

IMPACT OF LIQUIDITY ON PROFITABILITY IN NEPALESE COMMERCIAL BANKS

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Impact of Liquidity on Profitability in Nepalese Commercial Banks**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has 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 acknowledged. 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

Mr. Sandesh Rai has defended research proposal entitled “**Impact of Liquidity on Profitability in Nepalese Commercial Banks**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Madhusudan Gautam and submit the dissertation for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Impact of Liquidity on Profitability in Nepalese Commercial Banks**” presented by Sandesh Rai a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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This study entitled “**Impact of Liquidity on Profitability in Nepalese Commercial Banks**” has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of impact of liquidity on profitability in Nepalese commercial banks.

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Sandesh Rai

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ABBREVIATIONS

| | | |
|-------|---|---------------------------------------|
| BS | : | Bikram Sambat |
| CAR | : | Capital Adequacy Ratio |
| CB | : | Commercial Banks |
| CDR | : | Cash to Deposit Ratio |
| CV | : | Coefficient of Variation |
| DAR | : | Deposit to Assets Ratio |
| EBL | : | Everest Bank Limited |
| F/Y | : | Fiscal Year |
| GDP | : | Gross Domestic Products |
| GIME | : | Global IME Bank Limited |
| HBL | : | Himalayan Bank Limited |
| JVBs | : | Joint Venture Banks |
| L & A | : | Loan and Advance |
| LATA | : | Liquid Assets to Total Assets Ratio |
| LDR | : | Loan to Deposit Ratio |
| NABIL | : | Nabil Bank Limited |
| NBL | : | Neal Bank Limited |
| NIMB | : | Nepal Investment Mega Bank Limited |
| NMB | : | NMB Bank Limited |
| NRB | : | Nepal Rastra Bank |
| RBBL | : | Rastriya Banijya Bank Limited |
| ROA | : | Return on Assets |
| ROE | : | Return on Equity |
| SBI | : | Nepal SBI Bank Limited |
| SCB | : | Standard Chartered Bank Nepal Limited |
| SD | : | Standard Deviation |
| Sig. | : | Significant Value |
| TA | : | Total Assets |
| TU | : | Tribhuvan University |

ABSTRACT

This study investigates the impact of liquidity on profitability in Nepalese commercial banks. Descriptive and causal research design has been employed in this study. This study used descriptive analysis, correlation analysis and multiple regression analysis to analyze the data. This study shows that there is strong liquidity position in terms of liquid assets to total assets ratio and also strong profitability position of sample banks in term of ROA and ROE means sample banks have efficiently utilized its assets through mobilizing its deposit because they have high ratios. The correlation analysis shows that cash to deposit ratio and liquid assets ratio have insignificant positive correlation with ROA and significant positive relationship with ROE. However, loan to deposit ratio has significant positive association with profitability (ROA and ROE) of the banks. The correlation analysis also shows that capital adequacy has insignificant positive relationship with ROA but significant negative relationship with ROE. Further, deposit ratio has significant positive relationship with ROA and ROE of the banks. The study also reveals that cash to deposit ratio has insignificant positive impact on ROA and ROE of the banks. Similarly, liquid assets to total assets ratio has no significant impact on profitability (ROA and ROE) of commercial banks in Nepal. However, loan to deposit ratio has significant negative impact on profitability (ROA and ROE). At the meantime, capital adequacy ratio has significant positive impact on ROA and significant negative impact on ROE of the banks. Moreover, deposit ratio has insignificant positive impact on profitability of commercial banks in Nepal. Therefore, this study concluded that there is insignificant effect of liquidity on profitability of commercial banks in Nepal.

Keywords: Return assets, return on equity, cash to deposit ratio, liquid assets to total assets ratio and loan to deposit ratio.

CHAPTER I INTRODUCTION

1.1 Background of the Study

Liquidity management is essential for every business that hopes to make on-time debt payments. The company has sufficient liquid assets to pay off its debts, including cash on hand and cash in the bank. Liquidity ratios compare a company's present commitments, or pledges for payments that are due immediately, with its cash and near-cash assets, or liquid funds. The corporation would struggle to pay its short-term debt if its present liabilities were to surpass its cash and near-cash levels. This could have an effect on the day-to-day operations and financial outcomes of the business. The comparison of liquidity with profitability: obtaining more of one usually requires giving up part of the other. There is a trade-off between liquidity and profitability (Ahamed, 2021). It is impossible to overstate the significance of liquidity in relation to company profitability in today's business environment. Maintaining working capital's liquidity is essential for ensuring that it runs smoothly and fulfills its obligations on a daily basis (Bhatt & Verghese, 2018).

Malik and Rafique (2013) argued that a bank's incapacity to control its liquidity might result in low profitability or insolvency, depending on the volume of liquidity, which could eventually destroy shareholder value and cause the financial institution to fail as a whole. Thus, keeping the bank's liquidity at its ideal level is crucial to its successful and effective functioning. The ability of a bank to manage its liquidity is largely dependent on two key factors: a well-defined policy that is communicated throughout the whole organization and a liquidity control plan that lays out exact guidelines for the management of assets and liabilities.

A bank is said to have an adequate liquidity situation if its pool of liquid assets is large enough to meet its liabilities. There isn't enough liquidity available right now to fulfill its obligations, which indicates a comfortable liquidity situation. Operating risk may perform poorly as a result of limited liquidity. Therefore, the banking industry as a whole may perform inefficiently and with low profitability as a result of the high liquidity. Long-term banking performance failure could result from it. For commercial banks, having too much cash on hand as well as a liquidity crisis are undesirable. The

government, commercial banks, common people, and the central bank all have an effect on the quantity of liquidity in the economy at any one time, the central bank's order to maintain the money standard. How much money a commercial bank should have on hand to lend out, invest, and store in liquid assets (Shrestha, 2004).

The terms "profit" and "ability" combine to form the term "profitability." Regarding the term "profit," there are two primary ideas in economics and accounting. The father of economics, Adam Smith, stated that profit is the amount left over after all wages are paid. Wages in economics include payments to farmers, proprietors, officers of corporations, labor, and rent of the unimproved value of land, which is known as the return on capital. The final accounting profit of these firms comprises two components, according to the mathematics of capital in accountancy: a return on capital and a return that represents economic rent on the land value. Still, not a shred of knowledge exists regarding what percentage of accounting profit each of these two economic components represents. A firm needs revenues to survive, just as an economy needs healthy business to survive. Everyone should be able to take pride in their profit; they shouldn't be viewed with suspicion. In actuality, a bank's earnings show how efficient it is overall (Lynch & William, 1989).

Maintaining a balance between profitability and liquidity is crucial since they are mutually exclusive. This is how profitability and liquidity are traded off. The only way to achieve maximum safety, or to put it another way, liquidity, is for banks to hold large amounts of cash or other liquid assets in relation to the deposits they have received. However, the banks will not profit from this if they carry out this action. As a result, the bank will have to give up its profitability goal paying out dividends in accordance with shareholder demands if it chooses to prioritize optimum safety. In the meantime, if they take the opposite approach that is, simply continuing making investments in an effort to boost profitability they will run into issues when customers want cash. Therefore, it is extremely difficult but necessary for the banks to balance the dual goals of making the profitability element and the liquidity component go hand in hand.

Commercial banks must operate accurately in order to prevent any financial service from becoming disorderly. The ideal level of liquidity is intimately related to banks'

ability to operate efficiently. Poorly managed liquidity can lead to low profitability in the case of high liquidity or insolvency in the case of low liquidity due to strong integration, dependencies, and the contagion effect. In the end, this would destroy shareholder wealth and bring down the entire financial institutional framework. This is why the study looks at the relationship between liquidity and the profitability of Nepalese commercial banks.

The study has focused on the study of liquidity and profitability of commercial banks. In any economy, the importance of the banking sector in particular and the financial sector in general cannot be overstated. The expansion of an economy as a whole depends on the banking sector. The present study employs a descriptive and analytical research methodology to ascertain the sustainability and current state of the banks.

1.2 Problem Statement

Mehar (2001) demonstrated that there is no consistent relationship between a bank's capital management, liquidity, or profitability. It was found that banks' short-term profitability was greatly enhanced by the capital ratio. However, liquidity has little bearing on a bank's profitability. The results of the study suggest that capital sufficiency is the most effective means of ensuring the security and stability of financial institutions. Majeed et al. (2013) there is a negative correlation between the cash conversion cycle and firm performance. The results showed that managers could add value for their investors by reducing the length of time that accounts receivable remain outstanding.

If a bank does not have enough cash on hand or liquid assets, it may be obliged to turn down incentives given by loan, service, and product suppliers. The company's profitability might be impacted by higher item costs due to the removal of these incentives (Deloof, 2003). The level of liquidity in a corporation is important to all stakeholders. Suppliers will check the company's liquidity before supplying products on credit. Employees should also be worried about the company's liquidity, since this will show whether or not it can meet its employee-related obligations. A company must thus have enough liquidity.

Pradhan and Shrestha (2016) stated that ROE and capital ratio were positively correlated, however quick ratio and liquidity ratio and ROE and ROA were negatively correlated. Bhatt and Verghese (2018) found that return on assets and the liquidity ratio had a modest positive relationship. There was also a negligible negative correlation found between the investment ratio and capital ratio and return on assets. Fagboyo, Adedeju, and Adeniran (2018) concluded that as the quick ratio of accessible funds grows, but the cash ratio and liquidity coverage ratio rise, the profitability of Nigeria's deposit cash banks falls.

Rudhani and Balaj (2019) concluded that there was a significant and positive correlation between bank performance and liquidity risk. Zidan (2020) found that the ratio of loans to deposits had the greatest significant impact on profitability, while the ratio of capital sufficiency also had a major impact. Budhathoki et al. (2020) mentioned leverage had a favorable impact on ROA and NIM, two profitability metrics. It has been discovered that bank size positively affects profitability. Khatri (2020) concluded that return on equity (ROE) and assets quality (AQ) had a positive and significant link, whereas ROA and AQ had a negative and significant association. The return on equity (ROE) and return on assets (ROA) had a positive but negligible connection with the cash-deposit ratio (CADR).

Nourrein and Mennawi (2020) observed that credit risk and financial leverage had a negative influence on the financial performance of Sudanese banks, but liquidity risk, as indicated by the ratio of liquid assets to total assets, has a favorable effect. Paul, Bhowmik, and Famanna (2021) discovered that, as measured by ROE, LDR, DAR, and CDR significantly impacted profitability, whereas LAR and CR proved to be insignificant. Ojo et al. (2022) state that the loan to deposit ratio, liquidity ratio, and cash reserve ratio all have a favorable and significant influence on bank performance. Hidayat and Dewi (2023) showed that liquidity and leverage had a significant effect on profitability. The empirical evidence has demonstrated that a mixed relationship between liquidity and profitability of commercial banks. This study is therefore directed towards establishing the effect of liquidity on the profitability of commercial banks in Nepal. Specifically, this study is connected to search answer of the following questions related to the selected banks.

- What is the liquidity and profitability position of commercial banks in Nepal?

- Is there any relationship between liquidity variables and profitability of commercial banks in Nepal?
- What is the impact of liquidity on profitability of commercial banks in Nepal?

1.3 Objectives of the Study

The main objective of this study is to evaluate the liquidity and profitability of commercial banks in Nepal. Other specific objectives are as follows:

- To examine the liquidity and profitability position of commercial banks in Nepal.
- To analyze the relationship between liquidity and profitability of commercial banks in Nepal.
- To analyze the impact of liquidity on profitability of commercial banks in Nepal.

1.4 Rationale of the Study

Studies on the profitability and liquidity of commercial banks have been conducted. There is currently a dearth of study on the fundamentals of liquidity and its management; the majority of studies on the capital market are concerned with financial performance, investments, capital structure analysis, dividend policy, risk, and return, among other topics. In order to achieve their own and organizational goals, investors, planners, researchers, professionals, executives, and students will find great value in the current study. With the help of this study, the typical Nepalese citizen's idle capital will be mobilized into productive sectors, helping the country's economy grow faster and become less reliant on loans and aid from abroad. This study will assist regulatory bodies in learning more about how commercial banks manage their liquidity. It will serve as a reference for the researchers and staff that are involved. Additionally, this study will outline and recommend investment options that meet the profitability and liquidity goals of commercial banks. This study will undoubtedly be valuable to many different groups of people, but it is specifically targeted at the following: investors, customers, competitors, stockbrokers, dealers, market makers, government bodies and policy makers, shareholders, the bank's management team, customers, financial institutions, and stock exchange.

1.5 Limitations of the Study

In the context of liquidity and profitability in the financial sectors of Nepal, the report is a significant document. The results of the study could be highly helpful to practitioners and academics alike. Like every study, this one has certain limitations.

This also suffers from following limitations:

- The study is limited to only ten commercial banks of Nepal, namely; Himalayan Bank Limited, Global IME Bank Limited, Standard Chartered Bank Nepal Limited, Nabil Bank Limited, Rastriya Banijya Bank Limited, NMB Bank Limited, Nepal Investment Mega Bank Limited, Everest Bank Limited, Nepal SBI Bank Limited and Neal Bank Limited.
- The study deals with some important tools such as descriptive analysis, correlation analysis and multiple regression analysis.
- Only secondary data is used for analysis.
- The study is limited to the past ten years from 2013/14 to 2022/23.

CHAPTER II

REVIEW OF LITERATURE

A literature review is an inventory of the body of knowledge in a particular subject of study. A literature review is a crucial component of every research project. It establishes the limits of any investigation. The current work is built upon earlier research. Therefore, prior research cannot be disregarded. Research needs to be conducted.

This continuity in the research is established by linking the present study to previous research inquiries. This demonstrates that a literature review's primary objective is to list completed research projects and unresolved issues related to the topic of interest. The literature review is a crucial part since it shows how the study is organized. A literature review's main objective is to ascertain what has been done in the field of the research subject under discussion. A wide range of materials, including books, journals, articles, and research projects from various universities, are used by the researcher. Additionally examined have been unpublished master's-level student dissertations (Pant, 2016).

2.1 Theoretical Review

2.1.2 Theories of Liquidity

The objectives of a financial sector's safety, profitability, and liquidity seem to contradict with one another. Occasionally, economists have attempted to overcome these contradictions by establishing specific theories. In actuality, these ideas or concepts control how assets are distributed while keeping these goals in mind. They are also referred to as the theories of liquidity, and they are covered in the following ways:

2.1.2.1 Liquidity Preference Theory

Bibow (2006) argued that Keynes theory of liquidity preference theory, people love money because they may utilize it for both everyday transactions and as a store of wealth. They will thus miss out on the opportunity to earn interest on funds they wish to use immediately and store for emergencies. However, when interest rates rise, investors are less inclined to keep money for these uses in an effort to make a profit.

Elgar (1999) One needs money for a variety of reasons, including financing planned expenses, making predictions about the direction of interest rates, or simply not knowing what the future holds and knowing that it is best to retain a portion of one's resources in the form of pure purchasing power. These reasons for demanding money came to be recognized as transactional, speculative, and precautionary motives. Rather than simply meeting credit demand in a passive manner, banks should actively manage their balance sheets, according to the banks liquidity preference method.

2.1.2.2 The Liabilities Management Theory

Late in the 1960s and early in the 1970s, this hypothesis was created. According to this hypothesis, banks can borrow reserve money in the money market in case of necessity, negating the requirement for them to provide self-liquidating loans and maintain liquid assets. A bank can obtain reserves by establishing new obligations from various sources against it. These sources include of the issuance of time certificates of deposit, borrowing from the central bank and other banks, raising capital through the issuance of shares, and repurchasing profits. It briefly addresses various bank sources (Sinkey, 1983).

The liabilities portion of a bank's balance sheet is the main emphasis of the liquidity management theory. According to this notion, a bank's obligations could provide additional liquidity. Nwankwo (1991) states that the theory contends that there is no need to store liquidity on the asset side (liquidity asset) of the balance sheet because banks can purchase all the funds they require.

2.1.2.3 Assets Conversion Theory

In the latter part of the 1940s, this hypothesis was developed. The shift ability hypothesis of bank liquidity was introduced by H.G. Moulton, who claimed that there was no need to rely on maturities provided the bank maintained a sizable quantity of assets that could be transferred to the other bank for cash without suffering a meaningful loss in an emergency. This point of view states that in order for an asset to be completely shiftable, it must be instantly transferable without causing capital loss when the need for liquidity arises. However, during a general crisis, all banks must have these kinds of assets on hand so that they can be transferred to the central bank,

which serves as the lender of last resort. There are some truthful aspects to this hypothesis.

According to this theory, a bank's liquidity is preserved if it has assets that are convertible or sellable for cash to investors or other lenders. According to this perspective, a bank's liquidity might be improved if it always has assets to sell and the discount market and central bank are prepared to buy the asset being sold at a discount. Accordingly, this theory acknowledges and maintains that a bank's assets' transferability, marketability, or shiftability serves as a foundation for guaranteeing liquidity. This argument goes on to say that a bank's highly marketable securities are a great source of liquidity. According to Dodds (1982), the activities involved in getting funds from depositors and other creditors (particularly from the market) and figuring out the right mix of funds for a certain bank include liquidity management theory.

