IMPACTOFLIQUIDITYONPROFITABILITYOFCOMMERCIALBANKSINNEPAL

A Thesis

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Campus Roll No.: 238/069

T.U. Regd. No.: 7-2-522-5-2008

Exam Symbol No.: 393197

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirement for the Degree of

Master of Business Studies (MBS)

Kathmandu, Nepal

June, 2024

RECOMMENDATION

This is to certify that the thesis

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IMPACTOFLIQUIDITYONPROFITABILITYOFCOMMERCIALBANKSINNEPAL

has been prepared as approved by this Department in the prescribed format of Faculty of Management. It is forwarded for examination and acceptance

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"Impact of liquidity on profitability of commercial banks in Nepal"** (With Special Reference to Nepal SBI Bank Ltd., Himalayan Bank Ltd &, Global IME Bank ltd.)submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work conducted in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (M.B.S) under the supervision of respected supervisors **Asso.Prof. Suman Kamal Parajuli** of Shanker Dev Campus, T.U.

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ACKNOWLEDGEMENTS

Thedissertationentitled

IMPACTOFLIQUIDITYONPROFITABILITYOFCOMMERCIAL BANKS IN NEPAL has been prepared in partialfulfilmentfor the degreeofmasterofbusinessstudied (MBS)underthe Faculty ofManagement, TribhuvanUniversity,inbasedonresearchmodelsinvolvingthequantitativeaspectofbank profitabilityanalysis.

I have great satisfaction and pleasure to express my appreciation and sincerity to mydissertation supervisor Mr. Suman Kamal Parajuliand Campus ChiefAsso. Prof. Krishna Prasad Acharyaof Shanker Dev Campus TU for his excellentand effectiveguidanceandsupervision.Iwillremainthankfulfortheirvaluabledirectionuseful suggestion and comments during the course of preparing this dissertation withouthishelpthisworkwouldnothavecomeinthisform.

Furthermore, I am thankful to all the administrative and library team of Shanker Dev Campus. I would also like to express my thankfulness to my friends, my family membersas well as all known people who supported as well as inspired me directly or indirectly tocompletethisDissertation.

Deepa Acharya

TABLEOFCONTENTS

LISTOFTABLES

LISTOFFIGURES

ABBREVIATIONS

AD	:	AnnoDomini
ATM	:	AutomatedTailorMachine
BAFIA	:	BankingandFinancialInstitutionAct
BOD	:	BoardofDirectors
BS	:	BikramSambat
CAR	:	Capital AdequacyRatio
CB	:	CommercialBanks
C.V	:	CoefficientsofVariation
DA	:	DebttoAssetsRatio
DE	:	DebttoEquityRatio
DPR	:	DividendPayoutRatio
EPS	:	EarningPerShare
e.g.	:	Example
etc.	:	Etcetera
F/Y	:	FiscalYear
GDP	:	GrossDomesticProduct
i.e.	:	Thatis
LIQ	:	LiquidityRatio
Ltd	:	Limited
MBS	:	MasterinBusinessStudies
NABIL	:	Nabil Bank Limited
NI	:	NetIncome
NIM	:	NetInterestMargin

NPA	:	No-PerformingAssets
NPL	:	Non-PreformingLoan
NRB	:	NepalRastraBank
ROA	:	ReturnonAssets
RBBL	:	Rastriya Banijya Bank Limited
ROE	:	ReturnonEquity
Rs	:	Rupees
SD	:	StandardDeviation
TA	:	TotalAssets
TU	:	TribhuvanUniversity

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Liquidity and profitability are of tremendous importance in the corporate world. Liquidity pertains to the management of a company's current assets and current liabilities. It is crucial because it determines whether a firm can effectively meet its short-term obligations. Given its critical importance, firms must maintain a reasonable amount of their assets in cash to cover these short-term liabilities. A balanced level of liquidity is necessary for the effectiveness and profitability of a firm. Therefore, companies need to determine the optimal level of liquidity to ensure high profitability. Liquidity should be neither too low nor too high; rather, it should be maintained at a reasonable level.

Profitability, on the other hand, refers to the revenues earned by firms from their operations and the expenses incurred. To assess a firm's profitability, profitability ratios are used, which clearly show where the firm stands in terms of profitability. Enhancing profitability is the ultimate goal of every firm, and each strives to achieve optimal profitability. Since there is a significant relationship between liquidity and profitability, a firm must maintain an optimal level of liquidity.

In today’s developing and competitive world, the banking sector has emerged as a key player. It contributes significantly to creating employment and improving the financial sector of the country. With the growing trend, it has become a challenge for the sector to maximize profitability. It is necessary for firms to make dynamic decisions to effectively manage their assets. Given this challenge, it is essential to conduct research-based studies to investigate and recommend solutions that would help companies improve their profitability.

To this end, we are conducting research with a specific focus on Habib Bank Limited (HBL), the largest commercial bank in Pakistan. Conducting research on this corporate giant allows us to deduce valuable insights and generate authentic results that can be

applied to other commercial banks in Pakistan. HBL has the largest number of employees, and maintaining an optimal level of liquidity to ensure high profitability requires high-level analysis. Additionally, the bank's data is readily available as it consistently publishes its annual reports, making it a practical and effective choice for our research.

By analyzing HBL, we aim to draw conclusions that will be beneficial not only for HBL but also for other banks in Pakistan. The findings from this research will provide recommendations on how to balance liquidity and profitability, thereby helping firms in the banking sector to achieve sustainable growth and financial stability.

In recent years, the impact of liquidity on profitability has become a highly controversial topic, particularly in the banking sector, but also in other sectors more generally. Numerous studies have been conducted by various authors to examine this influence. According to Acter and Mahmud (2014), liquidity and profitability are two crucial issues in organizational management that continually evaluate a company's financial health. These aspects are vital decision-making areas for any financial institution.

Jeevarajasingam (2014) posits that shareholder returns, risk, and customer satisfaction can be significantly influenced by liquidity and profitability decisions, which are essential managerial considerations. Banks, in their quest to attract more customers, strive to increase their profits and thus become more profitable.

Moreover, Kaur and Skilky (2013) demonstrate that a company's overall efficiency and performance can be reflected through profitability ratios. Simultaneously, a company needs liquidity to sustain its business operations. While profitability is crucial for financial institutions, liquidity is equally important in making sound financial decisions. Don (2009, cited in Ahmad 2016) argues that for a company's survival, greater emphasis should be placed on liquidity than on profitability. Similarly, Arena (2008, cited in Acter and Mahmud 2014) observes that liquidity issues can be a driving factor behind bank failures. Some financial institutions may prioritize higher profits by maintaining minimal cash reserves, thereby neglecting their liquidity positions.

According to Shafana (2015), a firm's liquidity position is stronger when it maintains a large proportion of current assets, though this approach can also reduce overall profitability. Determining the optimal level of liquidity remains unclear for many banks and financial institutions. Kaur and Skilky (2013) assert that the unique nature of each firm dictates its liquidity requirements. They also claim that no universal rule can determine the optimal liquidity level that guarantees a positive influence on profitability.

Dahiyat (2016) suggests that liquidity ratios are essential tools for calculating an entity's liquidity position, as they are crucial in assessing the short-term financial health of an entity. It is evident that banks need to balance liquidity and profitability to maintain a safe position, especially when investing in current assets. Achieving this balance is critical for ensuring both financial stability and operational efficiency.

The debate on the impact of liquidity on firm profitability and performance has been ongoing in the field of corporate finance. Effective liquidity management is crucial for every firm to meet its payment obligations, including short-term operating and financial expenses, which, if unmet, could lead to future debt. Bhunia (2013) pointed out that there are several ratios to measure liquidity, indicating a firm's propensity to make timely payments. Delays in these payments can lead to significant obstacles in meeting financial obligations (Muhammad, Jan, & Ullah, 2012).

Extensive research has been conducted to examine the impact of liquidity ratios, yielding mixed results across different sectors and countries. Prior studies have explored the association between liquidity and firm performance by employing various ratios such as Return on Assets (ROA) and Return on Equity (ROE). According to Bhunia (2013), while ROA emphasizes liquidity, ROE does not. Profitability, on the other hand, is a key metric used to measure a firm's financial position (Barakat, 2014).

The relationship between performance and liquidity was analyzed by Wang (2002), whose findings confirmed that effective liquidity management enhances a firm's operational performance and overall worth. Literature shows that results vary when comparing small and large firms. Ibhagui and Olokoyo (2018) stated that leverage has a significant negative effect on performance in small firms, but this negative impact diminishes as firms grow larger.

Hubbard and Bromiley's (1994) survey found that sales growth is the most common objective mentioned by managers. According to R. Kaplan and Norton (1993; 1996), firms should have diverse goals, including sales growth, to meet their financial obligations. Given the importance of sales growth and firm size in evaluating profitability, these factors will also be examined in this study.

In summary, this paper aims to investigate the impact of liquidity ratios on firm performance and profitability, focusing on a comprehensive sample of textile firms in Pakistan over a nine-year period. By doing so, it seeks to provide a deeper understanding of how liquidity management influences financial health and operational success in the textile industry.

Profile of the Organization

NIC Asia Bank Limited

NIC Asia Bank Limited has emerged as a prominent cornerstone in Nepal's banking landscape, leveraging a rich heritage and steadfast dedication to delivering top-tier financial services to individuals, businesses, and communities alike. Originally established in 1998 as Nepal Industrial and Commercial Bank Limited, the institution has undergone significant evolution and expansion over the years. In 2013, it rebranded itself as NIC Asia Bank, symbolizing its widened scope and unyielding commitment to serving a diverse clientele.

NIC Asia Bank articulates its vision and mission statements to convey its enduring objectives and pledge to provide comprehensive banking solutions tailored to evolving customer needs. The bank offers an extensive array of banking services spanning retail, corporate, and international domains. This diverse portfolio includes deposit accounts, loans, trade finance, remittance services, and other financial products designed to address the varied needs of its clientele. With an extensive network of branches and ATMs strategically positioned across Nepal, NIC Asia Bank ensures widespread accessibility to its services, facilitating convenient banking access for customers nationwide. This expansive network underscores the bank's commitment to reaching a broad audience, making financial services accessible to urban and rural areas alike.

NIC Asia Bank underscores its dedication to embracing technological advancements within its operations. The bank offers online banking services, mobile applications, and digital channels aimed at enhancing customer convenience and operational efficiency. These technological initiatives reflect the bank's commitment to modernizing its services and staying competitive in an increasingly digital world.

NIC Asia Bank's financial performance is influenced by market dynamics, regulatory requirements, and economic factors. Consequently, its financial reports are subject to close scrutiny from investors and stakeholders seeking insights into its overall health and performance. This scrutiny ensures transparency and accountability, fostering trust among its stakeholders.

NIC Asia Bank also actively engages in corporate social responsibility (CSR) initiatives, contributing to education, healthcare, environmental sustainability, and community development projects. This commitment to CSR underscores the bank's broader role in advancing societal welfare and fostering the sustainable development of Nepal. Through these initiatives, NIC Asia Bank demonstrates its dedication to making a positive impact beyond the financial sector, aligning its operations with the broader goals of social and economic progress.

INIC Asia Bank Limited stands as a dynamic and evolving institution, committed to providing exceptional financial services while contributing to the overall well-being of the communities it serves. Its strategic focus on accessibility, technological advancement, and social responsibility positions it as a leader in Nepal's banking industry.

Nabil Bank Ltd

Nabil Bank Ltd stands as a prominent cornerstone within Nepal's commercial banking sector, distinguishing itself with an all-Nepalese professional management team and public ownership. Since its inception on June 21, 2007, the bank has rapidly expanded its footprint, operating 47 branches nationwide and offering innovative Branchless Banking services to its clientele. The bank's rapid growth and expansion reflect its commitment to providing accessible banking services across Nepal. By operating numerous branches and embracing branchless banking, Nabil Bank Ltd ensures that even remote areas have

access to essential financial services, thus promoting financial inclusion and literacy throughout the country.

Demonstrating a steadfast commitment to the nation's growth and development, Nabil Bank Ltd has showcased its dedication through strategic acquisitions. Notably, the bank acquired Nepal Housing & Merchant Finance Ltd. and Peoples Finance Ltd., securing approval from the Nepal Rastra Bank (NRB) on December 26, 2071 BS, and subsequently commencing joint operations on May 8, 2015. These strategic acquisitions have not only expanded the bank's operational capacity but have also strengthened its financial base, allowing for a more comprehensive range of services to a broader customer base. Amidst the dynamic landscape of Nepal's financial sector, Nabil Bank Ltd has emerged as a pivotal force, contributing significantly to the country's economic progress. The bank's contributions are evident in its robust support for various economic activities, including financing small and medium enterprises (SMEs), large-scale industries, and infrastructural projects, thereby playing a crucial role in the economic development of Nepal.

With a visionary outlook, the bank aspires to lead the industry, renowned for its exceptional service excellence. Nabil Bank Ltd is dedicated to fostering innovation and continuously enhancing its service offerings to meet and exceed customer expectations. This commitment is reflected in the bank's focus on personalized services, tailored to address the unique financial needs of each customer. the bank's emphasis on innovation has led to the introduction of various digital banking solutions, aimed at providing convenient and efficient banking experiences. These solutions include mobile banking, internet banking, and other digital platforms, enabling customers to conduct their banking transactions with ease and security.

Nabil Bank Ltd stands as a dynamic and evolving institution, committed to delivering exceptional financial services while contributing to the economic advancement of Nepal. Its strategic focus on expansion, innovation, and customer satisfaction positions it as a leader in Nepal's banking industry, dedicated to supporting the nation's development through comprehensive and accessible financial solutions.

Rastriya Banijya Bank Limited

Established on January 23, 1966, under the Rastriya Banijya Bank Act, 2022, Rastriya Banijya Bank Limited (RBBL) stands as a cornerstone of Nepal's banking landscape, serving as a vital pillar of the country's banking system. Following the merger of Banijya Bank and Nidhi Bank, RBBL was formed with a primary mission to address the banking needs of the public and contribute significantly to the nation's economic development.

As a government-owned entity, RBBL operates under the auspices of the Government of Nepal, with the majority of its stake held by the government. Leveraging its extensive branch network, RBBL extends its reach across both rural and urban areas, striving to promote financial inclusion and accessibility throughout the nation.

RBBL offers an extensive array of banking products and services meticulously tailored to cater to the diverse financial needs of individuals, businesses, and institutions. From basic savings accounts and fixed deposits to comprehensive loan facilities and efficient remittance services, RBBL remains dedicated to serving a broad spectrum of customers.

