

Factors Determining Profitability of Nepalese Microfinance Institutions

A dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment
of the requirements for the Master's Degree

by

Timila Munikar

T. U. Reg. No.: 7-2-551-140-2013

College Roll No.: 3266/075

Exam Roll No.: 14248/19

Shanker Dev Campus

April, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “FACTORS DETERMINING PROFITABILITY OF NEPALESE MICROFINANCE INSTITUTIONS”. 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.

.....
Timila Munikar

REPORT OF RESEARCH COMMITTEE

Miss Timila Munikar has defended research proposal entitled “FACTORS DETERMINING PROFITABILITY OF NEPALESE MICROFINANCE INSTITUTIONS”, 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 Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and viva voce examination.

.....
Asso. Prof. Dr. Kapil Khanal
Dissertation Supervisor

Dissertation Proposal Defended Date:

.....

Dissertation Submitted Date:

.....

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head of Research Department

Dissertation Viva Voce Date:

.....

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “FACTORS DETERMINING PROFITABILITY OF NEPALESE MICROFINANCE INSTITUTIONS” presented by Timila Munikar 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 thesis is worthy of acceptance.

.....

Asso. Prof. Dr. Kapil Khanal
Dissertation Supervisor

.....

Internal Examiner

.....

Internal Expert

.....

External Expert

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairman, Research Committee

.....

Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

ACKNOWLEDGEMENTS

This study entitled “FACTORS DETERMINING PROFITABILITY OF NEPALESE MICROFINANCE INSTITUTIONS” 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 profitability of microfinance companies in Nepal.

I have great satisfaction and pleasure to express my appreciation and sincerity to my thesis supervisor Asso. Prof. Dr. Kapil Khanal of Shanker Dev Campus, TU for his excellent and effective guidance and supervision. I will remain thankful for his valuable direction useful suggestion and comments during the course of preparing this thesis without his help this work would not have come in this form. I also would like to extend my debt of gratitude Asso. Prof. Dr. Sajeeb Kumar Shrestha, Head of Research Department and I owe a deep debt of gratitude to Asso. Prof. Dr. Krishna Prasad Acharya, Campus Chief of Shanker Dev Campus who provided me an opportunity to undertake this research work. Similarly, I would like to express my sincere to my friends for their support, encouragement and help for this study work.

I highly appreciate to all the staffs of respective banks, NRB Library, Shanker Dev Campus Library and TU Central Library for their valuable advices and support in collecting and presenting the necessary data. I would also like to express my thankfulness to my friends, my family members as well as all known people who supported as well as inspired me directly or indirectly to complete this thesis. With help and support, I have been able to complete this work. I would like to take the responsibility of any possible mistakes that may have occurred in the report. I would be delighted to welcome readers for their suggestion and recommendation to improve the report.

Timila Munikar

April, 2024

TABLE OF CONTENTS

	<i>Page No.</i>
<i>Title Page</i>	<i>i</i>
<i>Certification of Authorship</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>viii</i>
<i>Abbreviations</i>	<i>ix</i>
<i>Abstract</i>	<i>x</i>
CHAPTER-I INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Problem statement.....	4
1.3 Objectives of the study.....	6
1.4 Research Hypothesis.....	7
1.5 Rationale of the study.....	7
1.6 Limitations of the study.....	7
CHAPTER-II REVIEW OF LITERATURE	9
2.1 Conceptual review.....	9
2.1.1 Concept of profit.....	9
2.1.2 Types of profit.....	10
2.1.3 Concept of profitability.....	12
2.1.4 Profit and profitability.....	14
2.1.5 Bank specific factors affecting profitability of microfinance companies.....	14
2.2 Empirical review.....	16
2.3 Research gap.....	29
CHAPTER-III RESEARCH METHODOLOGY	30
3.1 Research Design.....	30

3.2 Population and Sample.....	30
3.3 Sources of Data	30
3.4 Data Analysis Tools	31
3.4.1 Financial Tools	31
3.4.2 Statistical Tools	32
3.5 Research Framework.....	34
CHAPTER – IV RESULTS AND DISCUSSION.....	36
4.1 Descriptive Statistics of Variables	36
4.2 Correlation Analysis.....	37
4.3 Regression Analysis	38
4.4 Discussions.....	41
CHAPTER – V SUMMARY AND CONCLUSION	44
5.1 Summary	44
5.2 Conclusion.....	45
5.3 Implications.....	46
References	
Appendix	

LIST OF TABLES

Table 1 Summary of Empirical Review.....	24
Table 2 Descriptive Statistics of Variable of Sample Banks	36
Table 3 Pearson Correlation Coefficient of Study variables	37
Table 4 Model Summary of ROA.....	38
Table 5 ANOVA Table.....	38
Table 6 Regression Coefficients	39
Table 7 Model Summary of ROE	40
Table 8 ANOVA Table.....	40
Table 9 Regression Coefficients	40

ABBREVIATIONS

AD	:	Anno Domini
ATM	:	Automated Tailor Machine
C&BB	:	Cash & Bank Balance
CA	:	Current Assets
CV	:	Coefficient of Variation
FIRST	:	First Microfinance Laghubitta Bittiya Sanstha Limited
L & A	:	Loan and Advance
Ltd.	:	Limited
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
RSDC	:	RSDC Laghubitta Bittiya Sanstha Limited
SD	:	Standard Deviation
SKBLB	:	Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited
T.A	:	Total Assets
TD	:	Total Deposit
TU	:	Tribhuvan University

ABSTRACT

This research aimed to examine the factors influencing the profitability of microfinance in Nepal. To achieve this goal, the study utilized descriptive and causal-comparative research methods. Panel data spanning nine years (2013/14 to 2021/22) from microfinance companies in Nepal were analyzed. Profitability, measured by indicators like ROA and ROE, was the dependent variable, while independent variables included ratios such as non-performing loan ratio, cash reserve ratio, Size and equity to assets ratio. Secondary data were employed for this study. Ordinary least squares regression (OLS) was used as the primary analytical tool.

The analysis indicates that the Return on Assets (ROA) tends to fluctuate in response to changes in the Non-Performing Loan Ratio (NPLR) or the Cash Reserve Ratio (CRR). The size of the bank, as represented by an independent variable in the table, is found to be statistically significant. Similarly, for Return on Equity (ROE), it tends to vary with changes in CRR and Equity to Assets (ETA), both of which are statistically significant. Although NPLR does not show significance, other factors like bank size and CRR do. This regression model suggests a positive association between ROE and selected independent variables like size and NPLR, while a negative correlation exists with CRR and ETA. These insights could assist bankers and policymakers in improving the profitability of financial institutions.

Keywords: Profitability, Commercial Banks, ROE, ROA, Liquidity.

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The amount of money received from a sale that exceeds the amount of money paid, or simply the profit. A reward for engaging resources in conditions of speculative risk for the satisfaction of consumer demand, profit is defined by the dictionary of commerce as the surplus that results after a defined trading period. Nevertheless, profit must be regarded as the first essential charge upon business. It provides funding for operations in the future, therefore its absence must lead to a reduction in effective capital resources and, eventually, the business's competitive demise (Akhter, 2018).

There are two ways to interpret the word "profit." As an owner-oriented notion, it refers to the amount and portion of the national revenue that firm owners—those who provide equity capital as a variation on profitability—are paid. Put differently, profitability denotes a state in which the value generated by the utilization of resources surpasses the entire amount of resources used. Profitability is a phrase that deviates from "profit" and refers to the capacity to turn a profit as the primary indicator of a business enterprise's performance. It is merely describing the fundamental test performance of any firm. Profit is defined as the excess of sales revenue over expenses, yet the term "profit" is highly contested and has many meanings (Duan, 2020).