2.1.2.4 The Anticipated Income Theory

In 1950, H.V. Proch developed the expected income hypothesis, which was predicated on the practice of making term loans. According to this theory, regardless of the nature and structure of the borrower's business, the financing company arranges for the long-term loan's liquidation from the borrower's anticipated revenue. A loan with a duration of more than a year but less than five is called a term loan. It is granted against the hypothecation of real estate, machinery, and even stock. The financing company restricts the borrower's financial behavior when granting this loan. In addition to the security, the financing business considers the borrower's expected earnings at the time of loan issuance. Actually, the primary factor is the expected revenue.

This theory takes out the shift ability hypothesis and the real bills doctrine because it meets the three criteria of liquidity, safety, and profitability. When the borrower keeps saves and repays the loan in installments on time, the financing company assures liquidity. Since the bank gives a loan based on the borrower's capacity to repay the loan during its term and their assurance of a stable income, together with a suitable security, it conforms with the safety principle. In conclusion, the term loan offers several benefits to the business (Sinkey, 1983).

2.1.1.5 Commercial Loan Theory

This theory first came into being in the early 1920s. The real bills school of thought holds that commercial banks should only make short-term, profitable loans to companies that can pay them back quickly. The costs of production, storage, transportation, and distribution are covered by self-liquidating loans. When such objects are subsequently sold, the loans are perceived as automatically evaporating. Such a short-term self-liquidating productive debt has three advantages. Since they are initially a liquid state, they naturally dissolve themselves. Second, there is no chance of them incurring bad debts because they mature quickly and are used for beneficial uses. Third, because these loans are profitable, the banks benefit (Sinkey, 1983).

2.1.2 Measurement of Bank Profitability

The primary objective of commercial banks is profit. The ultimate goal of all the tactics created and actions taken in this regard is to achieve this lofty goal. This does not imply, however, that commercial banks have no other objectives. Commercial banks may also have other economic and social objectives. Nonetheless, this study's goal is connected to the primary goal of profitability. A number of ratios are used to assess the profitability of commercial banks, the most important ones being return on asset, return on equity, and net interest income (Garrinson & Norren, 2005).

The ratio of total shareholder equity to net income or profit after taxes is known as return on equity, or ROE. Net income over average total common stock equity is another way to calculate it. This ratio assesses the management's level of caution in using shareholder funds to protect shareholders' interests and increase their net value (Garrinson & Norren, 2005).

Furthermore, net interest income over loan and advance is used to calculate net interest margin. It demonstrates the effectiveness of management. It displays the management's ability to make use of the deposits that are accessible. An increase in interest income is essential to the financial organization. Put differently, this suggests that a large amount of interest revenue is a sign of successful lending operations and vice versa (Glautier & Underdown, 2001).

The difference between the interest revenue that banks or other financial institutions generate and the interest that is paid to their lenders (for example, on deposits) in relation to the total value of their (interest-earning) assets is known as net interest margin, or NIM. It's a performance measure that looks at how well a bank manages its debt in relation to its investment choices. Because interest costs exceeded the returns from investments, a negative number indicates that the company did not make the best choice.

2.1.3 Provisions of Nepal Rastra Bank

The following guidelines have been released addressing the required reserve and liquid assets that a licensed institution must maintain based on its deposit and borrowing obligations, after utilizing the authority granted by NRB directions, 13, 2080.

2.1.3.1 Provisions relating to Compulsory Reserve

"A" class commercial banks can collect deposits of General Public.

(1) In order to accept current/call accounts and retain a class "A" license, regulated institutions must keep a deposit equal to four percent of their total deposit liabilities with this firm.

(2) If the balance required to be maintained as stated in Subclause (1) above is not met, the following penalty will be assessed:

- a. If there is a shortfall in maintaining the compulsory reserve for the first time, the amount will be determined by the percentage of the company's current rate.
- b. If there is a shortfall in maintaining the compulsory reserve for the second time, the amount will be determined by double the percentage of the company's current rate on the shortfall amount.
- c. If there is a shortfall in maintaining the compulsory reserve for the third time and subsequent times, the amount will be determined by the percentage of the company's current rate on the shortfall amount.

(3) In order to determine "times" for the purposes of the aforementioned subclauses (a), (b), and (c), distinct times must be determined for each fiscal year. Additionally, any licensed institution that neglects to keep mandatory reserve for three weeks in a

row will be punished one time for the first week, two times for the second week, and three times for the third week.

(4) Weekly fines at the current business rate will be applied to the deficit amount. This deficit amount will be split by 52 after being multiplied by the corporate rate as a percentage.

(5) The following processes must be followed in order to calculate the mandatory reserve that must be kept:

(a) The mandatory reserve will be reviewed every week, from Sunday through Saturday.

(b) The mandatory reserve will be compared to the average weekly deposit liability balance for the two weeks before. If a given week has all of its holidays, the average deposit from the week before will be taken into account.

(c) The weekly average of all deposit liabilities and balances held with this financial firm will be calculated 360 for the purpose of calculating the required reserve. This will be achieved by adding up all daily balances from Sunday to Saturday and dividing the total by seven. In doing so, the amount from the day before will be taken into account if there are any holidays in the week.

d) For this reason, within seven days of the end of the week, all information pertaining to Sunday through Saturday (including the balance from the previous day in the event of a holiday) must be mandatory submitted to the relevant Supervision Department of this bank in the format specified in Directives Form No. 13.1.

(6) All of a licensed institution's offices will be considered a single entity for this purpose.

(7) The sum owed to this financing firm will include any local currency that is in transit for a money transfer and intended to be credited to the account.

2.1.3.2 Provisions Relating to Statutory Liquidity Ratio

The statutory liquidity ratio must be maintained by licensed banks and financial institutions of classes "A," "B," and "C" at the rate that is periodically mandated. The government securities, the amount in the call deposit in the class "A" commercial

banks for the same purpose, and the remaining amount over the amount required for the compulsory reserve ration may also be calculated as the eligible instruments, provided that the statutory liquidity ratio as specified by this provision is maintained. Ten percent local deposit should be kept by "A" credit banks. The statutory liquidity ratio computation is subject to the following provisions:

(1) The statutory liquidity ratio will be computed using the domestic deposit liability that was maintained at the end of the previous month.

(2) This ratio must be computed, and in accordance with Directive Form No. 13.3, the statement containing the statutory liquidity ratio amount for each full month must be filed.

(3) Should they claim that the deposit is insufficient; the following fine will be assessed in accordance with the guidelines outlined in NRB instructions, 2080:

(a) At the current bank rate as a percentage of the shortfall in circumstances where the statutory liquidity ratio is not met for the first time.

(b) At twice the percentage of the current bank rate for the amount fallen short in situations where the statutory liquidity ratio is not met for the second time.

(c) In situations where the statutory liquidity ratio is not met for the third time or at any subsequent time, the amount that is not met will be charged at a rate three times the current company rate.

(4) A distinct time must be established for every fiscal year when establishing the time for clauses (a), (b), and (c).

(5) If the statutory liquidity ratio is not met, a fine equal to the current company rate percent will be applied to the monthly account. The amount that is not met will be multiplied by the company rate percentage and divided by twelve.

(6) In the event that the required liquidity ratio is not met, the company rate set forth by this financing business will serve as the foundation for calculating the punishment.

2.2 Empirical Review

2.2.1 Review in International Context

Adedeju and Adeniran (2018) analyzed the impact of liquidity management on profitability within the Nigerian deposit money banks. This spanned a decade, from 2007 to 2016. To symbolize the twenty-four deposit money banks in Nigeria, five banks have been selected. Quick ratio, cash ratio, current ratio, and liquidity coverage ratio are all measured by the liquidity indicators square, while profitability was proxied by returns on equity (ROE) and return on assets (ROA). The idea was tested using regression analysis. The results showed that deposit money institutions' performance is significantly impacted by liquidity management. This study showed that while Nigeria's deposit cash banks' profitability decreased with increases in the cash ratio and the liquidity coverage ratio, their profitability increased with increases in the quick ratio of available funds. Therefore, in order to manage liquidity in an economical, effective, and efficient manner, it was recommended that the banks develop a comprehensive framework and hire qualified personnel to help them reach the highest level of profitability.

Fagboyo, Adedeju and Adeniran (2018) investigated the impact of liquidity management on profitability in Nigeria's banking sector. The main objective of the study was to examine the relationship between liquidity management and profitability in Nigerian deposit money banks over a ten-year period (2007-2016). To represent the population of the twenty-four deposit money banks in Nigeria, five banks were selected, and the liquidity indicators square measure quick ratio, cash ratio, current ratio, and liquidity coverage ratio; profitability was proxied by returns on equity (ROE) and return on assets (ROA), which were tested using regression analysis. The results show that deposit money institutions' performance is significantly impacted by liquidity management. The empirical findings further demonstrate that while an increase in the cash ratio and the liquidity coverage ratio causes the profitability of Nigeria's deposit cash banks to decline, an increase in the fast ratio of available funds causes the profitability to grow. Therefore, the recommendation is that banks create a comprehensive framework for liquidity management in order to manage liquidity economically, effectively, and efficiently. They should also deploy competent staff to enable them to achieve the best possible profitability.

Kajola et al. (2019) investigated the liquidity and profitability: evidence from the Nigerian Banking Sector. The study examined the impact of liquidity management on the profitability of 10 deposit money banks in Nigeria from 2008 to 2017. In order to represent profitability and liquidity management, four ratios were used: the current ratio, loan to deposit ratio, deposit to asset ratio, and liquidity ratio. Using Random effects generalized least squares as the estimate approach, the results demonstrate a positive and statistically significant relationship between return on asset and two liquidity management proxies (current ratio and liquidity ratio). Since the data showed an insignificant link with profitability, the study was unable to provide empirical evidence to support the hypothesis that the loan to deposit ratio had an insignificant positive effect on profitability and the deposit to asset ratio had an insignificant negative influence on the profitability of the selected banks.

Rudhani and Balaj (2019) examined the effect of liquidity risk on financial performance. The purpose of this study was to investigate, over a six-year period, how liquidity risk affected the performance of banks in Kosovo. Linear regression is the foundation of the analysis. Indicators of liquidity risk include the bank's capacity to withstand liquidity shocks, its ability to handle high short-term liquidity demands, and its capacity to manage liquidity risk when dealing with non-liquid assets. Performance is determined by return on assets (ROA) and return on equity (ROE). The findings demonstrated a positive and significant relationship between liquidity risk and bank performance, and it was suggested that Kosovo's commercial banks could perform better by strengthening their capacity to manage risks associated with large non-liquid assets, short-term liquidity risk, and liquidity shocks.

Zidan (2020) investigated the impact of liquidity management on the profitability of banks operate in Palestine. The purpose of this study is to determine how the profitability of the Palestinian banking industry from 2008 to 2017 was affected by liquidity management. The research has selected the Palestinian banking industry, which consists of 14 Islamic and commercial banks. The empirical study and development of the econometric model, which had one dependent variable and eight independent variables, were done using multiple regression models. Profitability indicators are defined as return on assets (ROA). The Palestinian Monetary Authority (PMA) annual reports, the Association of Banks in Palestine, and the audited annual

reports of the sample banks were the sources of the data. The results and analysis showed that the capital adequacy ratio and the loans to deposits ratio had a considerable impact on profitability, with the loans to deposits ratio having the largest impact.

Nourrein and Mennawi (2020) investigated the impact of liquidity, credit, and financial leverage risks on financial performance of Islamic banks: a case of Sudanese banking. The main objective of the study was to look at how credit, liquidity, and financial leverage issues affected Sudanese Islamic banks' financial performance between 2008 and 2018. A panel dataset of 143 observations from 13 banks was used in this investigation. To assess the study hypotheses, two ROA and NPM models with robust random effects estimates have been constructed. Together with credit risks and liquidity, the financial leverage ratio is one of the independent factors. The ratios of cash to deposits, liquid assets to total assets, and total loan (financing) to total deposits all indicate liquidity risk. The nonperformance of loan (financing) and provision of loan (financing) loss ratios define credit risk. The return on assets and net profit margin ratios are used to assess the financial performance of Islamic banks in Sudan. The findings show that, while liquidity risk is typically deemed to be negligible, credit risk and financial leverage have a major and detrimental influence on the financial performance of Islamic banks in Sudan. Nevertheless, the ratio of liquid assets to total assets indicates that the liquidity risk has a notable and favorable impact on Sudanese banks' financial performance. Lastly, the study's significance lies in the fact that it addresses the most important categories of risks that Sudanese Islamic banks encounter throughout their operating cycles.

Wuave, Yua and Yua (2020) analyzed the effect of liquidity management on the financial performance of banks in Nigeria. This study investigates at how Nigerian banks' financial performance is affected by liquidity management from 2010 to 2018. The study makes use of secondary data from five banks that are listed on the Nigerian stock exchange. Liquidity ratios (LQR), loan to deposit ratios (LDR), cash reserve ratios (CRR), and deposit ratios (DR) are used as proxies for liquidity management, and return on assets (ROA), return on equity (ROE), and return on net interest margin (NIM) are used as proxies for financial performance (profitability). The Hausman test and panel regression analysis are used in the study to estimate the model and select

between the fixed effect and random effect models. The study found that DMB's financial performance as measured by net interest margin (NIM), return on equity (ROE), and return on assets (ROA) is considerably and favorably impacted by the liquidity ratio (LQR). Therefore, it suggests that Nigerian banks establish robust frameworks for risk management and governance by developing liquidity management plans and policies that are successfully integrated into their risk management practices. In order to manage any liquidity shortfall in urgent or stressful circumstances, they should also develop a contingency funding strategy. They should also ensure that funding requirements are closely watched in order to avert liquidity problems that could trigger bank crises.

Emmanuel and Stephen (2020) investigated the liquidity management and performance of deposit money banks in Nigeria. This research examined the performance and liquidity management of Nigerian deposit money institutions using data from six international banks. Specifically, the paper established the relationship between the variables of liquidity management and those of bank performance by utilizing capital adequacy, liquidity ratio, and current ratio as indicators and bank size as a control variable. Over a seven-year period (2013–2019), data were extracted from the annual reports available on the banks' websites. Regression analysis and descriptive statistics were performed using the E-View 10.0 as the analytical tool. The findings indicate that there is a statistically insignificantly negative correlation between return on equity and liquidity and current ratio, but a large positive relationship between capital adequacy and return on equity. The relationship between bank size and return on equity was statistically significant and positive.

Swain and Mishra (2020) examined the impact of liquidity management on profitability: evidence from commercial banks of India. The main objective of the research was to investigate how liquidity factors affected the profitability performance of a sample of Indian commercial banks. The study's data for the years 2005 through 2018 comes from both public and private sector banks (20 and 22 respectively). Panel regression analysis, descriptive statistics, and a correlation matrix were used to examine the data. In this study, the factors that indicate profitability, such as return on total assets and return on equity, are taken as dependent variables, and the factors that determine liquidity management, such as cash deposit ratios, credit deposit ratios,

investment deposit ratios, investment to total assets, demand and savings bank deposits to total deposits, term loans to total advances, and net NPA to net advances, are taken as explanatory variables. The findings of this study demonstrate that the factors affecting liquidity management have a significant impact on the sample institutions' profitability. The report also suggests that in order to increase profitability and preserve public trust, banks should keep a minimum level of liquid assets.

Jihadi et al. (2021) analyzed the effect of liquidity, leverage, and profitability on firm value: Empirical evidence from Indonesia. The study studied the impacts of business size as a control variable and corporate social responsibility (CSR) disclosure as a moderator. It also looked at the effects of liquidity, activity, leverage, and profitability on firm value. The sampling strategy used in this study to collect a sample of 22 LQ45 index companies listed on the Indonesia Stock Exchange between 2014 and 2019 was purposeful sampling with certain criteria. The data analysis method used in this study was Multiple Linear Regression Analysis using the SPSS 18 Program. The findings showed the importance of the ratios of liquidity, activity, leverage, and profitability to firm value, which is in line with the initial hypothesis of the study. Both firm size and corporate social responsibility (CSR) have an impact on the financial ratios' (liquidity, activity, leverage, and profitability) effect on firm value; these variables function as moderating and controlling factors, respectively.

Paul, Bhowmik and Famanna (2021) investigated the impact of liquidity on profitability: a study on the commercial banks in Bangladesh. The purpose of this study was to examine at how banks' liquidity affects their profitability over the medium term ten years and in the regular course of business. The performance over the previous ten years (2009–2018) of the annual report of Bangladesh's commercial banks is assessed using secondary data. The liquidity representation of the proposed variables is represented by LDR, DAR, CDR, LAR, and CR; the profitability representation is represented by ROE. There are now five established theories to evaluate how liquidity affects profitability. After doing a correlation and regression analysis, it was shown that while LAR and CR were not significant, LDR, DAR, and CDR had a significant impact on the profitability as evaluated by ROE. Thus, it can be said that, generally speaking, Bangladesh's commercial banking industry's profitability is greatly impacted by liquidity. Bangladeshi banks will be in the greatest

position to maintain parity between their liquidity and profitability if they rely on this report.

Begu et al. (2022) analyzed the effect of liquidity on profitability of banks using revisited panel data analysis. This study aimed to investigate the relationship between liquidity management and the profitability of Bangladeshi banks. To do this, a sample of 32 Bangladeshi institutions—including banks that are second and third generation is used. Secondary sources of data from annual reports were used in this investigation. The Hausman specification test, which is used to select the best model, indicates that the random effect model would be suitable for this investigation. The primary subjects of this study are ROA, ROE, and EPS as profitability metrics. Although the current ratio is found to have a positive impact on the bank's profitability, the capital adequacy ratio and interest rates are also found to be statistically significant factors affecting the bank's performance.

