IMPACT OF FIRM SPECIFIC CHARACTERISTICS ON PROFITABILITY OF 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 FIRM SPECIFIC CHARACTERISTICS ON PROFITABILITY OF COMMERCIAL BANKS".** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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REPORT OF RESEARCH COMMITTEE

Ms. Jayanti Gautam has defended research proposal entitled **"IMPACT OF FIRM SPECIFIC CHARACTERISTICS ON PROFITABILITY OF COMMERCIAL BANKS"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Dr. Pitri Raj Adhikari Submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"IMPACT OF FIRM SPECIFIC CHARACTERISTICS ON PROFITABILITY OF COMMERCIAL BANKS"** Presented by Jayanti Gautam 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 thesis is worthy of acceptance.

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Jayanti Gautam

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ABBREVIATIONS

ADBL	=	Agricultural Development Bank
C. A. R.	=	Capital Adequacy Ratio
C. V.	=	Coefficient of Variation
GDP	=	Gross Domestic Product
NBL	=	Nepal Bank Limited
NIM	=	Net Interest Margin
RBBL	=	Rastriya Banijya Bank Limited
ROA	=	Return on Assets
ROE	=	Results of Return on Equity
T. LTD	=	Total Loan to Total Deposit

ABSTRACT

Impact of firm specific characteristics on profitability of Commercial Banks is representative vision of reality. Main thrust of the present study is to examine the firm specific factors and profitability of the sampled bank, to examine the relationship between firms specific factors and profitability of the sample banks and to analyze the effects of firm specific factors on profitability of sampled bank.

Descriptive and casual Comparative research designs have been adopted. The study involved the data from published financial statements of commercial banks operating in Nepal. Among the 20 commercial banks only 3 banks are taken as sample of using purposive sampling method these are: Rastriya Banijya Bank, Nepal Bank and Agricultural Development Bank.

Based on the analysis and interpretation of data, the study suggests that Nepalese commercial banks should focus on maintaining liquidity, capital structure, business growth rate, asset quality, and governance practices to enhance their performance. Market reputation, diversified services, and corporate social responsibility should also be considered. The study aims to bridge the gap in research about capital structure and profitability analysis of Nepalese commercial banks and suggests avenues for future research, such as exploring liquidity level components and extending the study to different sector companies over more years.

It includes pooled OLS regression, regression analysis of ROA, regression model of independent variables and ROA, analysis of variance (ANOVA), association with correlation with EPS, regression analysis of EPS, regression model of independent variables and EPS, ANOVA of EPS, and major findings.

ANOVA tests indicate that return on assets has a significant effect on the performance of banks in Nepal, with a p-value of 0.000. This implies that the linear regression model is

significant. Additionally, the study concludes that debt ratio and debt-equity ratio are negatively related to firms' profitability measured by ROA and EPS.

Key Words: *Firm specific characteristics, profitability, Commercial Banks*

CHAPTER I
INTRODUCTION

1.1 Background of the study

A company's capacity to turn a profit is determined by how successfully it leverages the resources from its main line of business to produce revenue. The phrase is also employed as a broad indicator of the overall financial health of a company over a specific time frame. company profitability has been linked to a number of company attributes, including age, size, liquidity, and leverage. Both internal and external business factors may have an impact on a company's profitability. The management-controllable internal features are what explain the variations in profitability between firms. External qualities, on the other hand, are those outside of management's control that influence business decisions.

The unique qualities of each bank that influence the performance of the bank are known as internal or bank-specific variables. The internal decisions made by boards and management have an impact on these aspects. The banks may also control these variables, however their specifics vary from one bank to another. These include, among other things, capital, the amount of deposit liabilities, the size and makeup of the credit portfolio, interest rate policy, labor productivity, the quality of risk level management, the size and ownership of the bank, and the status of information technology (Dang, 2011). Scholars frequently utilize the CAMEL framework as a proxy for bank-specific stand factors. According to Mullualem (2015), CAMEL stands for capital adequacy, asset quality, management efficiency, earnings ability, and liquidity.

Because of the pros and cons associated with a certain degree of growth, the size of the company has been demonstrated to affect performance. Banks have strong reason to think that scale and profitability are connected. By enabling banks to take advantage of economies of scale, growing bank sizes can boost profitability. For instance, banks can lower their average expenses by spreading their fixed costs across a larger asset base as they grow in size. Moreover, the bank may employ more specialist inputs, such loan officers with knowledge of a certain business line, as its operations grow in size, which would boost efficiency. There are other ways in which size influences profitability

outside economic scale. Small banks may be better equipped than major banks to build closer ties with neighborhood companies and clients, giving them access to data that helps them decide on terms of contact and improves credit underwriting. In fact, any loss of scale economics may be made up for by these benefits in price and knowledge.

Analyzing the bank's profitability is one approach to gauge its success. A bank is considered profitable if it can generate more revenue each fiscal year than it spends and pays in taxes. The interest that banks charge on assets and the fees they charge for their services are how they generate profits. Conversely, the primary cost borne by banks is the interest they pay each fiscal year on their obligations. Any financial institution's profitability is indicated by a positive difference between profits and costs.

Return on Equity (ROE) and Return on Assets (ROA) are the metrics used to assess a bank's profitability. The banks rely heavily on their assets, including securities and loans, for the majority of their revenue. The focus of this study is on the firm-specific variables and the profitability of the sampled bank, as well as the link between the firm-specific elements and the bank's profitability and the effect that the firm-specific factors have on the bank's profitability.

1.2 Problem Statement

For the management of commercial banks, stakeholders, and other interest groups like the government and central bank, it is essential to comprehend the characteristics unique to each bank and how they affect the profitability and performance of the bank (Elshaday, 2018). The internal elements that affect a bank's profitability differ from those of other financial institutions in Nepal since bank-specific characteristics are peculiar to a given institution.

Due to the limitations of the earlier research, this study fills a vacuum by analyzing the influence of firm characteristics on the profitability of Nepal's commercial banks. The particular research questions that follow in this respect are as follows:

i. What is the sampled bank's profitability position?
ii. What is the connection between the profitability of the sampled bank and firm-specific factors?
iii. How do firm-specific characteristics affect the sampled bank's profitability?

1.3 Objectives of the study

This study's primary goal is to examine the chosen bank's profitability and firm-specific aspects. The following are the goals:

i. To assess the profitability of the selected bank and firm-specific characteristics.
ii. To investigate the relationship between the profitability of the sample banks and firm-specific characteristics.
iii. To examine how firm-specific factors affect the sampled bank's profitability.

1.4 Rationale of the study

The following are some ways that different groups of individuals might benefit from the study:

Traders: This analysis offers important details on the bank's profitability and debt to equity (leverage) ratio. Investors have profited because they have access to crucial information on the ideal capital structure and how it affects bank profitability, enabling them to choose the least expensive mix of debt and equity. Researchers may find more details about capital structure and cost of capital in the financial literature. In this case, obtaining secondary data has been beneficial to them. The proposed study contributes to raising the degree of knowledge among academics, management scholars, and other stakeholders about capital structure and profitability.

1.5 Limitations of study

The limitations of the study are as follows

i. Since this study's foundation is secondary data, primary data are not included.
ii. The data for this analysis only spans seven years, from the fiscal year 2016–17 to 2022–23.
iii. Other characteristics of banks are not covered in this research; it solely focuses on the capital structure and profitability of the bank.
iv. Of the twenty commercial banks, only three—the Agricultural Development Bank, Nepal Bank Limited, and Rastriya Banijya Bank—were chosen for the research. This statistic isn't representative of all commercial banks' averages.
v. There may be some differences between the information on the website and the commercial banks' annual report. Therefore, the information on the website is regarded as legitimate.

CHAPTER II
LITERATURE REVIEW

This chapter concentrates on providing a succinct explanation of the abstract linking theories of profitability analysis and capital structure. The review of earlier studies, books, journals, papers, and any other studies that are relevant to the subject of study is covered in this chapter. The study's research questions are outlined in detail in this chapter. The research gap, conceptual review, empirical review, and theoretical review are all covered in this chapter.

2.1 Conceptual Review

Concept of Profitability

The two words "profit" and "ability" combine to form the term profitability. The financial benefit a firm receives when revenue exceeds costs and expenses is referred to as profit. The capacity to turn a profit is indicated by the phrase ability. The profitability of an investment may be characterized as its capacity to generate income from its utilization.

Profitability and profit are two distinct ideas. These are accounting measures that are employed to evaluate a business's performance. Efficiency is measured by profitability. The quantity of profit a business makes is referred to as its profitability. Demand, costs, productivity, and competitiveness are a few of the variables that might affect a company's profitability. If a business is profitable, it will be able to maintain its place in the market and develop. A ratio is a typical way to communicate profitability. It may inform stakeholders about a company's potential to generate money in relation to its assets, costs, and revenue. According to Horton (2023), the most popular measures are the profit margin ratio, return on equity (ROE), return on equity (ROA), and EBITDA.