Profitability serves as a standard for all business enterprises, including commercial businesses. Nonetheless, a rise in non-performing loans directly affects a company's profitability by reducing returns on assets. Thus, non-performing assets have a negative impact on return on assets (ROA), a profitability metric. Non-performing loans reduce a company's profitability since they may result in high disposal costs. Opportunity costs are associated with non-performing loan assets because the non-interest producing assets (often cash) could have been invested and yielded returns in another place. In addition, institutions must budget for losses on non-performing assets, which has an impact on profitability, and there are expenses related to trying to recover non-performing loans. However, managers are free to employ provisions for losses on non-performing loans for their own goals, such as profit-smoothing, which is justified by agency theory and the asymmetry of information (Gurung & Gurung, 2022).

Profit is a widely acknowledged and accepted indicator of how efficiently a business is operating. Therefore, a company is judged to be more efficient and profitable the higher its profits. The main benefit of this criterion is that it offers a uniform benchmark for evaluating the effectiveness of various businesses. The desire for profit continues to be an enterprise's primary motivator and encourages efficiency. The pursuit of more profitable procedures, lower unit costs, improved organization, and higher turnover is undoubtedly motivated by the need to earn a profit (Hanh et al., 2022). The terms "profit" and "ability" combine to form the word profitability. The definition of profit was previously discussed, and ability refers to a company's capacity to turn a profit. An organization's ability also indicates its profitability or operational effectiveness. The profitability of an investment can be characterized as its capacity to generate income from its utilization. While profit is an absolute notion, profitability is a relative idea. Profit and profitability are two distinct ideas, notwithstanding their close relationship and mutual dependence. Put differently, each of them plays a unique role in business despite being generic (Dangol, 2017).

Profitability is a phrase that deviates from "profit" and refers to the capacity to turn a profit as the primary indicator of a business enterprise's performance. It is merely describing the fundamental test performance of any firm. Profit is the excess of sales revenue over expenses, yet the term "profit" is highly contested and has multiple meanings (Javaid & Alalawi, 2017).

Senior management and the board primarily use the credit policy to direct lending activities. The policy lays out the fundamental credit philosophy of the companies in addition to imposing rules. It establishes risk tolerance thresholds, offers a framework for reaching asset quality and profits targets, and directs the lending operations of the enterprises in a way that is compatible with their strategic orientation. Credit policies establish guidelines for managing compliance, distributing credit fairly, and composing portfolios (Kamande et al., 2016).

Ratios that summarize vast amounts of financial data and allow for qualitative assessment of the firm's profitability, such as net interest margin, return on equity, and firm's returns on asset, are used to measure the profitability of businesses (Neupane, 2019). Marketable securities, size, capital, risk management, expense management, and non-performing loans are considered to be micro- or company-specific variables that impact profitability, while

inflation, interest rates, GDP growth, and tax rates are considered macro-variables. The size of the companies, the capital adequacy ratio, the liquidity ratio, the credit deposit ratio, and the non-performing loan ratio are among the specific variables that are taken into consideration in this study as the company-specific elements of profitability (i.e., ROA and ROE of the companies). Few businesses examine and revise their credit rules, guidelines, and manuals on time. The NRB has instructed businesses to make lending in certain areas mandatory in order to address this issue. Finding the ideal balance between directed lending and lending done at the discretion of businesses is the NRB's main challenge (Nepal Rastra Companies, 2021).

According to Rawal and Thapa (2019), a business is profitable if it can turn a profit relative to its costs and other pertinent expenses during a given time period. Prospective investors focus more on the profitability statistics because they are interested in dividends and stock price appreciation. On the other side, managers are curious to know how to quantify operating performance in terms of profitability. As a result, a low profit margin would raise suspicions about incompetent management and discourage potential investors from funding the business.

According to Niresh (2012), liquidity has a significant impact on both internal and external analysts due to its intimate connection to a company's daily activities. A firm is hazardous and unsound when it has a weak liquidity situation, which also threatens its profitability.

Mahmud, Mallik, Imtiaz, and Tabassum (2016) discovered that the profitability of Bangladeshi banks was positively impacted by capital, operational expense, gearing ratio, and bank size. However, three other statistically significant variables that indicated a negative relationship with performance were the liquid fund to deposit ratio, the cash and bank balance to deposit ratio, and the liquid fund to current obligation ratio. According to Msomi (2022), the inflation rate, capital adequacy ratio, and liquidity ratio all have a favorable impact on non-performing loans, which eventually has a negative effect on banks' profitability.

According to Rijal (2019), the ratio of credit to deposit is the only one that is important and positive in relation to return on assets; the other ratios, assets quality, and liquidity ratio, are all positive and significant in relation to net interest margin. According to Gnawali's

(2018) research, non-performing loans have a detrimental effect on return on assets when it comes to government banks in Nepal. In a similar vein, non-performing loan to total loan (NPLTL) has a detrimental effect on ROE, or company profitability. Empirical data has shown that there is a conflicting link between a firm's financial performance and its liquidity risk. Thus, the goal of this research is to determine how liquidity affects Nepali microfinance enterprises' profitability (Khan et al., 2016).

As a result, loans and advances, non-performing loans, and deposits may all affect banks' profits. Loan eligibility is dependent on deposit collection, which shows that when NPL declines, net profit rises as well.

1.2 Problem statement

The key instrument that shows how effectively an organization is generating profit is profitability analysis. Every business organization's fundamental short- and long-term goals are to maximize profit. A steadily rising profit ratio is a positive indication of an organization. In general, it is reasonable to assume that asset quality and bank performance are positively correlated. This ratio can be used to examine the security and soundness of a bank. The likelihood of bankruptcy will decrease with increasing value of this ratio, boosting investor confidence and profitability (Budathoki & Rai, 2020).

The money and quasi money variables, as well as the changeable net interest margin, have a big influence on the banks' profitability. The findings indicated that changes in business (internal) and nation (external) specific factors affect commercial bank earnings (Khan, Islam, Rizwan & Rasheed, 2016). Key factors influencing Bangladeshi banks' profitability were determined to be capital, operational costs, gearing ratio, and bank size. While capital and bank profitability are positively correlated, three other statistically significant variables were negatively correlated with performance (Mahmud, Mallik, Imtiaz & Tabashsum, 2016).

Cost of funds, liquidity, funding gap, interest rate term structure, and economic growth rate were found to have a negative impact, whilst inflation rate had a favorable impact on bank profit. The size of the bank and the rate of deposit growth are not very important. Bank profitability is significantly impacted negatively by the loan to deposit ratio. Bank

profitability is adversely affected by a nation's interest rate and macroeconomic growth rate (Islam & Nishiyama, 2016).

On the other hand, the rate and bank profitability have a negative relationship. This finding indicates that the profitability of banks has been negatively impacted by the decline in interest rates in India. Bank profitability is positively impacted by deposits relative to total assets as well. The relationship between loans to total assets and profitability is positive, meaning that the likelihood of a better return on assets is correlated with the number of loans. On the other hand, because costs typically rise more quickly than revenue in inflationary contexts, inflation has a negligible and detrimental effect on ROA. It was also shown that ROA is directly impacted by GDP (Karimzadeh, Akhtar & Karimzadeh, 2013).

After conducting correlation and regression analysis, Khan and Ali (2016) found a substantial positive association between bank profitability and liquidity. According to Khasharmeh (2018), bank deposits' total amount of cash and due ROE and CDT and investment to total assets INVSTD have a favorable correlation. Furthermore, there is a negative association between ROE and cash due from banks to total deposits (CDDTD) and investments to total assets (INVSTA). The credit to deposit ratio, on the other hand, assesses the asset structure that characterizes how the flow of deposits improves the credit/loan operation of banks and helps them turn a profit. Another important source of income for banks is credit, and the ratio of credit deposits to total deposits has a big impact on how profitable banks are (Neupane, 2019). Non-performing loans are heavily impacted by the inflation rate, liquidity ratio, and capital adequacy ratio (Msom, 2022).