Danmulki, Agbi and Mustapha (2022) analyzed the liquidity management and financial performance of listed deposit money banks in Nigeria. The study evaluated into how listed deposit money banks in Nigeria performed financially and how much liquidity management affected those results. Tobin's Q was used as a proxy for financial performance, while the capital adequacy, liquidity, and loan to deposit ratios were used to measure and monitor liquidity management. An additional source of data was used, and it was taken out of the audited published annual reports and accounts of the chosen banks for the years 2010 through 2019. The panel multiple regression methodology was employed as the data analysis method, while Stata 13 was the data analysis instrument. Heteroscedasticity, multicollinearity, and the standard error normalcy test were three robustness tests that were carried out. The results showed that the capital adequacy ratio significantly and favorably affects the financial performance of Nigerian listed deposit money institutions. The financial performance of Nigerian banks is significantly impacted by the liquidity ratio, which implies that a high ratio would result in low strategic performance for the banks. The loan-to-deposit ratio influences financial performance favorably but not significantly.

Ojo et al. (2022) investigated the liquidity management on performance of deposit money banks in Nigeria. The study evaluated the effect of liquidity management on

bank performance in Nigeria over a 35-year period, from 1986 to 2020. The study utilized many inferential statistics, one of which was the Autoregressive distributed lag model. The Central Bank of Nigeria Statistical Bulletin was used to collect time series data for the cash reserve ratio, liquidity ratio, loan to deposit ratio, and return on shareholder's capital. The study discovered evidence of a long-term relationship in Nigeria between liquidity management and bank performance. The study also found that bank performance in Nigeria is positively and significantly impacted by the cash reserve ratio, liquidity ratio, and loan to deposit ratio. Therefore, liquidity management has the ability to enhance bank performance in Nigeria as determined by the cash reserve ratio, liquidity ratio, and loan to deposit ratio. The study's conclusions indicate that liquidity management significantly and favorably affects bank performance in Nigeria.

Think, Thuy and Tuan (2022) studied on the impact of liquidity on profitability: evidence of Vietnamese listed commercial banks. The purpose of this research was to examine how Vietnamese listed banks' profitability and liquidity relate to one another. Multiple regression analysis was performed in this study to examine the data. According to this study, the ratio of liquid assets to total liabilities significantly increased bank profitability, but the ratio of liquid assets to total deposits, loan to total assets, and loan to deposit ratio had little effect. Nonetheless, this analysis found that return on equity, net interest margin, and liquidity were positively correlated with listed banks' profitability.

Hidayat and Dewi (2023) examined the effect of liquidity, leverage, and working capital turn on profitability. This study examined the impact of working capital turnover, leverage, and liquidity on profitability in coal mining businesses listed between 2017 and 2020 on the Indonesia Stock Exchange. In this investigation, quantitative data were used. Secondary data are the ones that are used. Purposive sampling was the sample technique employed, and 12 firms conducted four years of research, yielding 48 observations. Panel data regression analysis using reviews 9 is the data analysis technique employed in this investigation. Profitability was significantly impacted by working capital turnover, leverage, and liquidity. The liquidity t-test yielded a t statistic, and its value indicates that there was no discernible impact of liquidity on profitability. The value of Prob. and the outcomes of the t-test

leverage t statistic indicate that leverage significantly impacted profitability. The working capital turnover t-test findings are smaller than the t-table, and the value of Prob. indicates that there was no discernible impact of working capital turnover on the profitability of firms in the coal mining subsector that were listed on the Indonesia Stock Exchange.

2.2.2 Review in Nepalese Context

Bariya et al. (2016) examined the relationship between profitability and liquidity: a case of Nepalese commercial banks. This study evaluated the liquidity and profitability of Nepalese commercial banks. The return on assets, return on equity, and net interest margin are selected as dependent factors, whereas the current ratio, net liquid balance, asset quality, and liquidity management are selected as independent variables. The control variables used are firm size and financial leverage. The data was taken from the annual reports of certain banks as well as the supervisory report of Nepal Rastra Bank. The relationship between liquidity and the profitability of Nepalese commercial banks is investigated using regression models. The result demonstrated that a higher return on assets would be associated with better liquidity management and financial leverage. Similarly, a larger net liquid balance is probably going to result in a greater return on assets. The study found that return on equity increased with increasing current ratio, net liquid balance, financial leverage, liquidity management, and scale. It also demonstrates that the return on equity would be lower the higher the asset quality. The study discovered that a higher net interest margin would result from greater current ratios, liquidity management, asset quality, and financial leverage; conversely, a lower net interest margin would result from larger net liquid balances and sizes.

Pradhan and Shrestha (2016) analyzed the impact of liquidity on bank profitability in Nepalese commercial banks. This research assessed at how Nepalese commercial banks performed in relation to liquidity. To determine the importance and impact of bank liquidity on the performance of Nepalese commercial banks, regression models are estimated. According to this study, there is a positive link between capital ratio and return on equity, meaning that a greater capital ratio corresponds to a better return on equity. However, it is discovered that there is a negative connection between return on equity and liquidity ratio, meaning that the larger the bank's liquidity, the lower the

return on equity. Furthermore, it is discovered that there is a negative association between return on equity and quick ratio. The investment ratio and capital adequacy beta coefficients have a positive correlation with bank performance, suggesting that higher investment and capital ratios enhance bank performance. The fast ratio and liquidity ratio's beta coefficients, on the other hand, are negative for the bank's return on equity and return on assets, suggesting that a higher quick ratio will result in a worse return on equity and return on assets.

Bhatt and Verghese (2018) examined the influence of liquidity on profitability: evidence from Nepalese banks. The purpose of this study was to investigate the connection between the Nepalese commercial banks' profitability and liquidity. In this regard, a sample of 14 Nepalese commercial banks was chosen for the study, and information on their finances was obtained from the banks' 2008–2017 annual reports. Return on assets and net profit margin were utilized in this study as profitability indicators, while capital, investment, and liquidity ratios were used as stand-ins for liquidity measures. Inferential statistics were employed in this study to provide a quantitative explanation of the key characteristics of a set of data, and correlation and linear regression analysis were utilized to analyze the data. The findings demonstrated that the liquidity variables might predict bank profitability of more than 49% as determined by return on assets and net profit margin. Based on empirical data, the liquidity ratio and return on assets have a negligible positive correlation. The investment ratio and capital ratio with return on assets also have a negligible negative association. Additionally, it is discovered that the net profit margin and the investment and liquidity ratios have a negligible positive correlation. Nonetheless, there is a notable inverse relationship between the capital ratio and the net profit margin. Based on the findings, it is determined that, with the exception of the capital ratio, the liquidity measures do not statistically significantly affect the profitability of commercial banks in Nepal.

Sthapit and Maharjan (2018) analyzed the impact of liquidity management on profitability: a comparative study of foreign joint-venture banks in Nepal. The purpose of this study is to shed light on how HBL and SCBN's daily operations' profitability and liquidity relate to one another. This article compares the profitability

of those two early private commercial banks in Nepal and looks at the impact of liquidity. The article uses HBL and SCBN for the years 2003–04 and 2010–11 in order to achieve the goal. Using a variety of financial techniques and indicators, the study looked at the profitability situations and liquidity management of HBL and SCBN, taking into account that liquidity management can boost profitability. It was discovered that while the profitability and average liquidity ratio trend of both banks do not appear to be changing, SCBN's profitability and average variation in both are lower than those of HBL. According to the study's findings, CHTDR has a considerable beneficial impact on SCBN's ROA, whereas LFTDR and NRBTDR have a negative one. However, the profitability of HBL is not significantly impacted by liquidity ratios. As a result, SCBN has superior liquidity performance than HBL.

Pradhan and Gautam (2019) analyzed the impact of liquidity management on bank profitability in Nepalese commercial banks. This study investigated at how Nepalese commercial banks' profitability was affected by their liquidity management practices. The dependent variables are return on equity and return on assets. The capital ratio, total deposits, quick ratio, liquid asset ratio, current ratio, and investment ratio are the independent variables. The study's 120 observations come from secondary sources of data that were gathered for 18 commercial banks between 2009–10 and 2014–15. To determine the impact of liquidity management on Nepalese commercial banks' profitability, regression models are estimated. The outcome demonstrated a favorable relationship between capital ratio and return on assets. This suggests that the return on assets would increase with a larger capital ratio. The study also shows a favorable relationship between return on equity and return on assets and the investment and current asset ratios. This suggests that rising investment and current asset ratios are correlated with rising return on equity and assets. The study does find a negative correlation between return on equity and return on assets and the liquid asset ratio. This suggests that the return on equity and assets would be lower the larger the liquid asset ratio. According to the regression analysis, the current asset ratio and liquid asset ratio with return on equity have positive beta coefficients. Nevertheless, the analysis shows that for the quick ratio with return on assets, beta coefficients are negative.

Sharma (2019) investigated the impact of Liquidity in the Profitability of Nepalese Commercial Banks on Quarterly Basis. The main objective of the study was to assess the quarterly impact on liquidity for commercial banks in Nepal. This study is secondary research that employs an exploratory research methodology. The study is quantitative in nature, and information is taken from the quarterly reports of thirteen different commercial banks between 2014 and 2018. Many statistical methods, including as OLS, GLS, Shapiro-Wilk, Pearson Correlation, and descriptive statistics, are employed together with applied econometrics. The profitability variable's forecasting is enhanced by the application of the multicollinearity diagnostic (VIF analysis), autocorrelation (DW test), and heteroscedasticity diagnostic (Koenker test). The entire analysis demonstrated that the liquidity measures had an overall negative influence on the profitability measures using the balanced panel data of 260 observations. In particular, it was shown that there was a positive correlation between profitability and bank size and cash to total assets. There was discovered to be a negative correlation between profitability and the capital adequacy ratio, non-performing loan, and credit to deposit ratio.

Mishra (2019) examined the relationship between liquidity and profitability of commercial banks in Nepal. This study examined into the connection between Nepalese commercial banks' profitability and liquidity. The primary goal was to investigate and assess Nepalese commercial banks' liquidity position, profitability status, and profitability-liquidity relationship. This analysis is based on secondary data from the NRB and Nepalese commercial banks' annual reports covering the previous ten fiscal years, from 2007–2008 to 2019–20. Researchers used regression analysis and correlation to look at the relationship between liquidity and profitability. The ratios of cash and bank balance to total deposit and cash and bank balance to current deposit were used to evaluate the liquidity position. The ROA, ROE, and net profit margin ratios were used to evaluate the profitability status. This study found that there was a strong negative correlation between the current ratio and ROE, but a positive correlation between it with net profit margin and return on assets. However, there was a very slight negative association between the total deposit ratio, ROA, ROE, and NPM, and the cash and bank balance. Finally, there was a clear negative relationship between the ratio of cash and bank balance to current deposit and the banks' profitability.

Pokhrel and Pokhrel (2019) examined the impact of liquidity on profitability in Nepalese commercial bank. This research evaluated at how liquidity affected Nepalese commercial banks' profits. From a sample of 28 commercial banks in Nepal, five banks the Agriculture Development Bank, Everest Bank, Prime Commercial Bank, Sunrise Bank, and Citizens Bank International were chosen at random to be included in the analysis for this study. The analysis covered the years 2010/11 to 2016/17 AD. Considering that better liquidity management might boost the bank's earnings. The research used a variety of statistical and financial methods to look at their profitability and liquidity management situations. The findings showed a generally zigzag pattern in the average profitability of commercial banks, despite an unpredictable trend in the bank's liquidity ratios. The study came to the conclusion that banks' liquidity ratios fell short of the required level. In a similar vein, CRR was far higher than that required by monetary policy in 2016/17. While CRR and CBBISD showed an unfavorable correlation with ROA, CRR and IGSCA showed a positive correlation with ROA. Regarding the liquidity-ROE relationship, the correlation between CR and ROE was inverse, whereas the correlation between the other ratios (CRR, CBBISD, and IGSCA) and ROE was positive. Additionally, it has been discovered that, with the exception of IGSCA and ROA, there was a considerable correlation between profitability and liquidity ratios.

Budhathoki et al. (2020) investigated the impact of liquidity, leverage, and total size on banks' profitability: evidence from Nepalese commercial banks. This study focused at how the bank's overall asset size, leverage, and liquidity all affected profitability. Bank scope data from all 28 commercial banks that operated in Nepal between 2010/11 and 2016/17 were used in this study. The study made use of 168 observations in total. The effect of leverage, total size, and liquidity on the bank's profitability was examined using three ordinary-least-squares models. The first regression model shows that the bank's ROA, ROE, and NIM were all negatively impacted by a greater loan to deposit ratio, which is a symptom of inadequate liquidity. However, ROE and NIM were not statistically significant. The second regression model's conclusion demonstrates that a lower leverage ratio, or higher equity to assets ratio, has a statistically significant positive impact on two profitability indicators, ROA and NIM, but a statistically insignificant negative relationship with ROE. The final regression model's outcome shows that all three profitability metrics

ROA, ROE, and NIM were positively impacted by larger bank sizes, which seemed to be advantageous to Nepalese commercial banks. The study's findings may enable bankers and legislators to make wise decisions that will increase banks' profitability.

Khatri (2020) analyzed the impact of liquidity on profitability of Nepalese commercial banks. The purpose of this study is to examine at the connection between Nepal's commercial banks' profitability and liquidity. The study, which covered the years 2013 to 2019, involved ten of the twenty-seven listed commercial banks. The secondary data used in this study were taken from the annual reports of the chosen commercial banks and the Bank Supervision Reports issued by Nepal Rastra Bank. Return on equity (ROE) and return on assets (ROA) are the stand-ins for profitability, while the credit-deposit ratio (CDR), cash-deposit ratio (CADR), and assets quality (AQ) are the measures of liquidity. Asset quality (AQ) has a negative and significant association with return on assets (ROA), but a positive and substantial link with return on equity (ROE), according to the results of the Hausman test and the fixed effects method. The return on equity (ROE) and return on assets (ROA) have a positive but negligible connection with the cash deposit ratio (CADR). Nonetheless, the research indicates that there is a negative and negligible correlation between credit-deposit (CDR) and return on equity (ROE), and a positive but small correlation between CDR and ROA.

Shrestha and Jha (2020) analyzed the impact of liquidity on profitability of joint venture commercial banks in Nepal: With reference to EBL, HBL and NBB. This study used a variety of statistical and financial methods to examine their profitability situations and liquidity management. To investigate the kind and degree of the association between the variables and ascertain if there is a cause-and-effect relationship between them, correlation and regression analysis were used, respectively. The study discovered that the ROA and ROE of HBL, EBL, and NBB were significantly impacted by the LADR. While NRBTDRCRR had a favorable influence on two sample banks and a negative impact on NBB's ROE, it had a weakly significant impact on ROA across all sample banks. While CACL had no discernible influence on ROA in NBB, it had a considerable effect on ROA in HBL and EBL.

Pandey and Budhathoki (2020) investigated the impact of liquidity on the profitability of the commercial banks of Nepal. The purpose of the study was to investigate how liquidity affected Nepalese commercial banks' profitability. Return on assets is the dependent variable, and the independent variables are the investment ratio, capital ratio, and liquidity ratio. The annual reports of a sample of commercial banks have been used as secondary sources of information. To determine how bank liquidity affects Nepalese commercial banks' performance, regression models are estimated. The study's findings show a negative relationship between investment and liquidity ratios and return on assets, meaning that larger ratios would correspond to lower returns on assets and vice versa. Additionally, it is discovered that there is a positive correlation between capital ratios and return on assets, meaning that higher a bank's capital ratios correspond to better returns on assets. In a similar vein, the beta coefficient for the capital ratio shows a positive correlation with bank performance, meaning that a rise in the capital ratio boosts bank performance. On the other hand, the investment and liquidity ratios' beta coefficients are negative, suggesting that a higher investment ratio will result in a lower return on the bank's assets.

Niroula and Singh (2021) examined the effect of liquidity on financial performance of Nepalese commercial banks. The main objective of this research was to investigate how liquidity affects Nepal's commercial banks' financial performance. Regression analysis and correlation were employed in the study to evaluate and interpret the findings. Secondary data from 2015/016 to 2019/020 were used in this study. The dependent variables in this study are ROA and ROE, while the independent variables are CAR, CRR, LDR, and LR. The outcome demonstrated that CRR had a favorable and noteworthy impact on both ROA and ROE. While the variable CAR had a big and beneficial impact on ROA, it had a significant negative impact on ROE. Furthermore, ROA and ROE were significantly and negatively impacted by variables LDR. Furthermore, changing LR has a big and favorable impact on ROA and a considerable negative impact on ROE. The results indicate that the CAR has a highly substantial and adverse impact on ROE, which implies that equity is less lucrative in the Nepalese financial market. Additionally, changing CRR has a positive and substantial impact on ROE as well as ROA, indicating that the stability of Nepal's commercial banks' financial performance is largely dependent on the strength of their cash deposits to the central bank.

Chaudhary, Dhakal and Adhikari (2021) analyzed the practice of profitability and liquidity of Nepalese joint venture banks: a comparative study. The objective of this research was to explain how Nepalese joint venture banks' profitability and liquidity relate to one another. The association has been investigated using the descriptive research design. Regression analysis and correlation were used to examine the data. The findings showed that in both joint venture banks, profitability and liquidity have a favorable correlation. As a result, the study came to the conclusion that the two banks' liquidity situation was crucial to the financial environment in Nepal.