All business endeavors have profitability as their main objective as without it, a company cannot endure over the long run. As a result, estimating future profitability and measuring present and historical profitability are crucial. Profitability is calculated using revenue and costs. Revenue is the money a business makes from its many operations, while expenses are the costs associated with the resources that are utilized to carry out those operations. Utilizing an income statement, profitability is determined. One of the most crucial

responsibilities of company managers is to increase profitability. Managers of businesses should concentrate on improving profitability through market environment adaptation. According to Johanns (2019), a profitable firm may provide its owners with a substantial return on their investment.

The choice of capital structure is crucial to a company's profitability. When choosing a company's capital structure, careful consideration must be made. It is impossible to overlook the link between capital structure and profitability as increasing profitability is essential to the company's capacity to survive. There may be several possibilities, but the financial management must thoroughly assess the firm's capabilities in order to choose which is ideal. In the financial industry, using a large percentage of debt in a capital structure can be beneficial since it is less expensive than stock, but there are drawbacks, such as how it impacts the company's leverage beyond a certain point. Accordingly, the two capitals need to be balanced (Muhammad, 2017).

Principle of profitability

Profit is the bank's primary objective. The bank must raise its investment in order to do this without allowing the fund to sit idle. The bank need to make an effort to participate in just those ventures where it can guarantee steady and timely interest revenue. However, a bank should never overlook its own liquidity situation while making a large number of loans. A long-term, secured loan can yield a healthy income (Chaudhary, 2020).

It needs to make enough money to live up to the expectations of the stakeholders. The "interest income" a bank receives by lending money and making advances is what mostly drives its profits. Therefore, a bank's lending policy need to be focused on generating more interest income. Such salary ought to be realistic, though. The interest rate applied to various loan categories serves as a gauge for the loan portfolio's profitability (Akter & Mahmud, 2020).

For a bank to remain competitive and grow its lending operations, its credit operations must be profitable in order to cover all prudential provisioning, allocate capital to reserves, pay reasonable dividends to shareholders, and provide depositors with a reasonable rate of return on their investment (Ali, 2020).

The aforementioned factors collectively suggest that banks must ensure that their lending activities yield a reasonable level of profitability.

2.2 Empirical review

Burnheardt (2023) investigated the connection between profitability and capital structure. For the study, a sample of 22 businesses was selected. A supplementary strategy was used to collect data during a five-year period. According to the study's findings, there is a substantial positive correlation between short-term debt and return on equity as well as total assets. Profitability companies tend to use more short-term debt for financing operations. The study demonstrates a negative relationship between return on equity and long-term debt relative to total assets. Regression model results show a statistically significant positive relationship between return on equity and total debt to total assets. In Ghana's listed companies, short-term debt has been utilized to the tune of 85%. Profitable businesses mostly rely on debt finance.

Oli (2021) examines the factors that affect the banking industry's profitability. The set hypothesis has been tested using a multiple regression model. Multicollinearity experiments were conducted. According to research, the ratio of debt to total assets has no discernible impact on a bank's earnings per share (EPS).

Bhatta (2021) looked at the relationship between capital structure and cost of capital in Nepalese banks, as well as the relationship between leverage, cost of capital, size of capital employed, growth in total assets, dividend payout ratio, liquidity ratio, and earning variability. Both descriptive and analytical research designs were used to analyze the data. For the study, five industrial and five hydropower businesses were chosen. For the study, secondary data were employed. The analysis concludes that there is a negative correlation between net profit margin, return on assets, and total debt to equity. The firm's profitability has a direct impact on the ratio of total debt to total equity. According to this analysis, the relationship between total debt and profitability is somewhat negative. A company's profitability will decline if its debt ratio rises and vice versa.

Bhattarai (2020) evaluated how capital structure affected Nepali insurance firms' financial results. Over the course of eight years, sample data were gathered from fourteen insurance firms in Nepal utilizing a secondary technique. Return on assets was the

dependent variable in this study, whereas the independent factors were firm size, leverage, equity to total assets, liquidity ratio, and tangible assets. An examination of descriptive statistics reveals that the return on asset standard deviation is less than 1. The findings of the correlation study show that the association between ROA and company size is inverse. There is a negative correlation between ROA and liquidity ratio. Tangible assets and ROA have a favorable association. The absence of multicollinearity is revealed by the correlation matrix.

The link between the capital structure and profitability of Nepali commercial banks was ascertained by Bhatt and Jain (2020). Eighteen banks in Nepal were chosen for the research. This study aims to determine the link between capital structure and profitability, the effect of capital structure on profitability, and the ideal capital structure that would yield the greatest results. Secondary approach was used to acquire data. Return on Equity served as a measure of profitability, while the size of the bank and the growth of its assets were used as control variables. Short- and long-term debt, deposits, and the ratio of total debt to assets served as proxies for capital structure. The findings indicate that the explanatory capital structure factors predict bank profitability by return on equity by more than 40%. The study also demonstrates a favorable relationship between long-term debt and deposits and return on equity. has a bad relationship with both total debt and short-term debt. According to the regression models, there is a substantial positive correlation between profitability and bank size, meaning that larger banks will provide better returns to shareholders.

The process of figuring out the capital structure of manufacturing and trade companies was identified by Dhodary (2019). Eleven businesses were chosen to comprise the sample. Information was gathered from secondary sources. According to this study, Nepalese manufacturing and trade companies with higher tangible assets employ a larger percentage of debt in their capital structure. The age of the businesses has little bearing on how much debt they utilize overall. High-liquidity Nepalese manufacturing and commerce businesses typically steer clear of obtaining outside loan funding. The study also discovered that the overall debt in the capital structure of Nepalese firms increased with increasing interest coverage. The study's conclusion states that the main factors influencing corporate capital structure in Nepalese trade and manufacturing companies are assets tangibility, profitability, liquidity, and interest coverage ratio. The tangibility of

an enterprise's assets and its interest coverage ratio have a favorable impact on its capital structure, whereas corporate profitability and liquidity have a negative impact.

The capital structure and company efficiency of Nepalese listed non-financial institution enterprises were evaluated by Jaishi and Poudel (2019). The structure of leverage and efficiency, as well as their connection, were investigated in this study using both descriptive and informal research designs. Information from the 15 non-financing institutes in the sample was gathered via secondary data. Regression and descriptive models were employed to ascertain the connection between the variables. To test the hypothesis, many models were employed. The majority of non-financing institutions use both debt and equity in their capital production, according to this study. High leverage businesses are less productive, and vice versa. This research investigates the idea that an institution's size, investment, intangible assets, and profitability do not improve the firm's influence. The correlation between tangibility and corporate efficiency is favorable, which supports the increased investment in tangible assets. The firm's growth and size are positively correlated. The study's main finding is that the key determinants of Nepalese non-financing enterprises' efficiency and leverage are their size, tangibility, profitability, and growth. Businesses with minimal leverage are highly effective, whereas those with large leverage are less effective.

Elshaday (2018) examined the relationship between capital structure and profitability. Both analytical and descriptive research designs were applied. Statistical methods including simple and complicated regression models have been employed. Studies found that banks are significantly and negatively impacted. The debt to total equity ratio is discovered to be statistically positive and in opposition to innocent.

Arjal (2017) concentrated on business features and corporate finance concepts. The study's main goal is to analyze the capital structure and profitability of commercial banks in Nepal. Research designs that were casually comparative and descriptive were both applied. The research's mean value was discovered to be 0.967. This suggests that compared to previous years, the debt ratio has decreased recently. As a result, the percentage of debt financing Nepalese banks have in recent years decreased. The mean value in the related research was shown to be 18.58. This suggests that compared to previous years, the debt-to-equity ratio has decreased recently. Consequently, Nepalese

banks' remaining profit in recent years compared to previous years has increased after deducting all financing and administrative expenses. The second research goal has been accomplished by this.

Evgney (2015) came to the conclusion that the bank's financial performance (EPS) was not significantly impacted by the debt to total assets ratio. The bank's financial performance (ROA) was not significantly impacted by the capital adequacy ratio. The bank's financial performance (EPS) was not significantly impacted by the debt to total assets ratio.

Poudel (2015) looked at an empirical relationship and began to conclude that a firm's financial structure has a significant role in its profitability. Businesses may influence profitability by adjusting their debt-to-equity ratio. Certain businesses choose for a high debt-to-equity ratio, while others would rather have a lower ratio. One of the most important components of the company's financial plan is the effective selection and application of the debt-to-equity ratio. Studies that have employed different financial indices to represent the financial structure have indicated either a positive or negative influence on businesses' profitability. The majority of studies that have been conducted to examine the impact of financial indices on firms' profitability have used industry level data. Using firm-level data from a variety of industries, this study has shown that the debt-to-equity ratio has a significant detrimental effect on a firm's profitability. This often indicates that businesses that prefer to fund their investments with borrowed money, or that the cost of borrowing capital is greater than the return on investment. According to our research, companies that use retained revenues to fund their investment operations tend to be more lucrative than those that use borrowed funds. Additionally, we discovered that concentration had a statistically significant negative influence on a firm's profitability. This indicates that, while acknowledging their interconnectedness, companies would rather compete with one another than work together.