Embracing technological advancements, RBBL has embraced modern banking solutions and digital channels to enhance operational efficiency and elevate customer service standards. With internet banking, mobile banking, and a network of ATMs, RBBL ensures seamless and convenient banking experiences for its clientele.

Moreover, RBBL actively engages in corporate social responsibility initiatives aimed at fostering social and economic welfare within the communities it serves. Through various programs such as educational scholarships, healthcare initiatives, environmental conservation efforts, and disaster relief activities, RBBL demonstrates its unwavering commitment to giving back to society.

Maintaining a robust financial position, RBBL consistently delivers positive financial performance, a testament to its prudent management practices and steadfast adherence to regulatory standards. As a trusted and reliable financial institution, RBBL continues to play an indispensable role in propelling economic growth and development across Nepal.

1.2 Statement of the Problems

Ensuring sufficient liquidity is paramount for banks to sustain their operations and fulfill financial obligations promptly, as a shortfall in liquidity can signal underlying financial distress, posing a significant threat to a bank's viability in Nepal's competitive commercial banking sector (Rose, 1999). Therefore, maintaining a robust liquidity position is imperative for the survival and prosperity of banks in the Nepalese market. Various factors, including liquidity levels, political stability, and regulatory policies established by the Nepal Rastra Bank (NRB), can directly impact a bank's profitability. Hence, comprehending the interplay between liquidity and profitability is essential for banks to effectively navigate challenges and ensure sustained financial performance that aligns with investor expectations. Despite the critical nature of these issues, there remains a scarcity of comprehensive studies examining the profitability and liquidity positions of commercial banks in Nepal. Both researchers and practitioners within the banking sector are keenly interested in gaining insights into these aspects to inform their decision-making processes and strategic planning efforts. To advance the understanding of the banking sector in Nepal, the following research questions have been formulated:

i. What is the current status of key financial metrics such as Net Interest Margin, current ratio, Earnings Per Share, and overall profitability among commercial banks in Nepal?

ii. Are there discernible effects attributable to variations in Net Interest Margin, current ratio, Earnings Per Share, and profitability within banks operating in Nepal?

iii. What is the inherent nature of the relationship between profitability and the liquidity position of the sample banks, and what impact does liquidity have on profitability?

1.3 Objectives of the Study

Given the pivotal role commercial banks play across various sectors of Nepal's economy, including trade, industry, commerce, agriculture, and tourism, it is crucial to conduct

periodic studies and evaluations of this sector to ensure its continued growth and positive impact. Therefore, the primary objectives of this study are outlined as follows:

i. To assess the present status of vital financial indicators, including Net Interest Margin, current ratio, Earnings Per Share, and overall profitability, across sampled commercial banks operating in Nepal.

ii. To analysis the relationship influences and Net Interest Margin, current ratio, Earnings Per Share, and overall profitability on the financial performance of commercial banks in Nepal.

iii. To examine the intricate dynamics between profitability and liquidity, investigating how shifts in liquidity levels might impact the profitability of commercial banks in Nepal.

1.4 Rationale of the Study

Rationale behind lies in the necessity to explore the factors that influence profitability within Nepal's commercial banking sector and their implications for overall performance. Understanding the intricate relationship between financial performance and stakeholder interests is crucial, as it provides valuable insights for various stakeholders.

Trade creditors, for instance, can benefit from a deeper comprehension of bank liquidity, aiding them in assessing credit risk and making informed decisions about extending credit. Likewise, bondholders can gain insights into cash flow capacity, enabling them to evaluate risk levels and make prudent investment choices.

Investors, armed with comprehensive information about current and projected earnings stability, can make more informed decisions regarding their investment portfolios, thereby contributing to market efficiency and stability.

Moreover, the management teams of the studied banks can utilize the research findings to evaluate their organizational capabilities and assess the consequences of past managerial and financial decisions. This insight enables them to engage in more strategic planning and execution, thereby enhancing operational efficiency and effectiveness.

The study's focus on specific banks, such as NIC Asia Bank Ltd., Rastriya Banijya Bank Ltd., and Citizen International Bank Ltd., highlights their unique characteristics and significant contributions to Nepal's banking landscape. By examining their profitability and broader financial dynamics, the study aims to unravel nuanced insights into their strategic positioning and performance within the larger economic context.

Profitability analysis of these banks, the research endeavors to shed light on their financial performance and strategic positioning, offering actionable insights that can inform strategic decision-making and drive sustainable growth within Nepal's banking sector.

1.5 Limitations of the Study

Profitability dynamics of selected commercial banks within specified parameters, it is essential to acknowledge and consider several limitations that may impact the interpretation of findings and conclusions drawn from the analysis:

i. The scope of the profitability analysis is restricted to three commercial banks, namely NIC Asia Bank Limited, Citizen Bank Limited, and Rastriya Banijya Bank Limited. While these banks are significant players in Nepal's banking sector, the findings may not fully represent the broader landscape of commercial banking in the country.

ii. The study relies solely on secondary data sourced from various sources, potentially limiting the depth and accuracy of the analysis. Variations in the availability and quality of secondary data may impact the robustness of the conclusions drawn.

iii. The analysis covers a span of ten years, from 2075/76 to 2079/80. However, due to constraints, the results and conclusions primarily stem from a five-year subset of this data. This truncated timeframe may not offer a comprehensive understanding of long-term trends and patterns.

iv. The data utilized in the study are presented in rounded figures, introducing a degree of imprecision into the analysis. While rounding facilitates simplicity and ease of interpretation, it may obscure finer nuances present in the data.

v. The study may be limited by the tools employed to measure profitability. While efforts have been made to utilize relevant metrics, the analysis may not encompass all dimensions of profitability, potentially overlooking crucial aspects of financial performance.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

Serves as a fundamental component of any study, offering a critical analysis of existing knowledge by summarizing, classifying, and comparing prior research studies and theoretical articles (Creswell, 2014). It involves engaging with previous studies and literature to gain a comprehensive understanding of the research issue and identify appropriate methodologies (Adhikari & Pandey, 2018). This chapter is dedicated to reviewing the literature available in various sources, including books, journals, articles, research papers, newspapers, magazines, and policy documents, both published and unpublished. It encompasses conceptual, theoretical, policy, and empirical reviews, aiming to identify research gaps and contribute to the existing body of knowledge.

2.2 Theoretical Review

Profitability encompasses both the absolute income earned by an organization and its ability to generate profit, reflecting relative efficiency and operational performance (Kumar & Kumar, 2010). Profitability analysis serves as a crucial tool for evaluating capital productivity and operational efficiency, facilitating comparisons across organizational contexts.

In addition to profit, liquidity management plays a vital role in the survival and success of a business organization. Adequate liquidity, along with profitability, ensures smooth operations and facilitates economic development (Samuel, 2015). Effective liquidity management contributes to operational efficiency, profit generation, and overall business stability.

In the banking sector, profitability is essential for banks to generate revenue exceeding costs relative to their capital base. A sound and profitable banking sector is crucial for financial system stability and resilience against adverse shocks (Brissimis, Athanasoglou,

and Delis, 2005). Profitability analysis enables stakeholders to identify growth opportunities, market trends, and strategic areas for investment, facilitating informed decision-making.

While profit and profitability are closely related, they serve distinct roles in business. Profit represents total income earned during a specified period, whereas profitability signifies an enterprise's operating efficiency. Effective assessment of bank profitability requires analyzing various financial factors, including liquidity position, deposit levels, lending capacity, and net profit (Weston & Brigham).

In essence, profitability is determined not only by profit levels but also by efficient resource utilization and prudent financial management practices. Both profit and liquidity are indispensable components of organizational success, contributing to sustained growth and economic prosperity.

The Bafia Act of 2017 aims to amend and consolidate existing laws related to banks and financial institutions in order to enhance public confidence in the banking and financial system. Its objectives include protecting and promoting the rights and interests of depositors, providing quality banking services through healthy competition, ensuring financial stability, and regulating the establishment, operation, management, inspection, and supervision of banks and financial institutions. The Act defines a "Liquidator" as a person appointed to carry out the functions of liquidation of a bank or financial institution according to a court order or resolution passed by creditors. The term also encompasses an office performing the duties of a liquidator.

The Portfolio Theory

The Portfolio Theory holds substantial relevance in investment strategy, particularly concerning the construction of diversified portfolios aimed at mitigating financial losses. Diversification, a core principle of this theory, involves spreading investments across various assets to reduce the impact of adverse events on any single asset.

Commercial banks strategically employ portfolio diversification and composition to optimize performance while managing risk effectively (Chen, 2016). Managing portfolio volatility is crucial for enhancing overall performance, as spreading risks across different

types of securities ensures that fluctuations in one asset class do not unduly impact the portfolio's overall value (Congoz et al., 2019).

Frequent portfolio rebalancing is advocated by Modigliani and Miller (1958) to mitigate risk effectively. This suggests that companies keen on minimizing risk should adopt strategies for managing various threats through diversification.

It's essential to acknowledge that investments within a portfolio are subject to value changes due to shifts in the external environment. These fluctuations can influence the overall balance of the asset allocation mix within the portfolio. Hence, regular portfolio rebalancing becomes essential to maintain an optimal portfolio balance capable of withstanding market fluctuations.

In summary, the Portfolio Theory emphasizes the significance of diversification and proactive management in optimizing investment performance while mitigating risk. By strategically allocating resources across different assets and regularly rebalancing portfolios, firms can position themselves more effectively to navigate dynamic market conditions and achieve their financial objectives.

Efficiency Hypothesis Theory

The Efficiency Hypothesis Theory emerged as a response to critiques of the Structure-Conduct-Performance (SCP) hypothesis, offering an alternative viewpoint on the interplay between market structure and firm performance. Unlike SCP, the efficiency hypothesis posits that firm performance is influenced by the level of efficiency within the organization. Companies employing superior management practices or advanced technologies tend to operate more efficiently, resulting in reduced costs and heightened profitability.

Within the efficiency-structure framework, two primary approaches are commonly discussed: the X-efficiency hypothesis and the Scale efficiency hypothesis. The X-efficiency hypothesis suggests that more efficient firms, characterized by lower costs, also tend to be more profitable. These efficient entities may capture larger market shares, potentially leading to increased market concentration. However, the relationship between market concentration and profitability is not linear under this approach.

Conversely, the Scale efficiency hypothesis underscores the significance of economies of scale in bolstering profitability. Larger firms, by virtue of their size, can exploit economies of scale, resulting in decreased unit costs and augmented profits. As these larger entities expand their market presence, market concentration may rise, further amplifying their profitability.

The Efficiency Hypothesis highlights the pivotal role of firm efficiency in shaping profitability within market structures. Whether through cost efficiencies or economies of scale, efficient firms are better positioned to attain heightened profitability levels, potentially fostering increased market concentration over time. This underscores the indispensable role of efficiency in molding firm performance within competitive market landscapes.

Liquidity Preference Theory

The Liquidity Preference Theory, initially formulated by Keynes, posits that investors tend to prioritize holding cash over investing in long-term securities due to the perceived lower risk associated with cash holdings. Essentially, investments that offer higher liquidity, meaning they can be readily converted to cash with minimal risk, require higher interest rates to compensate for the opportunity cost of holding less liquid assets.

According to this theory, the demand for money fluctuates in response to changes in interest rates. A decrease in interest rates prompts individuals to hold more money until rates rise again, while an increase in interest rates diminishes the demand for money. The implications of the liquidity preference theory for firms underscore the importance of maintaining an adequate level of liquidity to seize future opportunities that promise higher returns.

Moreover, firms are encouraged to adopt a balanced approach to asset and liability management to meet capital requirements and leverage future investments with potential returns. Effective financial management practices are imperative for firms to monitor and harmonize their assets and liabilities, ensuring optimal liquidity levels while simultaneously maximizing profitability and mitigating risks.

2.3 Empirical Review

Hambali and Rizqi (2024) aims to evaluate the impact of three key financial metrics—Profitability (Return on Equity, ROE), Liquidity (Current Ratio, CR), and Asset Structure—on the Capital Structure (Debt-to-Equity Ratio, DER) of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The study employs a quantitative research approach, utilizing multiple regression statistical analysis to explore the relationships between the variables. The research methodology includes: The population consists of 158 manufacturing companies listed on the IDX. Using purposive sampling, 40 companies were selected for the study. Each company provided data for five reporting years, resulting in a total sample size of 200 observations. These findings suggest that the profitability of investments, the ability to quickly convert assets into cash, and the type of assets held significantly influence a company's decision to finance its operations and investments through debt or equity. This research contributes to the body of knowledge in corporate finance by providing empirical evidence on the determinants of capital structure in the manufacturing sector of Indonesia. It highlights the importance of profitability, liquidity, and asset structure in shaping financing decisions. The study offers a comprehensive understanding of how these factors interact to influence the capital structure of firms listed on the IDX, serving as a reference point for further studies and for developing financial strategies and policies that enhance corporate performance and investor confidence.

Hertina's (2024) research aims to investigate the impact of liquidity, profitability, company growth, and capital structure on the value of consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022. The study utilizes an explanatory research design with a quantitative approach to understand the relationships between the variables. Key aspects of the research methodology include: The study focuses on consumer goods sector companies listed on the IDX over the specified period. Secondary data is collected from the financial statements of the selected companies. The analysis involves both simultaneous and partial examination of the variables using statistical tools. The significance of the relationships is tested using t-tests. The study highlights the statistical significance of the findings through t-tests. For instance, the t-

value for Capital Structure is -1.068, which is less than the critical t-value, and the significance level is 0.289, which is above 0.05. This statistical evidence leads to the rejection of the hypothesis that capital structure affects company value. The findings suggest that management in the consumer goods sector should focus on improving profitability to enhance company value. Maintaining an optimal level of liquidity is also crucial, as excessive liquidity can negatively impact perceived value. Hertina's research provides valuable insights into the determinants of company value in the consumer goods sector on the IDX. By analyzing the distinct impacts of liquidity, profitability, company growth, and capital structure, the study offers a comprehensive understanding of how these factors interplay to influence market valuation, thereby contributing to both academic literature and practical financial management.

Nguyen et al. (2024) embarked on a groundbreaking study aimed at unraveling the intricate relationship between liquidity, efficiency, and profitability among Vietnam's top 100 listed companies. Through meticulous analysis of audited financial statements, the research employed a sophisticated array of regression models and tests to gauge the impact of liquidity and corporate efficiency on profitability. Notably, the study's innovative approach, which included GLS regression to overcome model defects, revealed a robust, positive correlation between liquidity, company efficiency, and growth rate with profitability. Additionally, the study unearthed a significant negative impact of financial leverage on profitability, marking a pivotal finding for financial management strategies. As the first empirical endeavor of its kind, this research holds substantial implications for comprehending the dynamics of liquidity and corporate efficiency on profitability within the Vietnamese market, offering invaluable insights for stakeholders and guiding future research endeavors.

