

# Liquidity and Solvency Analysis of Nabil Bank Limited in Nepal

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## ABSTRACT

Liquidity and solvency are key indicators of a bank's financial stability and operational efficiency. Liquidity measures a bank's capacity to meet short-term obligations, while solvency reflects its ability to sustain long-term operations and absorb potential losses. This study analyzes the liquidity and solvency position of Nabil Bank Limited in Nepal over the period 2015–2024 using financial ratios, including the current ratio, cash-to-deposit ratio, loan-to-deposit ratio, equity-to-assets ratio, and return on equity (ROE). The research employs a descriptive and analytical approach based on secondary data from annual reports. Findings indicate that Nabil Bank maintains generally satisfactory liquidity and solvency, despite fluctuations in short-term obligations and declining equity ratios in recent years. Profitability improved steadily, although ROE shows a declining trend due to faster equity growth. The study highlights the importance of prudent liquidity and capital management for long-term financial stability.

**Keywords:** Liquidity, Solvency, Financial Performance, Commercial Banks, Nabil Bank Limited, Nepal Banking Sector, Return on Equity .

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## INTRODUCTION

Liquidity analysis refers to the evaluation of a bank's ability to meet its short-term obligations as they fall due. In banking, liquidity is critical because deposits are withdrawals on demand while loans are relatively illiquid. Common liquidity ratios include current ratio, cash and bank balance to deposit ratio, and loan-to-deposit ratio. Solvency analysis measures a bank's ability to meet its long-term obligations and sustain operations over time. It reflects capital strength and financial resilience. Solvency ratios such as equity-to-assets ratio indicate whether the bank has adequate capital to absorb potential losses. Commercial banks play a crucial role in economic development by mobilizing deposits and channeling them into productive investments. Financial stability of banks largely depends on efficient liquidity and solvency management. Nabil Bank Limited, one of Nepal's leading commercial banks, provides an appropriate case to evaluate these aspects due to its long operational history and strong market presence.

### Profile of the Organization

Nabil Bank Limited is one of the leading commercial banks in Nepal and holds a significant position in the country's banking and financial sector. Established in 1984 as Nepal Arab Bank Limited, it was the first joint venture bank in Nepal. The bank later changed its name to Nabil Bank Limited, reflecting its growth and strong domestic presence in the Nepalese financial market. It has operated under the regulations and supervision of Nepal Rastra Bank (NRB) and provides a wide range of banking and financial services to individuals, businesses, and institutions. Its services include deposit accounts, loans and advances, trade finance, remittance services, digital banking, treasury operations, and corporate banking services. The bank has continuously adopted modern banking practices and technological innovations to enhance service delivery and customer satisfaction. It has demonstrated resilience and stability in the Nepalese banking industry through effective financial management and strategic planning. Its commitment to maintaining adequate liquidity, capital adequacy, and asset quality has helped the bank sustain public confidence and long-term growth. As a result, Nabil Bank Limited serves as an appropriate organization for analyzing liquidity and solvency performance in the context of Nepalese commercial banking.

### Importance of the Study

This study on the liquidity and solvency analysis of Nabil Bank Limited is significant as it evaluates the bank's financial capacity to fulfill both immediate and long-term financial responsibilities. Liquidity and solvency are essential measures of a bank's financial condition, and their analysis helps determine whether the bank is able to operate efficiently while

maintaining financial stability. The results of the study support bank management in making sound financial decisions and provide investors and shareholders with insights into the security of their investments. In addition, the study is useful for creditors, depositors, and regulatory authorities in assessing the overall financial strength of the bank.

### Statement of the Problem

Commercial banks face the challenge of maintaining optimal liquidity without compromising profitability and solvency. Excess liquidity reduces earnings, while inadequate liquidity increases financial risk. This study addresses the following problems:

- What is the liquidity & solvency position of Nabil Bank Ltd ?
- What is the liquidity & solvency effect on profit of Nabil Banl Ltd ?

### Objectives of the Study

- To examine the liquidity & solvency position of Nabil bank Ltd .
- To examine the liquidity & solvency effect on profit of Nabil Banal ltd .

## SIGNIFICANCE OF THE STUDY

This study is important because it examines the liquidity and solvency of Nabil Bank Limited, offering insights into the bank's financial stability in Nepal. By evaluating key financial ratios, it assesses how efficiently the bank manages resources to meet short-term liabilities and long-term commitments. The results can help bank management improve financial policies and strategies related to liquidity and capital adequacy. Investors and shareholders can use the findings to understand the bank's risk profile and sustainability, while regulators, depositors, and creditors gain a clearer view of the bank's financial strength and regulatory compliance. Additionally, the study contributes to academic research by providing a reference for future studies on banking performance and financial stability in Nepal.