Mishra and Pradhan (2019) discovered that there is no meaningful correlation between banks' profitability and liquidity and that CDR and IDR have a significant negative impact on ROA. According to Shrestha (2012), Nepal's profitability is positively and significantly impacted by the NRB to deposit ratio and the cash-vault to deposit ratio. Additionally, no discernible effects on profitability have been recorded for the cash and bank balance to deposit ratio, the liquid fund to current obligation ratio, or the liquid fund to deposit ratio.

According to Almaqtari, Al-Homaidi, Tabash, and Faharan (2018), liquidity had a favorable but statistically negligible impact on ROA and ROE. In a similar vein, Paolucci (2016) conducted research and discovered a positive, albeit statistically insignificant,

relationship between liquidity and ROA, ROE, and NIM. Adolopo, Lloydking, Western, and Tauringana (2018) found that liquidity was negatively related to ROA and positively related to NIM. According to Tan's (2017) research, there is a negligible positive correlation but an insignificant negative correlation between liquidity and ROA.

Neupane (2019) found that bank size has a substantial impact on both ROA and NIM of Nepalese commercial banks, as well as positive effects of operational expense to operational income and non-interest income to total assets on return on assets, credit to deposit ratio on net interest margin. Moreover, CD has a beneficial impact on ROA. The GDP, inflation, credit risk, and capital adequacy ratio have no discernible impact on the profitability of Nepalese commercial banks. Equity to total assets, loan loss provision to total loan, GDP growth rate, inflation return on assets, and return on equity were all determined to have beneficial benefits by Khanal (2016). Return on equity and return on assets are inversely connected with bank size, the expense to revenue ratio, and the total loan to total deposit ratio.

According to Neupane (2019), the ratio of credit to deposit measures the asset structure that characterizes how the flow of deposits improves the credit/loan operation of banks and helps banks turn a profit. Another important source of income for banks is credit, and the ratio of credit deposits to total deposits has a big impact on how profitable banks are. In light of this, the research aims to respond to the following queries:

- What is the profitability indicator of sampled micro finance companies in Nepal?
- Is there any relationship between banks' size, equity to assets ratio, non-performing loan ratio, cash reserve ratio, and profitability micro finance companies in Nepal?
- What is the impact of banks' size, equity to assets ratio, non-performing loan ratio and cash reserve ratio on the profitability of micro finance companies in Nepal?

1.3 Objectives of the study

The main objective of the study is to examine the factors determining the profitability of Nepalese microfinance companies. Other Specific objectives are:

- To analyze the profitability position of micro finance companies in Nepal.

- To examine the relationship between banks' size, equity to assets ratio, non-performing loan ratio, cash reserve ratio and profitability of micro finance companies in Nepal.
- To assess the effect of bank size (i.e. total assets), equity to assets ratio, cash reserve ratio and non-performing loan ratio on profitability of micro finance companies in Nepal.

1.4 Research Hypothesis

Null Hypothesis (H0)

There is no impact of Companies size on ROA.

There is positive impact of Companies size on ROE.

There is significant relationship between NPLR with ROA.

There is no significant relationship between NPLR with ROE.

1.5 Rationale of the study

The bank's profit was negatively impacted by the sharp increase in deposit interest rates. In this case, the banks must also limit their operating costs and manage their cost of funds. Many studies have been conducted on the profitability of microfinance companies, but the majority of them have focused on financial analysis and the investment function. In order to determine the efficiency of their money in commercial banks, shareholders, depositors, and other creditors will primarily benefit from the study. Similarly, the performance of the bank is also of interest to other financial authorities, such as financial specialists. Aside from these, any individual or future researcher will have access to a reliable body of literature to evaluate regarding the results of this project.

1.6 Limitations of the study

Along with the significance of this study also have some limitations which are as follows:

- This study is based on the profitability analysis of three microfinance companies only, which may not represent all microfinance companies.
- This study covers nine year time period from 2013/14 to 2021/22.
- This study is based on secondary data taken form annual financial report of sample companies and other secondary sources.

- Only profitability, limited companies specific factors (i.e. companies size (i.e. total assets), loan to assets ratio, equity to assets ratio, cash reserve ratio and non-performing loan ratio) has been taken into consideration for the analysis.
- Only selected financial and statistical tools are used in this study.

CHAPTER - II

REVIEW OF LITERATURE

Reviewing the literature entails looking into research papers or other pertinent claims made in the field of study in order to become aware of all previous studies, their shortcomings, and their findings so that new research can be carried out. It is an essential and required procedure for research projects. In this regard, the researcher will be assisted in developing a suitable project structure by a review of prior related research projects. Reviewing the literature is like taking stock of what is written about the subject of one's inquiry. It includes the idea of financial analysis, a conceptual assessment, and an examination of relevant literature, journals, publications, and earlier research in the field of study.

2.1 Conceptual review

In this part of the conceptual idea relating to profit and profitability of commercial banks are reviewed.

2.1.1 Concept of profit

There are multiple interpretations of what profit is. Profit could refer to the payment a company receives for its managerial services. It is referred to as regular profit and is the minimal amount required to keep the company operating. One could view profit as a reward for actual entrepreneurial activity. It is the compensation an entrepreneur receives for taking on risk. We call this kind of analysis supernormal profit. Monopoly profit may be implied by profit. A company obtains it through extortion as a result of its market monopoly. It has nothing to do with any practical, niche purpose. Monopoly profit is therefore not a useful reward. Sometimes profit can be in the form of a windfall. It is an unforeseen benefit that a business receives by pure happenstance, an inflationary boom (Chand, 2019).

For example, different people—businesspeople, accountants, legislators, laborers, and economists—have varied definitions of what profit is. A profit is just a positive amount that remains after all costs and expenses have been deducted from business operations or investments. In the language of economics, profit is the benefit that an entrepreneur receives from bringing together all the elements of production to meet the needs of people in the economy who are facing uncertainty. Simply said, a profit is an amount of money

that goes to the investor. Profit in accounting refers to excess revenue over all expenses that have been paid out. In the language of economics, a profit is referred to as pure, economic, or just profit (Nitisha, 2019).

2.1.2 Types of profit

Profit has been defined differently by different people. People have equated profit with more money, rewards, and income. But none of the descriptions of profit are considered to be correct or incorrect; rather, it all relies on the context in which they are used. Profit can be divided into two categories based on fields, and these are described below (Nitisha, 2019):

Gross Profit

Gross profit is a term in which the following items are included in addition to the net profit due to the entrepreneur: remuneration for factors of production contributed by entrepreneur himself, depreciation and maintenance charges, extra personal profits and net profit.

Net Profit

Net profit is the exclusive reward for the entrepreneur for the following functions performed by entrepreneur: reward for co-ordination, reward for risk taking, reward for uncertainty bearing and reward for innovation.

Accounting Profit

Accounting profit refers to an organization's overall earnings. It is a return that is computed as the difference between income and expenses, which includes overhead and production costs. Explicit costs, or monetary payments made by the business to third parties for its goods and services, are the most common type of costs. Stated differently, payments made by an organization for labor, materials, plants, advertisements, and machinery are referred to as explicit costs.

Economic Profit

Considers implicit, or imputed, costs in addition to apparent costs. Implicit that an entrepreneur can profit from by forgoing in favor of the best possible alternative use of resources. Implicit costs are therefore sometimes referred to as opportunity costs. Examples

of implicit expenses include interest on an entrepreneur's own investment, proprietor salary, and rent on their own land.