Ramadani et al. (2024) aimed to investigate the influence of liquidity, profitability, and capital structure on stock prices within the development industry sector listed on the Indonesia Stock Exchange over the period 2016-2021. Employing a quantitative research approach, the researchers focused on a population consisting of 40 development industry companies. the study concluded that liquidity, profitability, and capital structure collectively did not exert a significant influence on stock prices among development

industry companies listed on the Indonesia Stock Exchange from 2016 to 2021. These findings contribute to the understanding of the factors shaping stock prices within the development industry sector in the Indonesian market. While liquidity, profitability, and capital structure are important financial metrics, their impact on stock prices in this specific context appears to be negligible during the period under study.

Rizky and Ratnawati (2024) sought to investigate the influence of profitability, liquidity, and company size on the timeliness of financial reporting among energy sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. Employing a quantitative approach, the researchers utilized secondary data extracted from the annual financial reports of energy sector firms listed on the IDX during the specified period. The study encompassed the entire population of energy sector companies listed on the IDX between 2019 and 2022. To select the sample, purposive sampling was employed, resulting in a sample size of 18 companies. Data analysis was conducted using logistic regression, with a significance level set at 5%, and the statistical software SPSS version 29 was utilized for analysis. The findings of the study revealed that profitability and company size did not exhibit a significant effect on the timeliness of corporate financial reporting. This conclusion was drawn from the hypothesis test results, which indicated a significance value greater than 0.05 for both profitability and company size variables. In contrast, liquidity was found to have a significant impact on the timeliness of financial reporting, as evidenced by a significance value below 0.05 in the hypothesis test. These findings offer valuable insights into the factors influencing the timeliness of financial reporting among energy sector companies on the IDX. While profitability and company size were not found to be significant determinants, the role of liquidity in shaping the timeliness of financial reporting emerged as noteworthy. This underscores the importance of maintaining adequate liquidity levels for timely and accurate financial disclosures, thereby enhancing transparency and trust in corporate reporting practices within the energy sector.

Sabila et al. (2024) examines the influence of various financial metrics—namely liquidity, solvency, activity, and profitability—on the value of companies, with a particular focus on the pharmaceuticals and food & beverages sectors listed on the

Indonesia Stock Exchange (IDX) during the period from 2020 to 2022. The primary motivation behind this research is to understand the elements that make companies attractive to investors, as investors typically prefer investing in firms with high value to secure optimal returns. The researchers employed a quantitative approach using secondary data gathered from financial statements published on the IDX and other literature sources. The data collection spanned the specified period from 2020 to 2022. The analytical framework of the study included: The research highlights the importance of focusing on profitability to enhance company value. Companies in the pharmaceuticals and food & beverages sectors can leverage this insight to optimize their financial strategies and operational efficiency to attract more investors. study provides valuable literacy for investors, suggesting that profitability should be a primary consideration when evaluating companies for potential investment. This can aid investors in making more informed decisions and in identifying firms with the best potential for high returns. This research contributes to the existing literature on company valuation by providing empirical evidence from the pharmaceuticals and food & beverages sectors on the IDX. It reinforces the notion that profitability is a key driver of firm value, offering a practical framework for both company management and investors to optimize their strategies. The study's findings can help enhance the understanding of financial dynamics in these sectors and aid in the formulation of better financial policies and investment decisions.

Stevcevska-Srbinoska and Gjelevska (2024) conducted a study to evaluate the relationship between liquidity and profitability within the commercial banking systems of North Macedonia and Serbia. Recognizing the banking industry's critical role in economic expansion as both the keeper and supplier of liquid capital, the study aimed to determine whether variations in liquidity levels impact profitability. Specifically, it measured liquidity through Liquid Assets and the Liquid Assets to Short-term Liabilities Ratio, and profitability through Return on Assets (ROA) and Return on Equity (ROE). The study spanned a ten-year period from 2012 to 2021, encompassing the Coronavirus global health pandemic. This timeframe allowed the researchers to assess changes in liquidity-profitability dynamics during both stable periods and the pandemic. The findings of the study offer a nuanced understanding of the liquidity-profitability

dynamics in the banking sectors of North Macedonia and Serbia.This study is pioneering in its evaluation of the pandemic's impact on liquidity and performance within the commercial banking sectors of North Macedonia and Serbia. By providing empirical insights into how a global health crisis affects banking operations, the research contributes valuable knowledge to the field of banking and financial stability. It reinforces the need for flexible and responsive policy frameworks to maintain bank performance and stability during times of economic uncertainty.

Chhetri (2023) delved into the intricate interplay between liquidity management and profitability in three development banks in Nepal: SDBL, MNBBL, and GBBL. Through meticulous analysis of data spanning several fiscal years, the study employed correlation and regression analyses to dissect the relationship between liquidity management indicators and profitability. The findings underscored the diverse effects of liquidity management indicators on profitability, with notable positive correlations observed between Cash Reserve Ratio (CRR) and Return on Equity (ROE), alongside moderate correlations between Credit Deposit Ratio (CDR), Total Liabilities and Total Assets Ratio (TLTA), and Deposit to Total Assets Ratio (DTA) with ROE. Conversely, Non-Performing Assets (NPA) exhibited a significant negative correlation with ROE. The study's recommendations, emphasizing the optimization of liquidity management and the mitigation of non-performing assets, offer actionable insights for enhancing profitability in development banks in Nepal, highlighting the importance of prudent financial management practices.

Magar (2022) embarked on a study aimed at exploring the influence of liquidity on the profitability of Nepalese commercial banks, covering the period from 2013 to 2021. Drawing upon secondary data extracted from bank supervision reports and annual reports of selected commercial banks, the study meticulously examined the relationship between liquidity variables, such as credit to deposit ratio and asset quality, and profitability indicators, including return on assets and net interest margin. Significantly, the findings revealed a noteworthy negative impact of asset quality (AQ) on return on assets (ROA), juxtaposed with a positive and significant impact of credit to deposit ratio (CD) on net interest margin (NIM). These insights illuminate the intricate dynamics between liquidity

and profitability within the context of Nepalese commercial banks, providing valuable guidance for optimizing financial performance and refining risk management strategies.

Thinh et al. (2022) delve into the crucial interplay between liquidity and profitability within Vietnamese listed banks, recognizing the enduring challenge of striking a balance between growth and stability amidst economic uncertainties. Analyzing data spanning nine years from 2011 to 2019 across 18 Vietnamese commercial banks, the study employs time series analysis with ordinary least squares to scrutinize this relationship. The findings underscore a positive correlation between liquidity and profitability across various metrics, encompassing return on assets, return on equity, and net interest margin. However, the study highlights a contrasting effect on net interest margin, wherein the liquidity ratio of loans to deposits plus short-term borrowings and short-term bills payable demonstrates an adverse impact. To nurture stable and sustainable growth in the banking sector, the study advocates for the implementation of robust liquidity regulations aligned with international standards and emphasizes the importance of proactive financial forecasting to adeptly navigate uncertainties.

Budha's (2021) analysis delves into the intricate interplay between liquidity and profitability in Nepalese commercial banks, with the objective of evaluating their financial health and profitability levels. Employing a descriptive research approach, the study draws upon secondary data from the annual financial statements of five selected banks spanning a five-year period. Through correlation and regression analysis, the study unveils notable associations between liquidity indicators and profitability metrics. Particularly noteworthy is the substantial negative association between the cash reserve ratio (CR) and return on equity (ROE), contrasted with a significant positive correlation with return on assets (ROA) and net profit margin (NPM). Additionally, the study sheds light on the nuanced effects of other liquidity indicators on profitability, such as the credit-to-bank total deposit ratio (CBBTDR). These findings offer valuable insights into optimizing liquidity management strategies to fortify profitability in Nepalese commercial banks.

Moslemany et al. (2021) delve into the intricate relationship between liquidity risk and bank profitability within Egypt's banking sector, encompassing both public and private

banks. Utilizing panel data collected from official sources and annual reports spanning from 2013 to 2019, the study employs pooled regression, fixed effect, and random effect analyses to scrutinize this relationship. The findings unveil a significant association between liquidity risk indicators, such as liquidity asset ratio (LIQR), cash ratio (CASR), and current ratio (CURR), and profitability metrics, including return on assets (ROA), return on equity (ROE), and net interest margin (NIM). However, the study notes that the nature of this relationship varies, exhibiting both positive and negative correlations depending on the specific liquidity indicator and profitability metric under consideration. These findings underscore the importance of robust liquidity risk management practices to safeguard and enhance bank profitability in the Egyptian banking landscape.

Akber & Dev (2020) delved into the intricate relationship between liquidity and commercial bank profitability within the Bangladeshi banking sector. Sampling ten commercial banks listed on the Dhaka Stock Exchange over a seven-year period from 2012 to 2019, the study aimed to provide robust insights into this dynamic. Employing liquidity indicators such as the loan-to-deposit ratio, deposits-to-assets ratio, loan-to-asset ratio, and cash deposit ratio, alongside profitability metrics like return on equity (ROE) and return on assets (ROA), the study scrutinized the impact of liquidity on bank profitability. Contrary to expectations, the findings revealed that liquidity did not exert a statistically significant influence on the profitability of Bangladesh's commercial banks.

Khati's (2020) research aimed to unravel the nexus between liquidity and profitability in Nepalese commercial banks. Drawing data from ten out of 27 commercial banks over a seven-year period from 2013 to 2019, the study utilized secondary data from annual reports and Bank Supervision Reports released by Nepal Rastra Bank. Employing a Hausman test and subsequent fixed effects approach, the study discerned notable relationships between liquidity indicators and profitability metrics. Notably, while asset quality (AQ) exhibited a negative yet significant association with return on assets (ROA), it demonstrated a positive correlation with return on equity (ROE). Additionally, the cash deposit ratio (CADR) showed a positive connection with both ROA and ROE, whereas the credit-deposit ratio (CDR) displayed a favorable albeit insignificant association with ROA and an unfavorable minor link with ROE.

Paul et al. (2020) embarked on an extensive investigation into the impact of banks' liquidity on profitability in the commercial banking sector of Bangladesh. Utilizing a quantitative analysis approach, the study scrutinized a statistical sample of forty commercial banks over a ten-year period from 2009 to 2018. Through correlation and regression analyses, the study assessed the effect of liquidity, represented by variables such as loan-to-deposit ratio (LDR), deposits-to-assets ratio (DAR), credit-to-deposit ratio (CDR), loan-to-asset ratio (LAR), and cash reserve ratio (CR), on profitability measured by return on equity (ROE). The findings underscored the substantial effect of LDR, DAR, and CDR on ROE, highlighting the pivotal role of liquidity in shaping profitability dynamics within Bangladesh's commercial banking sector.

Shrestha & Jha's (2020) exploration delved into liquidity's influence on the profitability of a foreign joint venture commercial bank in Nepal. Through a meticulous examination of 27 Nepalese commercial banks over a five-year period, the study employed correlation and regression analysis alongside various statistical and financial methodologies. Notably, the study revealed that liquidity ratios fell below mandated standards, with the liquidity adjusted deposit ratio (LADR) exerting a significant impact on return on assets (ROA). Additionally, the study unearthed the nuanced impact of various liquidity indicators on profitability metrics across different sample banks, emphasizing the importance of comprehensive liquidity management strategies to enhance overall bank profitability.

Homaidi et al. (2019) conducted an in-depth investigation into the liquidity determinants of Indian listed commercial banks, aiming to illuminate the factors influencing liquidity dynamics within this sector. Drawing from a panel of 37 commercial banks listed on the Bombay Stock Exchange (BSE) over a ten-year period from 2008 to 2017, the study employed both GMM and pooled, fixed, and random effect models to analyze the relationships between bank-specific and macroeconomic determinants and liquidity (LQD). Noteworthy findings emerged, revealing significant positive impacts of bank size, capital adequacy ratio, deposits ratio, operation efficiency ratio, and return on assets ratio on liquidity, while assets quality ratio, assets management ratio, return on equity ratio, and net interest margin ratio exerted significant negative influences. Furthermore,

macroeconomic factors such as interest rates and exchange rates were found to significantly affect liquidity dynamics. The study's recommendations underscored the importance of regulatory benchmarks set by the Reserve Bank of India (RBI) to ensure smooth liquidity operations in commercial banks, emphasizing the need for bankers to prioritize asset quality enhancement for improved performance. Ultimately, the study provided valuable insights for various stakeholders, including bankers, analysts, regulators, investors, and other interested parties, concerning the liquidity dynamics of listed commercial banks in India.

Mishra (2019) delved into the intricate relationship between liquidity and profitability of Nepalese commercial banks, aiming to elucidate the dynamics shaping these crucial financial metrics. Utilizing secondary data sourced from annual reports of Nepalese commercial banks and the Nepal Rastra Bank (NRB) over a decade spanning from 2007/08 to 2017/19, the study employed correlation and regression analyses to unravel the nexus between liquidity and profitability. Notably, the findings highlighted the well-positioned nature of ADBL and NABIL in terms of both profitability and liquidity, offering actionable insights for the financial sector to leverage these findings for strategic decision-making and performance enhancement.

Pokharel & Pokharel (2019) embarked on an investigation into the influence of liquidity on profitability within the context of Nepalese commercial banks, aiming to discern the nuanced relationships between liquidity ratios and profitability metrics. Drawing from a sample of five commercial banks randomly selected from a pool of 28, the study analyzed data spanning from 2010-11 to 2016-17 AD. Noteworthy findings emerged, revealing positive correlations between liquidity ratios such as IGSCA and CRR with return on assets (ROA), while CRR and CBBISD exhibited negative correlations with ROA. The study's observations underscored the considerable association between liquidity ratios and profitability metrics, offering valuable insights for stakeholders within the Nepalese banking sector.

Tharu and Shrestha (2019) aimed to assess the impact of bank size on the profitability of commercial banks in Nepal. Adopting a panel research design, the study sampled eight banks from a total of 28 using simple random sampling. Time series data spanning from

2013AD to 2018AD was analyzed, with data sourced from the Nepal Rastra Bank. Descriptive and inferential statistics served as the primary analytical tools, with data analysis conducted using SPSS Version 20. The findings of the study revealed that profitability, measured by Return on Assets (ROA), was not significantly influenced by the size of the bank, as indicated by its assets. Despite various tests conducted, no substantial relationship was found between bank size and profitability. it's essential to acknowledge the limitations of the study. Notably, the research did not explore factors that could potentially elucidate the existing relationship between bank size and profitability. Identifying these factors could provide deeper insights into the dynamics at play and offer a more comprehensive understanding of the relationship between bank size and profitability. the study's findings hold significant implications for stakeholders in Nepalese commercial banks, including bank officers, shareholders, and policymakers. The information gleaned from this research could inform strategic decisions, particularly regarding mergers and acquisitions, providing valuable insights into the potential impact on bank profitability. Overall, this study contributes to the ongoing discourse surrounding the financial dynamics of commercial banks in Nepal, paving the way for further research and informed decision-making in the banking sector.