Baral (2014) looked at the factors that affect capital structure, such as the size, degree of operational leverage, growth rate, earning rate, dividend payment, debt servicing capacity, and business risk of the chosen organizations. The study's sample consisted of 40 firms that were chosen based on data acquired from secondary sources, specifically the Nepal Stock Exchange Limited (NEPSE). The relationship between the factors and listed

firms' capital structure has been explored as a hypothesis. The theoretical relationship between the firm's attributes and financial leverage has been tested using a multiple regression model. The analysis of the explanatory factors' association revealed no issues with multicollinearity. The three variables—growth, earning rate, and size—were found to be statistically significant predictors of financial leverage. The study also discovered that the primary factors influencing financial leverage are corporate size, growth rate, and profitability; business risk, dividend payout ratio, debt service capacity, and operational leverage level are all irrelevant. Additional statistically minor factors linked to company risk and debt service capacity, as well as a significant coefficient linked to size and growth, suggest that financial institutions are more concerned with business expansion than they are with debt service capacity.

Gautam (2014) looked at the causal link between bank capital and profitability and found that, for US banks, financial leverage and return on equity were positively correlated for both the 1996–2002 and 2003–2009 timeframes. Moreover, in contrast to the earlier, more unrestricted period, it seems that the ratio of financial leverage to return on equity was roughly preserved during the later, more controlled time periods. Furthermore, a pattern resembling the return of equity to capital connection is seen when examining the return on assets relationship. That is, the relationship between ROA and financial leverage is inverse. Once more, not much seems to support the idea that the 1996–2002 and 2000–2009 periods are distinct from one another. Considering the regulatory context they have operated in, bank performance has been strong.

According to the findings of Innocent, Ikechukwu, and Nnagbogu (2014), banks are significantly and negatively impacted. Additionally, the results showed that, at the 5% significant level, the association between the debt-to-equity ratios and the commercial bank's EPS is statistically significant and positively impacted (p-value = 0.000, regression coefficient = 0.0964). This outcome demonstrates the noteworthy and highly favorable correlation with EPS. concluded that banks are significantly and negatively impacted.

In order to determine if capital structure influences the cost of equity and to explore the link between capital structure, solvency, and profitability, Shahi (2013) assessed the capital structures of Machhapuchhare Bank Ltd. (MBL) and Bank of Kathmandu Ltd. (BOK). Secondary data served as the study's foundation. Information is gathered from the

relevant bank's annual report for the years 2006 through 2011. To examine the data, statistical and financial methods are employed. The analysis looks at how BOKL's profitability management is superior to MBL's. Based on ROE, it can be said that BOK is more successful at raising equity capital and has made more money with the same amount of equity investment.

Olokoyo (2012) looked at the total effect of capital structure on the 2003–2007 performance of companies listed on the Nigerian Stock Market. In this work, panel data were analyzed using the pooled regression model, fixed-effect estimation, and random-effect estimation. It was discovered that all leverage measures have a positive and very significant link with the market performance measure, and that leverage has a strong negative influence on a firm's accounting performance measure (ROA). According to the survey, equity capital or a combination of equity capital and short-term debt is the primary source of funding for Nigerian businesses. According to this study, there is a positive and statistically significant correlation between the market performance metric (Tobin's Q) and all of the leverage measures. According to the survey, Nigerian companies should aim to align their strong market success with tangible actions that can enhance their internal growth and accounting performance.

In order to determine the ideal capital structure that would be linked to the best performance, Velnampy and Niresh (2012) looked into the relationship between the capital structure and profitability of the chosen firms. They also offered recommendations to the banks on how to boost profitability by implementing better strategic frameworks. Ten banks in Sri Lanka were chosen as a sample for the eight-year research. There was usage of secondary data. To determine the relationship between the variables, correlation analysis and descriptive statistics were employed. With the exception of the relationship between debt to equity and return on equity, the study demonstrates a negative relationship between capital structure and profitability. Further suggest that the Srilankan banks uses more debt i.e., 89% of total assets in the banking sector are represented by debt.

Shubita and Alsawalhah (2012) studied 39 industrial enterprises and discovered that a firm's financial structure has a major influence on its profitability. Information was gathered from secondary sources.

"Does capital structure affect the industrial Jordanian companies?" is the study's stated concern. Additionally, this study indicates that prosperous businesses rely more on equity as their primary source of funding. The study has made use of statistical methods. Both multicollinearity and autocorrelation problems are not present in the regression model, according to the multicollinearity results. Applying correlations and multiple regression analysis, the study determines that there is a statistically significant negative relationship between debt and profitability. According to this analysis, there is no correlation between a company's debt and profitability.

In order to determine the debt service capacity, determine the best financing mix in terms of maximizing value to the company's shareholders, and research the impact of financial leverage on the capital structure, Shrestha (2010) looked at the capital structure. Two businesses, Nepal Lube Oil Limited and Bottlers Nepal Limited, were chosen for the study. Ratio analysis and financial instruments were employed in the investigation. Information is gathered from secondary sources. Both descriptive and analytical research approaches were applied. The analysis discovered that neither company's capital structure makes use of long-term debt. The two businesses rely heavily on short-term loans.

Malik (2009) examined how capital structure affects capital cost. A supplementary strategy was used to collect data during a five-year period. An analytical and descriptive research design has been used. To achieve the study's goal, a simple and multiple regression model as well as statistical methods such the arithmetic mean, standard deviation, coefficient of determination, standard error of estimates, and student t-statistics were employed. The study shows that firms having large leverage have lower cost of capital. The average slopes pooled regression if leverage shows a negative relationship with the quantity of capital used, earning variability, liquidity ratio, and cost of equity, and a positive relationship with the cost of capital, growth in total assets, and dividend payout ratio. The main conclusion is that employing debt in the capital structure has an impact on the cost of capital and cost of equity. As leverage rises, cost of capital and cost of equity decrease.

Table 1

Summary of Review

Authors	Title	Methodology	Major Findings
Burnheardt (2023)	The Effect of Company Characteristics on Profitability: an empirical analysis of listed firms in Ghana	Descriptive statistical tool was used. Regression analysis were used in this study.	The outcome shows that the relationship between return on equity and short-term debt to total assets is highly favorable. Return on equity and the ratio of long-term debt to total assets are negatively correlated. Regression models contain return on equity and the ratio of total debt to total assets are notably favorable. .
Bhatta (2021)	Company Characteristics and Profitability of Manufacturing and Hydro Companies in Nepal	Financial tools, statistical tools, regression analysis were used.	According to this analysis, the relationship between total debt and profitability is somewhat negative.
Oli (2021)	Determinants of the Profitability of Banking Industry	Multiple regression model has been used to test the set hypothesis. Multicollinearity problem were carried out.	According to research, the ratio of debt to total assets has no discernible impact on a bank's earnings per share (EPS).

Bhatta and Jain (2020)	Company Characteristics and Profitability of Commercial Banks in Nepal	Descriptive and inferential design were used in this study. Data were analyzed using quantitative method of linear regression using dependent and independent along with control variables. t-test have been used to test significance of the model.	According to the report, leverage is more important to Nepalese banks than deposits. Return on equity has a negative relationship with short-term debt and total debt and a positive relationship with long-term debt and deposits. Regression model analysis shows a favorable relationship between profitability and bank size. The null hypothesis, which states that the capital structure issue has no statistical significance in predicting the profitability of Nepali banks, was not rejected by the hypothesis test.
Bhattarai (2020)	Effect of Company Characteristics on Financial performance of Insurance Companies in Nepal	Pooled OLS model, random effect model and fixed effect model have been used.	The relationship between equity to total asset and return on equity is positive and strong. It has been discovered that leverage significantly and favorably affects

			profitability (ROA).
Dhodary (2019)	Determinants of Company Characteristics on Trading and Manufacturing Enterprises: A Case of Nepal	Both descriptive and casual comparative research design were used	The findings indicate that in Nepalese trade and manufacturing enterprises, the primary factors influencing corporate capital structure are assets tangibility, profitability, liquidity, and interest coverage ratio.
Jaishi and Poudel (2019)	Company Characteristics and Firm Efficiency of Non-Financial Institutions in Nepal	Descriptive correlation and regression methods were used. Different models were used to test hypothesis.	As a result of the study, Nepalese non-financing enterprises' efficiency and leverage are mostly determined by their size, tangibility, profitability, and growth.
Elshaday(2018)	Company Characteristics and Its Impact on Profitability	Descriptive and analytical research design were used. Simple and multiple regression model and statistical tools have been used.	Studies found that banks are significantly and negatively impacted. The debt to total equity ratio is discovered to be statistically positive and in opposition to innocent.
Arjal(2017)	Principles of	Both descriptive and	The research's mean