Goet (2021) investigated the liquidity and profitability of low and high turnover commercial banks in Nepal. The impact of several bank-specific factors, such as capital and liquidity, on the profitability of listed commercial banks doing business in Nepal was investigated in this study. The net profit ratio, return on equity, and return on assets have all been evaluated using panel data (60 observations) from six listed banks out of a total of twenty-seven institutions. Liquidity has been measured in this study using the following metrics: cash reserve ratio, loan and advance to total deposit, liquid assets to total assets, and regulatory capital. The results of this study indicated a strong relationship between profitability and liquidity characteristics. It has been demonstrated once more that the cash reserve ratio has a major effect on equity, return on assets, and net profit ratios. Similarly, the net profit ratio, return on equity, and return on assets of the chosen banks are not significantly impacted by loan and advance to total deposit, liquid assets to total assets, or liquid assets to total deposit.

Chaudhary and Sapkota (2022) analyzed effect of liquidity risk on financial performance of commercial banks in Nepal. This study set out to look into how Nepalese commercial banks' financial performance was impacted by liquidity risk. The Pooled Ordinary Least Square estimator is used in this work. For analysis, balanced panel data from ten commercial banks from 2011/2012 to 2020/2021 were employed. The capital ratio, investment ratio, liquidity management ratio, bank size, and asset quality are employed as explanatory factors in the study, which uses ROA and ROE as metrics for measuring bank performance. The findings showed that the

financial performance of banks was positively impacted by bank size, the liquidity management ratio, the capital ratio, and the investment ratio. The financial performance of banks was negatively impacted by the quality of their assets. As a result, the study comes to the conclusion that a key indicator of the financial performance of commercial banks is liquidity risk. Liquidity risk management is therefore essential to the banks' financial performance.

Shrestha and Chaurasiya (2023) investigated impact of liquidity management on profitability of joint venture commercial banks in Nepal. This study investigated the connection between the Nepalese joint venture commercial banks' profitability and liquidity control. The data analysis procedure made use of t-tests, regression analysis, descriptive statistics, and Pearson correlation. It was found that the data used to analyze the sizes of five (5) out of 27 samples spanned the joint venture commercial banks' time period in Nepal from 2012 to 2021. The liquidity management factors are credit deposit ratio (CDR), capital adequacy ratio (CAR), current reserve ratio (CRR), total deposit to total ratio (TDTAR), total loan to total assets ratio (TLTAR), and profitability, including return on assets (ROA). The results showed a significant positive relationship between the dependent variable and the set of independent factors. The findings found that while CDR, CAR, CRR, and TDTAR had little to no influence on the ROA of Nepali joint venture commercial banks, TLTAR had a considerable impact.

2.3 Research Gap

It refers to the study gap related to previous studies. Previously, various research studies were made regarding liquidity and profitability of different banks by different students, experts and researcher. From the review of the relevant literature relating to the impact of liquidity on profitability in Nepalese commercial banks, it's possible to see the existence of knowledge gap or concluding remarks. The effect of cash to deposit ratio has positive effect on profitability of sample banks as per Swain and Mishra (2020) whereas Fagboyo et al. (2018) concluded that debt to equity has positive impact on profitability of the commercial banks. Likewise, Zidan (2020) found that liquid assets to assets ratio have negative influence on the profitability of banks. However, it contradicts with the findings of Al-Husainy and Jadah (2021) and Nourrein and Mennawi (2020). Further, loan to deposit ratio has significant negative

impact on profitability which is consistent with the findings of prior empirical studies of Bhatt and Verghese (2018); Budhathoki et al. (2020); Khatai (2020); Wuave et al. (2020); Swain and Mishra (2020) mentioned that loan to deposit ratio has negative effect on ROA but opposite to the results of Zidan (2020); Ojo et al. (2022). Therefore, the empirical evidence has demonstrated that a mixed relationship between liquidity and profitability of commercial in Nepal. This study has tried to investigate the impact of liquidity indicators such as cash to deposit ratio, liquid assets to total assets ratio, loan to deposit ratio, capital adequacy ratio and deposit to assets ratio on profitability of commercial banks in Nepal by using recent data up to 2022/23 and also tries to explore the missing findings of previous studies.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the thorough, systematic, and formal way of carrying out a scientific analysis. With this method, the issue is identified, a hypothesis is developed, observations are made, data is analyzed, and a conclusion is reached. Methodology refers to the study approach that was utilized to examine the objectives. Using research technique is one way to tackle the research problem carefully. It explains the procedures, instruments, methods, and approaches employed in the report's preparation and data analysis. It involves meticulous study, particularly by looking for fresh information in any field to determine the best research methods. The study's goals have been attained by employing the following approach.

3.1 Research Design

This study has employed descriptive and causal research designs to deal with issues associated with the impact of liquidity on profitability of commercial banks in Nepal. Descriptive research design is used in order to find out the pattern and status of liquidity and profitability whereas causal research design is used to investigate the relationship and impact of independent variables on dependent variable (profitability) of Nepalese commercial banks.

3.2 Population and Sample, and Sampling Design

Currently, there are 20 commercial banks operating in Nepal. They constitute the population. Among of them, only ten commercial banks are selected namely; Himalayan Bank Limited, Global IME Bank Limited, Standard Chartered Bank Nepal Limited, Nabil Bank Limited, Rastriya Banijya Bank Limited, NMB Bank Limited, Nepal Investment Mega Bank Limited, Everest Bank Limited, Nepal SBI Bank Limited and Neal Bank Limited are selected on the basis of purposive sampling method to analyze the impact of liquidity on profitability of the these banks because these banks are top five in terms of profitability in the present context as well as strong liquidity as compare other banks. Moreover, the study includes various commercial banks ranging from public banks to private joint venture and domestic private commercial banks. So, the researcher has chosen these banks in this study.

3.3 Nature and Sources of Data and Instrument of Data Collection

The nature of the data used for this research is quantitative in nature. The major source of this data is secondary as they are obtained from the annual reports of the respective banks under study, NRB Reports, various previous studies and previous publication from governing bodies.

3.4 Method of Analysis

Two main types of tools may be employed to achieve these objectives: financial tools and statistical tools. The researcher has thus utilized both techniques extensively. The nature of the statement and data make the analysis more meaningful and effective for reaching these objectives.

Arithmetic Mean or Average

A collection of observations' arithmetic mean is calculated by dividing their total by the total number of observations. All of the components are equally vital in this situation. In this investigation, the simple arithmetic mean is employed based on the analytical requirements.

$$\text{Mean } (\bar{X}) = \frac{x_1 + x_2 + x_3 + \dots + x_n}{n} = \frac{\sum X}{n}$$

Where,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

$\sum X$ = Sum of given observation

x = variables involved

n = No. of observation

Standard Deviation

A measure of a random variable's unpredictable nature, calculated as the positive square root of the variance and represented as the average departure of a collection of data from its arithmetic mean. It is regarded as the most significant and helpful measure of dispersion, having all the necessary characteristics of variance and the benefit of being calculated in the same units as the original data. It is often symbolized by the lower-case Greek letter sigma (σ).

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n-1}}$$

Where,

X = variables involved

\bar{X} = mean

n = number of observations

Correlation Coefficient (r)

Correlation is one statistical method for analyzing the connection between two variables. The number r, sometimes referred to as the linear correlation coefficient, indicates the strength and direction of a linear link between two variables. The Pearson product moment correlation coefficient is another common name for the linear correlation coefficient, which honors Karl Pearson, the man who first discovered it. Two or more variables are said to be correlated when a change in one variable's value appears to be related to or connected to a change in another variable. In cases when the relationship is quantitative in nature, correlation analysis is an appropriate statistical tool for finding a relationship and distilling it into a brief formula.

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

'r' has a value such that $-1 < r < +1$. For positive and negative linear correlations, respectively, the signs +ve and -ve are utilized.

Positive correlation: "r" is equal to +1 if there is a perfect positive linear correlation between "x" and "y."

Negative correlation: "r" is equal to -1 if there is a perfect negative linear correlation between "x" and "y."

No correlation: "r" is near to 0 in the case of either a weak or nonexistent linear correlation.

t- Statistics

In 1908, Gosset (Pen name Student) created it. R.A. Fisher then provides an explanation of this distribution. The t-test is used to determine if the study's assumptions are true for each of the five sample banks, which total 50 numbers of

observations. The t-values are first calculated and compared with the crucial values at a particular level of significance for a specific degree of freedom in order to apply the t distribution. A difference is considered significant at the five percent significance level if the calculated value of $|t|$ surpasses the table value, such as $t_{0.05}$. However, if t-values are smaller than the corresponding critical of the 't' distribution, the difference is not considered significant. The t statistic under H_0 is:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where,

t = calculated value of t

r = correlation of coefficient between the variables.

n = number of sample.

Decision: The null hypothesis is accepted if computed "t" is less than or equal to the tabulated value of "t" and falls within the recognized region; if calculated "t" is larger than the tabulated "t," the null hypothesis is rejected.

Multiple Regression Analysis

Regression analysis is a mathematical technique used to estimate the average relationship between two or more variables stated in terms of the original units of the data. The evaluation or forecast of one variable's value based on the supply of another variable, in which there are independent and dependent variables, is known as regression. Independent factors are sometimes known as predictor variables, and response variables are dependent variables. Regression analysis uses regression coefficients, represented by the letter "b," to help us calculate the change in response variable due to a one unit change in predictors.

The Model

The researcher is used return on assets (ROA) (dependent variable) as a measure of bank profitability and eight predictors (independent variables) are chosen to be analyzed. Those chosen variables are internal variables such as cash to deposit ratio (CDR), liquid assets to total assets (LATA), loan to deposit ratio (LDR), capital adequacy ratio (CAR) and deposit to assets ratio (DAR). Therefore, the following model has been employed for the study of relationship and effect of the study variables.

$$\text{Model 1: } ROA_{it} = \beta + \beta_1 CDR_{it} + \beta_2 LATA_{it} + \beta_3 LDR_{it} + \beta_4 CAR_{it} + \beta_5 DAR_{it} + e_{it} \quad (1)$$

$$\text{Model 2: } ROE_{it} = \beta + \beta_1 CDR_{it} + \beta_2 LATA_{it} + \beta_3 LDR_{it} + \beta_4 CAR_{it} + \beta_5 DAR_{it} + e_{it} \quad (2)$$

Where:

ROA_{it} = Return on assets of bank i^{th} for the time period t

ROE_{it} = Return on equity of bank i^{th} for the time period t

CDR_{it} = Cash to deposit ratio of bank i^{th} for the time period t

$LATA_{it}$ = Liquid asset to total asset ratio of bank i^{th} for the time period t

LDR_{it} = Loan to deposit ratio of bank i^{th} for the time period t

CAR_{it} = Capital adequacy ratio of bank i^{th} for the time period t

DAR_{it} = Deposit to assets ratio of bank i^{th} for the time period t

β_0 = The intercept (constant)

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = The slope which represents the degree with which bank profitability changes as the independent variable changes by one unit variable.

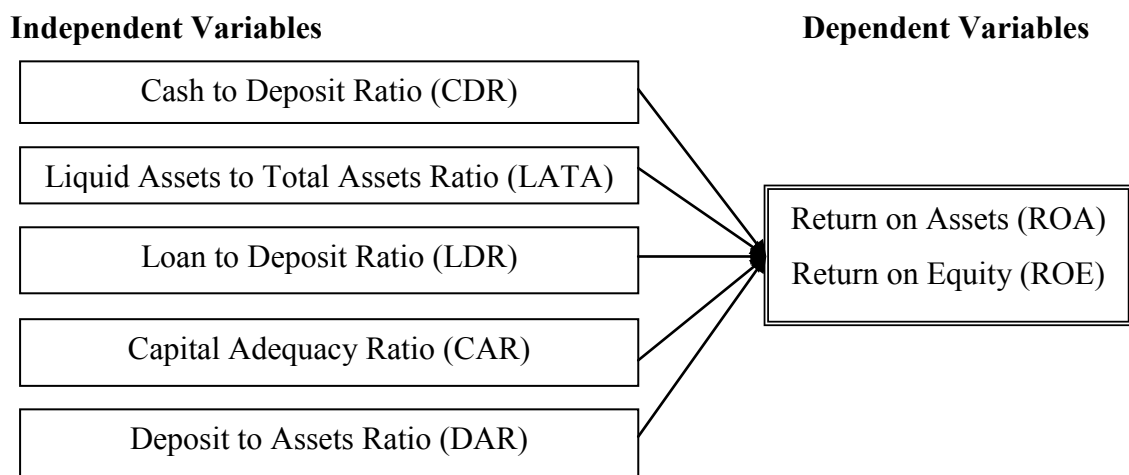
e = error component

3.5 Research Framework and Definition of Variables

The researcher develops the following conceptual framework for the study based on reviews of the theoretical and empirical literature.

Figure 1

Research Framework of the Study



Source: Bhatt and Verghese (2018) Rudhani and Balaj (2019); Zidan (2020); and Khati (2020)

Return on Assets (ROA)

Previous research on profitability and credit risk management revealed that return on assets (ROA) was a crucial metric for evaluating the financial success of banks. A financial measure called return on assets (ROA) indicates how much profit (or percentage of return) a business is making relative to its total resources. The net income for the year divided by the total assets typically the average value during the year is the return on assets, or ROA. The return on assets (ROA) of a bank is an indicator of the management's capacity to turn a profit on the assets used by the company in its operations. Given that it shows the returns on the assets a bank has, this ratio is perhaps the most significant one for evaluating the effectiveness and operational performance of banks. It demonstrates how well assets are managed to produce profits. Pokhrel and Pokhrel (2019) found that the ratio of net income to total assets measures the return on total assets (ROA) after interest and taxes.

Return on Equity (ROE)

The other measure used to assess profitability performance is return on equity. Ratio The other metric used to assess profitability performance is return on equity. The most widely used internal performance indicator of shareholder value is the ratio of return on equity, or ROE. The amount paid to shareholders on their equity is known as return on equity. Pokhrel & Pokhrel (2019) stated return on equity (ROE) is a metric used to assess a company's profitability that indicates how much profit it makes using the capital that shareholders have invested. the net income yielded expressed as a proportion of shareholders' equity. The net income for the entire fiscal year is calculated after distributions to preferred shares and before dividends paid to common stockholders.

Cash to Deposit Ratio (CDR)

CATD refers to cash held by banks relative to total deposits. It is the proportion of loans made by a financial organization to the amount of deposits it has raised. It implies how much of the money held by a financial organization is allocated to lending, which is the main function of banks. A greater ratio indicates a bank's stronger liquidity position, which is more beneficial for novel investment opportunities. Mohanty and Mehrotra (2019) found that there was a significant negative effect of cash to deposit ratio on profitability. However, Swain and Mishra

(2020) which observed that cash to deposit ratio had significant positive influence on profitability.

Liquid Assets to Total Assets (LATA)

The ratio of liquid assets to total assets is determined by this ratio. As a proportion of the total assets of bank, liquid assets comprise short-term deposits in banks, cash and equivalents, cash reserve at the central bank, and other government and nongovernment backed securities. The acid liquid ratio can be divided by the total assets to get the liquid ratio. One kind of risk that banks face is liquidity risk; if they have fewer liquid assets on hand, they are more susceptible to significant withdrawals of deposits. As a result, the ratio of liquid assets to deposits and liquid assets to total assets is used to measure liquidity risk. Bhatt and Verghese (2018) found a negative relationship between liquidity ratio and profitability. Saleh, Afifa and Murray (2020) and Pradhan and Srestha (2016) found a negative relationship between liquidity and bank profitability.

Loan to Deposit Ratio (LDR)

In order to continue its regular business activities, a lending institution that takes deposits has to maintain a particular level of liquidity. Most of the loans it makes to its clients aren't regarded as liquid, therefore they're investments that take longer to mature. In order to guarantee that any necessary funds may be obtained quickly, banks may decide to retain a portion of their non-lending investments in short-term securities in addition to the minimum required reserves. One measure of liquidity risk is the credit to deposit ratio (LDR). According to Swain and Mishra (2020), a bank's risk of liquidity is the possibility of suffering a loss if it is unable to secure the cash it needs. A bank's net worth is determined by the difference between its deposits and loans. If the loans are used to secure borrowers, the banks will earn higher interest the more money it has loaned out. Deposits represent the financing company's debt to the depositors. In order to pay for depositor accounts, a sound bank has a large number of safe loans that generate a large amount of money (interest) Ibrahim (2017).

Capital Adequacy Ratio

Capital ratios show how resilient financial organizations are to shocks. These ratios show which issues are now present. Problems with capital sufficiency and increased risk exposure might result from negative developments in these ratios. The equity/total assets ratio, or CAR, was employed in this study to gauge capital adequacy. Put another way, this equity ratio to total assets indicates the financial company's solvency or capital strength (Budhathoki et al., 2020). The bank is more stable and efficient when the ratio is higher. Although this variable's link to profitability may change depending on the stage of the business cycle, it is anticipated that it will generally have a positive relationship with profitability (Emmanuel & Stephen (2020).