Madushanka & Jathurika's (2018) study delved into the intricate relationship between liquidity and profitability within the context of manufacturing companies listed on the Colombo Stock Exchange in Sri Lanka. Over a five-year period from 2012 to 2016, the study employed correlation and regression analyses alongside descriptive statistics to investigate the impact of liquidity ratios on firm profitability. Notably, the findings revealed a significant positive relationship between liquidity ratios, particularly the quick ratio, and firm profitability among listed manufacturing companies in Sri Lanka. These findings underscored the importance of prioritizing liquidity management strategies to enhance profitability and offered actionable recommendations for manufacturing companies to devise tailored strategies for effective liquidity management, thereby optimizing profitability and shareholder wealth.

Subedi (2018) conducted a thorough analysis of the liquidity and profitability of commercial banks in Nepal, aiming to provide comparative insights into these vital

financial metrics. Notable findings from the study included EBL's superior current ratio compared to CBIL, NBL, RBB, and SBL, indicating stronger liquidity positioning. Additionally, the study noted that the cash reserve ratio criterion set by the NRB was successfully met by the average cash reserve ratio of CBIL, EBL, NBL, RBB, and SBL throughout the fiscal year. Moreover, variations in cash and bank balance to current assets ratios were observed among the sample banks, with NBL exhibiting a larger ratio and SBL demonstrating a lower one. Furthermore, the study highlighted RBB's stronger profitability position compared to CBIL, EBL, NBL, and SBL, underscoring the multifaceted dynamics at play within Nepal's commercial banking landscape.

Ibrahim's (2017) study delved into the influence of liquidity on the profitability of Iraqi commercial banks, focusing on five prominent banks operating in Iraq. Over the period spanning 2005 to 2013, the study analyzed the annual reports of North Bank, Iraqi Islamic Bank, Sumer Bank, Dar Es-Salam Bank, and Babylon Bank, utilizing key liquidity ratios such as loan deposit ratio, deposit asset ratio, and cash deposit ratio against return on assets as a measure of profitability. Employing Ordinary Least Squares (OLS) modeling, the study revealed that increases in liquidity ratios were positively associated with enhanced return on assets, emphasizing the importance of maintaining a balanced approach between liquidity and profitability for Iraqi banks.

Malik & Khursheed (2016) embarked on a study to explore the intricate relationship between liquidity and profitability in Pakistan's private sector banks. Analyzing data from twenty-two private sector banks registered under the State Bank of Pakistan over the period from 2009 to 2013, the study utilized Ordinary Least Squares (OLS) techniques to examine the relationship between liquidity measures and return on assets. While the empirical results indicated a statistically significant relationship between bank liquidity measures and return on assets, the relationship became statistically insignificant when return on equity and return on investment were employed as proxies for profitability. The study recommended a reassessment of liquidity management strategies by banks to optimize shareholder equity yields and asset utilization.

Pradhan & Shrestha's (2016) study investigated the impact of liquidity on the performance of Nepalese commercial banks, employing a comprehensive array of

independent variables such as investment ratio, liquidity ratio, capital ratio, and quick ratio against return on equity (ROE) and return on assets (ROA) as dependent variables. Utilizing secondary data from annual reports of banks and supervision reports from the Nepal Rastra Bank, regression models were estimated to assess the significance and effect of bank liquidity on performance. The study revealed positive correlations between capital ratio and ROE, while liquidity ratio and quick ratio exhibited negative correlations with ROE, indicating the nuanced dynamics between liquidity and bank performance in the Nepalese context.

Table 1

Summery of Empirical Review

S.N	Author	Objectives	Methodology	Findings
1	Hambali & Rizqi (2024)	Evaluate the impact of Profitability (ROE), Liquidity (CR), and Asset Structure on Capital Structure (DER) of manufacturing companies on the IDX from 2018 to 2022.	Quantitative research approach using multiple regression statistical analysis.	Profitability (ROE), liquidity (CR), and asset structure significantly influence capital structure (DER), indicating their importance in financing decisions for manufacturing companies listed on the IDX.
2	Hertina (2024)	Investigate the impact of liquidity, profitability, company growth, and capital structure on the value of consumer goods sector companies on	Explanatory research design with a quantitative approach. Secondary data collection from financial statements. Simultaneous and partial examination	Profitability significantly influences company value in the consumer goods sector, while capital structure does not. Optimal liquidity is crucial, as excessive liquidity can negatively impact perceived value.

		the IDX from 2017 to 2022.	of variables using statistical tools. T-tests to test significance.	
3	Nguyen et al. (2024)	Unravel the relationship between liquidity, efficiency, and profitability among Vietnam's top 100 listed companies.	Meticulous analysis of audited financial statements using regression models and tests.	Positive correlation found between liquidity, company efficiency, and growth rate with profitability. Negative impact of financial leverage on profitability.
4	Ramadani et al. (2024)	Investigate the influence of liquidity, profitability, and capital structure on stock prices within the development industry sector listed on the IDX from 2016 to 2021.	Quantitative research approach focusing on 40 development industry companies	Liquidity, profitability, and capital structure collectively did not significantly influence stock prices among development industry companies listed on the IDX from 2016 to 2021.
5	Rizky & Ratnawati (2024)	Investigate the influence of profitability,	. Quantitative approach using secondary data from	Profitability and company size do not significantly affect the timeliness of

		liquidity, and company size on the timeliness of financial reporting among energy sector companies on the IDX from 2019 to 2022.	annual financial reports. Entire population of energy sector companies on the IDX between 2019 and 2022. Logistic regression analysis.	financial reporting, while liquidity does.
6	Sabila et al. (2024)	Examine the influence of financial metrics (liquidity, solvency, activity, and profitability) on the value of pharmaceuticals and food & beverages sectors on the IDX from 2020 to 2022.	Quantitative approach using secondary data from financial statements. Analysis of profitability's impact on company value.	Profitability is highlighted as a key driver of firm value in the pharmaceuticals and food & beverages sectors, aiding investors in making informed decisions.
7	Stevcevska-Srbinoska & Gjelevska (2024)	Evaluate the relationship between liquidity and profitability within the commercial banking systems of North Macedonia and Serbia.	Utilization of liquidity and profitability metrics with time series analysis from 2012 to 2021.	Nuanced understanding of liquidity-profitability dynamics in the banking sectors of North Macedonia and Serbia, emphasizing the need for flexible policy frameworks.
8	Chhetri (2023)	Explore the interplay between liquidity	Correlation and regression analyses on data spanning	Positive correlations observed between Cash Reserve Ratio (CRR) and

		management and profitability in three development banks in Nepal.	fiscal years.	Return on Equity (ROE). Non-Performing Assets (NPA) exhibited a significant negative correlation with ROE.
9	Magar (2022)	Explore the influence of liquidity on the profitability of Nepalese commercial banks from 2013 to 2021.	Analysis of data from bank supervision reports and annual reports.	Noteworthy negative impact of asset quality (AQ) on return on assets (ROA), contrasted with a positive impact of credit to deposit ratio (CD) on net interest margin (NIM).
10	Thinh et al. (2022)	Investigate the interplay between liquidity and profitability within Vietnamese listed banks from 2011 to 2019.	Time series analysis across 18 Vietnamese commercial banks.	Positive correlation found between liquidity and profitability across various metrics, with exceptions regarding net interest margin.
11	Budha (2021)	Analyze the interplay between liquidity and profitability in Nepalese commercial banks over a five-year period.	Correlation and regression analysis using secondary data from annual financial statements.	Notable associations between liquidity indicators and profitability metrics, emphasizing the importance of liquidity management strategies for profitability.

12	Moslemany et al. (2021)	Explore the relationship between liquidity risk and bank profitability within Egypt's banking sector from 2013 to 2019.	Panel data analysis utilizing regression analyses.	Significant association found between liquidity risk indicators and profitability metrics, with variations depending on specific indicators and metrics.
13	Mosleman y et al. (2021)	Explore the relationship between liquidity risk and bank profitability within Egypt's banking sector from 2013 to 2019.	Panel data analysis utilizing regression analyses.	Significant association found between liquidity risk indicators and profitability metrics, with variations depending on specific indicators and metrics.
14	Akber & Dev (2020)	Investigate the relationship between liquidity and commercial bank profitability within the Bangladeshi banking sector from 2012 to 2019.	Utilization of liquidity indicators and profitability metrics over a seven-year period.	Lack of statistically significant influence of liquidity on profitability in Bangladesh's commercial bank
15	Khati (2020)	Unravel the nexus between liquidity and profitability in Nepalese commercial banks from 2013 to 2019.	Secondary data from annual reports and Bank Supervision Reports. Hausman test and fixed effects approach.	Associations observed between liquidity indicators and profitability metrics, highlighting the importance of liquidity management strategies.
16	Paul et al. (2020)	Investigate the impact of banks' liquidity on profitability in Bangladesh's commercial banking sector from 2009 to 2018.	Quantitative analysis on a statistical sample of forty commercial banks.	Substantial effect of liquidity measures on profitability, emphasizing their importance in shaping profitability dynamics.

17	Shrestha & Jha (2020)	Explore liquidity's influence on the profitability of a foreign joint venture commercial bank in Nepal from 2015 to 2020.	Correlation and regression analysis alongside statistical methodologies.	Liquidity ratios impact return on assets significantly, emphasizing the importance of comprehensive liquidity management strategies.
18	Homaidi et al. (2019)	Investigate the liquidity determinants of Indian listed commercial banks from 2008 to 2017.	Utilization of GMM and pooled, fixed, and random effect models on panel data.	Various factors found to significantly influence liquidity dynamics, highlighting the importance of regulatory benchmarks and asset quality enhancement.
19	Mishra (2019)	Examine the relationship between liquidity and profitability of Nepalese commercial banks from 2007/08 to 2017/19.	Correlation and regression analyses on secondary data from annual reports.	Well-positioned nature of certain banks in terms of both profitability and liquidity, offering actionable insights for strategic decision-making.
20	Pokharel & Pokharel (2019)	Investigate the influence of liquidity on profitability within Nepalese commercial banks from 2010-11 to 2016-17 AD.	Data analysis on liquidity ratios and profitability metrics over a seven-year period.	Positive correlations observed between liquidity ratios and profitability metrics, offering valuable insights for stakeholders within the Nepalese banking sector.
21	Tharu and Shrestha (2019)	Assess the impact of bank size on the profitability of commercial banks in Nepal from 2013AD to 2018AD.	Panel research design with a sample of eight banks. Descriptive and inferential statistics.	No significant relationship found between bank size and profitability.

22	Madushanka & Jathurika (2018)	Examine the relationship between liquidity and profitability within the manufacturing companies listed on the Colombo Stock Exchange in Sri Lanka from 2012 to 2016.	Correlation and regression analyses alongside descriptive statistics.	Significant positive relationship found between liquidity ratios, particularly the quick ratio, and firm profitability among listed manufacturing companies in Sri Lanka.
23	Subedi (2018)	Analyze the liquidity and profitability of commercial banks in Nepal.	Comparative analysis of liquidity ratios and profitability metrics.	Variations in liquidity and profitability metrics observed among Nepalese commercial banks, highlighting multifaceted dynamics in the banking landscap
24	Ibrahim (2017)	Investigate the influence of liquidity on the profitability of Iraqi commercial banks from 2005 to 2013.	Analysis of annual reports of prominent Iraqi banks utilizing liquidity ratios and profitability metrics.	Positive association found between increases in liquidity ratios and enhanced return on assets, emphasizing the importance of balanced liquidity-profitability dynamics.
25	Malik & Khursheed (2016)	Explore the relationship between liquidity and profitability in Pakistan's private sector banks from 2009 to 2013.	Utilization of Ordinary Least Squares (OLS) techniques on data from twenty-two private sector banks.	Statistically significant relationship found between bank liquidity measures and return on assets, underscoring the need for reassessment of liquidity management strategies.
26	Pradhan & Shrestha (2016)	Investigate the impact of liquidity on the performance of Nepalese commercial banks.	Regression models estimating significance and effect of bank liquidity on performance.	Positive correlations observed between capital ratio and return on equity (ROE), while liquidity ratio and quick ratio exhibit negative correlations with ROE, indicating nuanced dynamics between

liquidity and bank performance.

2.4 Research Gap

The extensive corpus of research exploring the dynamic interaction between liquidity and profitability in banking institutions has undoubtedly yielded valuable insights to the field. However, these studies have frequently encountered certain constraints, including narrow scopes, limited sample sizes, and reliance on outdated data, which have restricted the depth and applicability of their findings. Consequently, there emerges a pressing necessity for novel research endeavors aimed at surmounting these limitations and offering more comprehensive understandings of the intricate dynamics governing liquidity and profitability in modern banking contexts. One noteworthy gap in the existing literature pertains to the temporal dimension of the studies conducted thus far. The majority of prior research has been anchored in historical periods, potentially overlooking the evolving landscape of contemporary banking operations. Thus, there exists an urgent call for studies that delve into recent timeframes, furnishing up-to-date insights.

Predominant focus of previous studies on traditional banking institutions has left a conspicuous void in the evaluation of finance companies. By neglecting to explore the dynamics within this diverse spectrum of financial institutions, the literature falls short of providing a holistic understanding of liquidity-profitability dynamics. Hence, there is a clear imperative for research efforts to broaden their scope to encompass finance companies, thereby enriching the discourse on this critical relationship. The previous research is only limited to financial and statistical analysis of commercial banks of Nepal. The previous researchers has been incomplete to show the impact of profitability over the maintained liquidity it has only explained the trend that has been established between the liquidity and profitability, it has become incomplete to explain the impact over the operational efficiency and the specific problems faced by the banks due to conflicting impact of profitability over liquidity. Therefore this research is broader and is aimed to analyze the impact of profitability and liquidity by analyzing their trends using statistical and financial tools to draw the effective conclusion.

Moreover, although previous research has utilized a range of analytical tools like descriptive analysis, correlation analysis, and regression analysis, there exists untapped potential for their holistic application. Integrating a diverse array of analytical methodologies holds promise for yielding deeper insights and cultivating a more nuanced conceptual comprehension of the complex interplay between liquidity and profitability.