	corporate finance and Company Characteristics	casual comparative research design were used.	value was discovered to be 0.967. This suggests that compared to previous years, the debt ratio has decreased recently. As a result, the percentage of debt financing Nepalese banks have in recent years decreased. The mean value in the related research was shown to be 18.58. This suggests that compared to previous years, the debt-to-equity ratio has decreased recently. Consequently, Nepalese banks' remaining profit in recent years compared to previous years has increased after deducting all financing and administrative expenses. The second research goal has been accomplished by this.
Poudel (2015)	Profit Margin and Company Characteristics	Descriptive correlation and regression methods were used. Different models were	The study demonstrates that the profitability of the company is negatively and

		used to test hypothesis.	statistically significantly impacted.
Evgney (2015)	Company Characteristics and Its Impact on Profitability	Descriptive correlation and regression methods were used. Different models were used to test hypothesis.	According to research, the ratio of debt to total assets has no discernible impact on a bank's earnings per share (EPS). The bank's financial performance (ROA) was not significantly impacted by the capital adequacy ratio. The bank's financial performance (EPS) was not significantly impacted by the debt to total assets ratio.
Innocent,Ikechukwu & Nnagbogu (2014)	The Effect of Market Power on Stability and Performance of Islamic and Conventional Banks	Descriptive correlation and regression methods were used. Different models were used to test hypothesis.	The conclusion is that banks are significantly and negatively impacted. Additionally, the results showed that, at the 5% significant level, the association between the debt-to-equity ratios and the commercial bank's EPS is statistically significant and positively impacted (p-

			value = 0.000, regression coefficient = 0.0964). This outcome demonstrates the noteworthy and highly favorable correlation with EPS. concluded that banks are significantly and negatively impacted.
Gautam (2014)	The Causal Relationship between Bank Capital and Profitability	Both descriptive and casual comparative research design were used	According to the study, financial leverage and return on equity have a positive association, whereas financial leverage and return on assets have an inverse relationship.
Baral (2014)	Determinants of Company Characteristics: A case Study of Listed Companies of Nepal	Multiple regression model has been used to test the set hypothesis. Multicollinearity problem were carried out.	The study found out that the three variables size, growth, and earning rate are statistically significant determinants of financial leverage
Shahi (2013)	Company Characteristics and Profitability Analysis	Analytical and evaluative research design were used. Statistical and financial tools are used.	The analysis looks at how BOKL's profitability management is superior to MBL's.

Shubita and Alsawalhah (2012)	The Relationship between Capital Structure and Profitability	Statistical techniques have been used. Multicollinearity problem, Autocorrelation problem and Regression analysis were used.	The relationship between debt and profitability is notably negative. Successful businesses rely heavily on equity funding.
Velnampy and Niresh (2012)	The Relationship Between Company Characteristics and Profitability	Descriptive Statistics, Correlation Analysis were used.	With the exception of the relationship between debt to equity and return on equity, the analysis demonstrates a negative relationship between capital structure and profitability.
Olokoyo (2012)	Company Characteristics and corporate performance of Nigerian	Fixed-effect model, random effect model and regression model were used.	According to this study, there is a positive and statistically significant correlation between the market performance metric (Tobin's Q) and all of the leverage measures.
Shrestha (2010)	Company Characteristics of Manufacturing Companies	Financial tools, ratio analysis, Analytical and descriptive research design were used.	The analysis discovered that neither company's capital structure makes use of long-term debt. The two businesses rely

	Using Financial Ratios		heavily on short-term loans.
Malik (2009)	Company Characteristics Management in Nepal (A Case Study on NABIL, NIBL, HBL & SCBL)	Descriptive and analytical research design were used. Simple and multiple regression model and statistical tools have been used.	The outcome demonstrates how employing debt in a capital structure affects both the cost of capital and the cost of equity. As leverage rises, cost of capital and cost of equity decrease.

2.3 Research Gap

Based on the overview of articles above, it appears that current research is attempting to discover new information on the influence of corporate characteristics on commercial banks' profitability. The current study differs from previous studies in that it aims to investigate the relationship between firm-specific factors and the profitability of the sampled bank, the impact of firm-specific factors on the profitability of the sampled bank, and the relationship between firm-specific factors and the profitability of the sampled bank. This is one of the main factors that led to the choice of the current challenge.

CHAPTER III
RESEARCH METHODOLOGY

The techniques and processes used throughout the study project are covered in this chapter. As a result, the following methodology-related features—along with a thorough utilization of secondary data and model application—have been thoroughly described. Several kinds of annual reports and other relevant financial publications have collected the secondary data.

3.1 Research Design

Research designs that are descriptive and haphazardly comparable have been used. Descriptive study approach has been used to investigate the firm-specific characteristics and profitability of the sampled bank. Correlational research design has been used to investigate the link between company specific factors and the profitability of the sampled bank as well as the effect of firm specific factors on the profitability of the sampled bank.

3.2 Population and Sample

From publicly available financial statements of Nepali commercial banks were used in the study. Only three of the twenty commercial banks—Rashtriya Banijya Bank, Nepal Bank, and Agricultural Development Bank—are included in the purposive sample. These banks are all owned by the state.

3.3 Nature and sources of Data

In order to analyze or examine anything that someone wants to know, data is necessary. It is helpful to carry out the study that demonstrates the profitability trend throughout the certain time period in Nepal. Data for this study was gathered annually from secondary sources, specifically the financial report of the relevant commercial bank.

Secondary data is less expensive and efficient, saving time and money. Because it can be acquired faster than the original data, it saves time. Furthermore, in situations where obtaining primary data is completely impossible, secondary data could potentially be accessible. These sources, both scholarly and unscholarly, are:

The concerned bank's financial statement The bank's annual report many publications, journals, and other pieces that these banks have published.

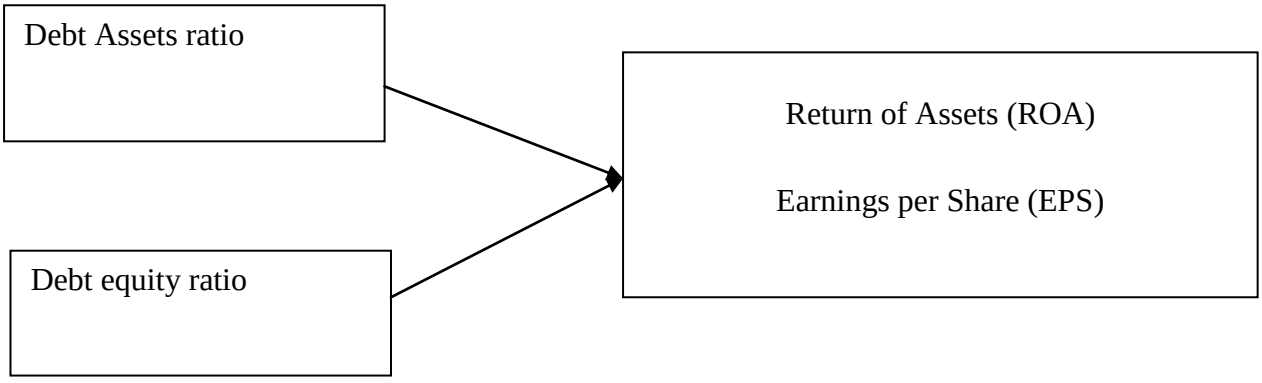
Related press releases, reports, and unpublished thesis reports, as well as corporate, financial, and economic news released on a regular basis by different government agencies.

3.4 Data Analysis tools

Various methods and techniques were used to analyze the data in accordance with the study topics. Various analytical software is utilized for the computation of data collecting and display figures. Particularly, SPSS software was utilized in this study to analyze the data. Regression analysis is used to determine the impact and relationship between the independent and dependent variables.

Various analytical methods have been utilized to determine the true financial picture of any organization. The instruments and procedures have been applied in accordance with the data and statement types that are accessible, producing productive study outcomes. These financial instruments, along with statistical techniques and tools, helped to fulfill the research purpose.

3.5 Conceptual Framework and Definition of Variables



(Source: Adhikari & Gha 2020)

Return on assets and earnings per share are dependent variables based on the conceptual framework, whereas debt assets ratio and debt equity ratio are independent variables.

3.6 Model Specification

The study utilized a model to examine how financial leverage impacts the performance of commercial banks in Nepal. Consequently, the empirical relationship between financial leverage and the performance of Nepal's commercial banks is analyzed using the regression model as follows. In order to test the hypothesis that the function of a dependent takes on the following forms based on the conceptual framework, the following model was created. Chemosit and Atheru (2021), Oli (2021), Ahmed et al. (2021), and others adopt the following mode.