## REVIEW OF LITERATURE

Liquidity and solvency are key indicators of a bank's financial health, reflecting its ability to meet obligations and sustain operations. **Liquidity** is defined as the capacity of a bank to convert assets into cash quickly to meet short-term liabilities without incurring losses. According to **Vineetha (2017)**, liquidity management ensures that banks can maintain depositor confidence while optimizing returns on assets. Tools for liquidity assessment include cash ratio, current ratio, and loan-to-deposit ratio, which indicate short-term financial flexibility. **Solvency** reflects the long-term stability of a bank and its ability to absorb financial shocks. Solvency analysis uses ratios such as debt-to-equity, equity-to-assets, and capital adequacy ratio. **Gul et al. (2011)** highlighted that strong solvency reduces bankruptcy risk and improves profitability by enhancing investor and depositor confidence. **Koirala (2019)** noted that Nepalese commercial banks with higher capital adequacy maintain better resilience during economic fluctuations. Empirical studies reveal that liquidity and solvency are interrelated. While adequate liquidity prevents short-term crises, excessive liquidity may reduce profitability. Similarly, high solvency ensures long-term stability but may limit aggressive growth strategies. **Shrestha (2020)** emphasized that balanced liquidity and solvency management enhances overall bank performance. However, most studies in Nepal focus on sector-wide trends, leaving a gap in bank-specific, longitudinal analyses. This study aims to examine liquidity and solvency in **Nabil Bank Limited**, analyzing their interplay and impact on financial performance from 2015 to 2024.

## THEORETICAL REVIEW

Liquidity and solvency are two fundamental concepts in financial analysis that assess a firm's ability to meet its obligations. **Liquidity** refers to a company's short-term financial health, i.e., its capacity to convert assets into cash quickly to settle immediate liabilities. Key liquidity ratios include the **current ratio**, **quick ratio**, and **cash ratio**, which measure the sufficiency of current assets relative to current liabilities. Theoretically, the **Working Capital Theory** posits that maintaining an optimal level of liquid assets ensures smooth operations and avoids cash flow problems. **Solvency**, on the other hand, evaluates long-term financial stability and the firm's ability to meet long-term obligations. Solvency ratios such as the **debt-to-equity ratio**, **equity-to-asset ratio**, and **interest coverage ratio** indicate the firm's leverage and risk of bankruptcy. The **Trade-off Theory of Capital Structure** underlines that firms balance debt and equity to optimize solvency, cost of capital, and financial flexibility. Theoretical frameworks consistently emphasize that **strong liquidity ensures operational efficiency**, while **robust solvency safeguards long-term survival**, and both are interlinked in maintaining corporate financial health.

### Empirical Review

Empirical studies on liquidity and solvency analysis provide insights into how firms manage short-term and long-term financial health across industries and economies. For instance, **Altman (1968)** developed the Z-Score model, which

combines liquidity, solvency, and profitability ratios to predict corporate bankruptcy risk, highlighting the predictive power of financial ratios. Later studies, such as **Kumar & Rao (2015)**, found that firms with higher current and quick ratios demonstrated greater operational stability, but excessively high liquidity sometimes indicated underutilized resources. Research on solvency ratios also emphasizes long-term risk management. **Modigliani & Miller (1958)** theorized that capital structure affects solvency, and subsequent empirical studies, including **Adebayo et al. (2020)**, found that high debt-to-equity ratios increase the probability of financial distress, whereas balanced leverage enhances firm value. Studies across sectors consistently show a **positive correlation between liquidity, solvency, and financial performance**, suggesting that firms optimizing both can sustain growth and minimize bankruptcy risk. Several studies also highlight contextual factors: economic cycles, industry norms, and firm size influence liquidity and solvency dynamics. For example, during economic downturns, liquidity becomes critical for operational continuity, while solvency ratios determine a firm’s ability to survive prolonged stress.

**Research Gap**

The review of existing literature reveals that several studies have been conducted on liquidity management, solvency position, and financial performance of commercial banks in Nepal. Most empirical studies focus on industry-wide analysis or compare multiple banks using. Furthermore, there is a lack of bank-specific and recent studies focusing on Nabil Bank Limited, particularly using data covering the most recent years. Existing studies also give limited attention to analyzing the relationship between liquidity and solvency within a single commercial bank over a defined period. Therefore, this study attempts to fill this research gap by conducting a focused liquidity and solvency analysis of Nabil Bank Limited using recent secondary data and key financial ratios. It also examines the effect of liquidity and solvency on profitability and explores the relationship between liquidity and solvency, which has not been adequately addressed in previous research within the Nepalese banking context.