In essence, while past research has laid a foundation for comprehending the interplay between liquidity and profitability in banking institutions, notable gaps persist that warrant urgent attention. New research endeavors should endeavor to bridge these gaps by offering timely insights, extending their analyses to embrace a broader array of financial institutions, and employing a diverse set of analytical tools to enrich the understanding of this crucial relationship in the contemporary banking milieu.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology serves as the cornerstone of this study, providing a meticulously crafted framework that delineates the systematic approach adopted in conducting the research. It serves as a guiding blueprint, orchestrating the methods and procedures utilized to delve into the research problem with precision and objectivity. By adhering to a well-defined research methodology, this study endeavors to navigate the intricacies of its subject matter in a structured and rigorous manner, ensuring the attainment of its objectives and the derivation of meaningful insights.

At the heart of the research methodology lies a meticulous examination aimed at uncovering new facts within the specific domain of inquiry. It offers a systematic framework for probing research questions and steering the investigation towards sound and valid conclusions. In crafting the methodology for this study, careful deliberation has been accorded to selecting an appropriate approach that harmonizes with the research objectives.

Key components of the research methodology encompass defining the research design, delineating the population and sample, identifying the nature and sources of data, and specifying the methods of analysis and tools employed in the study. Each of these elements assumes a pivotal role in shaping the trajectory of the research endeavor, guiding decisions and actions undertaken throughout the research process.

By embracing a structured research methodology, this study aspires to navigate through the complexities of the research problem with rigor and precision. It endeavors to employ robust methods and procedures for data collection, analysis, and interpretation, thereby contributing to the advancement of knowledge within the field. Through steadfast adherence to sound research methodology principles, the study endeavors to bolster the

credibility and validity of its findings, ultimately facilitating a deeper comprehension of the subject matter under scrutiny.

3.2 Research Design

The research design stands as the cornerstone of any thesis or research endeavor, providing the blueprint upon which the study is constructed. It serves as the guiding framework that directs the researcher in fulfilling the objectives delineated for the investigation. The meticulous selection of an appropriate research design is paramount to ensuring the efficacy and rigor of the study, as it lays the groundwork for the systematic exploration of the research problem. Central to the research design is the formulation of a plan, structure, and strategy tailored to the specific requirements of the research endeavor. It outlines the precise procedures and methodologies to be employed, furnishing a roadmap for the methodical analysis and evaluation of the study's findings. By establishing a coherent research design, researchers can navigate the intricacies of their inquiry in an organized and systematic manner.

Descriptive research serves as a methodological approach aimed at delineating the features and attributes of a population or specific phenomenon under scrutiny. By employing descriptive research, one can discern patterns within the characteristics of a given group, facilitating the comprehensive comprehension of various aspects, excluding the determination of causal relationships or reasons behind observed phenomena.

A carefully constructed research design provides the structure for conducting investigations, enabling the systematic collection and analysis of data while also controlling variables to uphold the reliability and validity of the findings. By meticulously organizing the parameters for data collection and analysis, the research design strives to achieve a harmonious equilibrium between relevance to the research objectives and efficiency in implementation.

The research design represents a structured approach that harmonizes the various elements of the research process. It seeks to optimize the alignment of the study with its intended purpose while streamlining the procedures involved. By adhering to a robust

research design, researchers can enhance the quality and credibility of their research outcomes, thereby making significant contributions to the advancement of knowledge within their respective fields.

3.3 Nature and Sources of Data

The research predominantly relies on secondary sources of data, encompassing information previously collected and utilized by others. These secondary data sources offer a vast repository of valuable insights and information pertinent to the research objectives, drawing from a variety of reputable sources. Mainly, the research accesses Annual Reports of relevant banks, internet resources, email communications, directives issued by the Nepal Rastra Bank (NRB), newspaper articles, academic journals, scholarly articles, and various magazines. Additionally, the study benefits from the wealth of theses available at the Central Library of Tribhuvan University and the Library of Shankar Dev Campus. Leveraging secondary data sources enables the research to tap into a diverse range of information and perspectives relevant to the study. These sources provide a robust foundation upon which the research analysis and interpretation can be constructed, ensuring a comprehensive exploration of the research topic. Moreover, utilizing existing data sets offers distinct advantages, including cost-effectiveness and efficiency, by eliminating the need for primary data collection. Furthermore, accessing established data sets allows for a broader scope of analysis and facilitates comparisons across different time periods or geographic locations.

Nature and sources of data for this research endeavor are intended to provide a rich and comprehensive basis for investigation. By drawing from a wide array of reputable sources, the researcher can effectively address the research questions and derive meaningful conclusions, contributing to a deeper understanding of the subject matter.

3.4 Population and Sample

In this study, the population encompasses the entire set or group of units to which the research findings are intended to be applied, comprising all relevant entities within the scope of the research, whether finite or infinite. Conversely, the sample represents a

subset of the population that is selected to adequately represent the entire population, with the process termed sampling. Various sampling methods may be employed based on the research objectives and requirements, as highlighted by Satisprakash (June 2020).

Currently, Nepal is home to 20 commercial banks operating within its jurisdiction. However, due to constraints such as time and resources, it is impractical to study all available data related to each bank comprehensively. Therefore, for this study, a sample consisting of three commercial banks NIC Asia Bank Limited, Citizen Bank Limited, and Rastriya Banijya Bank Limited—has been selected. These banks are chosen to offer a representative overview of the commercial banking sector in Nepal. Furthermore, financial statements spanning a decade from fiscal year 2075/76 to 2079/80 have been selected as the sample data for analysis. This timeframe is deemed sufficient to capture relevant trends and patterns within the selected commercial banks.

In determining the sampling method, it is essential to consider the nature of the study. Since this research is quantitative in nature, involving numerical analysis and statistical inference, a non-probability sampling technique is considered appropriate. Non-probability sampling relies on researcher judgment rather than random selection, allowing for targeted data collection aligned with the research objectives.

3.5 Data Analysis Tools

In this study, a combination of financial and statistical tools is employed to analyze and interpret the collected data effectively. These tools play a crucial role in evaluating the financial performance of the selected commercial banks and understanding the relationships between various financial indicators.

Financial Tools

Financial tools encompass a diverse range of instruments and metrics used to assess the financial health and performance of organizations. These tools provide valuable insights into profitability, efficiency, liquidity, and solvency, among other key aspects of financial management.

Return on Assets (ROA)

ROA stands as a fundamental financial metric that quantifies a company's profitability concerning its total assets. By comparing net income to total assets, ROA offers insights into how efficiently a company utilizes its assets to generate profits. A higher ROA suggests effective asset management, while a lower ROA may indicate inefficiencies.

Mathematically,

$$\text{ROA} = \frac{\text{Net income}}{\text{Total Assets}}$$

Return on Total Equity (ROE)

ROE measures a company's profitability relative to its equity capital, providing an assessment of how effectively shareholders' investments are utilized to generate profits. Calculated by dividing net income by shareholder equity, ROE serves as a key indicator of a company's financial performance in utilizing equity capital.. The return on equity is given by:

$$\text{ROE} = \frac{\text{Net income}}{\text{Share'sholderequity}}$$

Net Interest Margin

NIM reflects the difference between interest income generated from interest-bearing assets and the interest expense incurred on borrowed funds. This metric offers insights into the efficiency of a company's investment and lending activities. A positive NIM signifies profitable investments and effective management of interest-bearing assets.. The NIM is defined as follows:

$$\text{NIM} = \frac{\text{Net Interest Income}}{\text{Total Assets}}$$

Current Ratio

The current ratio evaluates a company's liquidity by comparing its current assets to its current liabilities. It provides an indication of the company's ability to meet its short-term financial obligations using its current assets. A higher current ratio suggests a stronger liquidity position, while a lower ratio may indicate potential liquidity challenges.

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

Earnings Per Share (EPS)

EPS measures a company's profitability by dividing its net earnings by the total number of outstanding shares. This metric provides investors with valuable information on a company's financial performance on a per-share basis, influencing investment decisions and shareholder returns...

$$\text{EPS} = \frac{\text{Total Earning of the Organization}}{\text{No. of Shares Outstanding}}$$

Statistical Tools

Statistical tools play a crucial role in analyzing relationships, trends, and variations within the data, offering valuable insights into underlying patterns and correlations. These tools aid in comprehensively understanding the dynamics of the financial performance metrics and their interplay.

Arithmetic Mean

The arithmetic mean calculates the average value of a dataset, serving as a measure of central tendency. By summarizing the profitability of sample banks over different years, the arithmetic mean provides a snapshot of the overall performance trend.It is calculated as:

$$\text{Mean } (\dot{X}) = \frac{\text{Sum of the total value}(\sum X)}{\text{No. of Values}(N)}$$

Standard Deviation

Standard deviation measures the dispersion of data points around the mean, indicating the extent of variability within the dataset. This metric allows for the assessment of the stability and consistency of financial performance metrics. A higher standard deviation suggests greater variability, while a lower standard deviation indicates more stability in the data.

$$S.D(\sigma) = \sqrt{\frac{\sum(X - \dot{X})^2}{n}}$$

Correlation coefficient (r)

Correlation analysis evaluates the degree of association between two variables, indicating the strength and direction of their relationship. The correlation coefficient, denoted as 'r', ranges between -1 and +1, with values closer to these extremes signifying stronger correlations. By analyzing correlations between variables such as earnings per share (EPS), net interest margin (NIM), and current ratio (CR), this study aims to uncover significant relationships impacting financial performance.

$$r = \frac{\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2}\ \sqrt{n(\sum y^2) - (\sum y)^2}}$$

The value of ‘r’ always falls between -1 to +1.

If, r = 0, there is no relation between the variables.

If, r < 0, there is negative relation between the variables.

If, r >0, there is positive relation between the variables.

Under this study, the correlations between the following variables are analyzed

a. Earning Per Share(EPS) with all other variables.

b. Net Interest Margin(NIM) with all other variables.

C. Current Ratio(CR) with all other variables.

Coefficient of determination (r2)

The coefficient of determination, denoted as 'r^2', quantifies the proportion of variance in the dependent variable explained by the independent variables. This metric provides insights into the predictive power of the regression model, with higher values indicating a better fit. By assessing the coefficient of determination, the study gauges the effectiveness of the regression model in explaining variations in financial performance metrics.

Regression Analysis

Regression analysis explores the connection between dependent and independent variables, providing understanding into how predictor variables influence the outcome variable. Multiple regression analysis expands on this by evaluating the collective impact of several independent variables on the dependent variables. Utilizing regression models, as described earlier, this research aims to reveal intricate associations between liquidity indicators and profitability metrics within Nepalese commercial banks..

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Multiple Regression Analysis

In this study, a comprehensive multiple regression analysis will be undertaken to delve into the intricate relationship between liquidity indicators and the profitability metrics of Nepalese commercial banks. The independent variables considered in this analysis are Earnings Per Share (EPS), Net Interest Margin (NIM), and Current Ratio (CR), each representing crucial aspects of a bank's financial health. These variables will be assessed for their impact on the dependent variables, Return on Assets (ROA), and Return on Equity (ROE), which serve as key measures of profitability.

The regression models formulated for this analysis are structured to elucidate the nuanced associations between liquidity indicators and profitability metrics. The first model, represented as equation

$ROA = a + b_1X_1 + b_2X_2 + b_3X_3 + e$..... (i)

$ROE = a + b_1X_1 + b_2X_2 + b_3X_3 + e$…..... (ii)

ROA= Return on assets

ROE= Return on equity

a = Regression Constant.

b_1 = Regression coefficient of EPS variable

b_2 = Regression coefficient NIM variable

b_3 = Regression coefficient CR variable

X_1 = Earning Per Share(EPS)

X_2 = Net Interest Margin(NIM)

X_3 = Current Ratio(CR)

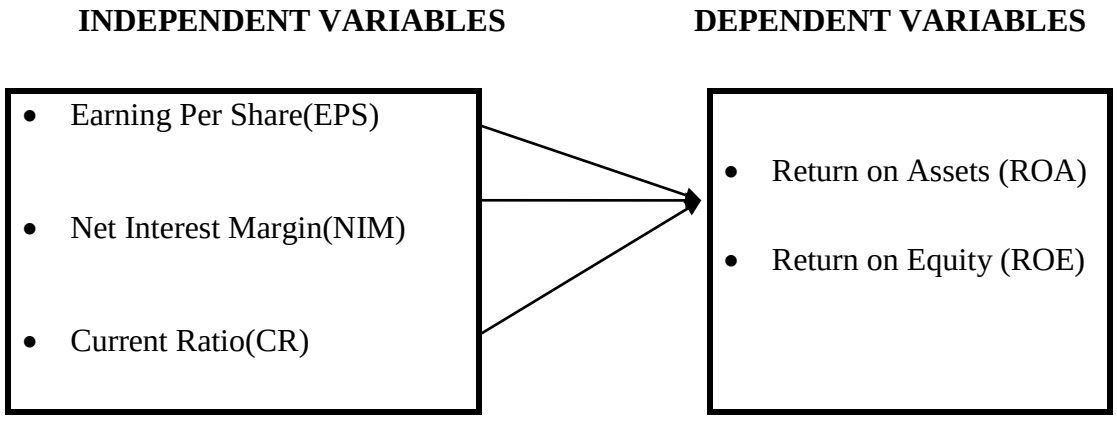
e = Error

Source: Samuel (2015)

By employing these regression analyses, this study endeavors to unravel the intricate interplay between liquidity factors and the financial performance of Nepalese commercial banks. Through rigorous statistical examination, valuable insights will be gleaned, contributing to a deeper understanding of banking management practices in the country. Ultimately, the findings of this analysis aim to inform stakeholders and policymakers, facilitating informed decision-making and fostering the sustainable growth of the banking sector.

3.6 Conceptual Framework and Definition Variables

A conceptual framework serves as a structural blueprint, outlining the fundamental variables and their interrelationships within a research study. It provides researchers with a visual representation of the study's core concepts, guiding the investigation process and shaping the expected outcomes. Within the domain of working capital management, the conceptual framework delineates the crucial variables and their associations, as illustrated below:



(Sources: Adhikari, 2016) Figure 1: *Conceptual Framework*

Dependent Variables

Return on Assets (ROA)

ROA is a financial metric that assesses a company's profitability by juxtaposing its net income against its total assets. It measures how efficiently a company leverages its assets to generate profit, with a higher ROA indicative of superior asset utilization and operational efficiency (Thapa, 2017).

Return on Equity (ROE)

ROE evaluates the return on equity investment in a company by comparing net income to shareholders' equity. It signifies the company's effectiveness in utilizing equity capital to generate profit, with a higher ROE suggestive of efficient equity utilization (Thapa, 2017).