Normal Profits

The term "normal profits" refers to the assumed returns on capital and risk-taking that are simply required to keep the owners from leaving the business. Typically, the supply price or opportunity cost of entrepreneurship is used to determine normal earnings. If the company wants to continue operating in the long run, these costs must be met. When there is perfect competition among business owners, the product's market price is equal to its average cost, which already includes "normal profit." The minimal profit required to persuade an entrepreneur to stay in business over the long term is normal profit. An entrepreneur may have to sell his product at a loss in the short term if he does not receive a normal profit, but in the long term, every entrepreneur must receive at least a normal profit. It is believed to be included in the cost.

Supernormal Profits

The excess over normal profit is known as supernormal profit. The super-marginal firms acquire it. The marginal firm establishes the supernormal profit of the company but only receives the normal profit.

Modern Approach towards Profit

The business environment of today is very different from that of the past. In the past, maximizing profits was one of the company's primary goals. However, the company's primary goal these days is sales maximization. Therefore, the company's goal can be to maximize shareholder wealth maximization or growth rate.

All businesses nowadays receive funding from creditors and equity investors. Professional management has connections to the government, workers, clients, and society at large. In addition to other goals, maximizing shareholder wealth is typically the company's goal; if not, it should establish a benchmark for fair profit. Profit maximization is threatened, and economists who study the profitability of firms offer a plethora of solutions. Even so, there are arguments against a company's profitability maximization model. The alternative paradigm that applies when markets are perfectly competitive, monopolistic, or oligopolistic is still not well understood by economists. As a result, the profitability model

continues to be used. Even now, a business wants to make as much money as it can. "Business has many objectives, and in order to achieve its demands for security, goodwill, and existence, it frequently has to give up some short-term financial gains. Nonetheless, the majority of businesses continuously rank profitability as one of their top priorities. It may be argued that short-term objectives like security and growth rate are secondary to long-term profitability (Lynch & Williamson, 1989).

Traditional Approach towards Profit

The conventional method of studying the business environment and economic theory based on a firm's profit is called profit maximization. Profit maximization is one of the tenets of economic theory. The primary tenet of management economics is to maximize profit since it is always assumed that a company sets out to maximize profit and that this is the firm's discretionary behavior.

Profit serves as a gauge for a company's overall performance. If a company can continue to make enough money to cover its costs and maintain a positive return on investment, it can be considered successful. This helps companies avoid running out of money and offers the finest chances to expand their assets and grow their business (Shrestha, 1980).

Owners and managers have a significant motivation to perform effectively: the prospect of profit. Consequently, it is a widespread notion in economic theory that profit maximization should be the basis for judging a firm's actions. Manufacturing items and providing services are the fundamental business incentives. In this context, profit is defined as revenue that is left over after all explicit and implicit expenditures have been subtracted, including the nominal profit that is allocated to the entrepreneur's services. "Every business needs profit to stay in business over the long term and to keep its capital adequate through retained earnings. In order to generate money for further support for the productive sector, it is also essential to accept the market for both equity and debt (Robinson, 1951).

2.1.3 Concept of profitability

The terms "Profit" and "Ability" combine to form the term "Profitability." Regarding the term profit, there are two primary ideas: accounting and economics. 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,

partners, and laborers, as well as what is now known as rent on the unimproved value of land, which is considered the return on capital. The final "accounting" profit of such firms comprises two components, according to the mathematics of capital of accountancy: a return on capital and a return representing economic rent on the land value. Still, not a shred of knowledge exists on what percentage of "accounting" profit each of these two economic components represents. This leads to the perplexing reality that "economic" profit is not the same as "accounting" profit or the profit of a businessman (Gupta, 1992).

Determining whether a bank has utilized its resources efficiently to meet its profitability goals is the goal of profitability measurement. The profitability objectives pertain to the least profit that the business must generate, rather than the greatest profit that it can generate. The profit at the lowest rate necessary for the intended kind of bank investment is known as the minimal profit. But, there must be insufficient profit to pay both the additional capital required to cover operating expenses and the capital in the market rate of return on money that has already been invested in the business (Dangol, 1999).

Profit, according to economists, is what entrepreneurship gets in exchange for taking risks. Labor leaders may argue that it serves as a gauge of labor productivity and a starting point for wage increase negotiations. Additionally, investors will see it as a gauge of their financial return. It could be used as a basis by an internal revenue agent to calculate income taxes. It is simply defined by the accountant as the difference between the firm's revenue and its revenue-producing expenses over a specific fiscal period (Lynch & Williamson, 1989).

Every company has a variety of objectives. Maximizing profits is the aim of business. For a business, profit is everything. It holds the same significance as water. to pay for ongoing expenses associated with operating a firm, such as replacing furnishings and equipment, managing market or technological risks, etc. In the context of the self-financing principle, profit is crucial. It lowers the cost of capital and offers structure. An enterprise's profitability attracts investors. So, when there is a sufficient profit, investors would put their money to work. Therefore, in order to guarantee and fulfill the expectations of management, owners, investors, employees, and the country at large, profit is necessary (Dangol, 1999).

2.1.4 Profit and profitability

Profit and profitability are concepts that are occasionally used interchangeably. However, there is a true distinction between the two. While profitability is a relative idea, profit is an absolute phrase. Nonetheless, they play different functions in business and are mutually dependent and intimately related. Profit is the entire revenue generated by the business over the given time period, whereas profitability is the business's operational effectiveness. It is the business's capacity to turn a profit on sales. It is the capacity of an organization to obtain a respectable return on the capital and labor utilized in its operations (Fregmen, 1976).

The administration of finances Profit is an indicator of efficiency and control, a measure of the value of the owners' investment, a margin of safety for creditors, a measure of taxable capacity and a foundation for legislative action for the government, and an indicator of economic progress, national income generated, and the rise in the standard of living for the nation (Weston, Besley, & Brigham, 1996). Profit is not the same as profitability, which is a byproduct of profit. Put otherwise, there is no profit that leads to profitability. Businesses with similar profits can differ in terms of profitability. Even though the profits of two different businesses may be the same, they frequently differ when their profitability is expressed in terms of the quantity of the investment (Horngren, 1992).

2.1.5 Bank specific factors affecting profitability of microfinance companies

Bank Size: One major factor influencing profitability is the size of the bank. It may have a positive or negative impact on internal bank operations. The positive correlation between bank size and ROA suggests that the bank has successfully achieved economies of scale, which lowers operating expenses and contributes to higher profitability. Conversely, a negative relationship denotes scale inefficiencies (Mahmud, Mallik, Imtiaz & Tabassum, 2016).

Gearing Ratio: The gearing ratio shows how much equity and debt the banks are utilizing to finance their assets. The debt-to-equity ratio is used to measure it. Greater liquidity risk is indicated by a relatively greater gearing ratio since the debt holders may demand a higher rate of return. It indicates a high danger of liquidity, which could reduce profitability. According to earlier research, this is a highly important factor in determining credit position.(Mahmud, Mallik, Imtiaz & Tabassum, 2016).

Non-performing Loan Ratio: Loan default rate is measured by non-performing loan ratio. It was discovered that the quantity of non-performing loans (NPLs) had a negative relationship with bank profitability. Bank profitability decreases with the quantity of classified loans as a percentage of total loans.

Banking profit determinants that are specific to individual banks include the non-performing loan ratio, which shows a larger provision for loan security. A larger provision reduces the amount of money available for investments, lowers the bank's earning potential, and adversely impacts the profitability of the banks (Islam & Nishiyama, 2016).