Deposit to Total Assets Ratio

The deposit ratio, which can be calculated by dividing the entire amount of customer deposits by the total assets of the banks, represents client deposits. It adds to the bank's revenue stream and hence increases bank profitability. Another profitability indicator that is seen as a liability is deposit. While low deposits indicate poor profitability, big deposits indicate tremendous profit. Ibrahim (2017) found that deposit ratio had positive impact on profitability of the banks. Zidan (2020) also found that deposit ratio had significant positive impact on profitability of the banks.

CHAPTER IV

RESULTS AND DISCUSSION

As mentioned previously, the main objective of this research is to examine how liquidity affects the profitability of Nepalese commercial banks. As a consequence, this chapter, which is divided into three sections, deals with the findings and their analysis. The variables' structure and descriptive and correlation analyses were reported in the first section; the assumptions of the linear regression model were fulfilled in the second section; and the regression results were presented in the third section. For additional statistical analysis, the ratio of the designated dependent and independent variables as well as the ratio scale measurement were computed using data analysis techniques. The statistical analysis of the gathered data was conducted with the assistance of SPSS version 26.

4.1 Results

4.1.1 Structure and Pattern of Liquidity and Profitability

Table 1

Structure and Pattern of Liquid Assets to Total Assets Ratio of Sample Banks

| Year | NABIL | GIME | HBL | RBBL | SCB | SBI | EBL | NBL | NMB | NIMB | Mean LATA | St. Dev |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|------------|
| 2013/14 | 21.79 | 24.47 | 24.35 | 45.27 | 36.54 | 20.68 | 22.31 | 34.05 | 22.36 | 26.46 | 27.83 | 8.11 |
| 2014/15 | 26.94 | 20.07 | 23.00 | 40.90 | 45.15 | 20.55 | 33.99 | 23.24 | 27.81 | 23.98 | 28.56 | 8.67 |
| 2015/16 | 19.68 | 22.13 | 18.04 | 45.73 | 26.56 | 20.68 | 27.15 | 27.41 | 20.29 | 17.69 | 24.54 | 8.30 |
| 2016/17 | 18.10 | 25.96 | 15.74 | 30.63 | 33.71 | 20.92 | 25.68 | 23.99 | 22.34 | 20.04 | 23.71 | 5.53 |
| 2017/18 | 17.80 | 19.61 | 16.75 | 33.83 | 28.68 | 19.80 | 30.01 | 17.29 | 16.34 | 19.51 | 21.96 | 6.37 |
| 2018/19 | 19.85 | 15.28 | 18.70 | 27.21 | 20.42 | 20.45 | 30.36 | 16.28 | 15.82 | 19.60 | 20.40 | 4.87 |
| 2019/20 | 22.23 | 17.09 | 22.78 | 36.17 | 46.31 | 25.63 | 31.00 | 19.08 | 18.41 | 21.18 | 25.99 | 9.27 |
| 2020/21 | 15.86 | 23.64 | 18.37 | 31.97 | 35.71 | 22.02 | 31.44 | 17.91 | 16.23 | 19.02 | 23.22 | 7.26 |
| 2021/22 | 18.35 | 18.51 | 20.56 | 24.88 | 20.74 | 24.65 | 25.91 | 17.44 | 17.93 | 23.11 | 21.21 | 3.20 |
| 2022/23 | 20.99 | 23.78 | 18.66 | 26.27 | 25.91 | 30.72 | 26.46 | 27.55 | 19.65 | 19.30 | 23.93 | 4.10 |
| Mean LATA | 20.16 | 21.05 | 19.70 | 34.29 | 31.97 | 22.61 | 28.43 | 22.42 | 19.72 | 20.99 | 24.13 | 6.57 |
| St. Dev. | 3.08 | 3.49 | 2.86 | 7.61 | 9.15 | 3.44 | 3.49 | 5.87 | 3.70 | 2.71 | 2.69 | |

Source: Appendix –I

Table 1 shows the year wise and bank wise LATA, its mean and standard deviation from fiscal year 2013/14 to fiscal year 2022/23. Sample banks reveal differences in terms of individual bank wise LATA, average LATA and variability in terms of standard deviation over the study period. In terms of banks, Global IME Bank Limited had the lowest LATA in the fiscal year 2018/19 while Standard Chartered Bank Nepal had the highest LATA in the fiscal year 2019/20. Nabil Bank Limited's LATA was reported as 21.79 percent in the fiscal year 2013/14 and 20.99 percent in

the fiscal year 2022/23 correspondingly, with a mean of 20.16 percent and a standard deviation of 3.08 percent. Himalayan Bank Limited's LATA decreased from 24.35 percent in the fiscal year 2013/14 to 18.66 percent in the fiscal year 2022/23, with a mean value of 19.70 percent and a standard deviation of 2.86 percent. Similarly, Rastriya Banijya Bank Limited's LATA was recorded as 45.27 percent in the 2013/14 fiscal year and decreased to 26.27 percent in the fiscal year 2022/23, with a mean LATA of 34.29 percent and a standard deviation of 7.61 percent.

Rastriya Banijya Bank Limited had the highest mean at 34.29 percent, followed by Himalayan Bank Limited at 19.70 percent, Nabil Bank Limited at 20.16 percent, Global IME Bank Limited at 21.05 percent, and Nepal Investment Mega Bank Limited at 20.99 percent. According to Table 1 shows that government banks particularly those with RBBL had greater LATAs than private and joint venture banks, suggesting that they have stronger liquidity positions. Standard Chartered Bank Nepal Limited achieved the highest standard deviation of 9.15 percent, while Nepal Investment Mega Bank Limited achieved the lowest standard deviation of 2.71 percent. Nabil Bank Limited, Global IME Bank Limited, Himalayan Bank Limited, Rastriya Banijya Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited, Nepal Bank Limited, 5.87 percent, and NMB Bank Limited, 3.70 percent, were the next highest standard deviations, respectively. Consequently, Standard Chartered Bank Nepal Limited was regarded as having the most fluctuation in terms of LATA, whereas Nepal Investment Mega Bank Limited was thought to have the least variation.

The structural trend of Nabil Bank Limited's LATA is erratic. Next, in decline from prior years were Himalayan Bank Limited, Global IME Bank Limited, Nepal Bank Limited, and Nepal Investment Bank Limited. Other banks, though, have seen substantial transformation. Up to the fiscal year 2013/14 and fiscal year 2014/15, Standard Chartered Bank Nepal Limited, Nabil Bank Limited, NMB Bank Limited, and Everest Bank Limited had growing trends in their LATAs. Following that, their LATA structures shifted to fluctuating trends. Nonetheless, in terms of LATA, the sample banks' LATA has grown in the last years.

Table 1 shows the composition and pattern of the annual loan assets to total assets ratio for the fiscal years 2013/14 through fiscal year 2022/23. The average LATA ratios ranged from the lowest in the fiscal year 2018/19 (20.40 percent) to the highest in the fiscal year 2014/15 (28.56 percent). The fiscal year 2019/20 has a maximum standard deviation of 9.27 percent in terms of variability, while the smallest standard deviation in fiscal year 2021/22 is 3.20 percent. The results show that LATA in Nepalese commercial banks fell in the fiscal year 2014/15 and fiscal year 2018/19, then somewhat increased in the following year. In overall, most banks have fluctuating trend as well as high value of LATA over the study period which provides the evidence of strong liquidity in last couple of years.

Figure 1 also depicts the pattern of LATA of Nepalese commercial banks over the period from fiscal year 2013/14 to fiscal year 2022/23.

Figure 2

Patterns of Liquid Assets to Total Assets Ratio of Sample Banks

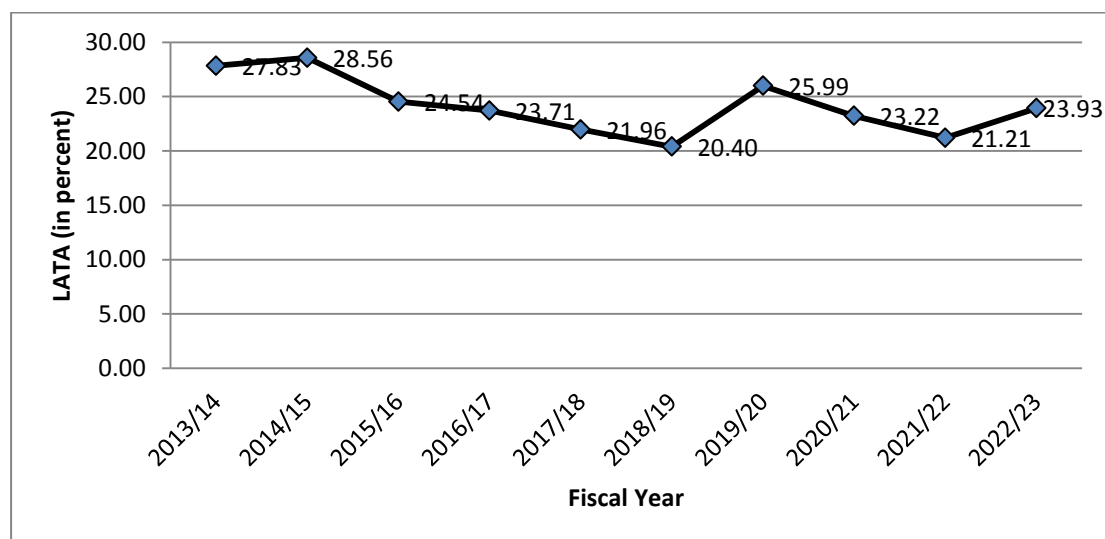


Figure 2 shows the year wise mean LATA of Nepalese commercial banks for the study period from fiscal year 2013/14 to fiscal year 2022/23 where upward sloping line shows increase in LATA and downward sloping line indicates decrease in LATA. The mean LATA was 27.83 percent in the fiscal year 2013/14 in the beginning, rising to 28.56 percent in the fiscal year 2014/15, and then beginning to decline until 2018/19, when it was 20.40 percent. Then in the 2019/20 fiscal year, it dropped little to 25.99. In the fiscal year 2020/21, the LATA dropped to 23.22 percent after that. In

the fiscal year 2022/23 it likewise dropped to 21.21 percent and reached 23.93 percent. The rising and falling LATA pattern demonstrated that Nepalese commercial banks could control ratios of liquid assets to total assets, ensuring that neither a high ratio nor a low ratio eventually raised the likelihood of a bank failure. Thus, it can be concluded that Nepalese commercial banks are becoming financially stable year by year over the sample period from fiscal year 2013/14 to fiscal year 2022/23. The structure and pattern of return on assets of sample banks are discussed in Table 2.

Table 2

Structure and Pattern of Return on Assets of Sample Banks

| Year | NABIL | GIME | HBL | RBBL | SCB | SBI | EBL | NBL | NMB | NIMB | Mean ROA | St. Dev |
|-------------|-------|------|------|------|------|------|------|------|------|------|-------------|------------|
| 2013/14 | 2.66 | 1.62 | 1.30 | 1.50 | 2.51 | 1.51 | 2.20 | 0.92 | 1.36 | 2.25 | 1.78 | 0.58 |
| 2014/15 | 1.81 | 1.39 | 1.34 | 3.33 | 1.99 | 1.80 | 1.59 | 0.55 | 1.21 | 1.88 | 1.69 | 0.71 |
| 2015/16 | 2.21 | 1.58 | 1.94 | 1.41 | 1.98 | 1.70 | 1.52 | 2.79 | 1.56 | 1.97 | 1.87 | 0.41 |
| 2016/17 | 2.57 | 1.72 | 2.03 | 1.60 | 1.84 | 1.54 | 1.72 | 2.78 | 1.81 | 2.06 | 1.97 | 0.41 |
| 2017/18 | 2.36 | 1.63 | 1.61 | 1.85 | 2.64 | 1.97 | 1.78 | 2.35 | 1.66 | 2.13 | 2.00 | 0.36 |
| 2018/19 | 2.11 | 1.82 | 2.08 | 2.23 | 2.61 | 1.94 | 1.80 | 1.51 | 1.67 | 1.79 | 1.95 | 0.31 |
| 2019/20 | 1.46 | 1.06 | 1.66 | 1.64 | 1.71 | 1.17 | 1.36 | 1.22 | 0.95 | 1.19 | 1.34 | 0.27 |
| 2020/21 | 1.56 | 1.21 | 1.68 | 1.10 | 1.22 | 0.70 | 0.84 | 1.33 | 1.17 | 1.56 | 1.24 | 0.31 |
| 2021/22 | 1.01 | 1.38 | 1.09 | 1.30 | 1.83 | 1.07 | 1.10 | 1.12 | 1.29 | 1.55 | 1.28 | 0.26 |
| 2022/23 | 1.33 | 1.27 | 0.47 | 0.91 | 2.29 | 1.06 | 1.34 | 1.16 | 1.12 | 0.83 | 1.18 | 0.47 |
| Mean ROA | 1.91 | 1.47 | 1.52 | 1.69 | 2.06 | 1.45 | 1.52 | 1.57 | 1.38 | 1.72 | 1.63 | 0.41 |
| St. Dev. | 0.56 | 0.24 | 0.49 | 0.68 | 0.45 | 0.43 | 0.39 | 0.79 | 0.28 | 0.44 | 0.33 | |

Source: Appendix –I

Table 2 presents the year wise and bank wise ROA, its mean and standard deviation from fiscal year 2013/14 to fiscal year 2022/23. Sample banks reveal differences in terms of individual bank wise ROA, average ROA and variability in terms of standard deviation over the study period. In an individual bank level, in the fiscal year 2014/15, Rastriya Banijya Bank Limited had the highest return on assets (ROA), while in the fiscal year 2022/23 Himalayan Bank Limited had the lowest ROA. With a mean ROA of 1.91 percent and a standard deviation of 0.56 percent, Nabil Bank Limited's ROA was recorded as 2.66 percent in the fiscal year 2013/14 and 1.33 percent in the fiscal year 2022/23 respectively. Global IME Bank Limited's return on assets (ROA) decreased from 1.62 percent in the fiscal year 2013/14 to 1.27 percent in the fiscal year 2022/23, with a mean value of 1.47 percent and a standard deviation of 0.24 percent. In the same way, the return on assets (ROA) of Standard Chartered Bank Nepal Limited was 2.29 percent in the fiscal year 2022/23 and 2.51 percent in the fiscal year 2013/14, with a mean ROA of 2.06 percent and a standard deviation of 0.45 percent.

Standard Chartered Bank Nepal Limited had the highest mean, 2.06 percent, while Nabil Bank Limited (1.91 percent), Global IME Bank Limited (1.47 percent), Himalayan Bank Limited (1.52 percent), Rastriya Banijya Bank Limited (1.69 percent), and Nepal Investment Mega Bank Limited (1.72 percent) had the lowest mean, 1.38 percent for NMB Bank Limited. Table 2 depicts that joint venture banks have a better return on assets (ROA) than both government and private banks, suggesting that they are more profitable. Regarding variability, Global IME Bank Limited recorded the lowest standard deviation of 0.24 percent, while Nepal Bank Limited realized the highest standard deviation of 0.79 percent. Nabil Bank Limited, Himalayan Bank Limited, Rastriya Banijya Bank Limited, Standard Chartered Bank Nepal Limited, Everest Bank Limited, NMB Bank Limited, Nepal Investment Bank Limited, and Nabil Bank Limited were the next highest standard deviations, at 0.56 percent, 0.49 percent, and 0.68 percent, respectively. As a result, Global IME Bank Limited was considered as the least variation in terms of ROA and Nepal Bank Limited was considered as highest variation in terms of ROA.

Structurally, the ROA of all of these banks decreased right away: Everest Bank Limited, Nepal Bank Limited, NMB Bank Limited, Nepal Investment Mega Bank Limited, Global IME Bank Limited, Nabil Bank Limited, and Standard Chartered Bank Nepal Limited. The other three banks have undergone significant modifications since then. Following that, the ROA structures of these banks changed to show a varying trend for the fiscal year 2016/17. Their ROA patterns have been increasing before that. However, sample banks' return on assets (ROA) has been subpar for the previous few years.

Table 2 also provides the structure and pattern of year wise return on assets over the period from fiscal year 2013/14 to fiscal year 2022/23. The average return on assets (ROA) ratios varied from 1.18 percent in the fiscal year 2022/23 to 2.00 percent in the fiscal year 2017/18. In terms of variability, the fiscal year 2014/15 had a maximum standard deviation of 0.71 percent, while the fiscal year 2021/22 had a minimum standard deviation of 0.26 percent. The findings showed that Nabil Bank has consistently had the best ROA among Nepalese commercial banks for a number of years. The trend of ROA banks is variable in the middle era. All banks have demonstrated a solid profitability position overall over the research period, with more than 1 percent of ROA.

Figure 2 also depicts the pattern of ROA of Nepalese commercial banks over the period from fiscal year 2013/14 to fiscal year 2022/23.