Profitability = f (D/A, D/E)

Model I

Model I tries to findout the relatioship affecting variable with the Return on Assets.

The model given below:

ROA=$\boldsymbol{\beta_0 + \beta_1 D/A + \beta_2 D/E} \in_{it}$

Model II

Model II tries to findout the relatioship affecting variable with the Earning Per Share.

ROA=$\boldsymbol{\beta_0 + \beta_1 D/A + \beta_2 D/E} + \in_{it}$

Where,

β_0= Constant term

D/A= Debt to total assets

D/E= Debt to total equity

ROA=Return on assets

ROE=Earnings per share

$\beta_1, \beta_2, \beta_3, \beta_4$= regression coefficient

Description of variable with their measurement

Name of variable	Symbols	Measurement
Debt to total assets	D/A	Total Debt/ Total Assets
Debt to total equity	D/E	Total Equity/Shareholder's equity
Return on Assets	ROA	Net income/Total Assets
Earnings Per share	EPS	(Net Income - Dividends on Preferred Stock) / Average Outstanding Shares

CHAPTER IV
RESULTS AND DISCUSSION

The display, analysis, and interpretation of data are the key topics of this chapter. In order to obtain the desired findings, the presented data are examined and interpreted using statistical techniques such as mean, maximum, minimum, standard deviation, correlation, regression coefficient, and analysis of variance test (one-way ANOVA).

4.1 Position of capital structure

The purpose of this analysis was to determine the capital structure's position. Debt-to-equity and debt ratios have been used to quantify the capital structure. This section presents the findings on these ratios. In order to determine the capital structure position and so accomplish the first study goal, seven years' worth of data pertaining to the debt ratio and debt-equity ratio of Nepalese commercial banks were computed. The table displays the results of the debt-to-equity ratio and debt position.

Table 1

Position of Capital Structure of Nepalese Banks

	N	Minimum	Maximum	Mean	Std. Deviation	CV
DR	21	0.890	1.0333	0.8667	0.1481	0.170
DER	21	0.81	50.42	13.142	7.813	0.594

Source: SPSS Output

As can be seen in Table 1, the sample banks' minimum debt ratio is 0.890 and their maximum debt ratio is 1.0333. The average debt ratio is 0.8667. The mean value of Arjal (2017)'s comparable study was discovered to be 0.967. This suggests that compared to previous years, the debt ratio has decreased recently. As a result, the percentage of debt financing Nepalese banks have in recent years decreased. The initial research goal has been accomplished by this. Comparably, the debt-to-equity ratio has a mean value of 13.142, with a minimum of 0.81 and a high of 50.42. The mean value of Arjal (2017)'s comparable study was discovered to be 18.58. This suggests that compared to previous years, the debt-to-equity ratio has decreased recently. As such, the quantity of debt that Nepalese banks are funding has decreased recently compared to equity. The initial goal of

the study, which was to determine the financial standing of sample banks, has been accomplished. Finally, the debt-to-equity ratio's CV of 0.170 and debt-to-equity ratio's of 0.594 show how dispersed the data is from the mean.

4.1.1 Position of profitability of Nepalese Banks

The goal of this investigation was to determine the profitability situation. The return on assets and earnings per share has been used to gauge profitability.
To determine the profitability position and accomplish the second study goal, seven years' worth of data pertaining to Nepalese bank profitability ratios were computed. The results of the profit ratio position are displayed in table 2.

Table 2

Position of profitability

	N	Minimum	Maximum	Mean	Std. Deviation	CV
ROA	21	0.01	3.25	1.6012	0.684	0.427
EPS	21	0.10	445.46	37.814	54.770	1.448

Source: SPSS Output

Table 2 illustrates that the mean value of return on assets is 1.6012, with a minimum value of 0.01 and a maximum value of 0.10. Arjal (2017) found that similar studies yielded a mean value of 2.30. This suggests that, as compared to previous years, the return on assets has decreased recently. As a result, compared to previous years, the profit or net income earned by Nepalese banks per rupee invested has decreased. The second research goal has been accomplished by this. Comparably, the mean EPS value is 37.814, with a minimum of 0.10 and a maximum of 445.46. The mean of Arjal (2017)'s comparable study was discovered to be 18.46. This suggests that compared to previous years, the EPS has increased recently. Thus, compared to previous years, Nepalese banks' remaining profit after all administrative and financing expenditures has increased. The second research goal has been accomplished by this. Finally, the profits per share (EPS) is 1.448 and the CV of ROA is 0.427, which show the degree of dispersion around the mean value.

Relationship between capital structure and profitability

Pearson's Correlation Coefficients are computed in order to meet the third research goal and evaluate the first research hypothesis; the findings for these coefficients are shown in Table 3.

Table 3

Descriptive analysis

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	CV
Return on Assets	21	.01	3.25	1.6012	.684	0.427
Earning per shares	21	.10	445.46	37.814	54.770	1.448
Debt to total assets	21	.0890	1.0333	.8667	.1481	0.170
Debt to total equity	21	0.81	50.42	13.142	7.813	0.594
Valid N (list wise)	21					

Source: SPSS Output

For the research period of 2015/16 to 2021/22, Table 3 displays the descriptive statistics of the dependent and independent variables of Nepalese banks. The earning per share and return on assets are the dependent variables. Additionally, debt to total assets and total debt to total equity are separate factors. where the minimal values for DE, EPS, DA, and ROA are, respectively, 0.81, 0.90, 0.101, and 0.101.

The maximum values are 50.42, 1.0333, 445.46, and 3.25, in that order. The standard deviation of ROA, EPS D/A, D/E, and D/E from their respective means is 1.6012, 37.8146, 0.8667, and 13.1423. The sample banks' coefficient values are 0.427, 1.448, 0.170, and 0.594. The findings showed that the average return on assets and earnings per share for all Nepalese banks for the chosen period were 1.6012 and 37.814, respectively, demonstrating the banks' strong performance.

The final research goal, which was to investigate the connection between capital structure and profitability in the study's Nepalese sample banks, has been met by these correlations.

4.1.3 Correlation analysis with ROA.

To determine how various factors relate to ROA, a correlation study of the total data is conducted. The coefficients of the Pearson correlation are calculated once the descriptive statistics have been provided. Table 4 displays the results of computing the Pearson's correlation coefficients for the chosen Nepalese banks.

Table 4

Association between independent variable with ROA

		Return on Assets	Debt to total assets	Debt to total equity
Return on Assets	Pearson Correlation	1		
Debt to total assets	Pearson Correlation	-.019	1	
Debt to total equity	Pearson Correlation	.107	.136	1

Source: SPSS Output

The data presented in Table 4 indicates a negative link between the debt to total assets ratio and return on assets. It shows that as one ratio's value increases, another ratio's value—which is -0.019—decreases. Likewise, a positive association was seen between return on assets and the debt to total equity ratio. It showed a positive but negligible link between return on assets and the debt to total equity.

Impact of capital structure on profitability

The purpose of this study was to determine how capital structure affected the banking industry's profitability in Nepal. This section presents the regression analysis's findings.

Pooled OLS Regression

One kind of model with constant coefficients, meaning both intercepts and slopes, is the pooled regression model. This kind of linear least square approach is used to calculate the model's unknown parameters. Therefore, when you choose a distinct sample for every year, month, or period of the panel data, you are using pooled OLS. Accordingly, OLS

applies the least squares concept to determine the parameters of the linear functions of the collection of explanatory variables. On the other hand, data from many units are combined without any consideration of individual variations.

Regression analysis of ROA

Table 5

Analysis of the effect of independent variables and ROA

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.766	.495		1.546	.125	-.218	1.749
	Debt to total assets	.306	.491	.066	.623	.535	-.668	1.279
	Debt to total equity	.002	.002	.094	1.137	.258	-.001	.005

a. Dependent Variable: Return on Assets

Source: Calculation using SPSS

Table 5 displays the link between ROA and other ratios. Nonetheless, there is a positive and negligible correlation between return on assets and debt to total equity and assets. where the corresponding regression coefficients are 0.002 and 0.306. According to the table, ROA appears to be unaffected, with p-values of (0.535>0.05) and (0.258>0.05), respectively.

Regression model of independent variables and ROA

The model that was calculated was ROA=, where is the error term, D/A, D/E, and ROA represents bank performance.

Table 6

Model summary of ROA

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.724[a]	.524	.504	38.57493	.524	26.145	3	95	.000

a. Predictors: (Constant) Debt to total equity, Debt to total assets

The coefficient of determination of the variable, often known as the R-square, is 0.524. The model can account for around 52.4% of the systematic variance in the dependent variable, according to the R-square, which is another indicator of the model's overall fitness. That is, additional factors not included in the model account for about 47.60% of the variation in the income per share of the selected banks.

