.e. 2.60% and GBIME has lowest ROA i.e. 1.12% over the study period.

Table 3: Return on Total Assets (ROA)

Year	ADBL	EBL	HBL	SBI	NIBL	NABIL	LBL	GBIME	KBL	PCB
2007/08	1.53	1.66	1.76	1.44	1.79	2.01	0.95	0.74	1.16	0.44
2008/09	2.04	1.73	1.92	1.02	1.70	2.35	1.03	0.44	1.41	1.06
2009/10	3.50	2.01	1.19	1.03	2.21	2.19	1.56	0.42	1.54	1.61
2010/11	4.02	2.01	1.91	1.01	2.02	2.31	1.74	1.28	1.22	1.63
2011/12	2.61	1.95	1.76	0.83	1.58	3.68	1.37	0.86	1.10	0.72
2012/13	2.75	2.24	1.54	1.19	2.62	3.03	1.42	1.15	1.03	1.47
2013/14	1.76	2.20	1.30	1.51	2.25	2.66	1.36	1.62	1.10	1.45
2014/15	3.57	1.59	1.34	1.80	1.88	1.81	0.92	1.39	1.03	1.63
2015/16	2.21	1.52	1.94	1.70	1.97	2.21	1.24	1.58	1.69	2.05
2016/17	2.02	1.72	2.03	1.53	2.06	2.57	1.43	1.72	1.08	1.89
Mean	2.60	1.86	1.67	1.31	2.01	2.48	1.30	1.12	1.24	1.40
S.D.	0.85	0.25	0.30	0.33	0.30	0.54	0.27	0.48	0.23	0.51
CV	32.53	13.60	18.22	25.45	15.03	21.89	20.55	42.98	18.70	36.39

Source: Field study, 2018.

C.V. measures the variation among variables. The CV of ADBL is 32.53%, EBL 13.60%, HBL 18.22%, SBI 25.45%, NIBL 15.03%, NABIL 21.89%, LBL 20.55%, GBIME 42.98%, KBL 18.70% and PCB 36.39%. It shows GBIME has highest CV i.e. 42.98% which indicates highly fluctuation on ROA and EBL has lowest CV i.e. 13.60% which indicates more consistency on ROA.

Return on Equity (ROE)

Table 4 indicates the efficiency of the banks in generating profit through mobilizing the shareholders' property. The table showed that the return on equity of ADBL was highest, 22.27%, in the fiscal year 2014/15 and lowest, 10.24%, in the fiscal year 2008/09. In average, the return on equity of ADBL was 14.52%, which indicated that ADBL was able to generate Rs. 14.52 as net income from the mobilization of Rs. 100 of shareholders' equity. The CV of ADBL is 25.36%. Also, the ratio of EBL fluctuating during the entire period and thus ranged from 17.38% in the fiscal year 2016/17 to 30.47% in the fiscal year 2012/13. In average, ROE of EBL was 25.80%. The coefficient of variation is 17.77%.

Similarly, return on equity of HBL was highest, 31.10%, in the fiscal year 2013/14 and lowest, 14.80%, in the fiscal year 2009/10. In average, the ROE of HBL was 21.27 The CV of HBL is 22.81%. Also, the ratio of SBI fluctuating during the entire period and thus ranged from 14.65% in the fiscal year 2016/17 to 20.35% in the fiscal year 2013/14. In average, return on equity of SBI was 17.65%. The coefficient of variation is 11.94%.

Likewise, return onequity of NIBL was highest 27.59%, in the fiscal year 2009/10 and lowest 15.66%, in the fiscal year 2015/16. In average, the ROE of NIBL was 22.06%The CV of NIBL is 20.18%. Also, the ratio of NABIL was fluctuating during the entire period and thus ranged from 22.07% in the fiscal year 2014/15 to 33.17% in the fiscal year 2012/13. In average, return on equity of NABIL was 28.91%. The coefficient of variation is 12.82%.

Consequently, return on equity of LBL was highest 17.75%, in the fiscal year 2010/11 and lowest 10.03%, in the fiscal year 2014/15. In average, the ROE of LBL was 13.78% The CV of LBL is 20.79%. Also, the ratio of GBIME was fluctuating during the entire period and thus ranged from 4.80% in the fiscal year 2009/2010 to 17.75% in the fiscal year 2016/17. In average, return on equity of GBIME was 11.87%. The coefficient of variation is 37.88%.

