

**RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY
OF NEPALESE COMMERCIAL BANKS**

A Thesis

Submitted

By

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **Relationship between Liquidity and Profitability of Nepalese Commercial Banks**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledge. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

It is certified that, thesis entitled **Relationship between Liquidity and Profitability of Nepalese Commercial Banks** submitted by Santosh Budha is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for the critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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ABSTRACT

This study investigates the relationship between liquidity and profitability of Nepalese commercial banks. The main objective was to explore and examine the liquidity position, profitability status and relationship between liquidity and profitability of Nepalese commercial banks. To accomplish this objective descriptive research approach has been adopted. Data collected and used secondary data from the annual report statements of the Nepalese commercial banks. Analysis was based on data extracted from annual reports and accounts of the companies for the relevant period. Correlation and regression analysis were employed to examine the relationship between liquidity and profitability. The ROA, ROE and net profit margin was used to measure profitability status and current ratio, cash and bank balance to total deposit ratio and cash and bank balance to current deposit ratio was used to measure liquidity position. The study covers five Nepalese commercial banks (i.e. ADBL, Nabil, NIC Asia, Mega and Siddhartha) in Nepal over a period of past five fiscal years from 2015/16 to 2019/20. The study concluded that the CR has positive significant relationship with ROA and NPM and negative significant relationship with ROE of selected commercial banks. The CBBTDR has negative and insignificant relationship with the ROE and NPM and also has positive and insignificant relationship with ROA. Similarly, the CBBCDR has shows negative and significant relationship with ROA, ROE and NPM of selected commercial banks over the study period.

Key Words: Liquidity, Profitability and Nepalese Commercial Banks

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ABBREVIATIONS

| | | |
|----------|---|--|
| ADBL | : | Agriculture Development Bank Limited |
| B.S. | : | BikramSambat |
| CBB | : | Cash and bank balance |
| CBBCDR | : | Cash and bank balance to current deposit ratio |
| CBBTDR | : | Cash and bank balance to total deposit ratio |
| CD | : | Current deposit |
| CRR | : | Cash Reserve Ratio |
| CV | : | Coefficient of Variance |
| F/Y | : | Fiscal Year |
| II | : | Interest Income |
| Ltd. | : | Limited |
| NABIL | : | Nabil Bank Limited |
| NIC Bank | : | Nepal Industrial and Commercial Bank |
| NP | : | Net Profit |
| NPM | : | Net Profit Margin |
| ROA | : | Return on Assets |
| ROE | : | Return on Equity |
| SE | : | Shareholder's Equity |
| TA | : | Total Assets |
| TD | : | Total Deposit |