The corrected R-square, or around 50.4%, which represents the percentage of total variation explained by the model, supports this outcome. In a similar vein, results from the fisher's ratio, or F-statistics, which serve as evidence for the validity of the estimated model and are displayed in table 4.6, show that the F is approximately 26.145 and that the P-value, or F(sig), is equal to 0.000. This consistently suggests that the explanatory variables and the dependent variable are significantly associated at the same time. Finally, if the independent variables in the regression model show a value of zero, the intercept value of 0.766 indicates the value of return on assets.

Interpreting the equation

ROA=$\boldsymbol{\beta_0 + \beta_1 D/A + \beta_2 D/E} + \in_{it}$

= 0.766+0.520 +$\in_{it}$

According to the regression equation above, a one-percentage shift in the debt-to-assets ratio results in a 52% rise in ROA.

Analysis of Variance (ANOVA) [a]

Table 7

Anova of ROA

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.623	4	4.156	13.238	.000[b]
	Residual	29.822	95	.314		
	Total	46.444	99			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant) Debt to total equity, Debt to total assets

The results of the ANOVA test are displayed in Table 7, and they indicate that return on assets significantly affects the performance of Nepalese banks in that country. Considering that the p-value is really 0.000, which is less significant than the 5% limit. This suggests a large ROA= value for the linear regression model.

Association with correlation with EPS

The coefficients of the Pearson correlation are calculated once the descriptive statistics have been provided. Following computation, the Pearson's correlation coefficients for the chosen Nepalese banks are shown in Table 8.

Table 8

Association correlation between independent variables and EPS

		Earning per shares	Debt to total assets	Debt to total equity
Earning per shares	Pearson Correlation	1		
Debt to total assets	Pearson Correlation	.179	1	
Debt to total equity	Pearson Correlation	.685**	.136	1

Source: SPSS Output

The Pearson's correlation coefficient matrix for Nepalese banks is displayed in Table 8. The bivariate Pearson's correlation coefficients between the various variables utilized in the study are displayed in the table. The data from four sample banks covering the years 2015–16 to 2021–22 form the basis of the correlation coefficients.

Table 8 presents evidence of a substantial positive association between earnings per share and the positive relationship between debt and total equity. The results showed that (r=0.685 sign < 0.001 and r=0.179 sign < 0.05). It showed a positive, negligible link between earnings per share and the debt to total assets.

Regression analysis of EPS

Table 9

Analysis of the effect of independent variables and EPS

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-43.353	34.099		-1.271	.207	-111.048	24.342
	Debt to total assets	57.064	33.774	.154	1.690	.094	-9.986	124.115
	Debt to total equity	.964	.104	.666	9.306	.000	.759	1.170
a. Dependent Variable: Earning per shares								

Source: SPSS output

Table 9 demonstrates the positive and strong association between EPS and debt to total equity. EPS on debt to total equity has a regression coefficient of 0.964. Likewise, the

table displays the p-value (i.e., P-value 0.00< 0.05), indicating that there is a substantial and positive influence on EPS, as supported by the data.

Regression model of independent variables and EPS

The model that was calculated was ROE=, where is the error term, D/A, D/E, and ROE is the bank profitability.

Table 10

Model summary of EPS

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.724[a]	.524	.504	38.57493	.524	26.145	3	95	.000
a. Predictors: (Constant), Debt to total equity, Debt to total assets									

Source: SPSS Output

A strong linear relationship between the dependent variable (ROA) and the independent variable (D/A, D/E) is implied by the liner regression result between ROA and D/A, D/E, which reported a R of. The independent variables in the model accounted for 52.4% of the variance in the ROA, according to the coeffieicient of determinants, R2 0.524. On the other hand, the adjusted R-square, or the percentage of the total variation that the model explains, is 50.4%.

The f (sign) value of 0.000 consistently indicates that there is a substantial correlation between the explanatory factors and the dependent variable at the same time. Understanding the formula EPS = -43.353 + 0.964 D/E+

According to the regression equation above, a one-percent change in the ratio of total debt to total equity causes an increase of 96.4%.

ANOVA of EPS

Table 11

Anova of EPS

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	155617.385	4	38904.346	26.145	.000[b]
	Residual	141362.392	95	1488.025		
	Total	296979.777	99			

a. Dependent Variable: Earning per shares

b. Predictors: (Constant), Debt to total equity, Debt to total assets

Source: SPSS Output

The results of the ANOVA test, which are displayed in Table 11 indicate that return on assets significantly affects the performance of Nepali banks. Considering that the p-value is really 0.000, which is less significant than the 5% limit. This suggests that there was significant data for linear regression model II EPS.

4.2 Major Findings

- The average debt and debt-to-equity ratios of the banks that were included in the sample were determined to be 0.8667 and 13.842, respectively. It shows a lower value than previously.
- Determining the profitable positions in terms of return on assets and EPS was another goal of this investigation. After examining the sampled banks, the mean values of EPS and return on assets were determined to be 37.814 and 1.6012, respectively.
- The debt ratio and ROE and EPS have a negative connection, according to this study. In a similar vein, the debt-to-equity ratio has a substantial negative association with EPS but a negative relationship with ROE. This suggests that the profitability of the company as determined by ROA and EPS is adversely correlated with both the debt ratio and the debt-equity ratio.
- The financial performance of Nepalese banks as determined by ROA, with a D/A p-value of 0.535 at 5% significance and a regression coefficient of 0.306, shows

no statistically significant relationship between debt to total assets. This indicates that a 1% increase in D/A results in the least amount of ROA growth (0.306%), but it is statistically not significant.

- The financial performance of Nepalese banks as assessed by EPS, with a regression coefficient of 57.064 and a D/A p-value of 0.094 at 5% of significance, shows no statistically significant impact from debt to total assets. This indicates that a 1% increase in D/A results in the largest percentage gain in EPS (57.064), but the difference is statistically insignificant.
- The findings of this study conflict with those of Ikechukwu & Nnagbogu (2014), who concluded that there is a negative and significant impact on banks. Evgney (2015) & Oli (2021) concluded that the debt to total assets ratio did not significantly affect banks' financial performance (EPS).
- In addition, the outcome showed that, at the 5% significant level, the association between the debt-to-equity ratios and the commercial bank's EPS is positively statistically significant, with a regression coefficient of 0.0964 and a p-value of 0.000. This outcome demonstrates the noteworthy and highly favorable correlation with EPS.

4.3 Discussion

The study's main focus is on the capital structure and profitability analysis of Nepalese commercial banks. The primary goals of the study are to assess the sample bank's capital structure and profitability, as well as the link between the two and the sample bank's profitability and the effect of capital structure on that profitability.

The average debt and debt-to-equity ratios in the banks that were included in the sample were determined to be 0.8667 and 13.842, respectively. It shows a lower value than previously. The identification of profitable positions in terms of EPS and return on assets was another goal of this investigation. After examining the sampled banks, the mean values of EPS and return on assets were determined to be 37.814 and 1.6012, respectively. The results of the current analysis show that the debt ratio and ROE and EPS are negatively correlated. In a similar vein, the debt-to-equity ratio has a substantial negative association with EPS but a negative relationship with ROE. This suggests that

the profitability of the company as determined by ROA and EPS is adversely correlated with both the debt ratio and the debt-equity ratio.

Return on equity is positively correlated with long-term debt and deposits. has a bad relationship with both total debt and short-term debt. According to Bhatt and Jain (2020), there is a substantial positive correlation between profitability and bank size in the regression models. Specifically, larger banks result in better returns for shareholders. Shubita and Alsawalhah (2012) demonstrate that the regression model is free of both multicollinearity and autocorrelation issues. Applying correlations and multiple regression analysis, the study determines that there is a statistically significant negative relationship between debt and profitability. According to this analysis, there is no correlation between a company's debt and profitability. The study's conclusion, according to Dhodary (2019), is that the main factors influencing corporate capital structure in Nepalese trade and manufacturing companies are assets tangibility, profitability, liquidity, and interest coverage ratio. While corporate profitability and liquidity have a negative impact on an enterprise's capital structure, the current study finds that debt to total assets has no statistically significant impact on the financial performance of Nepalese banks as measured by ROA, with a regression coefficient of 0.306 and a D/A p-value of 0.535 at 5% of significant. This indicates that a 1% increase in D/A results in the least amount of ROA growth (0.306%), but it is statistically not significant.

The financial performance of Nepalese banks, as determined by ROA, is not statistically affected by debt to total assets; the regression coefficient is 0.306 and the D/A p-value is 0.535 at 5% of significance. This indicates that a 1% increase in D/A results in the least amount of ROA growth (0.306%), but it is statistically not significant. As a consequence, Evgney (2015) came to the conclusion that the capital adequacy ratio had no discernible impact on the financial performance (ROA) of banks. Nonetheless, the results of Elshaday et al. (2018) and (Innocent, Ikechukwu, & Nnagbogu, 2014), which showed that there is a negative and substantial impact on banks, are in conflict with this study.