Finally, return on equity of KBL was highest 17.70%, in the fiscal year 2009/10 and lowest 8.18%, in the fiscal year 2016/17. In average, the ROE of KBL was 12.97% The CV of KBL is 24.35%. Also, the ratio of PCB was fluctuating during the entire period and thus ranged from 3.85% in the fiscal year 2007/2008 to 20.66% in the fiscal year 2015/16. In average, return on equity of PCB was 14.86%. The coefficient of variation is 33.54%.

Table 4: Return on Equity (ROE)

Year	ADBL	EBL	HBL	SBI	NIBL	NABIL	LBL	GBIME	KBL	PCB
2007/08	12.54	23.48	25.31	17.53	25.91	30.61	10.38	8.45	12.75	3.85
2008/09	10.24	28.96	24.13	18.45	23.03	32.94	14.07	5.24	16.06	13.80
2009/10	17.41	30.12	14.80	16.00	27.59	29.68	17.10	4.80	17.70	21.13
2010/11	18.06	29.90	22.35	16.12	22.80	29.21	17.75	13.17	11.34	14.48
2011/12	12.99	26.12	20.70	15.01	17.17	31.11	15.48	10.45	11.61	10.40
2012/13	14.68	30.47	17.81	20.29	27.28	33.17	15.51	13.90	10.96	16.20
2013/14	11.67	28.40	31.10	20.35	24.48	30.36	14.96	15.90	11.53	15.29
2014/15	22.27	22.84	15.98	18.86	20.01	22.07	10.03	13.12	11.80	17.22
2015/16	13.60	20.32	21.93	19.25	15.66	24.31	11.98	15.87	17.75	20.66
2016/17	11.77	17.38	18.61	14.65	16.65	25.63	10.49	17.75	8.18	15.56
Mean	14.52	25.80	21.27	17.65	22.06	28.91	13.78	11.87	12.97	14.86
S.D.	3.68	4.59	4.85	2.11	4.45	3.71	2.86	4.49	3.16	4.98
CV	25.36	17.77	22.81	11.94	20.18	12.82	20.79	37.88	24.35	33.54

Source: Field study, 2018.

Comparing the ROE of sample banks it can be concluded that the average ROE of NABIL bank is highest i.e. 28.19% and the lowest is of GBIME i.e. 11.87%. This shows that the shareholders of NABIL bank get the highest return whereas the return to shareholders of GBIME was lowest. Similarly the average return of ADBL is 14.52%, EBL is 25.80%, HBL is 21.27%, SBI is 17.65%, NIBL is 22.06%, LBL is 13.78%, KBL is 12.97% and PCB is 14.86%.

Net Profit Margin

Table 5 shows that the net profit margin of ADBL was highest in the year 2014/15 i.e. 41.11% and the lowest was 16.89% in the year 2007/08. The average net profit margin was

28.00% and the CV was 29.48%. the highest net profit margin of EBL was 34.21% in the year 2015/16 and the lowest was 21.50% in the year 2010/11. The average net profit margin of EBL is 28.38% and the CV was 13.99% throughout the period of study.

Table 5: Net Profit Margin

Year	ADBL	EBL	HBL	SBI	NIBL	NABIL	LBL	GBIME	KBL	PCB
2007/08	16.89	29.13	32.38	25.57	31.72	37.71	16.88	17.04	18.18	12.50
2008/09	24.98	29.19	32.15	21.64	27.54	36.85	17.20	8.04	19.00	17.27
2009/10	34.63	26.79	16.17	17.28	27.19	28.12	18.30	4.98	16.89	18.58
2010/11	39.09	21.50	20.64	14.95	20.27	25.56	16.79	11.46	11.15	14.53
2011/12	26.72	22.00	20.30	12.74	17.37	27.65	15.55	11.90	11.30	9.70
2012/13	30.30	29.80	20.40	18.75	32.58	38.92	17.72	14.00	11.30	17.16
2013/14	17.97	29.93	20.22	23.21	33.36	41.16	19.08	25.56	14.18	19.26
2014/15	41.11	31.51	24.03	27.87	33.91	36.34	16.14	20.62	16.24	23.00
2015/16	25.62	34.21	38.58	33.46	37.64	45.79	22.03	27.71	26.60	31.37
2016/17	22.65	29.73	31.39	38.94	33.67	44.79	21.48	27.23	18.38	28.19
Mean	28.00	28.38	25.63	23.44	29.53	36.29	18.12	16.85	16.32	19.16
S.D.	8.25	3.97	7.39	8.26	6.45	7.09	2.17	8.14	4.74	6.74
CV	29.48	13.99	28.82	35.25	21.83	19.53	11.98	48.28	29.07	35.18

Source: Field study, 2018.

