

MARKET INTEREST RATE AND PROFITABILITY OF COMMERCIAL BANKS IN NEPAL

A Thesis

By

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Certification of Authorship

The certification of authorship to be signed by the candidate would appear as follows:

I certified that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledge within the text.

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

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We, the undersigned, have examined the thesis entitled **MARKET INTEREST RATE AND PROFITABILITY OF COMMERCIAL BANKS IN NEPAL** presented by **BHIMNIDHI TIWARI**, a candidate for the degree of **Master of business Studies** (MBS) and conduct the viva voce examination of the candidate. We here by certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

AD	= After Death
ADBL	= Agriculture Development Bank Limited
ANOVA	= Analysis of Variance
ANPAT	= Average Net Profit After Tax
BS	= Bikram Sambat
CD	= Credit to Deposit
DF	= Degree of Freedom
DR	= Deposit Rates
EBL	= Everest Bank Limited
FY	= Fiscal Year
HBL	= Himalayan Bank Limited
KBL	= Kumari Bank Limited
LR	= Liquidity Ratio
LR	= Lending Rates
MBL	= Machhapuchhre Bank Limited
NABIL	= Nabil Bank Limited
NBL	= Nepal Bank Limited
NIBL	= Nepal Investment Bank Limited
NIM	= Net Interest Margin
NPL	= Non Performing Loan
NRB	= Nepal Rastra Bank
N	= Number of Item
Prob.	= Profitability

R	= Correlation
RBBL	= Ratriya Banijya Bank Limited
ROA	= Return on Assets
ROE	= Return on Equity
Rs	= Rupees
SCBL	= Standard Chartered Bank Limited
Sig.	= Significance
SPSS	= Statistical Package for Social Sciences
SR	= Spread Rate
SN	= Serial Number
TOER	= Total Operating Expenses Ratio
WWW	= World Wide Web

ABSTRACT

The main purpose of the study was to examine the interest rates and its impact on profitability of commercial banks in Nepal. This study included interest rate factors (spread rate, liquidity, non performing loan, credit to deposit ratio, total operating efficiency ratio) and profitability factors (return on assets, net interest margin and return on equity) of commercial banks in Nepal. This study used descriptive research design based on quantitative method, secondary sources was used to collect the data, convenience sampling was used and taken sample data of fiscal year (2007/08 to 2016/177 AD) of 10 sample commercial bank in Nepal. The data presented on table and figure, interest rate policy directed by NRB, descriptive statistics, correlation and regression tools were used to analyze the result. SPSS was used to obtained the result.

The spread rate was found maintain level directed by NRB for commercial banks in Nepal. The correlation of independent factors and ROA was found very low or negative. Correlation between independent factor and NIM was found strongly positive and significant relationship among the variables. The correlation between ROE and spread rate found negative due to higher negative value of ROE of some sample banks. The model summary showed the change in variation of NIM strongly explained by independent factors. But ROE was little bit explained by independent factors, the p-value for ROA, NIM and ROE was seen less than five percent, the regression model were best fitted. The major findings was that the interest rate spread highly impact on profitability of commercial banks in Nepal rather than other variables.

This study may have many implications in future such as it may be a fundamental literature for further research in academic sector as well as professional, social and management sectors, commercial banks in Nepal may formulate strategy plans on the basis of the findings of this study. It may be the legal evidence to the researcher to foster experience, knowledge and skill in further works. Finally it may be implacable for all stakeholders those who concerned with the study.