Liquidity: The trade-off between profitability and liquidity exists. Liquid assets serve as a buffer against deposits that might need to be paid for immediately. Therefore, increased liquidity lowers risk but also lowers the amount of money available for lending. Hence, more liquidity denotes decreased profitability. Thus, there is a bad link between the two.

The ratio of the bank's total deposit to its bank balance is used to determine the bank's liquidity, which helps to reduce the short-term risk of bank failure. The bank may be unable to pay its depositors and make its regular payments if it does not have enough liquidity. Since the bank's ability to operate on a regular basis is influenced by its liquidity, the bank's performance is also closely related to its liquidity (Kosumi & Kosumi, 2021).

Leverage Ratio: The empirical data on leverage revealed a statistically significant but negative association (Kosumi & Kosumi, 2021). A higher ratio indicates a larger share of deposits and liabilities in the bank, which raises interest costs and reduces profitability.

Operating Expense Ratio: Reduced operational expenses are the result of efficient management, and this raises the company's profitability. It is anticipated that the operating expenditure ratio and ROA will have an inverse relationship.

Capital Adequacy Ratio: A bank's net worth is determined by its capital adequacy ratio. It shows how much money is available to protect against unfavorable developments. The relationship between CAR and ROA is erratic. Some study indicates a negative relationship, while other research points to a good one.

These variables influencing Bangladesh's commercial banks' financial performance were chosen and examined. The study uses loan to deposit ratio (LDR), capital adequacy ratio (CAR), and non-performing loan (NPL) as indicators of credit risk and return on asset (ROA) as a tool for measuring bank performance. Panel data regression study revealed that the Capital Adequacy Ratio (CAR) and Non-Performing Loan (NPL) had a statistically significant negative impact on the financial performance of commercial banks. On the other hand, the Loan to Deposit Ratio (LDR) positively and statistically significantly affected the commercial banks' financial performance. Consequently, the financial performance of commercial banks is being adversely impacted by credit risk (Yeasin, 2022).

2.2 Empirical review

Connell (2023) examined on determinants of bank profitability: evidence from the UK. Examining the impact of macroeconomic, industry-specific, and bank-specific factors on bank profitability among domestic UK commercial banks is the aim of this research. An empirically motivated single equation framework incorporating the classic structure–conduct–performance (SCP) hypothesis was employed in this investigation. To account for profit persistence, a panel of UK banks covering the years 1998–2018 were subjected to a generalized version of Moment's strategy. The estimation results demonstrate that all bank-specific factors have the expected, substantial effects on bank profitability, with the exception of credit risk. Nevertheless, the SCP theory was not supported by any evidence. Bank profitability is significantly impacted by interest rates, particularly longer-term interest rates, and the rate of inflation; once other factors are taken into consideration, the business cycle has a symmetrically little impact. In the UK banking sector, profitability is maintained to a reasonable degree, suggesting that the market structure is not totally competitive.

AI- Matari (2023) examined the determinants of bank profitability of GCC: The role of bank liquidity as moderating variable—Further analysis. The main goal of the study is to look into the factors that affect bank profitability in the GCC countries. Ordinary least squares (OLS) regression is used to examine data that were received from GCC banks between 2000 and 2018. The size of the bank and asset management have a major impact on the performance of GCC banks, according to the acquired findings. Furthermore, the relationship between capital adequacy, asset quality, and the performance of GCC banks is moderated by bank liquidity. The bank's profitability score has a favorable correlation,

according to more research. Furthermore, there is a positive but moderate association between bank liquidity and the performance of GCC banks as measured by their profitability score. Policymakers, regulators, and shareholders should find this study's implications for the factors that determine bank profitability in emerging economies—where common profitability exists—helpful in determining the banks' appeal to investors.

Jigeer and Koroleva (2023) investigated the determinants of profitability in the city commercial banks: Case of China. The profitability of Chinese city commercial banks is examined in this study using a panel data regression model to examine the effects of both internal and external factors. The 16 specified city commercial banks that make up the research sample have an unbalanced dataset that spans the years 2008–2020. To find out what factors affect Chinese city commercial banks' profitability, a panel data regression method is applied. Panel data can be estimated using a variety of techniques, although the fixed effects and random effects models are the most widely used. In panel data regression, the pooled OLS model is frequently used as a comparison model; statistical hypothesis testing will identify the best model. The findings indicate that while liquidity has no discernible impact on the profitability of city commercial banks, internal explanatory variables like bank size, capital adequacy, credit quality, and operating efficiency, as well as external explanatory variables like inflation and province GDP, have a significant impact. By identifying the factors that influence city commercial banks' profitability in light of the most recent state of the Chinese banking industry, the paper adds to the pertinent body of literature. It also offers useful recommendations for enhancing bank profitability, which are crucial for regulators, management of financial institutions, and local and state governments.

Ahmeti and Iseni (2023) analyzed to examine the effects of specific company factors, namely independent variables such as: liquidity, company size, company age, tangible asset, leverage, company capital and growth of company, on profitability represented by return on assets (ROA) and net profit margin (NPM) as a dependent variable. For the years 2015 through 2020, eleven insurance firms make up the study's sample. The regression's findings show that the company's age, size, and leverage all significantly affect ROA. Meanwhile, firm development and size have a big impact on the NPM of insurance businesses in Kosovo.

Ibrahim (2022) investigate the determinants of profit and loss sharing financing in Indonesia. The purpose of this article is to examine the dynamic relationships that exist between Indonesian banking-specific characteristics, macroeconomic variables, and religiosity and profit and loss sharing (PLS) financing. Seven factors were employed in this study: bank size, interest rate, PLS financing, Islamic financing rate, risk-sharing deposits, economic growth, and degree of religiosity. Monthly time series data covering the years 2009–2019 were utilized, and as a robustness check mechanism, they included ARDL and ECM to the structural vector auto regression algorithm. The findings indicate that, in the near run, variations in risk-sharing deposits and bank size parameters have a greater impact on PLS financing. In the meanwhile, variance decomposition analysis shows that PLS financing dynamics are a stronger predictor of variation in PLS financing than other factors. This findings can support the introduction of the PLS scheme as an alternative to the monetary channel in Indonesia's dual banking system. It also reinforces the feature of PLS financing that is resistant to interest rate fluctuations.

Vojinovi et al. (2022) examined the determinants of sustainable profitability of the Serbian insurance industry: Panel data investigation. The purpose of this research is to examine the primary forces behind sustainable profitability patterns in the insurance sector of Serbia from 2008 to 2019 (inclusive). The fact that insurance businesses support economic expansion serves as the driving force behind our research, and it is crucial to comprehend the elements that support their stability and soundness financially. To find the relationship between a few micro-specific, macroeconomic, and institutional factors and return on assets (ROA) and return on total premiums (ROTP), we employ a suite of classic panel regression models, such as the mixed-effects model, followed by a more robust GMM estimation. Due to its thoroughness in terms of the institutional datasets we utilize and the methodology we employ (namely, mixed effects and the generalized method of moments (GMM)), this work significantly adds to the body of current literature. We find that business size, GDP, population growth rates, political stability, and degree of specialization (in some empirical models) all contribute to increased profitability; the calculated parameters are model-specific. However, we also see that (in certain specifications) inflation and excessive risk-taking have an inverse relationship with profitability.