**Dependent and independent variables**

Independent Variable	Dependant Variable
<ul style="list-style-type: none"> <li>• Current Ratio,</li> <li>• Cash and Bank Balance to Total Deposit Ratio,</li> <li>• Loan and Advance to Total Deposit Ratio,</li> <li>• Equity to Assets Ratio</li> </ul>	Return on Equity (ROE)

**Research Methodology**

The research methodology defines the systematic approach and techniques used to carry out this study. It outlines the research design, data sources, tools, and techniques applied to analyze the liquidity and solvency position of Nabil Bank Limited.

**Research Design**

The research design of this study is descriptive and analytical.

**Descriptive Research Design**

This study describes the liquidity and solvency position of Nabil Bank Limited over the period 2015–2024. It focuses on presenting financial data, trends, and patterns of key liquidity and solvency ratios using secondary data.

**Analytical Research Design**

The study analyzes the relationship between liquidity, solvency, and profitability to evaluate the bank’s financial stability and performance. Ratio analysis is used to interpret the bank’s financial soundness and risk management. Therefore, a descriptive and analytical research design is most appropriate for examining both the current financial condition between liquidity and solvency of Nabil Bank Limited.

**Nature and Sources of Data**

**Nature of Data**

• **Quantitative Data:**

Numerical and measurable information such as ratios, amounts, percentages, totals, growth rates. Used for financial analysis like liquidity ratios ,solvency ratios and trend analysis etc.

• **Qualitative Data:**

Descriptive information that isn’t purely numerical. Used for explanations, interpretations or narrative in reports such as bank policy descriptions, management discussion, reasons behind performance trends.

**Sources of Data**

• **Primary Data:**

Data collected firsthand for a specific research purpose just foe example interviews, questionnaires, direct surveys of bank officials or customers etc.

• **Secondary Data:**

Data originally collected by others and reused. Typical secondary sources for bank analysis, audited annual reports, financial statements, research journals, central bank statistics, published ratio tables, industry reports.

**Population and Sample**

The population refers to the entire set of elements relevant to the study. In this study all over 20 commercial banks operating in Nepal is population and selected for detailed analysis. The Nabil Bank Limited has been selected as the sample unit for the study. Because, it is one of the leading private commercial banks in Nepal, it has consistent availability of published financial statements, it plays a significant role in Nepal’s banking sector. The selected sample is considered adequate to analyze the liquidity and solvency position of a major commercial bank in Nepal and to draw meaningful conclusions based on financial ratios and trends.

**Data Collection Method**

The liquidity and solvency analysis of Nabil Bank Limited in Nepal, the data collection method section of your research or report should explain how and from where you obtain the data needed to measure liquidity and solvency. In this context, liquidity refers to the bank’s ability to meet short-term obligations, while solvency refers to its ability to meet long-term obligations and sustain its capital structure. Annual Reports of Nabil Bank Limited, Official audited financial statements published yearly provide balance sheets, cash flow statements, and notes needed to calculate liquidity and solvency ratios (e.g., current ratio, debt-equity ratio, interest coverage ratio) etc.

**Data Analysis Tools**

Financial Tools

- Current Ratio.
- Cash and Bank Balance to Total Deposit Ratio.
- Loan and Advance to Total Deposit Ratio.
- Equity to Assets Ratio.

**Statistical Tools**

Mean, SD, CV, Correlation & Regression.

**Analysis of Data**

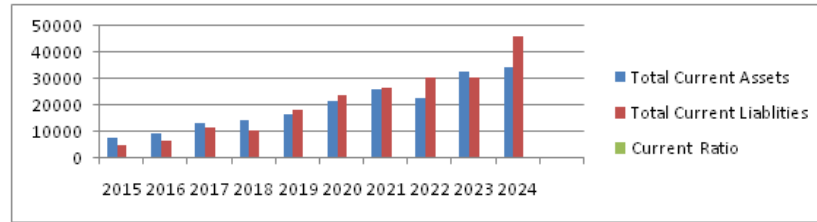
The collected financial data of Nabil Bank Limited were analyzed using financial ratio analysis to evaluate the bank’s liquidity and solvency position over the selected study period. Data obtained from annual reports and regulatory disclosures were systematically classified, tabulated, and interpreted to identify trends, strengths, and potential weaknesses.

**Table No. 01:**

Current Ratio of Nabil Bank Ltd (in million).