Additionally, the results showed that, at the 5% significant level, the association between the debt-to-equity ratios and the commercial bank's ROA is statistically significant and positively impacted (p-value = 0.258, regression coefficient = 0.002). The outcome reveals that a 1% change in the debt-to-total-equity ratio would result in an increase in

return on assets. It also demonstrates a strong but weak positive association with ROA. Whereas Innocent, Ikechukwu, and Nnagbogu (2014) showed an insignificant connection, Oli (2021) discovered a statically positive debt to total equity. These findings are consistent with each other.

The current study's findings include the conclusion of Evgney (2015) & Oli (2021) that the debt to total assets ratio had no discernible impact on a bank's earnings per share (EPS). This study, however, runs counter to Ikechukwu & Nnagbogu's (2014) conclusion that there is a major and detrimental influence on banks. Additionally, the results showed that, at the 5% significant level, the association between the debt-to-equity ratios and the commercial bank's EPS is statistically significant and positively impacted (p-value = 0.000, regression coefficient = 0.0964). This outcome demonstrates the noteworthy and highly favorable correlation with EPS.

CHAPTER V
SUMMARY AND CONCLUSION

The data that was presented and analyzed in the preceding chapter is what brings the study's goal to a successful conclusion. The research summary and conclusion based on the study's findings are the topics of this chapter.

5.1 Summary

An accurate representation of the situation is provided by the capital structure and profitability study of Nepalese commercial banks. The primary goals of this study are to assess the sample bank's capital structure and profitability, as well as the link between the two and the sample bank's profitability and the effect of capital structure on that profitability.

Research designs that are descriptive and correlational have been used. Descriptive statistics have been used to show the positions under the descriptive research design. Data from publicly available financial statements of Nepali commercial banks were used in the study. Only four of the twenty commercial banks—Nepal Bank Limited, Rastriya Banijya Bank Limited, and Agricultural Bank Limited—are selected at random as samples for this study. In order to analyze or examine anything that someone wants to know, data is necessary. It is helpful to carry out the study that demonstrates the profitability trend throughout the certain time period in Nepal. Data for this study was gathered annually from secondary sources, specifically the financial report of the relevant commercial bank.

Various methods and techniques were used to analyze the data in accordance with the study topics. Various analytical software is utilized for the computation of data collecting and display figures. Particularly, SPSS software was utilized in this study to analyze the data. To know the effect and relationship between the dependent and independent variable of correlation and regression has analysis through SPSS.

Chapter Four discusses the findings and debate. Major findings, correlation with EPS, regression analysis of EPS, regression model of independent variables and EPS, ANOVA of EPS, and pooled OLS regression are among the topics covered. The capital structure

and profitability positions of Nepalese banks are also included, as is the relationship between capital structure and profitability, correlation analysis with ROA, and the impact of capital structure on profitability.

As indicated in Table 4.1, the sample banks' mean debt ratio is 0.8667, with a minimum of 0.890 and a high of 1.0333. The mean value of Arjal (2017)'s comparable study was discovered to be 0.967. This suggests that compared to previous years, the debt ratio has decreased recently. As a result, the percentage of debt financing Nepalese banks have in recent years decreased. The initial research goal has been accomplished by this. Comparably, the debt-to-equity ratio has a mean value of 13.142, with a minimum of 0.81 and a high of 50.42. The mean value of Arjal (2017)'s comparable study was discovered to be 18.58. This suggests that compared to previous years, the debt-to-equity ratio has decreased recently. As such, the quantity of debt that Nepalese banks are funding has decreased recently compared to equity. The initial goal of the study, which was to determine the financial standing of sample banks, has been accomplished. Finally, the debt-to-equity ratio's CV of 0.170 and debt-to-equity ratio's of 0.594 show how dispersed the data is from the mean.

The mean value of return on assets is 1.6012, with a minimum of 0.01 and a high of 0.10. Arjal (2017) found that similar studies yielded a mean value of 2.30. This suggests that, as compared to previous years, the return on assets has decreased recently. As a result, compared to previous years, the profit or net income earned by Nepalese banks per rupee invested has decreased. The second research goal has been accomplished by this. Comparably, the mean EPS value is 37.814, with a minimum of 0.10 and a maximum of 445.46. The mean of Arjal (2017)'s comparable study was discovered to be 18.46. This suggests that compared to previous years, the EPS has increased recently. Thus, compared to previous years, Nepalese banks' remaining profit after all administrative and financing expenditures has increased. The second research goal has been accomplished by this. Finally, the profits per share (EPS) is 1.448 and the CV of ROA is 0.427, which show the degree of dispersion around the mean value.

Descriptive statistics of Nepalese banks' independent and dependent factors from 2015–16 to 2021–22. The earning per share and return on assets are the dependent variables. Additionally, debt to total assets and total debt to total equity are separate factors. where

the minimal values for DE, EPS, DA, and ROA are, respectively, 0.81, 0.90, 0.101, and 0.101.

The maximum values are 50.42, 1.0333, 445.46, and 3.25, in that order. The standard deviation of ROA, EPS D/A, D/E, and D/E from their respective means is 1.6012, 37.8146, 0.8667, and 13.1423. The sample banks' coefficient values are 0.427, 1.448, 0.170, and 0.594. The findings showed that the average return on assets and earnings per share for all Nepalese banks for the chosen period were 1.6012 and 37.814, respectively, demonstrating the banks' strong performance. The final research goal, which was to investigate the connection between capital structure and profitability in the study's Nepalese sample banks, has been met by these correlations.

Proof that the ratio of debt to total assets and return on assets were negatively correlated. It shows that as one ratio's value increases, another ratio's value—which is -0.019—decreases. Likewise, a positive association was seen between return on assets and the debt to total equity ratio. It showed a positive but negligible link between return on assets and the debt to total equity.

Relationships between ratios and ROA. Nonetheless, there is a positive and negligible correlation between return on assets and debt to total equity and assets. where the corresponding regression coefficients are 0.002 and 0.306. According to the table, ROA appears to be unaffected, with p-values of (0.535>0.05) and (0.258>0.05), respectively.

The coefficient of determination of the variable, often known as the R-square, is 0.524. The model can account for around 52.4% of the systematic variance in the dependent variable, according to the R-square, which is another indicator of the model's overall fitness. That is, additional factors not included in the sample account for about 47.60% of the difference in the income per share of the studied banks.

The corrected R-square, or around 50.4%, which represents the percentage of total variation explained by the model, supports this outcome. In a similar vein, results from the fisher's ratio, or F-statistics, which serve as evidence for the validity of the estimated model and are displayed in table 4.6, show that the F is approximately 26.145 and that the P-value, or F(sig), is equal to 0.000. This consistently suggests that the explanatory

variables and the dependent variable are significantly associated at the same time. Finally, if the independent variables in the regression model show a value of zero, the intercept value of 0.766 indicates the value of return on assets.

The results of the ANOVA test show that the performance of Nepalese banks is significantly impacted by return on assets. Considering that the p-value is really 0.000, which is less significant than the 5% limit. This suggests a large ROA= value for the linear regression model. Proof showing the link between debt to total equity and earnings per share was positive and substantial. The results showed that (r=0.685 sign < 0.001 and r=0.179 sign < 0.05). It showed a positive, negligible link between earnings per share and the debt to total assets.

A strong linear relationship between the dependent variable (ROA) and the independent variable (D/A, D/E) is implied by the liner regression result between ROA and D/A, D/E, which reported a R of. The independent variables in the model accounted for 52.4% of the variance in the ROA, according to the coeffieicient of determinants, R2 0.524. On the other hand, the adjusted R-square, or the percentage of the total variation that the model explains, is 50.4%. The results of the ANOVA test show that the performance of Nepali banks is significantly impacted by return on assets. Considering that the p-value is really 0.000, which is less significant than the 5% limit. This suggests that there was significant data for linear regression model II EPS=.

5.2 Conclusion

The following results have been reached after the data was analyzed and interpreted. A variety of instruments and methods are employed to assess the capital structure. After examining the sampled banks, the mean values of EPS and return on assets were determined to be 37.814 and 1.6012, respectively. The debt-to-equity ratio is negatively correlated with ROE and EPS. In a similar vein, the debt-to-equity ratio has a substantial negative association with EPS but a negative relationship with ROE. This suggests that the profitability of the company as determined by ROA and EPS is adversely correlated with both the debt ratio and the debt-equity ratio.The financial performance of Nepalese banks, as determined by ROA, is not statistically affected by debt to total assets; the regression coefficient is 0.306 and the D/A p-value is 0.535 at 5% of significance. This indicates that a 1% increase in D/A results in the least amount of ROA growth (0.306%),

but it is statistically not significant. The financial performance of Nepalese banks as assessed by EPS, where the regression coefficient is 57.064 and the D/A p-value is 0.094 at 5% of significance, is not significantly affected by debt to total assets. At the 5% significant level, the relationship between the debt-to-equity ratios and the commercial bank's EPS is statistically significant and positively impacted; the regression coefficient is 0.0964 and the p-value is 0.000. This outcome demonstrates the noteworthy and highly favorable correlation with EPS.