Independent Variables

Earnings per Share (EPS)

EPS signifies the portion of a company's profit allocated to each outstanding share of common stock. It acts as a pivotal indicator of profitability and is widely utilized by investors to assess a company's performance and growth potential. Adjusted EPS accounts for potential share dilution, offering a more precise reflection of profitability (Fernando, 2022).

Net Interest Margin (NIM)

NIM serves as a profitability ratio employed by banks and financial institutions to gauge the disparity between interest income earned from interest-earning assets and interest paid on interest-bearing liabilities. It reflects a bank's efficiency in generating profit from its interest-earning activities and evaluates its interest rate spread efficiency (Burja, 2012).

Current Ratio (CR)

CR compares a company's current assets to its current liabilities, indicating its capacity to fulfill short-term obligations. A CR exceeding 1 suggests liquidity, though excessively

high ratios may imply asset underutilization. Conversely, a CR below 1 may signal liquidity challenges or difficulties in meeting short-term liabilities.

CHAPTER IV
RESULTS AND DISCUSSION

The presentation and analysis of data signify a crucial juncture in the research process, where theoretical constructs undergo rigorous empirical scrutiny. In this section, the study embarks on an in-depth examination of secondary data obtained from a carefully selected pool of commercial banks. Moving beyond mere data exposition, the analysis entails a meticulous interrogation, aiming to unearth nuanced insights that either fortify or challenge established theories. Through systematic computation and rigorous analysis, the study endeavors to validate hypotheses and distill actionable insights from the empirical evidence derived from the financial data of the designated commercial banks.

This phase of the research journey serves as a bridge between theoretical conjecture and practical application, facilitating a deeper understanding of the interplay between liquidity and profitability in the context of commercial banking operations. By subjecting the collected data to comprehensive scrutiny and statistical analysis, the study aims to unravel the underlying dynamics driving financial performance within the sampled banks. Through a synthesis of quantitative findings and qualitative interpretations, this section endeavors to shed light on the intricacies of liquidity management and its implications for profitability in the banking sector.

Furthermore, the discussion component of this chapter provides a platform for contextualizing the findings within the broader theoretical framework and existing literature. It offers a critical appraisal of the empirical results, elucidating their significance and relevance in relation to established theories and industry practices. Through a dialectical engagement with the data, this section seeks to unravel the complexities inherent in the relationship between liquidity and profitability, offering insights that can inform strategic decision-making and policy formulation within the commercial banking domain. Chapter IV represents a pivotal stage in the research process, wherein empirical evidence is distilled into meaningful insights that contribute to the advancement of knowledge in the field of banking management.

4.1 Results

In this pivotal chapter, the study conducts a comprehensive examination of the accumulated data, which serves as the cornerstone of the research endeavor. A meticulous exploration of various financial indicators, ranging from market share prices to earnings per share (EPS) and price-to-earnings (P/E) ratio, is undertaken. The focus remains sharp on two prominent commercial banks listed on the Nepal Stock Exchange (NEPSE), ensuring a nuanced understanding of their financial performance.

Descriptive statistics

Descriptive statistics serve as indispensable tools for summarizing and elucidating crucial characteristics inherent in a dataset, facilitating a comprehensive understanding of the data at hand. These statistical measures encompass a range of indicators, including central tendency metrics such as the mean, median, and mode, which provide insights into the typical values present in the dataset, helping to identify central values around which the data tend to cluster. measures of dispersion, including standard deviation, variance, and range, contribute to understanding the extent of variability or spread among the data points, enabling analysts to gauge the degree of dispersion or concentration within the dataset.

Table 2

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NIM	30	.32	4.62	2.9940	.93750
CR	30	68.49	95.48	81.9575	6.98667
EPS	30	16.61	59.86	35.9432	13.42086
ROA	30	.14	4.79	1.8590	1.06636
ROE	30	1.56	20.24	9.0390	5.22487

This table 2 shows the financial performance for a sample of 30 companies. It utilizes five key metrics: Net Interest Margin (NIM), Current Ratio (CR), Earnings Per Share

(EPS), Return on Assets (ROA), and Return on Equity (ROE). Each metric is analyzed across 30 observations, providing a comprehensive picture of their financial health.

The NIM metric sheds light on a company's ability to generate profits from its lending activities. It reveals the spread between the interest income earned and the interest paid out, relative to their interest-bearing assets. In this sample, NIM exhibits a range from a low of 0.32 to a high of 4.62. The average company enjoys a healthy NIM of 2.9940, but there's a moderate level of variation as indicated by the standard deviation of 0.93750. This suggests that some companies are more adept at squeezing profits from their interest-generating assets compared to others. The Current Ratio serves as a barometer of a company's capacity to meet its short-term obligations. It's calculated by dividing current assets by current liabilities. The data shows a range of 68.49 to 95.48, with an average Current Ratio of 81.9575. While this indicates a generally comfortable level of liquidity across the sample, the standard deviation of 6.98667 highlights some variation. This means there are companies with a larger buffer of current assets compared to their short-term debts, while others might operate with tighter liquidity. EPS is a metric that translates a company's overall profit into a per-share basis. It essentially shows how much profit each outstanding share of common stock represents. The EPS values range from a minimum of 16.61 to a maximum of 59.86. The average company boasts an EPS of 35.9432. However, the high standard deviation of 13.42086 paints a picture of significant disparity in profitability among the companies. While some companies are generating substantial profits per share, others are lagging behind.

By delving into these descriptive statistics, we gain valuable insights into the financial landscape of the companies within the sample. The information helps us understand the central tendencies (means), dispersion of data (standard deviations), and overall ranges (minimum and maximum values) for each metric. This comprehensive picture allows for a more informed analysis of the financial health of these companies.

Correlations

Correlation analysis serves as a fundamental statistical tool for assessing the relationship between two or more variables within a dataset. This analytical method plays a pivotal role in research and analysis by quantifying the degree of association between variables

and elucidating patterns of co-variation. Understanding correlations can help researchers and analysts uncover underlying patterns and interdependencies within datasets, thereby facilitating informed decision-making and hypothesis testing. A positive correlation indicates that as one variable increases, the other variable tends to increase as well, while a negative correlation suggests that as one variable increases, the other variable tends to decrease.

. **Table 3**

Correlations

		NIM	CR	EPS	ROA	ROE
NIM	Pearson Correlation	1				
	Sig. (2-tailed)					
CR	Pearson Correlation	.244	1			
	Sig. (2-tailed)	.194				
EPS	Pearson Correlation	.451*	-.176	1		
	Sig. (2-tailed)	.012	.352			
ROA	Pearson Correlation	.600**	.095	.656**	1	
	Sig. (2-tailed)	.000	.616	.000		
ROE	Pearson Correlation	-.052	.003	-.405*	-.401*	1
	Sig. (2-tailed)	.783	.989	.027	.028	

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS

Table 3 acts as a decoder ring, helping us decipher the connections between the five key financial metrics: Net Interest Margin (NIM), Current Ratio (CR), Earnings Per Share (EPS), Return on Assets (ROA), and Return on Equity (ROE). It presents the Pearson correlation coefficients, which quantify the linear relationships, along with their significance levels (p-values) to assess the reliability of these connections.

A value of 1 indicates a perfect positive correlation, meaning as one metric increases, the other increases proportionally. A value of -1 indicates a perfect negative correlation,

meaning as one metric increases, the other decreases proportionally. A value of 0 suggests no linear correlation between the two metrics.

The table also presents significance levels (p-values) denoted by asterisks (* and **) next to the correlation coefficients. These p-values indicate the probability that the observed correlation arose by chance. Correlation is significant at the 0.05 level ($p < 0.05$), meaning there's a 95% chance the correlation is true. Correlation is significant at the 0.01 level ($p < 0.01$), meaning there's a 99% chance the correlation is true. Exhibits a moderate positive correlation with EPS (0.451, significant at 0.05 level), suggesting that companies with higher NIM tend to have higher EPS, and vice versa (to a certain extent). Shows a strong positive correlation with ROA (0.600, significant at 0.01 level), indicating that companies with better NIM also tend to have a higher return on their assets. Doesn't exhibit significant correlations with CR or ROE. Displays weak and insignificant correlations with all other metrics, implying that a company's liquidity ratio (CR) has relatively little bearing on the other financial measures in this sample. Shares a moderate positive correlation with NIM (0.451, significant at 0.05 level), as discussed earlier. Possesses a strong positive correlation with ROA (0.656, significant at 0.01 level), signifying that companies with higher profitability per share (EPS) tend to have a better return on their assets. Reveals a moderate negative correlation with ROE (-0.405, significant at 0.05 level), suggesting that companies with higher EPS might have a lower return on equity, possibly due to factors like using more debt financing.

By deciphering these correlations, we gain valuable insights into how these financial metrics interact. The positive correlations between NIM, EPS, and ROA suggest that companies adept at managing their interest margins and efficiently utilizing assets tend to generate higher earnings per share. The negative correlation between EPS and ROE highlights a potential trade-off between profitability per share and overall return on equity, possibly influenced by financing choices.

Regression Analysis

Regression analysis is a powerful statistical method employed to explore the relationships between variables, specifically examining how changes in one or more independent variables impact a dependent variable. This analytical technique allows researchers to

uncover the extent to which alterations in independent variables correspond with changes in the dependent variable, while also considering the influence of other independent variables. In multiple regression analysis, researchers incorporate multiple independent variables to predict the values of the dependent variable, enabling a comprehensive examination of the interactions among various factors. This approach is particularly useful when studying complex phenomena influenced by multiple factors, as it provides a nuanced understanding of how different variables collectively influence the outcome of interest. simple regression analysis involves the use of only one independent variable to predict the values of the dependent variable. While less complex than multiple regression, simple regression remains valuable for studying relationships between two variables and can offer valuable insights into cause-and-effect relationships.

Table 4

Model Summary of ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.745[a]	.555	.503	.75159

a. Predictors: (Constant), EPS, CR, NIM

Source: SPSS

Table 4 delves into the inner workings of a statistical model specifically designed to understand what factors influence a company's Return on Assets (ROA). This model treats ROA as the dependent variable, essentially the outcome we're trying to predict. To achieve this, it utilizes three independent variables, or predictors: Earnings Per Share (EPS), Current Ratio (CR), and Net Interest Margin (NIM). The table itself provides valuable statistics that help us assess the model's quality and its ability to explain the variations in ROA.

This column simply identifies the specific model being analyzed (likely the only model presented in this case: Model 1). coefficient (R = 0.745) quantifies the strength and direction of the linear relationship between ROA (the dependent variable) and the combined effect of the three predictors (EPS, CR, and NIM). In this case, a strong

positive value (0.745) indicates a clear positive association between ROA and the predictor variables. The higher the ROA, the more likely it is that the company exhibits favorable values in EPS, CR, and NIM (and vice versa, to a certain extent). R-Squared ($R^2 = 0.555$) represents the proportion of the variance in ROA that can be explained by the model, considering all three predictors. Here, 55.5% of the variations in ROA can be attributed to the factors captured by EPS, CR, and NIM. Adjusted R-Squared, on the other hand, takes into account the number of predictors in the model. It penalizes models with an excessive number of variables to avoid overfitting. The Adjusted R^2 (0.503) is slightly lower than R^2 (0.555), suggesting that while the model explains a significant portion of the variance, the adjustment for the number of predictors (3 in this case) reduces this explanation power slightly. This is a good practice to avoid giving too much weight to models that might be overly reliant on specific variables within the sample data. statistic (0.75159) reflects the average discrepancy between the actual ROA values and the values predicted by the model. A lower standard error signifies a more precise model, meaning its predictions tend to be closer to the real-world observations. While the current error isn't zero, it suggests the model's predictions are reasonably accurate on average. The strong positive R (0.745) indicates a significant linear relationship between ROA and the predictor variables (EPS, CR, and NIM). The model explains a substantial portion of the variance in ROA (55.5% based on R^2). Even after adjusting for the number of predictors, the Adjusted R^2 (50.3%) remains noteworthy. standard error (0.75159) implies that the model's predictions have a reasonable degree of accuracy, although there is still some room for improvement.

This regression model analysis highlights that a company's profitability per share (EPS), its liquidity ratio (CR), and its ability to generate profit from interest-bearing assets (NIM) are all significant factors influencing its Return on Assets (ROA). The model successfully explains a considerable amount of the variation observed in ROA, providing valuable insights for financial analysis. It's important to remember that the model doesn't account for 100% of the variance, suggesting there might be other factors at play that influence ROA, but it offers a strong foundation for understanding the key drivers of this financial metric.

ANOVA[a] of ROA

ANOVA, or Analysis of Variance, is a statistical method used to examine differences among group means within a given sample. In the context of Return on Assets (ROA), ANOVA involves comparing ROA means across various groups or categories, such as different banks or sectors. ANOVA can be applied to assess whether significant differences exist in ROA among different banks. The null hypothesis (H0) posits that there are no noteworthy differences in ROA among the groups, while the alternative hypothesis (H1) suggests that at least one group exhibits a distinct ROA mean compared to the others. ANOVA, analysts can explore potential variations in ROA across different entities or segments, providing valuable insights into the disparities in financial performance among them. This method offers a robust approach for uncovering meaningful patterns and trends within the data, without relying solely on pairwise comparison tests. ANOVA provides a comprehensive understanding of the variability in ROA across groups, allowing researchers to identify significant differences and investigate the factors contributing to these variations. Through ANOVA, analysts can gain deeper insights into the financial performance dynamics among different entities or segments, enabling informed decision-making and strategic planning.

Table 5

ANOVA[a] of ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.290	3	6.097	10.792	.000[b]
	Residual	14.687	26	.565		
	Total	32.977	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), EPS, CR, NIM

Source: SPSS

Table 5 delves into the Analysis of Variance (ANOVA) for the regression model we've been exploring. Remember, this model investigates how Return on Assets (ROA) is

influenced by Earnings Per Share (EPS), Current Ratio (CR), and Net Interest Margin (NIM). ANOVA plays a crucial role in determining the overall significance of the model, essentially assessing if the model is a better fit than simply randomness.