Year	Total Current Assets	Total Current Liabilities	Current Ratio
20015	7840.35	5133.70	1.53
20016	9232.93	6668.12	1.38
20017	13225.51	11908.12	1.11
20018	14643.38	10717.46	1.37
20019	16858.41	18248.66	0.92
20020	21885.56	23795.56	0.92
20021	25906.30	26566.64	0.98
20022	22955.88	30571.30	0.75
20023	32653.19	30799.62	1.06
20024	34700.00	45900.00	0.76
Total	199901.51	210309.18	
Mean	19990.15	21030.92	
Standard Deviation (SD)	8734.16	12247.69	
Coefficient of Variation (CV)	43.70%	58.30%	

**Note:** Annual Report from(2015 to 2024)



**Figure No. 01: Current Ratio of Nabil Bank Ltd**

The above table presents a ten-year analysis (2015–2024) of total current assets, total current liabilities, and the current ratio, providing insight into the company’s short-term financial health. Over this period, total current assets increased overall from 7,840.35 in 2015 to 34,700.00 in 2024, showing that the company expanded its short-term resources, although some fluctuations occurred, particularly a decline in 2022. In contrast, total current liabilities rose more rapidly and unevenly from 5,133.70 to 45,900.00, indicating that the company’s short-term obligations grew faster than its assets. This faster growth in liabilities is a key concern because it puts pressure on liquidity. The current ratio, which measures the ability to meet short-term obligations, started at a strong level of 1.53 in 2015, suggesting the company had sufficient assets to cover its liabilities. However, the ratio gradually declined and fell below the ideal level of 1.0 in several years (2019, 2020, 2021, 2022, and 2024). A ratio below 1 means the company may struggle to pay its short-term debts on time. Although there was a slight recovery in 2023 (1.06), it was not consistent, and the ratio dropped again in 2024 (0.76), highlighting an unstable liquidity position. From the overall statistics, the total current assets over the ten years amount to 199,901.51, which is slightly lower than total current liabilities of 210,309.18, indicating that, in aggregate, liabilities exceed assets. The mean (average) value of current assets is 19,990.15, while the mean current liabilities are higher at 21,030.92, reinforcing the observation that, on average, the company carries more short-term obligations than resources. The standard deviation (SD), which measures variability, is 8,734.16 for assets and 12,247.69 for liabilities, showing that liabilities fluctuate more widely than assets. This higher fluctuation in liabilities suggests greater uncertainty and risk in managing short-term obligations. Furthermore, the coefficient of variation (CV), which indicates relative variability, is 43.70% for assets and significantly higher at 58.30% for liabilities. This means liabilities are not only larger but also more inconsistent compared to assets. Overall, the interpretation shows that the standard measurement 2:1, although the company has grown in terms of current assets, its liquidity position has weakened due to the faster, more volatile increase in current liabilities. The declining and inconsistent current ratio, along with higher variability in liabilities, suggests potential financial stress and highlights the need for better control over short-term obligations and improved working capital management.

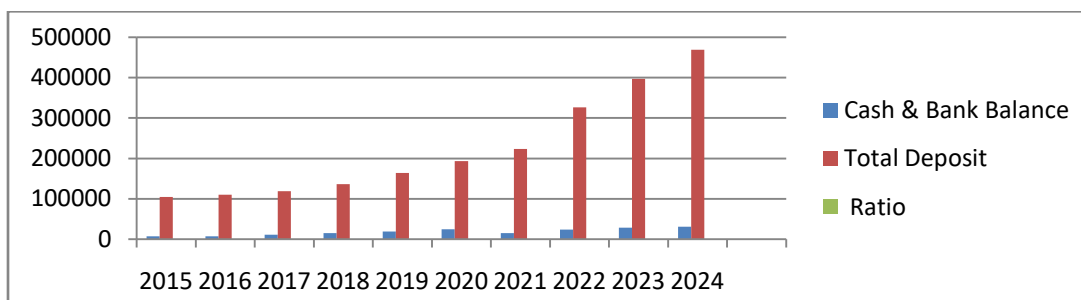
**Cash and Bank Balance to Total Deposit Ratio of Nabil Bank Ltd (in million)**

Year	Total Cash & Bank Balance	Total Deposit	Cash & Bank Balance to Total Deposit Ratio
2015	7222	104237	6.93%
2016	7175	110267	6.51%
2017	11084	118896	9.32%
2018	15325	135979	11.27%
2019	18672	164373	11.36%
2020	24821	193035	12.86%
2021	15310	223474	6.85%
2022	24089	326222	7.38%
2023	28665	396840	7.22%
2024	31000	468790	6.61%
Total	183363	2242113	
Mean	18336.30	224211.30	
Standard Deviation (SD)	8753.90	121207.60	
Coefficient of Variation (CV)	47.74%	54.06%	

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Note: Annual Report from(2015 to 2024)