Figure 3

Patterns of Return on Assets of Sample Banks

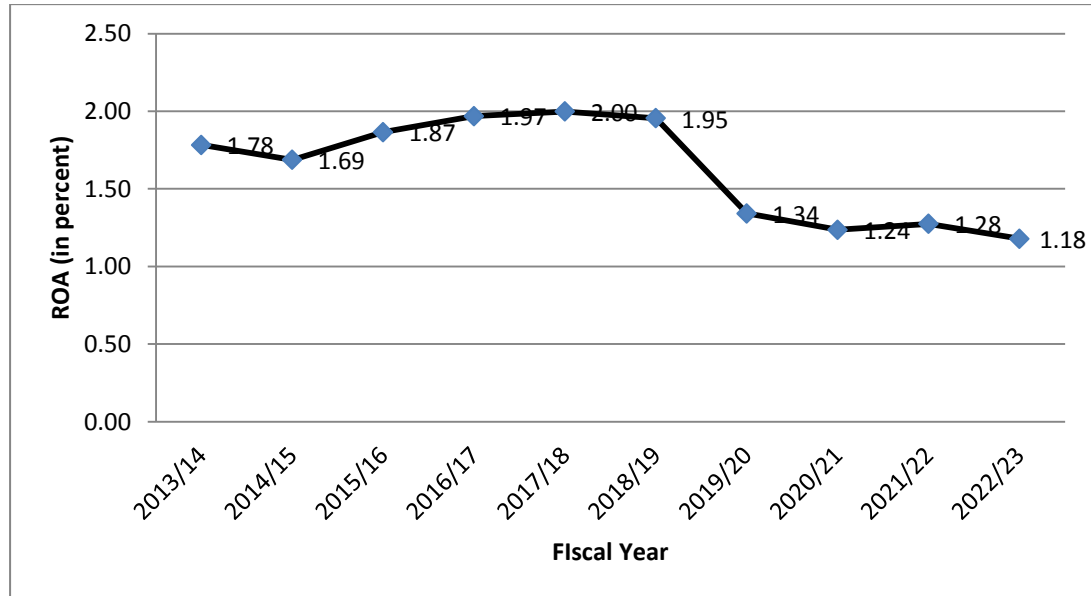


Figure 3 shows the year wise mean ROA of Nepalese commercial banks for the study period from fiscal year 2013/14 to fiscal year 2022/23 where upward sloping line shows increase in ROA and downward sloping line indicates decrease in ROA. Initially, in the fiscal year 2013/14, the mean return on assets (ROA) was 1.78 percent; in the fiscal year 2014/15, it dropped to 1.69 percent. In the fiscal year 2015/16, it grew somewhat to 1.87 percent, and then it began to slope upward until the fiscal year 2017/18. Following that, the ROA fell to 1.95 percent in the fiscal year 2018/19 and then to 1.34 percent in the fiscal year 2019/20. Then, in 2020/21 it dropped to 1.24 percent as well. In the fiscal year 2021/22, it climbed by 1.28 percent; in the final year, it declined by 1.18 percent. The varying trend of ROA demonstrated the ability of Nepalese commercial banks to produce revenue, which in turn raised or lowered the likelihood of banks. Thus, it can be concluded that Nepalese commercial banks are becoming financially not stable year by year over the sample period from fiscal year 2013/14 to fiscal year 2022/23. The structure and pattern of return on equity of sample banks are discussed in Table 3.

Table 3*Structure and Pattern of Return on Equity of Sample Banks*

| Year | NABIL | GIME | HBL | RBBL | SCB | SBI | EBL | NBL | NMB | NIMB | Mean ROE | St. Dev. |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------|----------|
| 2013/14 | 30.36 | 15.90 | 15.76 | 76.96 | 26.28 | 20.35 | 28.40 | 21.42 | 14.58 | 24.48 | 27.45 | 18.24 |
| 2014/15 | 22.07 | 13.12 | 24.67 | 69.57 | 21.69 | 18.86 | 22.84 | 12.63 | 15.20 | 20.01 | 24.07 | 16.52 |
| 2015/16 | 24.31 | 15.87 | 33.10 | 27.36 | 17.17 | 19.25 | 20.32 | 42.94 | 17.01 | 15.66 | 23.30 | 8.91 |
| 2016/17 | 25.63 | 17.75 | 26.84 | 26.48 | 11.99 | 14.78 | 17.38 | 27.23 | 14.82 | 16.65 | 19.95 | 5.91 |
| 2017/18 | 19.34 | 15.47 | 13.27 | 19.19 | 15.73 | 15.81 | 16.00 | 14.03 | 11.24 | 14.71 | 15.48 | 2.46 |
| 2018/19 | 18.28 | 9.58 | 17.28 | 23.38 | 16.31 | 16.20 | 17.33 | 8.87 | 12.97 | 13.00 | 15.32 | 4.33 |
| 2019/20 | 13.39 | 10.09 | 14.71 | 19.01 | 13.16 | 10.44 | 13.50 | 7.77 | 8.18 | 8.92 | 11.92 | 3.50 |
| 2020/21 | 13.37 | 12.73 | 14.90 | 11.94 | 8.62 | 6.25 | 8.56 | 8.91 | 11.32 | 11.04 | 10.77 | 2.64 |
| 2021/22 | 8.03 | 13.14 | 10.76 | 13.14 | 12.46 | 9.57 | 10.88 | 8.24 | 12.25 | 11.17 | 10.96 | 1.87 |
| 2022/23 | 11.25 | 11.34 | 4.65 | 7.09 | 17.20 | 10.77 | 13.25 | 9.41 | 11.34 | 6.69 | 10.30 | 3.59 |
| Mean ROE | 18.61 | 13.50 | 17.59 | 29.41 | 16.06 | 14.23 | 16.85 | 16.15 | 12.89 | 14.23 | 16.95 | 6.80 |
| St. Dev. | 7.10 | 2.71 | 8.35 | 24.05 | 5.08 | 4.74 | 5.88 | 11.39 | 2.56 | 5.30 | 6.31 | |

Source: Appendix –I

Table 3 presents the year wise and bank wise ROE, its mean and standard deviation from fiscal year 2013/14 to fiscal year 2022/23. Sample banks reveal differences in terms of individual bank wise ROE, average ROE and variability in terms of standard deviation over the study period. In an individual bank level, In the fiscal year 2013/14, Rastriya Banijya Bank Limited obtained its highest return on equity (ROE), while in the fiscal year 2022/23 Himalayan Bank Limited had the lowest return on equity. With a mean ROE of 18.61 percent and a standard deviation of 7.10 percent, Nabil Bank Limited's ROE was recorded as 30.36 percent in the fiscal year 2013/14 and 11.25 percent in the fiscal year 2022/23. Global IME Bank Limited's return on assets (ROA) dropped from 15.90 percent in the fiscal year 2013/14 to 11.34 percent in the fiscal year 2022/23 with a mean of 13.50 percent and a standard deviation of 2.71 percent. Likewise, the ROE of Standard Chartered Bank Nepal Limited was observed to be 26.28 percent in fiscal year 2013/14 which was 17.20 percent in fiscal year 2022/23 with mean ROE of 16.06 percent and standard deviation of 5.08 percent.

The range of the mean was as follows: Nabil Bank Limited (18.61 percent), Global IME Bank Limited (13.50 percent), Himalayan Bank Limited (17.59 percent), and NMB Bank Limited (12.89 percent) at the lowest and Rastriya Banijya Bank Limited (29.41 percent) at the highest. Table 3 indicates that government banks particularly Rastriya Banijya Bank Limited have a better profitability position than private and joint venture banks, as seen by their higher ROEs. In terms of variability, Nabil Bank Limited (7.10 percent), Global IME Bank Limited (13.50 percent), Himalayan Bank Limited (8.35 percent), Standard Chartered Bank Nepal Limited (5.08 percent), Nepal

SBI Bank Limited (4.74 percent), Everest Bank Limited (5.88), Nepal Bank Limited (11.39 percent), and Nepal Investment Mega Bank Limited (5.30 percent) were the next highest and lowest standard deviations, respectively, followed by NMB Bank Limited (2.56 percent) and Rastriya Banijya Bank Limited (24.05 percent). As a result, NMB Bank Limited was considered as the least variation in terms of ROE and Rastriya Banijya Bank Limited was considered as highest variation in terms of ROE.

Structurally, the return on equity (ROE) of Nepal Investment Mega Bank Limited, Standard Chartered Bank Nepal Limited, and Rastriya Banijya Bank Limited exhibited a declining trend in the first segment. With other banks, a lot has changed since then. Himalayan Bank Limited and NMB Bank Limited had increasing patterns in their ROE up to the fiscal year 2015/16; after that, their ROE structures changed to vary. However, the ROE of the sample banks has been poor for the previous few years.

Table 3 also provides the structure and pattern of year wise return on equity over the period from fiscal year 2013/14 to fiscal year 2022/23. The minimum ROE ratio for the fiscal year 2022/23 was 10.30 percent, while the maximum ROE ratio for the fiscal year 2013/14 was 27.45 percent. In terms of variability, the fiscal year 2021/22 has a minimum standard deviation of 1.87 percent, while the fiscal year 2013/14 has a maximum standard deviation of 18.24 percent. According to the findings, Nepalese commercial banks' return on equity (ROE) remained at its maximum level until the fiscal year 2013/14, at which point it began to decline until the fiscal year 2020/21. Overall, the majority of banks' ROE trends during the study period have fluctuated, which shows that they are in a somewhat profitable position.

Figure 3 also depicts the pattern of ROE of Nepalese commercial banks over the period from fiscal year 2013/14 to fiscal year 2022/23.

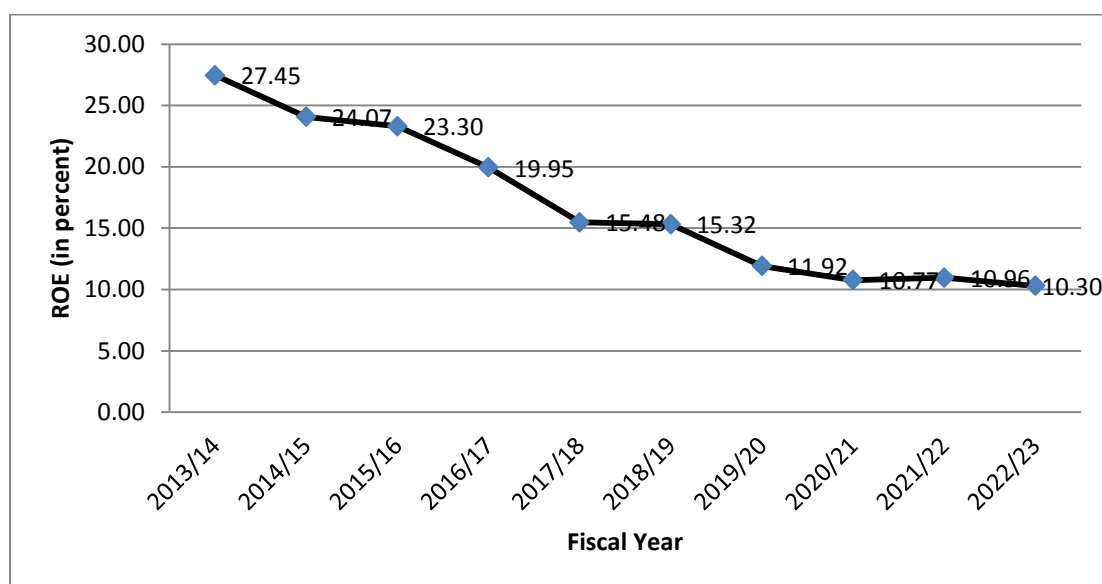
Figure 4*Patterns of Return on Equity of Sample Banks*

Figure 4 shows the year wise mean ROE of Nepalese commercial banks for the study period from fiscal year 2013/14 to fiscal year 2022/23 where upward sloping line shows decrease in ROE and downward sloping line indicates decrease in ROE. Initially, the average return on equity (ROE) was 27.45 percent in the fiscal year 2013/14; it fell to 24.07 percent in the fiscal year 2014/15 and continued to decline. In the fiscal year 2015/16 and fiscal year 2016/17, it dropped to 23.30 percent and 19.95 percent, respectively. Subsequently, it dropped to 15.48 percent in the fiscal year 2017/18 and kept going down until the fiscal year 2020/21. Following that, the ROE declined to 10.30 percent in the last year and then slightly inclined to 10.96 percent in the fiscal year 2021/22. The decreasing trend of ROE indicated that Nepalese commercial banks were unable to make money and were not managing their profits profitably, which eventually raised the likelihood of banks. Thus, it can be concluded that Nepalese commercial banks are becoming financially not stable year by year over the sample period from fiscal year 2013/14 to fiscal year 2022/23.

4.1.1 Analysis of Descriptive Statistics

The descriptive statistics of dependent variables profitability (ROA and ROE) and independent variables (liquid assets ratio, loan to deposit ratio, capital adequacy ratio, cash to deposit ratio and deposit ratio) of the study is shown in Table 4. The

descriptive statistics used in this study includes mean, SD, minimum and maximum value of variables, scale and N represent the number of the observations.

Table 4

Descriptive Statistics of Variable of Banks

| Variables | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------------|-----|---------|---------|---------|----------------|
| Independent Variables: | | | | | |
| CDR | 100 | .69 | 4.63 | 2.2141 | .77886 |
| LATA | 100 | 15.28 | 46.31 | 24.1339 | 7.02423 |
| LDR | 100 | 48.32 | 96.77 | 78.5466 | 10.43258 |
| CAR | 100 | 1.95 | 19.01 | 10.7160 | 2.95940 |
| DAR | 100 | 68.96 | 89.87 | 82.7917 | 4.60849 |
| Dependent Variables: | | | | | |
| ROA | 100 | .47 | 3.33 | 1.6290 | .52136 |
| ROE | 100 | 4.65 | 76.96 | 16.9512 | 10.35130 |

Source: Appendix –II

Table 4 reveals a summary of the descriptive statistics of two response variables: ROA and ROE; five predictor variables like cash to deposit ratio, liquid assets ratio, loan to deposit ratio, capital adequacy ratio and deposit ratio are used in the study. At first, the cash to deposit ratio (CDR) ranges from 0.69 to 4.63 percent, with a mean of 2.2141 and a standard deviation of 0.77886. Over the course of the study, the average ratio of liquid assets to total assets is 24.1339 percent, with a standard deviation of 7.02423. The largest ratio was 46.31 percent, and the lowest was positive 15.28 percent.

Another independent variable, the loan to deposit ratio, has an average of 78.5466 percent and a standard deviation of 10.43258, ranging from 48.32 percent to 96.77 percent. The fourth independent variable (CAR), the capital ratio, measures how safe a depositor's money is because shareholder equity serves as a buffer against hardship. The CAR ranged from 1.95 percent to 19.01 percent, respectively. The average CAR is 10.7160 percent, and the standard deviation is a small 2.95940. Moreover, it shows that the deposit ratio has a mean of 82.7917 and a standard deviation of 4.60849, ranging from 89.87 to 68.96 percent.

According to the ROA summary, the greatest return on assets is 3.33 percent, the minimum is 0.47 percent, and the average return on assets for the research period is 1.6290 percent with a standard deviation of 0.52136 percent. The profit before interest

and tax divided by the total assets of the bank indicates the return on assets, which indicates how well the bank is employing its assets to create profit. The range of ROE is lowest 4.65 percent to maximum 76.96 percent, with a mean of 16.9512 percent and a standard deviation of 10.35130 percent.

4.1.2 Correlation Analysis

Correlation analysis is one statistical technique for looking at the relationship between seven variables. Regardless of whether there is a positive or negative association between seven variables, correlation analysis employs a number of tools and techniques to investigate and measure the degree of a link between two variables. It also indicates whether the relationship is significant or insignificant and the correlation analysis is used to identify the relationship between ROA, ROE, CDR, LATA, LDR, CAR and DR.

Table 5

Pearson Correlation Coefficients of Study Variables

| | CDR | LATA | LDR | CAR | DAR | ROA | ROE |
|------|--------|---------|---------|---------|--------|--------|-----|
| CDR | 1 | | | | | | |
| LATA | -.053 | 1 | | | | | |
| LDR | -.103 | -.742** | 1 | | | | |
| CAR | -.223* | -.421** | .466** | 1 | | | |
| DAR | -.018 | .393** | -.623** | -.589** | 1 | | |
| ROA | .134 | .079 | -.315** | .056 | .235* | 1 | |
| ROE | .267** | .439** | -.557** | -.618** | .467** | .559** | 1 |

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

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

Source: Appendix-III

Table 5 reveals the correlation matrix of response and predictor variables. Correlation result shows cash to deposit ratio has insignificant positive correlation with ROA and significant positive relationship with ROE. Similarly, liquid assets to total assets ratio has insignificant positive correlation with ROA and significant positive association with ROE. The correlation analysis also shows that there is significant negative relationship between loan to deposit ratio (LDR) and ROA also LDR has significant negative relation with ROE. In addition, capital adequacy ratio (CAR) has insignificant positive correlation with ROA but it has significant negative relation

with ROE at 1 percent level. Moreover, correlation of deposit ratio has significant positive relationship with ROA and ROE of the banks.

4.1.3 Regression Analysis

Conversely to simple regression analysis, which uses one independent variable to estimate the values of a dependent variable, coefficient analysis uses two or more independent variables to estimate the values of dependent variables. Multiple regression analysis helps to understand how the variable moves relative to other variables. To estimate the relationship between liquidity and profitability, the theoretical statement of the model is that the ROA and ROE would depend on cash to deposit ratio, liquid assets to total assets ratio, loan to deposit ratio, capital adequacy ratio and deposit ratio. The theoretical statements farmed above may be stated as,

4.1.3.1 Regression Analysis between Independent Variables and ROA

Return on assets is the dependent variable and independent variables are CDR, LATA, LDR, CAR and DR to analyze the effect of liquidity on profitability of the banks.