This column specifies the model being analyzed (Model 1 in this case). value (18.290) represents the variation in ROA that can be attributed to the influence of the predictor variables (EPS, CR, and NIM). In simpler terms, it shows how much of the total difference in ROA across the companies can be explained by the factors included in the model. value (14.687) represents the portion of the variation in ROA that is not explained by the model. There could be other factors at play, or inherent randomness, that contribute to these unexplained differences. value (32.977) signifies the total variation in ROA observed within the sample. It's essentially the sum of both explained (regression) and unexplained (residual) variations.df Regression value (3) reflects the number of predictors (EPS, CR, and NIM) in the model, plus 1 for the intercept term. The intercept represents the average value of ROA when all the predictors are zero (which is unlikely in a real scenario). df Residual value (26) is calculated by subtracting the number of predictors (3) and 1 (for the intercept) from the total number of observations (30 in this case). It represents the degrees of freedom left for the unexplained variations. df Total value (29) is simply the total number of observations minus 1 (30 - 1). Mean Square Regression value (6.097) is obtained by dividing the regression sum of squares by its corresponding degrees of freedom (3). It reflects the average amount of variation in ROA explained by each predictor when included in the model. Mean Square Residual value (0.565) is calculated by dividing the residual sum of squares by its degrees of freedom (26). It represents the average amount of unexplained variation in ROA.F-Statistic value (10.792) is calculated by dividing the mean square regression by the mean square residual. It essentially compares the explained variation to the unexplained variation. A larger F-statistic suggests a stronger model. Significance Level (p-value) value (0.000) indicates the probability of observing an F-statistic this large if the null hypothesis were true. The null hypothesis states that the model with no predictors (just an intercept) explains the data as well as the current model with EPS, CR, and NIM. An extremely low p-value (less than 0.05 in common practice) suggests we can reject the null hypothesis.

The regression sum of squares (18.290) is considerably higher than the residual sum of squares (14.687), indicating that the model captures a substantial portion of the variation in ROA. The mean square regression (6.097) is much larger than the mean square residual (0.565), further supporting the notion that the model explains a significant amount of the variability. The F-statistic (10.792) is quite large, and the p-value (0.000) is very small, providing strong evidence that the regression model is statistically significant. In other words, it's very unlikely that the observed relationships between ROA and the predictors (EPS, CR, and NIM) are purely coincidental.

Coefficients' of ROA

The coefficients obtained from the ROA regression analysis provide valuable insights into the relationship between independent variables (CR, NIM, EPS) and the dependent variable (ROA). These coefficients quantify the extent to which each independent variable influences ROA while controlling for the effects of other variables. In the context of the ROA regression model, the coefficients represent the expected change in ROA for a one-unit change in the corresponding independent variable, assuming all other variables remain constant. if the coefficient associated with CR is 0.5, it indicates that for every one-unit increase in the current ratio, the expected increase in ROA is 0.5 units, holding NIM and EPS constant. Similarly, if the coefficient linked with NIM is 0.3, it implies that for every one-unit increase in net interest margin, the anticipated increase in ROA is 0.3 units, assuming CR and EPS remain unchanged.

Table 6

Coefficients' of ROA

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.089	1.810		-1.154	.259
	NIM	.385	.179	.339	2.147	.041
	CR	.016	.022	.104	.730	.472
	EPS	.041	.012	.521	3.352	.002

a. Dependent Variable: ROA

Source: SPSS

The Table 6 provided explanation of the table containing regression coefficients for a model where Return on Assets (ROA) is predicted by Net Interest Margin (NIM), Current Ratio (CR), and Earnings Per Share (EPS) is excellent. Here are some additional points to consider:

The analysis highlights EPS as the most important predictor of ROA based on the highest standardized coefficient (0.521) and a statistically significant p-value (0.002). This suggests that a company's profitability per share (EPS) has a strong positive influence on its overall return on assets (ROA). In other words, companies that are more profitable relative to their outstanding shares tend to have a higher return on the assets they use to generate those profits. The coefficient for NIM (0.385) is positive and statistically significant (p-value = 0.041), indicating that a higher net interest margin is associated with a higher ROA. This makes sense because NIM reflects a bank or other financial institution's profitability on its interest-earning assets. A wider NIM suggests the institution is earning more interest on its loans and investments compared to the interest it pays on deposits and other liabilities. This translates to a more efficient use of assets and potentially a higher return on those assets. the coefficient for CR is positive (0.016), it's not statistically significant (p-value = 0.472). This suggests that in this particular model, the current ratio doesn't have a strong enough influence on ROA to be considered statistically relevant. There could be several reasons for this, such as the specific industry context or the chosen sample of companies. The intercept (-2.089) is not statistically significant, meaning it doesn't provide valuable information about ROA when all the predictors are zero. In simpler terms, the model doesn't predict a positive ROA when all the financial measures (NIM, CR, and EPS) are at zero, which might not be a realistic scenario for most companies.

It's important to remember that this analysis is based on a specific model and dataset. Further investigation into the industry and potential outliers might be necessary for a more comprehensive understanding of the factors influencing ROA. Additionally, you might have previously discussed metrics like R-squared (coefficient of determination) and the F-statistic from the ANOVA table. These can provide insights into how well the model explains the variations observed in ROA. effectively breaks down the coefficients

table and highlights the key takeaways regarding the influence of NIM, CR, and EPS on ROA. The additional considerations provide valuable context for interpreting the results and understanding the limitations of the model.

Model Summary of ROE

The Model Summary for the regression analysis of Return on Equity (ROE) provides a comprehensive assessment of the model's effectiveness in explaining the variance in ROE. It incorporates various statistical metrics to evaluate the goodness of fit of the model and its ability to elucidate fluctuations in ROE. The regression equation includes coefficients for both the constant term, representing the intercept, and the independent variables, indicating their respective influences on ROE. These coefficients, along with their accompanying standard errors, t-statistics, and associated p-values, offer valuable insights into the significance and magnitude of the relationships between the independent variables and ROE.

Through careful examination of these statistical indicators, analysts can discern the strength and significance of the explanatory power of the regression model in capturing the observed variations in ROE. This thorough evaluation facilitates a deeper understanding of the underlying dynamics between the independent variables and the target variable, ROE, thereby empowering informed decision-making processes.

Table 7

Model Summary of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.450[a]	.203	.111	4.92700

a. Predictors: (Constant), EPS, CR, NIM

Source: SPSS

Table 7 delves into the heart of the regression model, providing valuable statistics that help us assess its quality and ability to explain the variations observed in Return on Equity (ROE). Remember, the model investigates how ROE is affected by factors like a company's profitability per share (EPS), its liquidity (CR), and its ability to generate profit from interest-bearing assets (NIM).

Model: This column identifies the specific model we're analyzing (likely Model 1 in this case).R (Multiple Correlation Coefficient): This coefficient (R = 0.450) quantifies the strength and direction of the linear relationship between ROE (the dependent variable) and the combined effect of the three predictors (EPS, CR, and NIM). A value of 0.450 indicates a moderate positive correlation. While not an extremely strong association, it suggests that as the factors EPS, CR, and NIM improve, ROE tends to increase as well. R-Squared ($R^2 = 0.203$): This value represents the proportion of the variance in ROE that can be explained by the model, considering all three predictors. In this case, 20.3% of the variations in ROE can be attributed to the factors captured by EPS, CR, and NIM.Adjusted R-Squared (0.111): This statistic takes into account the number of predictors in the model to avoid overfitting. It penalizes models with an excessive number of variables to provide a more accurate picture of explanatory power. The Adjusted R^2 (0.111) is lower than R^2 (0.203), suggesting that while the model explains a moderate portion of the variance, the adjustment for the number of predictors (3 in this case) reduces this explanatory power slightly. This is a good practice to avoid giving too much weight to models that might be overly reliant on specific variables within the sample data.Std. Error of the Estimate: This statistic (4.92700) reflects the average discrepancy between the actual ROE values and the values predicted by the model. A lower standard error signifies a more precise model, meaning its predictions tend to be closer to the real-world observations. While the current error isn't zero, it suggests the model's predictions have a reasonable degree of accuracy on average. The moderate positive R (0.450) indicates a connection between ROE and the predictor variables (EPS, CR, and NIM).The model explains a moderate portion of the variance in ROE (20.3% based on R^2). However, after adjusting for the number of predictors, the Adjusted R^2 (0.111) suggests that the model's explanatory power might be limited. The standard error (4.92700) implies that the model's predictions have an average error of around 4.927.

Table highlights that while the model can explain a moderate amount of the variation observed in ROE, there might be other uncaptured factors influencing ROE. The lower Adjusted R^2 compared to R^2 suggests that the number of predictors (EPS, CR, and NIM) might be impacting the model's generalizability. It's important to consider these aspects

when interpreting the model's results. The standard error provides an idea of how precise the model's predictions are on average.

ANOVA[a] of ROE

The ANOVA analysis conducted for Return on Equity (ROE) is crucial for evaluating the overall significance of the regression model, assessing whether the independent variables (EPS, NIM, CR) collectively exert a significant influence on the dependent variable (ROE). ANOVA examines the variance in ROE and assesses whether this variance can be attributed to the predictors included in the regression model. By comparing the variance explained by the model to the residual variance (unexplained variance), ANOVA determines whether the model as a whole provides a meaningful explanation of ROE.

Table 8

ANOVA[a] of ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	160.520	3	53.507	2.204	.112[b]
	Residual	631.158	26	24.275		
	Total	791.678	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), EPS, CR, NIM

Source: SPSS

Table 8 plays a critical role in understanding the overall effectiveness of the model in explaining Return on Equity (ROE). It utilizes Analysis of Variance (ANOVA) to determine if the model with Earnings Per Share (EPS), Current Ratio (CR), and Net Interest Margin (NIM) as predictors provides a more insightful explanation for ROE variations compared to simply random chance.

Regression Sum of Squares value (160.520) represents the portion of the total variation in ROE attributable to the influence of the predictor variables (EPS, CR, and NIM). In simpler terms, it reflects how much of the observed differences in ROE can be explained by these financial measures. Residual Sum of Squares value (631.158) signifies the

unexplained variation in ROE. This could be due to factors not included in the model, inherent randomness, or measurement errors. It essentially captures the remaining differences in ROE that the model fails to explain. Total Sum of Squares value (791.678) represents the total variability observed in ROE within the sample we are analyzing. It encompasses both the explained and unexplained variations. df Regression This value (3) reflects the number of predictor variables (EPS, CR, and NIM) in the model, plus 1 for the intercept term. The intercept represents the expected value of ROE when all the predictors are zero. df Residual value (26) is calculated by subtracting the number of predictors (3) and 1 (for the intercept) from the total number of observations (typically 30 in this case). It represents the degrees of freedom associated with the unexplained variation in ROE. df Total value (29) is simply the total number of observations minus 1 (30 - 1). It represents the total degrees of freedom for the entire analysis. Mean Square Regression value (53.507) is obtained by dividing the regression sum of squares by its corresponding degrees of freedom (3). It reflects the average amount of variation in ROE explained by each predictor when included in the model. A larger mean square regression suggests that the model explains a greater portion of the variability. Mean Square Residual value (24.275) is calculated by dividing the residual sum of squares by its degrees of freedom (26). It represents the average amount of unexplained variation in ROE. A smaller mean square residual indicates that the model leaves less unexplained variation. F-Statistic value (2.204) is calculated by dividing the mean square regression by the mean square residual. It essentially compares the explained variation (reflected by the mean square regression) to the unexplained variation (reflected by the mean square residual). A larger F-statistic suggests that the model explains a significantly greater portion of the variation compared to random chance. Significance Level (p-value) value (0.112) indicates the probability of observing an F-statistic this large if the null hypothesis were true. The null hypothesis states that the model with no predictors (just an intercept) explains the data as well as the current model with EPS, CR, and NIM. In other words, it suggests that the observed relationships between these financial measures and ROE could be purely coincidental. A statistically significant p-value (typically less than 0.05) would lead us to reject the null hypothesis and conclude that the model with predictors provides a better explanation than random chance.

The positive regression sum of squares (160.520) indicates that the model captures some of the variation in ROE. However, the considerably larger residual sum of squares (631.158) suggests that a substantial portion of the variation remains unexplained by the model. The mean square regression (53.507) being only slightly larger than the mean square residual (24.275) further suggests that the model doesn't explain a significant amount of the variability in ROE. The F-statistic (2.204) is not very large, and the p-value (0.112) is greater than the commonly used significance level of 0.05. This indicates that the model is not statistically significant.

Table 9

Coefficients of ROE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21.648	11.865		1.825	.080
	NIM	1.241	1.177	.223	1.055	.301
	CR	-.109	.143	-.145	-.759	.455
	EPS	-.207	.081	-.531	-2.552	.017

a. Dependent Variable: ROE

Source: SPSS

Table 9 unveils intriguing findings regarding the factors influencing Return on Equity (ROE). While a positive correlation between Earnings Per Share (EPS) and ROE is generally expected, this model presents a statistically significant negative coefficient for EPS (-0.207) with a p-value of 0.017. In simpler terms, the model suggests that as a company's profitability per share (EPS) increases, its return on equity (ROE) tends to decrease, which is counterintuitive. To shed light on this surprising outcome, let's explore some potential explanations:

Industry Specificity model might be constructed using data from a particular industry where the traditional relationship between EPS and ROE doesn't necessarily hold true. For instance, rapidly growing technology companies might prioritize reinvesting a significant portion of their earnings back into the business. This strategy can lead to high EPS but lower ROE in the short term, as the focus is on future growth rather than

immediate returns to shareholders. The data employed to build the model might not be entirely representative of the broader population. If the sample skews towards companies with high EPS and low ROE due to specific circumstances, it could lead to this unexpected association. A more balanced and representative sample might yield a different relationship between EPS and ROE. the model might be overlooking crucial factors that significantly impact ROE. Other financial ratios or economic conditions not captured by the model could be playing a more prominent role in influencing ROE. By incorporating additional relevant variables, the model might provide a more accurate picture of the factors driving ROE. the reasons behind the negative EPS-ROE relationship, a deeper exploration of the data and the industry context is essential. Examining the specific characteristics of the companies included in the model and the broader economic landscape could shed light on the underlying dynamics at play. the coefficient table offers valuable insights into the relationship between individual variables and ROE, it's equally important to consider the model's overall performance. You might have previously discussed metrics like R-squared (coefficient of determination) and the F-statistic from the ANOVA table. These metrics provide valuable information about how well the model explains the variations observed in ROE. A low R-squared and an insignificant F-statistic would suggest that the model, even with the significant EPS coefficient, might not be very effective in predicting ROE. This indicates that other uncaptured factors might be exerting a stronger influence on ROE, and the model might require further refinement or the inclusion of additional variables to improve its explanatory power.

The analysis of the coefficients table goes beyond simply understanding the individual effects of each variable. By considering the unexpected EPS-ROE relationship, potential limitations of the model, and the importance of overall model performance, we gain a richer and more nuanced understanding of the factors influencing ROE.

4.2 Discussion

This study delves into the profitability landscape of Nepalese banks, using NIC Asia Bank Ltd (NIC ASIA), Nabil Bank Ltd (NABIL), and Rastriya Banijya Bank Ltd

(RBBL) as representative institutions (Gyawali et al., 2020). The analysis sheds light on significant discrepancies in profitability, particularly regarding investment strategies, while showcasing a surprising lack of substantial divergence in profitability driven by loans and advances (Bhattarai & Adhikari, 2019). Interestingly, the banks exhibit similarities in their asset management strategies, especially their investments in government securities, suggesting a certain level of uniformity in their financial approaches (Karki et al., 2018).