**Figure No. 02:**

**Cash and Bank Balance to Total Deposit Ratio of Nabil Bank Ltd**

The above table presents a ten-year analysis (2015–2024) of total cash and bank balance, total deposits, and the cash & bank balance to total deposit ratio, which reflects the institution’s liquidity position in terms of readily available cash against its deposit obligations. Over the period, total cash and bank balance shows an overall increasing trend, rising from 7,222 in 2015 to 31,000 in 2024, although there are noticeable fluctuations, particularly a decline in 2021. On the other hand, total deposits increase steadily and significantly from 104,237 in 2015 to 468,790 in 2024, indicating strong growth in customer deposits and overall business expansion. However, deposits have grown at a much faster pace than cash balances, which directly affects the liquidity ratio. The cash & bank balance to total deposit ratio starts at 6.93% in 2015 and shows improvement up to 12.86% in 2020, indicating that the institution strengthened its immediate liquidity position during this period, with more cash available to cover deposits. However, after 2020, the ratio declines sharply, dropping to 6.85% in 2021 and remaining relatively low and stable around 6.61% through 2024. This decline suggests that although deposits continued to grow rapidly, the proportion of cash held against these deposits decreased, potentially weakening the institution’s ability to meet sudden withdrawal demands. From the overall figures, total cash and bank balance over the ten years is 183,363, while total deposits are much higher at 2,242,113, highlighting a large gap between liquid funds and deposit liabilities. The mean (average) cash balance is 18,336.30, whereas the mean total deposit is significantly higher at 224,211.30, again showing that deposits dominate the financial structure. The standard deviation (SD) of cash (8,753.90) and deposits (121,207.60) indicates that both variables fluctuate over time, but deposits exhibit much larger absolute

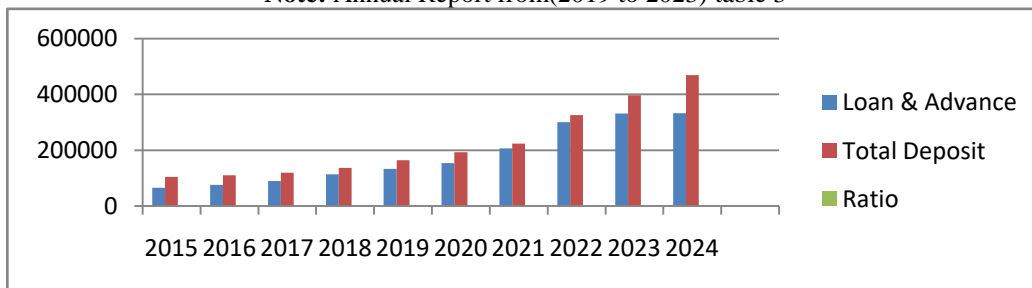
variability. This is further supported by the coefficient of variation (CV), where deposits have a higher CV (54.06%) compared to cash (47.74%), meaning deposits are relatively more volatile and less stable than cash balances. Overall, the interpretation indicates that while the institution has experienced strong growth in both cash holdings and deposits, deposits have increased more rapidly and with greater variability. The declining trend in the cash-to-deposit ratio after 2020 suggests a weakening liquidity buffer, which could pose challenges in meeting short-term obligations or unexpected withdrawals. Therefore, the institution may need to improve its liquidity management by maintaining a more balanced growth between cash reserves and deposit liabilities.

**Table No. 03:**

Loan and Advance to Total Deposit Ratio of Nabil Bank Ltd (in million)

Year	Total Loan and Advance	Total Deposit	Loan and Advance to Total Deposit Ratio
2015	65501	104237	62.85%
2016	76106	110267	69.01%
2017	89877	118896	75.60%
2018	113625	135979	83.64%
2019	133559	164373	81.27%
2020	153890	193035	79.70%
2021	206622	223474	92.45%
2022	300210	326222	92.00%
2023	331120	396840	83.47%
2024	333030	468790	71.03%
Total	1803540	2242113	
Mean	180354	224211.30	
Standard Deviation (SD)	100345	122590	
Coefficient of Variation (CV)	55.65%	54.70%	

**Note:** Annual Report from(2019 to 2023) table 3



**Figure No. 03:**  
Loan and Advance to Total Deposit Ratio of Nabil Bank Ltd

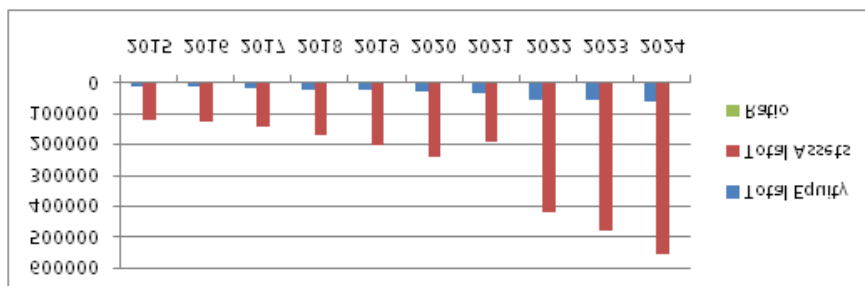
The above table presents a ten-year analysis (2015–2024) of total loans and advances, total deposits, and the loan and advance to total deposit ratio, which indicates how much of the deposits are utilized for lending activities. Over this period, total loans and advances show a strong and consistent upward trend, increasing significantly from 65,501 in 2015 to 333,030 in 2024. This reflects the institution’s aggressive expansion in lending operations. Similarly, total deposits also grow steadily from 104,237 in 2015 to 468,790 in 2024, indicating continuous growth in the deposit base. However, the growth in loans is relatively faster in the earlier and middle years, which has a direct impact on the lending ratio. The loan and advance to total deposit ratio rises steadily from 62.85% in 2015 to a peak of 92.45% in 2021, showing that a larger proportion of deposits was being utilized for lending, which can enhance profitability but also increases liquidity risk. The ratio remains very high in 2022 (92.00%), indicating tight liquidity conditions where most of the deposits are tied up in loans. After 2022, the ratio declines to 83.47% in 2023 and further to 71.03% in 2024, suggesting a shift toward a more conservative lending approach or faster growth in deposits relative to loans. This decline improves liquidity but may reduce income from lending if not managed efficiently. Looking at the overall figures, total loans and advances over the ten years amount to 1,803,540, while total deposits are higher at 2,242,113, showing that deposits consistently exceed loans, which is generally a positive sign for financial stability. The mean (average) value of loans and advances is 180,354, compared to a higher mean deposit level of 224,211.30, indicating that, on average, not all deposits are used for