Table 6

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | .480a | .231 | .190 | .46931 |

a. Predictors: (Constant), DR, CDR, LATA, CAR, LDR

b. Dependent Variable: ROA

Source: Appendix-IV

The R square is 0.231. The implication therefore is that, 23.10 percent of the variation in the dependent variable (ROA) is explained by the independent variables (DR, CDR, LATA, CAR, LDR). The findings of the research R statistic of 0.480 suggest a moderate association between the variables under investigation. This suggests that the independent factors had a moderate impact on the ROA. Regression analysis is perfectly correlated with standard error of estimate.

Table 7*Analysis of Variance (ANOVA)*

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|------------|----------------|----|-------------|-------|-------|
| 1 | Regression | 6.206 | 5 | 1.241 | 5.635 | .000b |
| | Residual | 20.703 | 94 | .220 | | |
| | Total | 26.909 | 99 | | | |

a. Dependent Variable: ROA

b. Predictors: (Constant), DR, CDR, LATA, CAR, LDR

Source: Appendix-IV

ANOVA Table 7 depicts the overall regression model fitness for the data. It showed p-value of 0.000 which is less than 0.05 this indicates that liquidity predicts the profitability (ROA) considerably.

Table 8*Regression Coefficient of Independent Variables with ROA*

| Variables | Coefficients | t-statistics | Sig.-value | VIF |
|------------|--------------|--------------|------------|-------|
| (Constant) | .572 | .284 | .777 | |
| CDR | .109 | 1.646 | .103 | 1.200 |
| LATA | -.015 | -1.363 | .176 | 2.565 |
| LDR | -.023 | -2.792 | .006 | 3.373 |
| CAR | .065 | 3.012 | .003 | 1.841 |
| DAR | .028 | 1.794 | .076 | 2.274 |

Source: Appendix-IV

Table 8 presents the regression coefficient of independent variables cash to deposit ratio, liquid assets to total assets ratio, loan to deposit ratio, capital adequacy ratio and deposit ratio of the banks and the intercept value of dependent variable ROA. It shows that VIF is below 10. That's why, there is no multicollinearity in the model.

The results of the multiple regression analysis showed that the CDR had a coefficient of regression (β) of 0.109. It shows that a one percent rise in CDR would result in a 0.109 percent increase in ROA. Additionally, the cash to deposit ratio's (CDR) sig. value, or p value, of 0.103 indicates that it is statistically insignificant at the five percent significance level. Hence, this is insignificant positive effect of CDR on ROA of the banks. The coefficient of regression (β) for LATA is -0.015. According to the statistics, a one percent increase in LATA would cause a -0.015 percent decline in ROA. Furthermore, at the five percent significance level, the liquid assets to total assets (LATA) p value of 0.176 indicate statistical insignificance. Hence, this is

insignificant negative effect of LATA on ROA. Similarly, the coefficient of regression (β) for the loan to deposit ratio (LDR) is -0.023. The data indicates that a one percent growth in LDR would result in a -0.023 percent decline in ROA. Additionally, the p value of LDR is 0.006, demonstrating statistical significance at the five percent significance level. Hence, LDR has significant negative impact on ROA of the banks. In addition, regression coefficient (β) for CAR is 0.065. According to the statistics, there would be a 0.065 percent increase in ROA for every one percent increase in CAR. Furthermore, at the five percent significance level, the p value of CAR, which is 0.003, exhibits statistical significance. This means CAR has significant positive impact on ROA of sample banks. Finally, for deposit ratio (DR), the coefficient of regression (β) is 0.028. The data suggests that a one percent rise in the deposit ratio would result in a 0.028 percent improvement in ROA. Additionally, the deposit ratio's p value of 0.076 indicates that it is statistically insignificant at the five percent significance level. Hence, this is insignificant positive effect of deposit ratio on ROA.

4.1.3.2 Regression Analysis between Independent Variables and ROE

Return on equity is the dependent variable and independent variables are CDR, LATA, LDR, CAR and DR to analyze the effect of liquidity on profitability of the banks.

Table 9

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .702 ^a | .493 | .466 | 7.56474 |

a. Predictors: (Constant), DR, CDR, LATA, CAR, LDR

b. Dependent Variable: ROE

Source: Appendix-V

The R square is 0.493. The implication therefore is that, 49.30 percent of the variation in the dependent variable (ROE) is explained by the independent variables (DR, CDR, LATA, CAR, LDR). The R statistics in this study, which is 0.702, shows that the study variables have a high association with one another. This suggests that the independent factors had a significant impact on the ROE. Regression analysis is perfectly correlated with standard error of estimate.

Table 10*Analysis of Variance (ANOVA)*

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|------------|----------------|----|-------------|--------|-------|
| 1 | Regression | 5228.619 | 5 | 1045.724 | 18.274 | .000b |
| | Residual | 5379.179 | 94 | 57.225 | | |
| | Total | 10607.798 | 99 | | | |

a. Dependent Variable: ROE

b. Predictors: (Constant), DR, CDR, LATA, CAR, LDR

Source: Appendix-V

ANOVA table depicts the overall regression model fitness for the data. It showed p-value of 0.000 which is less than .05 this indicates that independent variables predicts the ROE considerably.

Table 11*Regression Coefficient of Independent Variables with ROE*

| Variables | Coefficients | t-statistics | Sig-value | VIF |
|------------|--------------|--------------|-----------|-------|
| (Constant) | 49.453 | 1.521 | .132 | |
| CDR | 1.901 | 1.778 | .079 | 1.200 |
| LATA | .045 | .257 | .797 | 2.565 |
| LDR | -.315 | -2.350 | .021 | 3.373 |
| CAR | -1.461 | -4.192 | .000 | 1.841 |
| DAR | .031 | .125 | .901 | 2.274 |

Source: Appendix-V

Table 11 presents the regression coefficient of independent variables cash to deposit ratio, liquid assets to total assets ratio, loan to deposit ratio, capital adequacy ratio and deposit ratio of the banks and the intercept value of dependent variable ROE. It shows that tolerance values were above 0.1 and VIF below 10. That's why, there is no multicollinearity in the model.

The multiple regression shows that CDR has a coefficient of regression (β) of 1.901. The data suggests that a one percent rise in the cash to deposit ratio (CDR) would result in a 1.901 percent increase in ROA. Additionally, the CDR's p value of 0.079 indicates that the data is statistically insignificant at the five percent significance level. Hence, this is insignificant positive effect of CDR on ROE of the banks. For LATA, the coefficient of regression (β) is 0.045. The data suggests that a one percent rise in LATA would result in a 0.045 percent increase in ROE. Additionally, the p value of liquid assets relative to total assets (LAR) of 0.797 indicates that the

relationship is statistically insignificant at the five percent significance level. Hence, this is insignificant positive effect of LATA on ROE. However, the coefficient of regression (β) for the loan to deposit ratio (LDR) is -0.315. According to the statistics, a one percent increase in LDR would cause a -0.315 percent decline in ROE. Furthermore, at the five percent significance level, the p value of LDR, which is 0.021, exhibits statistical significance. Hence, LDR has significant negative impact on ROE of the banks.

In addition, for CAR, the regression coefficient (β) is -1.461. The data suggests that a one percent rise in CAR would result in a -1.461 percent loss in ROE. Additionally, the p value of CAR, which is 0.000, indicates that the data is statistically significant at the five percent significance level. This means CAR has significant negative impact on ROE of sample banks. Finally, the coefficient of regression (β) for deposit ratio (DR) is 0.031. It demonstrates that a 1% increase in the deposit ratio would cause the ROE to increase by -0.031 percent. At the five percent significance level, the deposit ratio appears to be statistically insignificant, as indicated by its p value of 0.901. Hence, this is insignificant positive effect of deposit ratio on ROE.

4.2 Discussion

The main purpose of this study is to examine the impact of liquidity on profitability of commercial banks in Nepal. Liquidity has a direct impact on assets and returns on equity, the two main parameters for measuring profitability of the commercial banks. The correlation analysis shows that cash to deposit ratio (CDR) has insignificant positive association with profitability ROA and significant positive relationship with ROE. This finding is similar with the findings of Swain and Mishra (2020); Fagboyo et al. (2018) which observed that cash reserve ratio have positive and significant relationship with profitability. However, it contradicts with the findings of Mohanty and Mehrotra (2019). Similarly, liquid assets to total assets have insignificant positive correlation with ROA and also significant positive relationship with ROE. This study is similar with the previous study of Bhatt and Verghese (2018); Saleh et al. (2020) and Pradhan and Srestha (2016) which observed that liquid assets ratio have positive relationship with profitability. Then, there is significant negative relationship between ROA and loan to deposit ratio (LDR) which is consistent with the findings of Kajola et al. (2019) but it contradicts with the findings

of Khati (2020); Swain and Mishra (2020); Ibrahim (2017) and also LDR has positive relationship with ROA and LDR has negative and significant relation has positive relationship with ROE. This result is similar with the prior study of Mohanty and Mehrotra (2019); Khati (2020). Moreover, capital adequacy ratio (CAR) has insignificant positive correlation with ROA. A positive association of these variables has been found in previous study (Budhathoki et al., 2020; Zidan, 2020) but it has significant negative relationship with ROE. Moreover, correlation of deposit ratio has significant positive relationship with ROA which is consistent with the finding of Ibrahim (2017) and also there is significant positive relationship with ROE of the banks which is consistent with the finding of Paul et al. (2021) concluded that deposit ratio has significant positive association with ROE of the banks.

The multiple regression analysis found that cash to deposit ratio (CDR) has insignificant positive impact on ROA which is not consistent with the researcher expectation. This result is similar to the result of Swain and Mishra (2020) but it is not consistent with the findings of Fagboyo et al. (2018). At the same time, liquid assets have insignificant negative impact on ROA. This result is similar to the result of Zidan (2020) but it is not consistent with the findings of Al-Husainy and Jadah (2021) and Nourrein and Mennawi (2020). Then, loan to deposit ratio has significant negative impact on ROA at 5 percent level which is consistent with the findings of prior empirical studies of Bhatt and Verghese (2018); Budhathoki et al. (2020); Khati (2020); Wuave et al. (2020); Swain and Mishra (2020) mentioned that loan to deposit ratio has negative effect on ROA but contradicts with the results of Zidan (2020); Ojo et al. (2022). Further, capital adequacy ratio has significant positive impact on ROA of the banks which is consistent with the findings Budhathoki et al. (2020). Moreover, deposit ratio has insignificant positive effect on ROA of the banks which is consistent with the finding of Ibrahim (2017); Zidan (2020).

As regards regression on ROE, cash to deposit ratio (CDR) has insignificant positive impact on ROE at 5 percent level of significance. This result is consistent with the results identified by Swain and Mishra (2020) but opposite to the findings of Mohanty and Mehrotra (2019). At the same time, liquid assets to total assets ratio has insignificant positive impact on ROE at 5 percent level of significance. This result is consistent with the results identified by Al-Husainy and Jadah (2021) but it is not

consistent with the findings of Saleh et al. (2020). Further, loan to deposit ratio has significant negative impact on ROE at 5 percent level which is consistent with the findings of prior empirical studies of Mohanty and Mehrotra (2019); Budathoki et al. (2020); Wuave et al. (2020) but it contradicts with the findings of Swain and Mishra (2020); Rudhani and Balaj (2019). In addition, capital adequacy ratio has significant negative impact on ROE of the banks which is consistent with the findings of Budhathoki et al. (2020) which observed that capital adequacy ratio has negative impact on ROE of the banks. Finally, there is insignificant positive effect of deposit ratio on ROE of the sample banks which is consistent with the finding of Paul et al. (2021).

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

Liquidity is the capacity to meet one's financial commitments immediately. Liquidity management can be defined in two ways. The first one discusses trading different types of assets at market value. Financial institutions apply extra standards, like the capacity to meet cash and collateral payments without incurring significant losses. Liquidity risk is reduced by a skilled manager, leading to organizational liquidity management. Banks utilize financial statements and liquidity assessment ratios to evaluate liquidity risk. Liquidity management is crucial when making judgments about financial management. Liquidity in commercial banking refers to the capacity to satisfy immediate financial commitments. By managing the trade-off between profitability and liquidity, it may be optimized. Efficient management of liquidity may bolster the smooth operation of banks by furnishing the necessary cash or short-term assets to meet incurred short-term obligations.

The main objective of this study is to evaluate the liquidity and profitability of commercial banks in Nepal. Other specific objectives are to examine the liquidity and profitability position of commercial banks in Nepal, to analyze the relationship between liquidity and profitability of commercial banks in Nepal and to analyze the impact of liquidity on profitability of commercial banks in Nepal. This study has employed descriptive and causal research designs to deal with issues associated with the impact of liquidity on profitability of commercial banks in Nepal. Descriptive research design is used in order to find out the pattern and status of liquidity and profitability whereas causal research design is used to investigate the relationship and impact of independent variables on dependent variable (profitability) of Nepalese commercial banks. Currently, there are 20 commercial banks in Nepal. In this study, all the banks are population of the study among them ten banks have been selected as sample because these banks are top five in terms of profitability in the present context as well as strong liquidity as compare other banks. Moreover, the study includes various commercial banks ranging from public banks to private joint venture and domestic private commercial banks. So, the researcher has chosen these banks. To conduct this study, secondary data are

taken from annual reports of related office and their websites. In order to analyze the liquidity variables and its impact on profitability, computed ratios for ten sample banks for ten consecutive years .i.e. from 2013/14 to 2022/23 were collected from an audited financials report of sample banks were collected for the same years.

This study shows that there is strong liquidity position in terms of liquid assets to total assets ratio and also strong profitability position of sample banks in term of ROA and ROE means sample banks have efficiently utilized its assets through mobilizing its deposit because they have high ratios. The correlation analysis shows that cash to deposit ratio and liquid assets ratio have insignificant positive correlation with ROA and significant positive relationship with ROE. However, loan to deposit ratio has significant positive association with profitability (ROA and ROE) of the banks. The correlation analysis also shows that capital adequacy has insignificant positive relationship with ROA but significant negative relationship with ROE. Further, deposit ratio has significant positive relationship with ROA and ROE of the banks. The study also reveals that cash to deposit ratio has insignificant positive impact on ROA and ROE of the banks. Similarly, liquid assets to total assets ratio has no significant impact on profitability (ROA and ROE) of commercial banks in Nepal. However, loan to deposit ratio has significant negative impact on profitability (ROA and ROE). At the meantime, capital adequacy ratio has significant positive impact on ROA and significant negative impact on ROE of the banks. Moreover, deposit ratio has insignificant positive impact on profitability of commercial banks in Nepal. Therefore, this study concluded that there is insignificant effect of liquidity on profitability of commercial banks in Nepal.

5.2 Conclusion

This study concluded that sample banks have strong liquidity position in form of liquid assets to total assets ratio. The profitability ratios (ROA and ROE) are main indicators to analyzing the profitability of sample banks. In this study, sample banks have efficiently utilized its assets through mobilizing its deposit because they have high ratios.

The correlation analysis concluded that cash to deposit ratio and liquid assets ratio have insignificant positive correlation with ROA and significant positive relationship

with ROE. However, loan to deposit ratio has significant positive association with profitability (ROA and ROE) of the banks. The correlation analysis also shows that capital adequacy has insignificant positive relationship with ROA but significant negative relationship with ROE. Moreover, deposit ratio has significant positive relationship with ROA and ROE of the banks.

The study concluded that cash to deposit ratio has insignificant positive impact on ROA and ROE of the banks. Similarly, liquid assets to total assets ratio has no significant impact on profitability (ROA and ROE) of commercial banks in Nepal. However, loan to deposit ratio has significant negative impact on profitability (ROA and ROE). At the meantime, capital adequacy ratio has significant positive impact on ROA and significant negative impact on ROE of the banks. Moreover, deposit ratio has insignificant positive impact on profitability of commercial banks in Nepal. Hence, this study concluded that liquidity has no significant impact on profitability of Nepalese commercial banks.

5.3 Implications

Based on the findings of the research the following implications are made:

- This study found that cash to deposit ratio, liquid assets to total assets ratio and deposit ratio have no significant impact on ROA. However, loan to deposit ratio and capital adequacy ratio has significant impact on profitability. Thus, this findings and information gives signal to the management of the banks and policy makers or regulators to control and optimize the liquidity to make better profitability.
- The study, which considers the various facets of bank liquidity and how it impacts banks' profitability, concludes that efficient management of liquidity will benefit both individuals and businesses in general as well as bankrupt individuals and organizations. As a result, this improves the financial sector's welfare both inside the economy and in society at large.
- This research is able to deliver some of the present issues, latest information and data regarding impact of liquidity on profitability. Hence, this study is significant to bankers, shareholders, depositors and further researchers and students.

- The results of the research are helpful to investors and upcoming researchers. Future researchers will find this guide to be a useful resource.

