IMPACT OF LIQUIDITY ON PROFITABILITY OF COMMERCIAL BANKS IN NEPAL

A Thesis

Submitted

By

Sunil Prakash Chaudhary

Central Department of Management

Roll. No: 604/015

Registration No: 7-2-503-110-2010

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RECOMMENDATION LETTER

It is certified that thesis entitled **IMPACT OFLIQUIDITY ON PROFITABILITY OF COMMERCIAL BANKS IN NEPAL** submitted by **Sunil Prakash Chaudhary** is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

______________________.

Asso. Prof. Ajaya Prasad Dhakal

Thesis Supervisor

Central Department of Management

Tribhuvan University, Kathmandu, Nepal

Date: February, 2020

APPROVAL-SHEET

We, the undersigned, have examined the thesis entitled **IMPACT OFLIQUIDITY ON PROFITABILITY OF COMMERCIAL BANK IN NEPAL** presented by **SUNIL PRAKASH CHAUDHARY,** a candidate for the degree of **Master of Business Studies (MBS)** and conduced the viva voce examination of the candidate. We here by certify that the thesis is worthy of acceptance.

_____________________.
Asso. Prof. Ajaya Prasad Dhakal
Thesis Supervisor

_____________________.
Internal Examiner

_____________________.
External Examiner

_____________________.
Prof. Dr. Sanjay Kumar Shrestha
Chairman, Research Committee

_____________________.
Prof. Dr. Ramji Gautam
Head of the Department

Date:Feb., 2020

CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree or has it been submitted as part of requirement for a degree except as fully acknowledge within the text.

I also certify that the thesis has been written by me. And it is under received in my research of my supervisor **Asso. Prof. Ajaya Prasad Dhakal** that have received in my research work and the preparation of the thesis which has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

Sunil Prakash Chaudhary

Date:February, 2020

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Sunil Prakash Chaudhary

Central Department of Management

Tribhuvan University

ABSTRACT

The study was to examine the liquidity and its impacts on profitability in the context of Nepalese commercial banks. Change in return on equity and return on assetswas the dependent variable while the current ratio, cash and bank balance to total deposit ratio, current deposit to total deposit ratio and cash reserve ratio were chosen as independent variables. The research design was based on descriptive and analytical and sampled were collected by using convenience sampling method.

The data were collected from the annual reports of selected commercial banks, report of Nepal Rastra Bank and other official and unofficial publications. Data were analyzed by using appropriate financial and statistical tools and the descriptive research design was used. The multiple regression models were used to test the liquidity and its impacts on profitability.

The findings from this study indicate that there was positive relationship between the CDTDR with ROA & ROE .The relationship between ROA and ROE with CR, CBTDR, and CDTDR & CRR of commercial banks is positive but not significant. The study found that CR, CBTDR, CDTDR &CRR explain only 18% on determining the return on assets of banks and around 82% is unexplained. Similarly,the study found that CR, CBTDR, CDTDR &CRR explain only 37% on determining the return on equity of banks and around 63% is unexplained.The study recommends that other studies is to be done to identify other factors which may explain the remaining percent roles on determining the profitability of commercial banks. The result could not be generalized at this moment due to small sample size and there is a need for extensive research on this issue in Nepal.

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LIST OF ABBREVIATION

a	:	Constant Number
b	:	Regression Co-efficient
C.R.	:	Current Ratio
C.V.	:	Co-efficient of Variation
CBTDR	:	Cash and Bank Balance to Total Deposit Ratio
CDTDR	:	Current Deposit to Total Deposit Ratio
CRR	:	Cash Reserve Ratio
d. f.	:	Degree of Freedom
e.g.	:	For example
Ed.	:	Edition
F/Y	:	Fiscal Year
i.e.	:	That is
JBL	:	Janta Bank Limitd
n	:	Number of Items
NBL	:	Nabil Bank Limited
NIBL	:	Nepal Investment Bank Limited
NICA	:	Nic Asia Bank Limited
No.	:	Number
RBB	:	Rastriya Banijya Bank Limited
Re.	:	Rupee
Rs.	:	Rupees
S.D.	:	Standard Deviation
S.N.	:	Serial Number
Vol.	:	Volume
www	:	World Wide Web