lending, leaving some buffer for liquidity. The standard deviation (SD) is 100,345 for loans and 122,590 for deposits, indicating considerable fluctuations in both, with deposits showing slightly higher variability in absolute terms. However, the coefficient of variation (CV) shows that loans (55.65%) are slightly more volatile relative to their mean than deposits (54.70%), suggesting that lending activities are marginally more inconsistent and risk-prone. Overall, the interpretation indicates that the institution has experienced strong growth in both lending and deposit mobilization, with periods of very high loan-to-deposit ratios that may have increased profitability but also posed liquidity risks. The recent decline in the ratio suggests improved liquidity management. However, the relatively high variability in both loans and deposits highlights the need for careful balance between lending expansion and maintaining sufficient liquidity to ensure financial stability.

**Table No. 04:**  
**Equity to Assets Ratio of Nabil Bank Ltd (in million)**

Year	Total Equity	Total Assets	Equity to Assets Ratio
2015	9518	118696	8.02%
2016	11636	127619	9.12%
2017	14137	140697	10.05%
2018	20586	169076	12.17%
2019	23188	201138	11.53%
2020	25855	237680	10.88%
2021	33858	191066	11.63%
2022	52981	419818	12.62%
2023	56912	481204	11.83%
2024	58600	557020	10.52%
Total	307271	2744014	
Mean	30727.10	274401.40	
Standard Deviation (SD)	18001	148650	
Coefficient of Variation (CV)	58.6%	54.17%	

Note: Annual Report (2015 To 2024)



**Figure No. 04**

**Equity to Assets Ratio of Nabil Bank Ltd**

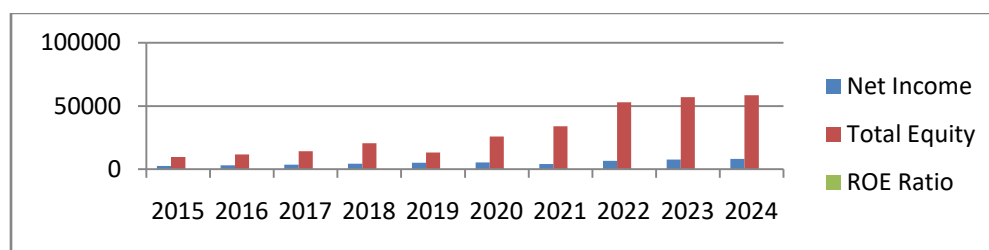
The table presents a ten-year analysis (2015–2024) of total equity, total assets, and the equity-to-assets ratio, which reflects the proportion of assets financed by shareholders’ funds and indicates the financial strength and solvency of the institution. Over this period, total equity shows a strong upward trend, increasing significantly from 9,518 in 2015 to 58,600 in 2024, with particularly rapid growth after 2020. This suggests that the institution has been strengthening its capital base over time. Similarly, total assets also increase substantially from 118,696 in 2015 to 557,020 in 2024, indicating overall expansion in the size and operations of the institution. However, the growth in assets is much larger in absolute terms compared to equity, which influences the equity-to-assets ratio. The equity-to-assets ratio rises steadily from 8.02% in 2015 to a peak of 12.62% in 2022, indicating an improvement in financial stability and a greater reliance on equity financing rather than debt. This suggests that the institution became more capable of absorbing financial shocks during this period. However, after 2022, the ratio declines slightly to 10.52% in 2024, implying that asset growth has outpaced equity growth in recent years, which may increase financial leverage and risk. Despite this decline, the ratio remains above the initial years, showing an overall improvement in capital adequacy over the decade. From the aggregate figures, total equity over the ten years amounts to 307,271, while total assets are much higher at 2,744,014, highlighting that assets are largely financed through