Likewise, the highest net profit margin of HBL was 38.58% in the year 2015/16 which was the highest net profit margin whereas 16.17% in the year 2009/10 recording the lowest net profit margin. The average net profit margin of HBL was 25.63% whereas CV is 28.82%. the highest net profit margin of SBI bank was 38.94% in the year 2016/17 and the lowest was 12.74% in the year 2011/12. The average net profit margin of SBI is 23.44% and the CV is 35.25%.

Consequently, the highest net profit margin of NIBL was 37.64% in the year 2015/16 and the lowest was 17.37% in the year 2011/12. The average net profit margin of NIBL is 29.53% and the CV is 21.83%. the highest net profit margin of NABIL bank was 44.79% in the year 2016/17 and the lowest was in the year 2010/11 i.e. 25.56%. The average net profit margin of NABIL is 36.29% and CV is 19.53%.

Similarly, the highest net profit margin of LBL was 21.48% in the year 2016/17 and the lowest is 16.14% in the year 2014/15. The average net profit margin of LBL is 18.12% whereas the CV is 11.98%. The highest net profit margin of GBIME is 27.71% in the year 2015/16 whereas the lowest is 4.98% in the year 2009/10. The average net profit margin of GBIME is 16.85% whereas CV is 48.28%.

Coefficient of Correlation (r)

Correlation analysis was used to determine the strength and direction of the linear relationship between the variables under consideration.

Table 6: Correlation Matrix

Correlations						
	CR	CBBTDR	CBBCDR	ROA	ROE	NPM
CR	1	.087	-.026	.358**	-.351**	.197*
CBBTDR	.087	1	.526**	-.009	-.047	-.008
CBBCDR	-.026	.526**	1	-.408**	-.434**	-.486**
ROA	.358**	-.009	-.408**	1	.613**	.746**
ROE	-.351**	-.047	-.434**	.613**	1	.629**
NPM	.197*	-.008	-.486**	.746**	.629**	1
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Table 6 presents the correlation among the dependent and independent variables. Obviously, this table shows correlations between the liquidity variables (i.e. current ratio, cash and bank balance to total deposit ratio and cash and bank balance to current deposit) and profitability variables (i.e. return on asset, return on equity and net profit margin).

The correlation coefficient between CR and ROA is 0.358. The correlation of CR with ROA is meaningful. In the context of this significant relationship, highly inferences can be made. The correlation coefficient between CR and ROE is -0.351. The correlation of CR with ROE is negative but significant relationship. Consequently, the correlation coefficient between CR and NPM is 0.197. This is positive and significant relationship.

Similarly, the relationship coefficient between CBBTDR and ROA is -0.009. The correlation of CBBTDR with ROA is negative and insignificant relationship. The correlation coefficient between CBBTDR and ROE is -0.047. The correlation of CBBTDR with ROE is negative and insignificant relationship. Also, the correlation coefficient between CBBTDR and NPM is -0.008, which was negative and insignificant relationship.

Finally, the correlation coefficient between CBBCDR and ROA is -0.408, which was negative relationship but significant relationship. The correlation coefficient between CBBCDR and ROE is -0.434, which was negative relationship but significant relationship. Also, the correlation coefficient between CBBCDR and NPM is -0.486, which was negative but significant relationship.

Conclusions

Liquidity is the most sensible and crucial aspect of the bank. Lack of adequate liquidity is often one of the first signs that a bank is in serious financial trouble and lead to the loss of public faith upon banks. Thus, ensuring adequate liquidity is a never-ending problem for the bank management that will always have significant implications for the bank's profitability. Profitability is the measurement of efficiency. It indicates the degree of success in achieving desired profit. It shows entire performance of bank. On the basis of the study, the liquidity position of ADBL is comparatively better than other sampled banks according to current ratio. Whereas, on the basis of cash and bank balance to total deposit ratio and cash and bank balance to current deposit ratio, the liquidity position of GBIME, PCB, NIBL and ADBL seems to be adequate.The average net profit margin of NABIL, ADBL, EBL, and NIBL seems to be better than other remaining selected commercial banks as they have higher net profit margin.

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