

**AN ASSESSMENT OF THE RELATIONSHIP BETWEEN PROFITABILITY AND
LIQUIDITY OF COMMERCIAL BANKS IN KENYA. A CASE STUDY OF EQUITY
BANK IN NAIROBI.**

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**A RESEARCH PROJECT PRESENTED TO MOUNT KENYA UNIVERSITY IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A
BACHELOR OF COMMERCE.**

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ABSTRACT

The study sought to establish the relationship between the profitability and the liquidity of commercial banks in Kenya. Liquid assets are less profitable as compared to long term assets. The dilemma to a finance manager is whether to invest in more profitable long term assets and risk low liquidity or invest in short term assets which are less profitable and therefore reduce return on investment made. The researcher used questionnaires to collect data from a carefully selected group of respondents. The selected respondents were asked to fill in the research questions and return the completed questionnaires. The completed questionnaires were then collected from the group of respondents and used in data analysis. The collected data was fed into the Statistical Package for Social Sciences (SPSS[®]) for thorough analysis. The analyzed data was then presented using graphs and charts to enable easier understanding of the findings. The findings were then used to draw the conclusions and the recommendations by the researcher. The study found that operational profitability enables banks to have enough funds to finance their day to day operations thereby becoming more profitable, that precautionary liquidity enables banks to manage unforeseen expenses that could otherwise result into losses if not immediately addressed, and finally that speculative liquidity enables banks to make speculative investments that yield them highest profits. The researcher recommends that the banks should strive to remain liquid as much as possible since it established that bank liquidity has a positive correlation to the profitability of commercial banks.