Msomi (2022) analyzed the factors affecting non-performing loans in commercial banks of selected West African countries. The macroeconomic and bank-specific variables

influencing non-performing loans in commercial banks are investigated in this article. A fixed and random effect model was applied to 47 listed commercial banks from six countries between 2008 and 2019: 19 banks from Nigeria, 14 banks from Benin, 3 banks from Burkina Faso, 3 banks from Gambia, 3 banks from Guinea, and 5 banks from Liberia. The estimation revealed that the inflation rate, capital adequacy ratio, and liquidity ratio all had a substantial impact on non-performing loans, and the Hausman test supported the choice of the fixed effect model. The report concludes that banks must ensure that loans are carefully examined before being given to recipients in addition to their capacity to meet the capital adequacy ratio. Bank management need to make sure that employees aren't only giving out loans to keep their employment by collecting deposits from customers at the expense of the bank's long-term interest. Furthermore, West African countries must to maintain low rates of inflation in order to make timely loan repayment affordable and feasible.

Yeasin (2022) examined the impact of credit risk management on financial performance: A study of commercial banks in Bangladesh. The study intends to examine the effect of credit risk management on the financial performance of commercial banks because credit risk is having an impact on Bangladesh's banking sector. The study used a deductive research approach and targeted six commercial banks in Bangladesh. Panel regression analysis was used to analyze secondary data from 2010 to 2019 for all of the data. Four variables that have an impact on Bangladeshi commercial banks' financial performance were chosen and examined. The study uses loan to deposit ratio (LDR), capital adequacy ratio (CAR), and non-performing loan (NPL) as indicators of credit risk and return on asset (ROA) as a tool for measuring bank performance. Panel data regression study revealed that the Capital Adequacy Ratio (CAR) and Non-Performing Loan (NPL) had a statistically significant negative impact on the financial performance of commercial banks. On the other hand, the Loan to Deposit Ratio (LDR) positively and statistically significantly affected the commercial banks' financial performance. As a result, credit risk has a detrimental impact on commercial banks' financial performance.

Agaba and Eton (2022) examined the relationship between Credit Risk Management Practices and Loan Performance of Commercial Banks in Mbarara City. The credit staff and management of 19 commercial banks provided numerical data for the study using a standardized questionnaire. The linkages and impacts between credit risk management and

loan performance of commercial banks in Mbarara City are analyzed using regression and correlation analysis. The results of the study indicated that there was a substantial correlation between the identification, evaluation, monitoring, and control of credit risk and the performance of loans. The study also discovered that several commercial banks lacked the specialists necessary to assess the outcomes of loan officers' choices or predict credit risks with any degree of accuracy.

Mishra, Kandel and Aithal (2021) assessed the impact, contribution and relationship of size, loans and deposit, inflation and capital on the profitability of the banks. The utilization of regression analysis, correlation, and ratio analysis has ensured a contributing relationship between return on equity (ROE), net interest margin (NIM), and return on assets (ROA). According to this study, there is a positive correlation between bank size and inflation and ROA and ROE, but a negative correlation with loan ratio, deposit ratio, and capital ratio. In contrast, the capital ratio has a negative association with NIM, while bank size, loan ratio, deposit ratio, and inflation all show positive relationships with NIM.

Chaudhary, Dhakal and Adhikari (2021) analyzed the practice and relationship between liquidity and the profitability of Nepalese Joint Venture banks i.e., Everest Bank Ltd. and Himalayan Bank Limited. In this study descriptive as well as inferential research design was used to get the result of stated objectives. It was discovered that there is a very high degree positive link between the total deposit and the cash and bank balances of EBL and HBL. During the study period, there was a noteworthy positive correlation seen between net profit and the total deposit of both EBL and HBL. Compared to HBL, EBL had a greater average cash and bank balance to total deposit ratio. This demonstrates their depositors' ability to take out money right away and their much greater ability to cover their deposits.

Kosumi and Kosumi (2021) examined the Performance evaluation of commercial banks. It is based on the unique characteristics of the banks and makes use of data from 12 commercial banks for the years 2012 to 2018. Return on assets (ROA) is considered the dependent variable for this purpose, while the independent variables include capital adequacy (CAP), bank size (SIZE), credit risk (CR), revenue diversification (DIV), liquidity (L), and leverage (LEV). Since liquidity and bank size were found to have a strong beneficial impact on profitability, the study concluded that these factors have mostly driven

the profitability of commercial banks. However, this analysis also discovered that the banks' ROA and their capital adequacy, credit risk, and leverage were inversely correlated.

Hallunovi (2018) examined the determinants of profitability of commercial banks in Albania. Return on equity (ROE) and return on assets (ROA) were the two dependent variables in this study that were utilized to quantify profitability. In this study, macroeconomic variables including GDP, inflation, and exchange rate were evaluated in addition to banking-specific variables like bank size, asset management, credit risk, asset liquidity, capital adequacy, operational efficiency, and cost of financing. Multiple regression analysis was employed in this study to assess the influence of the factors influencing bank profitability. This study discovered that, while only in the case of the ROA model exhibited substantial statistical significance, there is a positive correlation between capital adequacy and profitability in both models (ROA/ROE). While having a low coefficient of relevance to ROA, total assets had a beneficial impact on profitability (ROA/ROE). Both ROA and ROE profitability and liquidity assets are negatively correlated; however, the correlation for ROA was not statistically significant, while the correlation for ROE was at 1%. In both models, there was a statistically significant negative correlation between credit risk and profitability (5% for ROA and 1% for ROE).

Javaid and Alalawi (2017) analyzed on performance and profitability of Islamic banks in Saudi Arabia: An empirical analysis. The study's goal was to investigate the profitability and performance of Saudi Arabia's banking industry, as well as the contribution of Islamic banking to these factors. Using robust fixed effect regression models using unbalanced panel data, this study looks at how profitability is affected by variables unique to banks, the sector, and the macroeconomic environment. It was discovered that, while not statistically significant, size and the natural logarithm of total assets have a beneficial impact on profitability. Growing in size is said to bring advantages that can improve profitability. The strong financial standing of Saudi banks is shown in both ROA and ROE, which both have positive and very significant coefficients of the capital adequacy variable (CAR). The ratio of non-performing loans to total loans has a positive relationship with both bank performance metrics. This suggests that higher asset quality correlates with improved bank performance. Put differently, Saudi Islamic banks keep adequate reserves to manage non-performing loans. Operating efficiency appears to be highly significant but negative at the 1% level with both profitability measures, cash and balances less than assets have negative

and insignificant relationships with both performance ratios, management quality is significantly positive related to both profitability measures, and growth and profitability have significant negative associations.

Kamande, Zablou and Ariemba (2016) found that there has been a significant decrease in capital adequacy during the five-year period. Additionally, it was discovered that asset quality had an impact on banks' financial performance and profitability. The analysis comes to the conclusion that a bank's asset quality has the biggest impact on its return on assets.

Islam and Nishiyama (2016) examined the determinants of bank profitability of South Asian countries. This research empirically examines the factors that specifically affect bank profitability, industry-specific factors, and macroeconomic factors, using the GMM estimator. The profitability factors in the empirical model were ROA and ROE. The explanatory factors for the profitability were examined, and the following ratios were used to analyze the profitability: equity to assets ratio, non-performing loan ratio, liquidity ratio, cost of fund ratio, productivity ratio, earning power, growth rate of deposit, credit deposit ratio, interest income ratio, interest rate, inflation rate, funding gap, GDP growth rate, etc. It was discovered that capital is a significant factor in determining bank profitability. ROA is favorably and considerably impacted by the equity to total assets ratio. Cost of funds, liquidity, funding gap, interest rate term structure, and economic growth rate were found to have a negative impact, whilst inflation rate had a favorable impact on bank profit. It was discovered that the size of the bank and the rate of deposit growth have no appreciable impact on bank profitability. However, the loan to deposit ratio, rate-sensitive assets, and rate-sensitive liabilities have a major detrimental impact on banks' profitability. It also showed that a nation's macroeconomic growth rate and interest rate term structure have a detrimental impact on bank profitability.