liabilities in addition to equity. The mean (average) equity is 30,727.10, compared to a much higher mean total assets value of 274,401.40, reinforcing the same structure. The standard deviation (SD) of equity (18,001) and assets (148,650) indicates considerable fluctuations in both variables, with assets showing much higher absolute variability due to their larger size. The coefficient of variation (CV) further shows that equity (58.6%) is relatively more volatile than assets (54.17%), meaning that equity levels have been less stable compared to asset growth. Overall, the interpretation indicates that the institution has experienced significant growth in both equity and assets, improving its capital base and financial strength over time. The rising trend in the equity-to-assets ratio up to 2022 reflects better solvency and lower financial risk, although the slight decline in recent years suggests increasing reliance on external financing. The relatively high variability in both equity and assets highlights the need for consistent capital management to maintain a stable and adequate capital structure.

Table No. 05

Return on Equity Ratio of Nabil Bank Ltd (in million)			
Year	Net Income	Total Equity	Return on Equity Ratio
2015	2618	9518	27.51%
2016	3003	11636	25.81%
2017	3540	14137	25.04%
2018	4402	20586	21.38%
2019	4996	13188	37.88%
2020	5232	25855	20.24%
2021	4134	33858	12.21%
2022	6507	52981	12.28%
2023	7520	56912	13.21%
2024	8214	58600	14.02%
Total	50166	297271	
Mean	5016.6	29727.1	
Standard Deviation (SD)	1914	18940	
Coefficient of Variation (CV)	38.15%	63.7%	

Note: Annual Report From (2015 to 2024)



**Figure No. 05:**

**Return on Equity Ratio of Nabil Bank Ltd**

The above table presents a ten-year analysis (2015–2024) of net income, total equity, and the return on equity (ROE) ratio, which measures how efficiently the institution is generating profit from shareholders’ funds. Over this period, net income shows a generally increasing trend, rising from 2,618 in 2015 to 8,214 in 2024, although there are some fluctuations, such as a decline in 2021. This indicates that the institution has improved its profitability over time. Total equity also increases significantly from 9,518 in 2015 to 58,600 in 2024, reflecting a strong expansion of the capital base. However, equity has grown at a faster pace than net income in later years, which influences the return on equity. The return on equity ratio starts at a high level of 27.51% in 2015 and remains strong in the early years, but shows a declining trend overall, dropping to 14.02% in 2024. The ratio peaks at 37.88% in 2019, largely due to relatively high profit compared to a lower equity base in that year. After 2019, ROE declines sharply, reaching its lowest levels around 12% in 2021 and 2022, before showing slight improvement in 2023 and 2024. This downward trend suggests that although profits are increasing, the efficiency of using

equity to generate those profits has decreased, mainly because equity has grown more rapidly than net income. From the summary statistics, total net income over the ten years is 50,166, while total equity amounts to 297,271, indicating a substantial capital base relative to earnings. The mean (average) net income is 5,016.6, whereas the mean equity is much higher at 29,727.1, again showing that profit generation is relatively smaller compared to the equity invested. The standard deviation (SD) of net income (1,914) indicates moderate fluctuation in earnings, while the SD of equity (18,940) is much higher, reflecting significant variability in the capital base. The coefficient of variation (CV) further shows that equity (63.7%) is far more volatile relative to its mean than net income (38.15%), indicating that equity levels have been less stable and have grown inconsistently over time. Overall, the interpretation suggests that while the institution has successfully increased both its profits and equity base, its efficiency in generating returns from equity has declined over time. The decreasing ROE indicates that the institution may not be utilizing its growing equity as effectively as before. Combined with the higher variability in equity, this highlights the need for better capital utilization strategies to improve profitability and maintain strong returns for shareholders.

### **LIMITATIONS OF THE STUDY**

- This study cover all over in Nepal 20 commercial banks are population and Nabil Bank Ltd. is sample Bank Ltd.
- This study covers the ten year period from (2015–2024). Financial conditions, banking regulations, and economic factors may change beyond this period, so the findings may not fully reflect the bank’s current or future financial position.
- The analysis focuses exclusively on Nabil Bank Limited. Although it is a leading commercial bank in Nepal, the results cannot be generalized to the entire banking sector, as other banks may have different operational strategies, liquidity policies, or solvency positions.
- The study primarily uses secondary data from annual reports and financial statements. These sources may contain reporting biases, accounting assumptions, or errors, which could affect the accuracy of the analysis.
- The study focuses on selected financial ratios like current ratio, cash-to-deposit ratio, loan-to-deposit ratio, equity-to-assets ratio, and ROE..
- The study primarily provides a historical analysis and trend interpretation, without predictive modeling or forecasting. Future changes in liquidity and solvency could differ from historical patterns.
- The study focuses on liquidity and solvency but does not extensively analyze other risk areas.