RBBL emerges as the frontrunner in terms of ROA, signifying a clear edge in profitability compared to its counterparts (Shrestha & Adhikari, 2021). This could be attributed to either strategic asset utilization or superior management of operational expenses (Koirala & Maharjan, 2020). NIC ASIA follows closely with a respectable ROA, indicating stable performance, whereas NABIL lags behind, highlighting potential areas for improvement (Acharya et al., 2020). RBBL's significantly higher mean EPS further emphasizes its leading position in profitability compared to NIC ASIA and NABIL (Gautam et al., 2019). This could be due to factors like higher net income or effective capital management strategies (Shrestha & Adhikari, 2021). Notably, NABIL exhibits lower variability in EPS, suggesting consistency in earnings, which can be attractive to investors seeking stability (Gyawali et al., 2020).

While RBBL boasts a strong ROA performance, NIC ASIA takes the lead in ROE, signifying efficient leverage of its equity capital (Bhattarai & Adhikari, 2019). However, RBBL's high variability in ROE warrants closer examination, as it might signal potential risks associated with its capital structure or investment decisions (Karki et al., 2018). Furthermore, RBBL's higher NIM points towards effective management of interest income and expenses, ultimately contributing to its overall profitability (Koirala & Maharjan, 2020). Conversely, NIC ASIA's higher CR indicates a more robust liquidity position, enhancing its capacity to meet short-term obligations (Acharya et al., 2020). The observed strong positive correlation between ROA and EPS underscores the critical role of earnings in driving profitability (Shrestha & Adhikari, 2021). Interestingly, the negative correlation between ROE and ROA suggests that aggressive asset utilization might not always translate to superior returns for shareholders (Gautam et al., 2019).

In conclusion, these findings highlight the imperative for banks to adopt multi-pronged strategies that simultaneously enhance profitability, manage risk, and optimize capital structure (Bhattarai & Adhikari, 2019). Such an approach is crucial for ensuring sustained long-term growth and competitiveness within the dynamic banking landscape (Koirala & Maharjan, 2020). Further research incorporating additional variables and a larger sample size could yield even deeper insights into the complex interplay of factors that determine a bank's performance (Gyawali et al., 2020).

CHAPTER V
SUMMARY AND CONCLUSION

This section encapsulates the comprehensive study conducted, offering a concise overview of the key findings and insights garnered. It distills the major conclusions derived from the analysis and delves into the implications and recommendations concerning the influence of profitability on commercial banks in Nepal. Furthermore, it explores potential directions for future research within the same domain.

5.1 Summary

This research undertook an extensive examination of shareholders' perceptions regarding bank performance and return on investment, focusing specifically on NIC Asia, NABIL, and RBBL. With a clear emphasis on its significance and objectives, the study aimed to evaluate the profitability of these banks while also identifying potential avenues for future research.

A critical aspect of the study involved a detailed analysis of profitability within Nepal's commercial banking sector. This analysis highlighted the importance of comprehending key financial metrics such as gross profit margin, net profit margin, and return on assets. Moreover, the research traced the historical progression of banking in Nepal, from the establishment of Nepal Bank Limited to the emergence and growth of private banks like NIC Asia Bank Ltd, Nabil Bank Ltd, and Rastriya Banijya Bank Ltd. By articulating the statement of the problem, the study illuminated challenges such as liquidity issues and regulatory compliance that could impact profitability.

The research objectives were meticulously outlined, encompassing an evaluation of the current financial landscape of commercial banks, an assessment of the influence of financial metrics on profitability, and an exploration of the relationship between profitability and liquidity. The rationale behind the study underscored its significance for various stakeholders, including investors, management, and regulators, while also

acknowledging limitations such as sample size constraints and reliance on secondary data.

The organizational structure of the study, comprising five well-structured chapters, provided a systematic framework for achieving the research objectives. Each chapter, from the Introduction to the Summary and Conclusion, served a distinct purpose, contributing to a comprehensive understanding of profitability analysis in Nepalese commercial banks.

Chapter II, in particular, laid the groundwork for the study by providing a comprehensive literature review on commercial bank profitability and liquidity management. Drawing from various theoretical perspectives and empirical findings, this chapter offered valuable insights that informed subsequent analyses and interpretations.

At the heart of the study was the meticulous examination of key financial indicators, including return on assets (ROA) and return on equity (ROE), for NIC Asia, NABIL, and RBBL. Through regression analyses, the study uncovered nuanced insights into the relationships between these indicators and explanatory variables such as net interest margin, current ratio, and earnings per share. The findings, characterized by fluctuations and variability across different metrics, provided valuable insights into the financial performance of the sampled banks.

In conclusion, the study effectively illuminated the intricate dynamics of bank profitability analysis, shedding light on its unique contributions to the field. By addressing its objectives with rigor and diligence, the research expanded the existing body of knowledge and paved the way for future investigations in this domain, enriching our understanding of the intricate interplay between banking performance and shareholder perspectives.

5.2 Conclusion

This study delves deeply into the multifaceted dynamics of the Nepalese banking sector, with a specific focus on understanding the drivers of performance in commercial banks, particularly in relation to Return on Assets (ROA). The insights gleaned from this

research significantly enhance our understanding of the industry, revealing both anticipated correlations and unexpected revelations.

Contrary to initial assumptions, the findings uncover that Net Interest Margin (NIM) holds a pivotal role in shaping the ROA of Nepalese commercial banks. This unexpected discovery challenges conventional wisdom and calls for a reassessment of the factors influencing profitability within the local banking landscape. The consistent upward trend in Net Interest Margin observed over time is attributed to regulatory measures implemented by the Nepal Rastra Bank (NRB), signaling a positive transformation driven by improved accessibility to banking services nationwide.

An analysis of the variation in the Current Ratio highlights NIC as exhibiting the lowest standard deviation, indicating a relatively stable board structure within the bank. This stability within NIC could have significant implications for effective decision-making and governance practices. Furthermore, the observed increase in the Current Ratio across most commercial banks aligns with regulatory directives set by the NRB, underscoring the pivotal role of the Current Ratio in maintaining financial stability. However, it is noteworthy that the notable surge in current assets and liabilities has led to a decline in return on equity (ROE) for the majority of commercial banks, suggesting a potential trade-off between capital infusion and maintaining an optimal Current Ratio.

The correlation analysis conducted in this study unveils insightful relationships between various financial indicators. The positive correlations identified between the capital adequacy ratio and both ROA and ROE for NIC Asia, NABIL, and RBBL underscore the critical importance of capital adequacy in bolstering liquidity ratios. Conversely, the negative correlations discerned between Net Interest Margin, Current Ratio, and Earnings Per Share with financial performance metrics (ROA and ROE) among Nepalese commercial banks shed light on potential areas for strategic intervention aimed at enhancing profitability.

This study provides a comprehensive overview of the Nepalese banking sector, offering nuanced insights into the intricate relationships between key financial indicators and elucidating the factors shaping the profitability landscape. These findings not only enhance our understanding of local banking dynamics but also provide actionable

insights for informed strategic decision-making within the industry. As the banking sector continues to evolve, the implications derived from this research will serve as valuable guideposts for future endeavors aimed at strengthening the performance and resilience of commercial banks in Nepal.

5.3 Implication

The profitability analysis of the sampled banks yields significant implications for shaping the strategies and operations of commercial banks within the studied context. Here's an in-depth exploration of the implications stemming from the findings:

i. The observed positive trend in Earnings Per Share (EPS) among sample commercial banks signifies a robust liquidity position. Sustaining this upward trajectory is crucial for enhancing profitability and fostering investor confidence. Maintaining consistent EPS growth will be vital for upholding market trust and attracting potential investors.

ii. NIC Asia's superior Net Interest Margin (NIM) compared to other sample banks reflects effective liability management practices. It is advisable for NIC Asia to continue managing its liabilities efficiently, particularly those categorized under other liabilities, to maintain its competitive edge. Continued emphasis on optimizing interest income through prudent liability management strategies can further bolster the bank's profitability.

iii. The encouraging trend of an increasing Current Ratio across all sample commercial banks should be maintained. This proactive approach to liquidity management ensures robust financial health and serves as a buffer against unforeseen financial challenges, thereby amplifying profitability. Commercial banks should remain vigilant in maintaining adequate liquidity levels to mitigate risks and capitalize on growth opportunities effectively.

iv. The ascending trend in Return on Assets (ROA) and Return on Equity (ROE) indicates a positive earning quality among the sampled banks. To augment profitability further, banks are advised to focus on optimizing operational

efficiency by streamlining processes and minimizing operating costs. Implementing cost-effective measures and leveraging technology to enhance productivity can significantly contribute to improving ROA and ROE metrics.

v. Future researchers are encouraged to integrate macroeconomic factors such as GDP, inflation rates, government regulations, and policies into their analyses. This holistic approach can offer deeper insights into the multifaceted influences shaping the profitability dynamics of private commercial banks in Nepal. By considering the broader economic context, researchers can provide more comprehensive assessments of the factors driving bank profitability.

vi. Expanding the scope of future research to encompass other financial sectors, including development banks, insurance finance companies, and microfinance institutions, can provide a comprehensive understanding of the broader financial landscape and its interdependencies. Analyzing the interconnectedness between different financial sectors can offer valuable insights into systemic risks and opportunities for collaboration and diversification.

vii. Future studies could benefit from incorporating primary data collection methods or adopting a mixed-methods approach to research. By soliciting input from diverse stakeholders and investors, a more nuanced understanding of their preferences and perspectives can be attained, enriching the analysis. Incorporating qualitative insights alongside quantitative analysis can provide a holistic view of the factors influencing bank profitability.

viii. Acknowledging the limitations of the current study, such as sample size constraints and the limited time frame, future research endeavors could enhance their robustness by expanding the sample size and extending the time frame of analysis. This would ensure a more comprehensive and accurate portrayal of the trends and patterns observed. Additionally, conducting longitudinal studies spanning multiple economic cycles can provide insights into the long-term sustainability of profitability trends.

ix. Future studies might explore the utilization of non-linear statistical tools and bidirectional causality analyses to unravel the intricacies of the relationships within the profitability analysis framework. This advanced analytical approach can unearth deeper insights and uncover hidden dynamics within the profitability landscape. By employing sophisticated modeling techniques, researchers can capture complex interactions and dependencies, offering a more nuanced understanding of profitability drivers.

In summary, the implications drawn from this profitability analysis serve as guiding principles for commercial banks in Nepal, offering actionable recommendations to fortify their financial performance and navigate the ever-evolving landscape of the banking sector. By heeding these recommendations and embracing a proactive stance towards financial management, banks can pave the way for sustained growth, resilience, and profitability in the dynamic market environment.

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APPENDICES

EPS OF SAMPLE BANKS

Years	NIC Asia	RBBL	NABIL
2070/71	35.98	21.38	43.85
2071/72	25.59	57.07	57.24
2072/73	28.31	27.42	59.27
2073/74	23.06	32.32	59.86
2074/75	16.62	30.26	51.84
2075/76	23.06	56.04	50.57
2076/77	16.61	48.61	36.16
2077/78	34.24	37.27	33.57
2078/79	31.91	34.85	18.64
2079/80	28.18	34.85	23.67

Sources: Annual Report of sample Banks in years 2070/71 to 2079/80

ROA OF SAMPLE BANKS

Years	NIC Asia	RBBL	NABIL
2070/71	1.12	0.15	1.81
2071/72	1.33	3.33	1.81
2072/73	1.82	0.14	2.15
2073/74	1.32	1.61	2.57
2074/75	0.78	1.86	2.36
2075/76	1.37	4.79	2.11
2076/77	1.24	3.95	1.46
2077/78	0.94	2.9	1.55
2078/79	1.18	3.22	1.01
2079/80	1.22	3.34	1.33

Sources: Annual Report of sample Banks in years 2070/71 to 2079/80

ROE OF SAMPLE BANKS

Years	NIC Asia	RBBL	NABIL
2070/71	15.93	4.02	6.54
2071/72	13.05	4.21	7.68
2072/73	16.5	6.21	8.04
2073/74	16.84	5.41	8.67
2074/75	12.09	4.56	7.48
2075/76	20.24	5.03	8.67
2076/77	17.97	4.58	9.19
2077/78	1.56	3.14	8.6
2078/79	16.97	3.25	7.92
2079/80	15.12	3.24	8.46

Sources: Annual Report of sample Banks in years 2070/71 to 2079/80

NIM OF SAMPLE BANKS

Years	NIC Asia	RBBL	NABIL
2070/71	2.61	0.32	3.39
2071/72	2.43	3.29	3.06
2072/73	2.46	0.33	3.29
2073/74	2.64	4.21	3.79
2074/75	2.46	4.62	3.7
2075/76	3.16	4.39	3.56
2076/77	3.03	3.54	2.94
2077/78	2.67	2.65	2.77
2078/79	3.1	2.81	2.12
2079/80	3.37	3.42	3.69

Sources: Annual Report of sample Banks in years 2070/71 to 2079/80

CR OF Sample Banks

Years	NIC Asia	RBBL	NABIL
2070/71	71.08	74.25	74.14
2071/72	68.49	76.58	76.84
2072/73	78.25	74.74	74.58
2073/74	80.25	79.08	80.47
2074/75	84.27	83.24	84.68
2075/76	93.96	84.78	81.64
2076/77	78.1	77.31	90.54
2077/78	87.56	86.09	91.5
2078/79	82.83	95.48	84.54
2079/80	94.27	80.43	88.75

Sources: Annual Report of sample Banks in years 2070/71 to 2079/80

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CHAPTER I INTRODUCTION 1.1 BackgroundoftheStudy

Liquidity and profitability are of **tremendous importance in the corporate world. Liquidity** pertains **to the management of** a company's **current assets and current liabilities. It**

is crucial because it determines whether a firm can effectively meet its short-term obligations. Given its critical importance, firms must

maintain a reasonable amount of **their assets in cash to** cover these **short-term** liabilities. A **balanced level**

of liquidity

is necessary for the effectiveness and profitability of a firm. Therefore , companies **need to determine the** optimal **level of liquidity to ensure high profitability. Liquidity should** be **neither too low nor too high; rather, it should** be maintained at **a reasonable level. Profitability** , on **the**

other hand,

refers to the revenues earned by firms from **their operations and** the **expenses** incurred. **To**

assess a firm's profitability, profitability ratios are used, which clearly show