Khan, Islam, Rizwan and Rasheed (2016) examined on effect of firm specific and country specific factors on profitability of banks in Pakistan. The study's goal was to look into the variables that influence Pakistani banks' profitability. This study analyzes many parameters to ascertain how they affect profit. To measure the outcomes of the fixed effect modal and random effect modal, panel data approach was employed. In summary, the analysis revealed that the bank's profitability has been significantly impacted by the independent variables. The money and quasi money variables, as well as the changeable net interest

margin, have a big influence on the banks' profitability. The findings showed that changes in firm- and country-specific variables as well as firm-specific internal factors affect commercial bank earnings.

Mahmud, Mallik, Imtiaz and Tabassum (2016) found that bank size, operating expense, gearing ratio and capital were found to be important variables that affect the bank profitability of Bangladesh. While the other three statistically significant variables indicated a negative relationship with performance, capital demonstrates a positive relationship with bank profitability.

Saeed (2014) investigated the impact of bank-specific, industry-specific, and macroeconomic variables on bank profitability before, during, and after the financial crisis of 2008. After performing regression and correlation studies on the data, it was shown that while GDP and inflation rate have a negative impact on ROA and ROE, bank size, capital ratio, loans, deposits, liquidity, and interest rate have favorable effects. The results of this study can aid in decision-making and enhance the performance of financial institutions going forward for UK banks, the government, investors, policymakers, and shareholders.

Shehzad, Haan and Scholtens (2013) investigated the relationship between bank size and the level of profitability and growth of banks and to examine the link between bank size and the variability of profits and bank growth. Banks from a huge variety of developing economies were included in this study. Panel and cross-sectional regressions were employed in the study to estimate the growth and profit models. This study uses a two-step GMM model to evaluate the relationships between bank profitability and growth. It was discovered that the degree and unpredictability of bank expansion, as well as the variability of bank profitability, are not influenced by the size of the bank. It was also shown that larger banks in high-income countries for economic cooperation and development expand more slowly than small banks, but nevertheless turn a profit. It is discovered that both variability in profitability and variability in bank growth are unaffected by bank size. Both increased inflation and the cost/income ratio considerably lower bank profitability and returns on equity.

Karimzadeh, Akhtar and Karimzadeh (2013) investigated the profitability of banking sector in India in the light of aforementioned changes by showing the relationship between banks

profitability and the factors that determine the level of profitability of Indian banking system and identify and critically examine the main internal and external factors that affect banks' profitability in India. The study employed a linear regression model to determine the effects of market concentration, GDP, inflation rate, bank size, lending rate, and loan to total assets ratio on banks' return on assets. It was discovered that the SIZE and ROA have a favorable association. This positive correlation demonstrates how a bank's profitability is impacted by its size. On the other hand, the rate and bank profitability have a negative relationship. This finding indicates that the profitability of banks has been negatively impacted by the decline in interest rates in India. Bank profitability is positively impacted by deposits relative to total assets as well. The relationship between loans to total assets and profitability is positive, meaning that the likelihood of a better return on assets is correlated with the number of loans. On the other hand, because costs typically rise more quickly than revenue in inflationary contexts, inflation has a negligible and detrimental effect on ROA. It was also shown that ROA is directly impacted by GDP.

Table 1

Summary of Empirical Review

Authors	Title	Objectives	Methodology	Findings
Connell (2023)	Bank-specific, industry-specific and macroeconomic determinants of bank profitability: evidence from the UK	To examine the effect of bank-specific, industry-specific and macroeconomic determinants of bank profitability	A generalized method of moments technique was applied to a panel	The estimation results show that all bank-specific determinants, with the exception of credit risk, significantly affect bank profitability in the anticipated way
AI- Matari (2023)	The determinants of bank profitability of GCC: The role of bank liquidity as moderating variable-further analysis	To investigate the bank profitability determinants among GCC nations.	Data are analyzed using ordinary least squares (OLS) regression.	Bank liquidity has a moderating role in the relationship between capital adequacy and assets quality, and GCC banks' performance. Further analysis shows that the bank's profitability score has a positive association. In addition, bank liquidity has a positive moderate effect

				relationship between the bank's profitability score and the GCC bank's performance.
Jigeer and Koroleva (2023)	The Determinants of Profitability in the City Commercial Banks: Case of China	To investigate how internal and external factors affect the profitability of city commercial banks in China	This study uses a panel data regression model. The pooled OLS model is often used for comparison for panel data regression	The results show that internal explanatory variables such as bank size, capital adequacy, credit quality, and operating efficiency and external explanatory variables such as province GDP and inflation have a significant impact on the profitability of city commercial banks, while liquidity has no significant effect on the bank's profitability.
Abdeljawad, Dwaikat and Oweida (2022)	The Determinants of Profitability of Insurance Companies in Palestine	To examine the factors that affect the profitability of insurance companies in Palestine	Unbalanced panel data was utilized from seven insurance companies operating in Palestine from 2006 to 2018 to estimate a linear model	Findings revealed that size, growth and liquidity significantly positively affect the insurance firm's profitability while motor claims, on the other hand, have a significant negative effect on the insurance company's profitability
Kumar, et al (2022)	Profitability Determinants of the Insurance Sector in Small Pacific Island States: A Study of Fiji's Insurance Companies	To examine the determinants of profitability of insurance companies in Fiji as a reference country	Fixed-effects regression model and a balanced panel are considered for the analysis.	The general outcome of the estimation is that premium income, underwriting expenses, administrative expenses, and volume of capital are positively associated with profitability, whereas leverage measured by total liability over equity, and contingent liability are negatively associated with profitability
Vojinovi, et al (2022)	Determinants of Sustainable Profitability of the Serbian Insurance	To investigate the main drivers of sustainable profitability	Study use a set of standard panel regression models, including the	The study argue that a profitability-centric managerial strategy should be based on expanded market share and stringent risk management

	Industry: Panel Data Investigation	trends in the Serbian insurance industry	mixed-effects model.	protocols. At the macro level, we conclude that pro-growth and pro-population policies, combined with a well-oiled institutional setting that ensures political stability.
Ahmeti and Iseni (2022)	Factors Affecting Profitability of Insurance Companies. Evidence from Kosovo	To examine the effects of specific company factors, namely independent variables	The study uses regression analysis.	The regression results indicate that size, leverage and age of company, have significant effects on the ROA. Meanwhile in NPM of insurance companies in Kosovo size of company and firm growth have significant effects.
Brogi, et. al (2022)	Determinants of insurance companies' environmental, social, and governance awareness	to fill this gap by exploring the interaction between a set of financial ratios and environmental social governance scores	107 large, listed US insurance companies were used for the period 2010–2018 for the purpose of research.	More profitable, and more solvent insurance companies show the highest level of ESG awareness. Our model contributes to shed light on the unfolding of ESG practices in the insurance industry.
Ibrahim (2022)	Determinants of profit and loss sharing financing in Indonesia	to investigate the dynamic relationship between profit and loss sharing (PLS) financing and banking-specific variables, macroeconomic variables and religiosity in Indonesia.	The data used were monthly time series during the 2009–2019 period, and they used the structural vector auto regression method plus ARDL and ECM as a robustness check mechanism	The results show that in the short term, PLS financing is more influenced by changes in the risk-sharing deposits and bank size variables. Meanwhile, analysis of variance decomposition illustrates that variations in PLS financing are more influenced by the dynamics of PLS financing itself than other variables.