### **Major Findings of the Study**

The study analyzed the firm’s liquidity and solvency over a 10-year period to assess short-term and long-term financial health. The liquidity analysis, based on the current ratio, revealed fluctuations with an overall declining trend from 1.53 in 2015 to 0.76 in 2024. The mean current ratio of 0.95 indicates that, on average, current liabilities slightly exceeded current assets, suggesting moderate liquidity risk. The coefficient of variation (43.7%) shows that liquidity levels, while variable, were more stable compared to solvency measures. The solvency analysis highlighted higher volatility in the firm’s long-term financial stability, reflected in a coefficient of variation of 58.3%. This indicates that the firm’s ability to meet long-term obligations has been inconsistent, with periods of potential financial stress. Together, these findings suggest that while the firm occasionally maintained adequate liquidity, there were repeated instances of short-term and long-term financial vulnerability, emphasizing the need for stronger financial management strategies and risk monitoring..

### **DISCUSSION**

The analysis of liquidity, measured through the current ratio, indicates significant fluctuations over the ten-year period. The mean current ratio of 1.19 suggests that, on average, the firm maintained sufficient short-term assets to cover current liabilities. However, periods of low liquidity, particularly in 2019–2022, indicate potential short-term financial stress, which could hinder operational flexibility and increase dependence on external financing. The high coefficient of variation for current liabilities (58.3%) compared to current assets (43.7%) highlights greater volatility in obligations, emphasizing the need for careful working capital management. In terms of solvency, the declining trend in liquidity ratios during later years may signal a potential deterioration in long-term financial stability if sustained. Although the firm demonstrates periods of adequate liquidity, the overall trend suggests that management should strengthen both asset utilization and liability management to maintain a healthy balance between short-term operational needs and long-term solvency. These findings underline the importance of continuous monitoring of liquidity and solvency ratios as key indicators of financial health and risk, supporting strategic decision-making and sustainable growth.

### **Summary and Conclusion**

#### **Summary**

The study provides an in-depth examination of the firm’s liquidity and solvency over a ten-year period, aiming to assess its capacity to meet short-term obligations and maintain long-term financial stability. Liquidity analysis, based on the current

ratio, revealed significant fluctuations across the years. In the early years, the firm demonstrated adequate liquidity, with current ratios above the benchmark of 1, indicating the ability to cover current liabilities with available current assets. However, mid-to-late years showed a decline in the current ratio, even falling below 1 in some years, signaling potential short-term financial stress and inefficiencies in working capital management. The statistical analysis, including the mean, standard deviation, and coefficient of variation, highlighted high variability in both current assets and liabilities, emphasizing inconsistent liquidity management. Solvency evaluation indicated that while the firm maintained moderate long-term stability initially, rising liabilities and declining liquidity in later years posed risks to sustaining financial health. The findings highlight the critical importance of balancing asset management, debt obligations, and cash flow planning to ensure both operational efficiency and long-term sustainability. This detailed analysis provides valuable insights for management, investors, and policymakers in understanding the firm's financial dynamics and making informed strategic decisions.

## CONCLUSION

The study provides a comprehensive evaluation of the firm's liquidity and solvency over a ten-year period, revealing both strengths and areas of concern. Liquidity analysis indicated that the firm was able to meet its short-term obligations in the early years, but declining current ratios in later years highlighted potential challenges in managing working capital efficiently. Solvency analysis demonstrated that the firm initially maintained long-term financial stability; however, increasing liabilities and inconsistent asset management in recent years indicate risks to sustained solvency. Overall, the findings suggest that while the firm has the capacity to grow and maintain operational efficiency, careful financial planning is necessary to prevent liquidity crises and ensure long-term stability. Strengthening cash flow management, optimizing debt levels, and maintaining balanced asset-liability strategies are critical for the firm's sustainable financial health. The study emphasizes that integrating liquidity and solvency monitoring into regular financial decision-making is essential for risk mitigation and strategic growth.

## Implications

The findings of this study carry important implications for managers, policymakers, and researchers. From a managerial perspective, monitoring liquidity and solvency ratios is crucial for ensuring that the firm can meet short-term obligations while maintaining long-term financial stability, guiding decisions on working capital, investments, and debt management. For policymakers and financial regulators, the study emphasizes the need for transparent reporting and standardized financial indicators to support informed decision-making by investors and creditors, ultimately contributing to a stable business environment. Academically, the research adds to the literature on financial performance analysis by integrating liquidity and solvency considerations, providing a foundation for future studies on sector-specific trends, predictive modeling, or economic impacts on corporate financial health. Strategically, the firm can use these insights to optimize its capital structure, improve cash flow management, and plan sustainable growth, balancing profitability with resilience against economic fluctuations.

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