The following results have been reached after the data was analyzed and interpreted. A variety of instruments and methods are employed to assess the capital structure. The capital structure and profitability position of the sample banks were shown to be associated by this study. The capital structure of the sample banks had a considerable effect on the banks' profitability standing.

The study's findings indicated that the sampled banks' mean return on assets and earnings per share (EPS) values were both determined to be positive. The debt-to-equity ratio is negatively correlated with ROE and EPS. In a similar vein, the debt-to-equity ratio has a substantial negative association with EPS but a negative relationship with ROE. This suggests that the profitability of the company as determined by ROA and EPS is adversely correlated with both the debt ratio and the debt-equity ratio.

The financial performance of Nepalese banks as determined by ROA, when the D/A p-value is significant and the coefficient is positive, is not statistically affected by debt to total assets. The relationship between debt to equity ratios has a statistically significant positive influence on the EPS of commercial banks, while the debt to total assets has no statistically significant effect on the financial performance assessed by EPS of Nepalese banks. This outcome demonstrates the noteworthy and highly favorable correlation with EPS.

The bank's financial performance (EPS) was not significantly impacted by the debt to total assets ratio. This study, however, runs counter to Ikechukwu & Nnagbogu's (2014) conclusion that there is a major and detrimental influence on banks. The debt ratio and ROE and EPS have a negative connection, according to this analysis as well. In a similar vein, the debt-to-equity ratio has a substantial negative association with

EPS but a negative relationship with ROE. This suggests that the profitability of the company as determined by ROA and EPS is adversely correlated with both the debt ratio and the debt-equity ratio.

5.3 Implications

The capital structure and profitability analysis of Nepalese commercial banks is the study's conclusion. It is advised that all of the study's sample banks focus more on their operations, upholding their capital structure, asset quality, business growth rate, liquidity, and governance procedures. In addition to this, factors including corporate social responsibility, varied services, and market reputation should be considered. It would not only benefit the bank but also serve as a crucial criterion for the bank to be recognized as one of the finest in the country.

This study might potentially bridge the knowledge gap regarding the capital structure and profitability analysis of commercial banks in Nepal. The current state of capital structure and profitability, their relationship, and the effect of capital structure on profitability are all covered in this study.

Regarding future research: The components of liquidity level, such as cash, marketable securities, receivables, and inventory level, as well as their influence on the profitability of the companies, may be the subject of more study. Furthermore, it is recommended that a further study be carried out on the same subject matter using firms from various industry sectors and extending the sample's years of operation.

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APPENDICES

Nepal Bank Limited					
Year	Banks	ROA	EPS	D/A	D/E
2015/16	NBL	1.47	21.38	0.98	50.42
2016/17	NBL	3.22	54.07	0.95	19.91
2017/18	NBL	1.42	27.42	0.95	18.34
2018/19	NBL	1.6	32.32	0.93	13.03
2019/20	NBL	1.42	30.26	0.90	9.23
2020/21	NBL	2.23	56.04	0.90	9.42
2021/22	NBL	1.64	48.61	0.91	10.55
Rastriya Banijya Bank Limited					
2015/16	RBBL	2.65	76.12	0.91	10.42
2016/17	RBBL	2.06	57.54	0.92	11.23
2017/18	RBBL	2.32	59.27	0.90	8.96
2018/19	RBBL	2.69	59.86	0.88	7.59
2019/20	RBBL	2.61	51.84	0.87	6.79
2020/21	RBBL	2.11	50.57	0.88	7.64
2021/22	RBBL	1.58	36.16	0.89	8.16
Agricultural Development Bank					
2015/16	ADBL	1.56	13.11	0.87	6.50
2016/17	ADBL	1.38	13.27	0.88	7.04
2017/18	ADBL	1.79	17	0.90	8.57
2018/19	ADBL	1.74	17.31	0.88	7.02
2019/20	ADBL	2.34	12.81	0.85	5.50
2020/21	ADBL	1.68	15.68	0.87	6.30
2021/22	ADBL	1.64	13.44	0.88	7.62

	N	Minimum	Maximum	Mean	Std. Deviation
DR	35	0.890	1.0333	0.8667	0.1481
DER	35	0.81	50.42	13.142	7.813

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	28	0.01	3.25	1.6012	0.684
EPS	28	0.10	445.46	37.814	54.770

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	28	.01	3.25	1.6012	.684
Earning per shares	28	.10	445.46	37.814	54.770
Debt to total assets	28	.0890	1.0333	.8667	.1481
Debt to total equity	28	0.81	50.42	13.142	7.813
Valid N (list wise)	28				

		Return on Assets	Debt to total assets	Debt to total equity
Return on Assets	Pearson Correlation	1		
Debt to total assets	Pearson Correlation	-.019	1	
Debt to total equity	Pearson Correlation	.107	.136	1

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.766	.495		1.546	.125	-.218	1.749

	Debt to total assets	.306	.491	.066	.623	.535	-.668	1.279
	Debt to total equity	.002	.002	.094	1.137	.258	-.001	.005
a. Dependent Variable: Return on Assets								

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.724[a]	.524	.504	38.57493	.524	26.145	3	95	.000
a. Predictors: (Constant) Debt to total equity, Debt to total assets									

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.623	4	4.156	13.238	.000[b]
	Residual	29.822	95	.314		
	Total	46.444	99			
a. Dependent Variable: Return on Assets						
b. Predictors: (Constant) Debt to total equity, Debt to total assets						

		Earning per shares	Debt to total assets	Debt to total equity
Earning per shares	Pearson Correlation	1		
Debt to total assets	Pearson Correlation	.179	1	
Debt to total equity	Pearson Correlation	.685**	.136	1
Coefficients				

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-43.353	34.099		-1.271	.207	-111.048	24.342
	Debt to total assets	57.064	33.774	.154	1.690	.094	-9.986	124.115
	Debt to total equity	.964	.104	.666	9.306	.000	.759	1.170
a. Dependent Variable: Earning per shares								

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.724[a]	.524	.504	38.57493	.524	26.145	3	95	.000
a. Predictors: (Constant), Debt to total equity, Debt to total assets									

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	155617.385	4	38904.346	26.145	.000[b]
	Residual	141362.392	95	1488.025		
	Total	296979.777	99			
a. Dependent Variable: Earning per shares						
b. Predictors: (Constant), Debt to total equity, Debt to total assets						

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ABSTRACT Impact of firm specific characteristics on profitability of Commercial Banks is representative vision of reality. Main thrust of the present study is to examine the firm specific factors and profitability of the sampled bank, to examine the relationship between firms specific factors and profitability of the sample banks and to analyze the effects of firm specific factors on profitability of sampled bank. Descriptive and casual Comparative research designs have been adopted. The study involved the data from published financial statements of commercial banks operating in Nepal. Among the 20 commercial banks only 3 banks are taken as sample of using purposive sampling method these are: Rastriya Banijya Bank, Nepal Bank and Agricultural Development Bank. Based on the analysis and interpretation of data, the study suggests that Nepalese commercial banks should focus on maintaining liquidity, capital structure, business growth rate, asset quality, and governance practices to enhance their performance. Market reputation, diversified services, and corporate social responsibility should also be considered. The study aims to bridge the gap in research about capital structure and profitability analysis of Nepalese commercial banks and suggests avenues for future research, such as exploring liquidity level components and extending the study to different sector companies over more years. It includes pooled OLS regression, regression analysis of ROA, regression model of independent variables and ROA, analysis of variance (ANOVA), association with correlation with EPS, regression analysis of EPS, regression model of independent variables and EPS, ANOVA of EPS, and major findings. ANOVA tests indicate that return on assets has a significant effect on the performance of banks in Nepal, with a p-value of 0.000. This implies that the linear regression model is significant. Additionally, the study concludes

that debt ratio and debt-equity ratio are negatively related to firms' profitability measured by ROA and

EPS. Key Words: Firm specific characteristics, profitability, Commercial Banks

1 CHAPTER I INTRODUCTION 1.1 Background of the study

A company's capacity to turn a profit is determined by how successfully it leverages the resources from its main line of business to produce revenue. The phrase is also employed as a broad indicator of the overall financial health of a company over a specific time frame. company profitability has been linked to a number of company attributes, including age, size, liquidity, and leverage. Both internal and external business factors may have an impact on a company's profitability. The management-controllable internal features are what explain the variations in profitability between firms. External qualities, on the other hand, are those outside of management's control that influence business decisions. The unique qualities of each bank that influence the performance of the