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APPENDICES
APPENDIX – I
Data of Sample Banks

| Banks | Year | CDR | LATA | LDR | CAR | DAR | ROA | ROE |
|-------|---------|------|-------|-------|-------|-------|------|-------|
| NABIL | 2013/14 | 1.95 | 21.79 | 72.55 | 8.76 | 86.38 | 2.66 | 30.36 |
| | 2014/15 | 1.75 | 26.94 | 62.84 | 8.18 | 89.87 | 1.81 | 22.07 |
| | 2015/16 | 1.49 | 19.68 | 69.02 | 9.11 | 86.62 | 2.21 | 24.31 |
| | 2016/17 | 1.38 | 18.10 | 75.59 | 10.04 | 84.72 | 2.57 | 25.63 |
| | 2017/18 | 4.63 | 17.80 | 83.56 | 12.18 | 80.43 | 2.36 | 19.34 |
| | 2018/19 | 1.56 | 19.85 | 81.25 | 11.53 | 81.72 | 2.11 | 18.28 |
| | 2019/20 | 1.39 | 22.23 | 79.72 | 10.88 | 81.22 | 1.46 | 13.39 |
| | 2020/21 | 1.42 | 15.86 | 90.63 | 11.63 | 78.32 | 1.56 | 13.37 |
| | 2021/22 | 1.57 | 18.35 | 94.23 | 12.62 | 78.50 | 1.01 | 8.03 |
| | 2022/23 | 1.43 | 20.99 | 84.71 | 11.83 | 83.26 | 1.33 | 11.25 |
| GIME | 2013/14 | 2.63 | 24.47 | 79.89 | 10.21 | 87.13 | 1.62 | 15.90 |
| | 2014/15 | 2.44 | 20.07 | 81.32 | 10.58 | 86.98 | 1.39 | 13.12 |
| | 2015/16 | 2.75 | 22.13 | 79.29 | 9.93 | 85.16 | 1.58 | 15.87 |
| | 2016/17 | 2.21 | 25.96 | 77.49 | 9.70 | 87.41 | 1.72 | 17.75 |
| | 2017/18 | 2.52 | 19.61 | 86.71 | 10.54 | 82.67 | 1.63 | 15.47 |
| | 2018/19 | 2.45 | 15.28 | 90.79 | 19.01 | 82.09 | 1.82 | 9.58 |
| | 2019/20 | 2.31 | 17.09 | 87.37 | 10.53 | 82.75 | 1.06 | 10.09 |
| | 2020/21 | 1.94 | 23.64 | 84.35 | 9.47 | 82.03 | 1.21 | 12.73 |
| | 2021/22 | 2.05 | 18.51 | 93.82 | 10.47 | 79.48 | 1.38 | 13.14 |
| | 2022/23 | 1.50 | 23.78 | 83.79 | 11.21 | 83.39 | 1.27 | 11.34 |
| HBL | 2013/14 | 1.72 | 24.35 | 70.07 | 8.27 | 87.89 | 1.30 | 15.76 |
| | 2014/15 | 1.83 | 23.00 | 72.72 | 5.43 | 88.81 | 1.34 | 24.67 |
| | 2015/16 | 1.72 | 18.04 | 77.57 | 5.86 | 87.46 | 1.94 | 33.10 |
| | 2016/17 | 1.68 | 15.74 | 82.25 | 7.57 | 86.60 | 2.03 | 26.84 |
| | 2017/18 | 1.72 | 16.75 | 86.38 | 12.14 | 85.64 | 1.61 | 13.27 |
| | 2018/19 | 1.94 | 18.70 | 86.19 | 12.01 | 84.93 | 2.08 | 17.28 |
| | 2019/20 | 2.05 | 22.78 | 80.94 | 11.28 | 84.59 | 1.66 | 14.71 |
| | 2020/21 | 1.50 | 18.37 | 88.43 | 11.28 | 83.69 | 1.68 | 14.90 |
| | 2021/22 | 1.52 | 20.56 | 90.37 | 10.18 | 79.29 | 1.09 | 10.76 |
| | 2022/23 | 1.32 | 18.66 | 84.85 | 10.12 | 84.39 | 0.47 | 4.65 |
| RBBL | 2013/14 | 2.82 | 45.27 | 53.41 | 1.95 | 87.53 | 1.50 | 76.96 |
| | 2014/15 | 3.08 | 40.90 | 58.02 | 4.78 | 89.01 | 3.33 | 69.57 |
| | 2015/16 | 3.07 | 45.73 | 55.93 | 5.17 | 87.85 | 1.41 | 27.36 |
| | 2016/17 | 2.73 | 30.63 | 66.52 | 6.04 | 88.50 | 1.60 | 26.48 |
| | 2017/18 | 3.00 | 33.83 | 71.66 | 9.65 | 85.76 | 1.85 | 19.19 |
| | 2018/19 | 2.56 | 27.21 | 74.35 | 9.53 | 87.06 | 2.23 | 23.38 |
| | 2019/20 | 2.35 | 36.17 | 66.58 | 8.63 | 87.41 | 1.64 | 19.01 |
| | 2020/21 | 2.21 | 31.97 | 72.61 | 9.25 | 85.88 | 1.10 | 11.94 |
| | 2021/22 | 1.80 | 24.88 | 86.24 | 9.90 | 79.61 | 1.30 | 13.14 |
| | 2022/23 | 1.76 | 26.27 | 75.22 | 12.88 | 81.97 | 0.91 | 7.09 |
| SCB | 2013/14 | 1.33 | 36.54 | 56.11 | 9.54 | 86.83 | 2.51 | 26.28 |
| | 2014/15 | 1.37 | 45.15 | 48.32 | 9.16 | 88.23 | 1.99 | 21.69 |
| | 2015/16 | 1.43 | 26.56 | 56.17 | 11.54 | 85.49 | 1.98 | 17.17 |
| | 2016/17 | 1.27 | 33.71 | 61.47 | 15.33 | 82.51 | 1.84 | 11.99 |
| | 2017/18 | 1.50 | 28.68 | 69.29 | 16.76 | 81.10 | 2.64 | 15.73 |
| | 2018/19 | 1.21 | 20.42 | 72.97 | 16.01 | 81.74 | 2.61 | 16.31 |
| | 2019/20 | 1.18 | 46.31 | 57.36 | 12.97 | 85.25 | 1.71 | 13.16 |
| | 2020/21 | 1.14 | 35.71 | 74.46 | 14.14 | 83.66 | 1.22 | 8.62 |

| | | | | | | | | |
|------|---------|------|-------|-------|-------|-------|------|-------|
| | 2021/22 | 1.15 | 20.74 | 87.71 | 14.68 | 82.64 | 1.83 | 12.46 |
| | 2022/23 | 0.84 | 25.91 | 77.28 | 13.31 | 80.92 | 2.29 | 17.20 |
| SBI | 2013/14 | 2.80 | 20.68 | 64.74 | 7.43 | 89.23 | 1.51 | 20.35 |
| | 2014/15 | 3.40 | 20.55 | 77.44 | 9.52 | 87.10 | 1.80 | 18.86 |
| | 2015/16 | 2.76 | 20.68 | 72.03 | 8.81 | 83.06 | 1.70 | 19.25 |
| | 2016/17 | 2.43 | 20.92 | 77.27 | 10.44 | 81.77 | 1.54 | 14.78 |
| | 2017/18 | 2.73 | 19.80 | 86.50 | 12.48 | 84.83 | 1.97 | 15.81 |
| | 2018/19 | 2.54 | 20.45 | 88.46 | 11.96 | 84.68 | 1.94 | 16.20 |
| | 2019/20 | 2.38 | 25.63 | 84.08 | 11.16 | 84.83 | 1.17 | 10.44 |
| | 2020/21 | 1.70 | 22.02 | 90.39 | 11.17 | 81.51 | 0.70 | 6.25 |
| | 2021/22 | 1.08 | 24.65 | 89.05 | 11.18 | 81.11 | 1.07 | 9.57 |
| | 2022/23 | 0.69 | 30.72 | 78.74 | 9.82 | 83.27 | 1.06 | 10.77 |
| EBL | 2013/14 | 3.30 | 22.31 | 76.60 | 7.75 | 88.17 | 2.20 | 28.40 |
| | 2014/15 | 2.49 | 33.99 | 65.57 | 6.95 | 83.80 | 1.59 | 22.84 |
| | 2015/16 | 2.68 | 27.15 | 72.50 | 7.48 | 82.31 | 1.52 | 20.32 |
| | 2016/17 | 3.22 | 25.68 | 81.28 | 9.91 | 81.62 | 1.72 | 17.38 |
| | 2017/18 | 2.89 | 30.01 | 80.89 | 11.14 | 80.40 | 1.78 | 16.00 |
| | 2018/19 | 2.61 | 30.36 | 86.04 | 10.36 | 76.54 | 1.80 | 17.33 |
| | 2019/20 | 1.67 | 31.00 | 82.27 | 10.07 | 78.22 | 1.36 | 13.50 |
| | 2020/21 | 1.53 | 31.44 | 84.01 | 9.77 | 76.02 | 0.84 | 8.56 |
| | 2021/22 | 1.60 | 25.91 | 89.38 | 10.11 | 76.97 | 1.10 | 10.88 |
| | 2022/23 | 1.30 | 26.46 | 84.10 | 10.15 | 79.66 | 1.34 | 13.25 |
| NBL | 2013/14 | 3.80 | 34.05 | 56.30 | 4.29 | 88.92 | 0.92 | 21.42 |
| | 2014/15 | 4.25 | 23.24 | 65.35 | 4.34 | 88.42 | 0.55 | 12.63 |
| | 2015/16 | 3.99 | 27.41 | 68.50 | 6.49 | 86.40 | 2.79 | 42.94 |
| | 2016/17 | 3.61 | 23.99 | 76.37 | 10.22 | 83.84 | 2.78 | 27.23 |
| | 2017/18 | 3.95 | 17.29 | 78.43 | 16.75 | 72.97 | 2.35 | 14.03 |
| | 2018/19 | 3.10 | 16.28 | 80.93 | 17.07 | 68.96 | 1.51 | 8.87 |
| | 2019/20 | 3.00 | 19.08 | 74.71 | 15.71 | 74.80 | 1.22 | 7.77 |
| | 2020/21 | 3.31 | 17.91 | 86.76 | 14.92 | 73.49 | 1.33 | 8.91 |
| | 2021/22 | 2.99 | 17.44 | 90.10 | 13.64 | 75.81 | 1.12 | 8.24 |
| | 2022/23 | 2.16 | 27.55 | 74.07 | 12.31 | 82.83 | 1.16 | 9.41 |
| NMB | 2013/14 | 1.84 | 22.36 | 75.56 | 9.31 | 89.66 | 1.36 | 14.58 |
| | 2014/15 | 2.23 | 27.81 | 74.31 | 7.97 | 88.84 | 1.21 | 15.20 |
| | 2015/16 | 2.30 | 20.29 | 81.85 | 9.20 | 86.82 | 1.56 | 17.01 |
| | 2016/17 | 2.33 | 22.34 | 83.52 | 12.24 | 84.34 | 1.81 | 14.82 |
| | 2017/18 | 2.84 | 16.34 | 88.48 | 14.77 | 76.16 | 1.66 | 11.24 |
| | 2018/19 | 2.49 | 15.82 | 93.18 | 12.85 | 72.72 | 1.67 | 12.97 |
| | 2019/20 | 2.78 | 18.41 | 89.26 | 11.67 | 75.12 | 0.95 | 8.18 |
| | 2020/21 | 2.51 | 16.23 | 93.84 | 10.34 | 71.89 | 1.17 | 11.32 |
| | 2021/22 | 2.58 | 17.93 | 96.77 | 10.53 | 73.25 | 1.29 | 12.25 |
| | 2022/23 | 2.26 | 19.65 | 91.64 | 9.88 | 74.38 | 1.12 | 11.34 |
| NIMB | 2013/14 | 2.94 | 26.46 | 70.46 | 9.20 | 85.68 | 2.25 | 24.48 |
| | 2014/15 | 2.94 | 23.98 | 73.06 | 9.40 | 86.86 | 1.88 | 20.01 |
| | 2015/16 | 2.10 | 17.69 | 78.67 | 12.55 | 83.70 | 1.97 | 15.66 |
| | 2016/17 | 1.97 | 20.04 | 83.25 | 12.40 | 83.32 | 2.06 | 16.65 |
| | 2017/18 | 2.09 | 19.51 | 86.10 | 14.47 | 81.64 | 2.13 | 14.71 |
| | 2018/19 | 1.72 | 19.60 | 83.54 | 13.76 | 81.89 | 1.79 | 13.00 |
| | 2019/20 | 1.68 | 21.18 | 82.93 | 13.38 | 83.15 | 1.19 | 8.92 |
| | 2020/21 | 1.80 | 19.02 | 90.25 | 14.14 | 78.71 | 1.56 | 11.04 |
| | 2021/22 | 1.90 | 23.11 | 88.25 | 13.91 | 76.40 | 1.55 | 11.17 |
| | 2022/23 | 1.98 | 19.30 | 86.51 | 12.46 | 80.73 | 0.83 | 6.69 |

Source: Annual report of sample banks

APPENDIX –II
Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--------------------|-----|---------|---------|---------|----------------|
| CDR | 100 | .69 | 4.63 | 2.2141 | .77886 |
| LATA | 100 | 15.28 | 46.31 | 24.1339 | 7.02423 |
| LDR | 100 | 48.32 | 96.77 | 78.5466 | 10.43258 |
| CAR | 100 | 1.95 | 19.01 | 10.7160 | 2.95940 |
| DAR | 100 | 68.96 | 89.87 | 82.7917 | 4.60849 |
| ROA | 100 | .47 | 3.33 | 1.6290 | .52136 |
| ROE | 100 | 4.65 | 76.96 | 16.9512 | 10.35130 |
| Valid N (listwise) | 100 | | | | |

Source: Researcher calculation by using SPSS version 26

APPENDIX -III
Pearson Correlation Coefficients

| | CDR | LATA | LDR | CAR | DAR | ROA | ROE |
|--------------------------|--------|---------|---------|---------|---------|---------|---------|
| CDR Pearson Correlation | 1 | -.053 | -.103 | -.223* | -.018 | .134 | .267** |
| Sig. (2-tailed) | | .604 | .308 | .026 | .858 | .183 | .007 |
| N | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| LATA Pearson Correlation | -.053 | 1 | -.742** | -.421** | .393** | .079 | .439** |
| Sig. (2-tailed) | .604 | | .000 | .000 | .000 | .437 | .000 |
| N | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| LDR Pearson Correlation | -.103 | -.742** | 1 | .466** | -.623** | -.315** | -.557** |
| Sig. (2-tailed) | .308 | .000 | | .000 | .000 | .001 | .000 |
| N | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| CAR Pearson Correlation | -.223* | -.421** | .466** | 1 | -.589** | .056 | -.618** |
| Sig. (2-tailed) | .026 | .000 | .000 | | .000 | .579 | .000 |
| N | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| DAR Pearson Correlation | -.018 | .393** | -.623** | -.589** | 1 | .235* | .467** |
| Sig. (2-tailed) | .858 | .000 | .000 | .000 | | .019 | .000 |
| N | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| ROA Pearson Correlation | .134 | .079 | -.315** | .056 | .235* | 1 | .559** |
| Sig. (2-tailed) | .183 | .437 | .001 | .579 | .019 | | .000 |
| N | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| ROE Pearson Correlation | .267** | .439** | -.557** | -.618** | .467** | .559** | 1 |
| Sig. (2-tailed) | .007 | .000 | .000 | .000 | .000 | .000 | |
| N | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

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

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

Source: Researcher calculation by using SPSS version 26

APPENDIX -IV

Multiple Regression Analysis of Sample Banks (On ROA)

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .480 ^a | .231 | .190 | .46931 |

a. Predictors: (Constant), DAR, CDR, LATA, CAR, LDR

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 6.206 | 5 | 1.241 | 5.635 | .000 ^b |
| | Residual | 20.703 | 94 | .220 | | |
| | Total | 26.909 | 99 | | | |

a. Dependent Variable: ROA

b. Predictors: (Constant), DAR, CDR, LATA, CAR, LDR

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | .572 | 2.017 | | .284 | .777 | | |
| | CDR | .109 | .066 | .163 | 1.646 | .103 | .833 | 1.200 |
| | LATA | -.015 | .011 | -.198 | -1.363 | .176 | .390 | 2.565 |
| | LDR | -.023 | .008 | -.464 | -2.792 | .006 | .296 | 3.373 |
| | CAR | .065 | .022 | .370 | 3.012 | .003 | .543 | 1.841 |
| | DAR | .028 | .015 | .245 | 1.794 | .076 | .440 | 2.274 |

a. Dependent Variable: ROA

Source: Researcher calculation by using SPSS version 26

APPENDIX -V

Multiple Regression Analysis of Sample Banks (On ROE)

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .702 ^a | .493 | .466 | 7.56474 |

a. Predictors: (Constant), DAR, CDR, LATA, CAR, LDR

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 5228.619 | 5 | 1045.724 | 18.274 | .000 ^b |
| | Residual | 5379.179 | 94 | 57.225 | | |
| | Total | 10607.798 | 99 | | | |

a. Dependent Variable: ROE

b. Predictors: (Constant), DAR, CDR, LATA, CAR, LDR

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 49.453 | 32.517 | | 1.521 | .132 | | |
| | CDR | 1.901 | 1.069 | .143 | 1.778 | .079 | .833 | 1.200 |
| | LATA | .045 | .173 | .030 | .257 | .797 | .390 | 2.565 |
| | LDR | -.315 | .134 | -.317 | -2.350 | .021 | .296 | 3.373 |
| | CAR | -1.461 | .349 | -.418 | -4.192 | .000 | .543 | 1.841 |
| | DAR | .031 | .249 | .014 | .125 | .901 | .440 | 2.274 |

a. Dependent Variable: ROE

Source: Researcher calculation by using SPSS version 26

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