Sah and Magar (2021)	Factors affecting the profitability of Nepalese insurance companies	To examine the factors affecting profitability in the context of Nepalese insurance companies	The regression models are estimated to test	The study showed that firm size has a positive impact on return on assets and return on equity. It indicates that larger firm size leads to increase in return on assets and return on equity. Likewise, premium growth has a positive impact on return on assets and return on equity.
Morara and sibindi (2021)	Determinants of Financial Performance of Insurance Companies: Empirical Evidence Using Kenyan Data	to explore the components contributing to the financial performance of insurance firms	The pooled OLS; fixed effects and random effects models were estimated	The results of the study documented that insurer financial performance and size were positively related. The study also found that insurer financial performance was negatively related to the age variable.
Tsvetkova, et. al (2021)	Factors Affecting the Performance of Insurance Companies in Russian Federation	To investigate the determinants influencing financial performance of insurance companies in various countries	Researched by way of descriptive analysis, correlation analysis, multiple linear regression and factor analysis	Return on assets (ROA) has positive relationship with size of the company, return on equity (ROE), liquidity ratio and claim ratio. Inflation and premium growth rate have negative relationship with ROA. The research found that investigated variables (size of company, ROE, liquidity ratio, premiums growth rate, claims ratio and inflation)
Dhiab (2021)	Determinants of Insurance Firms' Profitability: An Empirical Study of Saudi Insurance Market	examining the determinants of profitability in the Saudi insurance sector	The investigation employs a fixed-effects model, random-effects model, Feasible Generalized Least Squares, Ordinary Least Squares with panel-corrected standard errors.	The empirical findings suggest that the growth rate of written premium, the tangibility ratio and the fixed-assets ratio are the main factors affecting positively the profitability of Saudi insurance companies. Moreover, while the company size and the liquidity ratio are positively associated with profitability, their impacts are not statistically significant.

Tegegn, sera and Merra (2020)	Factors affecting profitability of insurance companies in Ethiopia: panel evidence	To examine the effects of firm specific factors (age of company, size of company, leverage ratio, premium growth rate liquidity ratio and tangibility of assets) on profitability proxied by ROA.	Panel data analyzed using Random Effect Model (FEM) after testing the appropriateness of the model with Fixed Effect and Pooled regression model	Size, premium growth rate and liquidity and age are identified as most important determinant factors of profitability hence premium growth rate and size, are positively related. In contrast liquidity and age negatively but significantly related with profitability. Lastly, leverage and tangibility of asset are not significantly related with profitability
Azmi, Irawan and sasongko (2020)	Determinants of profitability of general insurance companies in Indonesia	To investigate the determinants of profitability of General Insurance in Indonesia	The data obtained is time series data and cross section data so that the data analysis in this study uses Panel Data Regression Analysis	The empirical study shows that firm size, liquidity ratio, equity growth, underwriting result, return on investment, input cost, claim ratio, technical ratio, economic growth rates and Bank Indonesia interest rate are significant factors that affect profitability of general insurance companies.
Afifa and Murray (2020)	Determinants of Profitability in Commercial Banks in Vietnam, Malaysia and Thailand	To investigate the factors affecting the profitability of commercial banks	Using panel data regressions	The significantly negative influence of bank size to profitability is found on models of Vietnam and Thailand and no significant effect on the model of Malaysia.
Roy and Ibrahim (2020)	Profitability Analysis of Non-life Insurance Sector in Bangladesh. (A comparative study of Public and Private Firms)	To present the profitability analysis of non-life insurance sector of public and private firms in Bangladesh	Data has collected from the annual reports of selected nonlife insurance firms and mean, standard deviation,	The comparative profitability analysis of the public and private sector shows that, the public sector has exhibited higher claim ratio but a well investment income and low management expenses have indemnified their higher claim losses which resulted in to their slightly higher

correlation, profitability than the private
regression and sector non-life insurance firms.
Mann-Whitney
test tools has
been used

2.3 Research gap

Previous studies on the profitability analysis of various banks were conducted by a variety of specialists, researchers, and students. However, the results of earlier research are constrained by the narrow conclusions, thorough testing, and essential variable adjustments. A new, validating research study was necessary because the previous studies' research was limited.

In terms of the particular variables, time period, and analytical tools employed, the goal of this research project differs from that of other studies. First, the impact of bank size, loan to asset ratio, equity to asset ratio, cash reserve ratio, and non-performing loan (NPL) ratio on the profitability of microfinance enterprises was analyzed using the data analysis model in the study. Comparably, the study differs significantly from other research in that it covers a nine-year span of data from sample banks, whereas earlier research only covered a five-year period. This study differs from earlier studies in that it uses distinct data analysis techniques, such as statistical connection analysis and multiple regression analysis tools. This analysis provides a clear picture of how bank-specific variables affect microfinance enterprises' profitability.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology delineates the approach, protocols, and strategies employed in carrying out research. It is a roadmap for reaching the objective. More correct conclusions and discoveries are produced by appropriate and sufficient methods, which eventually aids in suggesting workable solutions to their search issues.

3.1 Research Design

The research is planned in accordance with the study's goals. A specific research design is necessary in order to achieve the study's aims. Econometric analytical research design has been used to analyze the unique profitability factors of microfinance enterprises in order to accomplish the study's special goal. While correlational research design is used to examine the effects of bank size (i.e. total assets), loan to asset ratios, equity to asset ratios, cash reserve ratios, and non-performing loan ratios on return on assets and return on equity of sample banks, descriptive research design is used for the comparative analysis of the factors and profitability of sample banks.

3.2 Population and Sample

Only three microfinance companies—Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, First Microfinance company Limited, and RSDC Laghubitta Bittiya Sanstha Limited—have been selected as samples out of the 57 microfinance companies that are currently operating in Nepal (Nepal Rastra Bank, 2024), which are assumed to be the population of the study. Sample are chosen randomly from 57 microfinance and easily availability of data in online sources.

3.3 Sources of Data

Data is a very dependable and useful research tool. The primary source of data for this study is secondary data. Bank-specific secondary data are gathered for this study from the sample banks' publicly available annual reports. In addition, relevant data for the research was also gathered from earlier publications and studies.

3.4 Data Analysis Tools

The study is completed using a variety of financial and statistical tools, including regression analysis to examine the effects of variables on bank profitability and descriptive analysis of financial and profitability ratios as well as correlation coefficient analysis of relationships. The study's analysis instruments include:

3.4.1 Financial Tools

Loan to Deposit Ratio

The link between bank loans, advances, and deposits is shown by the loan to deposit ratio. The primary source of revenue for banks is loans. It significantly affects how well the banking industry performs (Ranabhat, 2019). It is computed as follows:

$$\text{Loan to deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

Total Equity to Total Assets Ratio

The ratio of total equity to total assets measures the amount of reserves and equity that a bank has in relation to its total assets (Saeed, 2014). Examining the bank's entire equity position and the risk of protection against depositor claims and unforeseen losses is the goal of this study's ratio analysis. It is anticipated that the total equity ratio, also known as the capital adequacy ratio, will have a substantial impact on financial performance. The formula for calculating the ratio is;

$$\text{Equity to Assets Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

Cash Reserve Ratio

In order to reduce the risk of a bank failing, the cash reserve ratio is calculated by dividing the total deposit of the banks by the cash and bank balance. The bank may not be able to pay its depositors and fund its regular payments if it does not have enough cash on hand and in its bank account (Kosumi & Kosumi, 2021). The bank's liquidity ratio is computed as follows:

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Non-performing Loan Ratio

The non-performing assets in the entire loan and advance portfolio are identified by this ratio. An increased ratio suggests that the bank's asset quality is below par (Mahmud, Mallik, Imtiaz, & Tabassum, 2016). Therefore, it is better to have a lower percentage of non-performing assets to loans and advances. Up to 5% of the entire loan and advance amount is available as NPA. Nepal Rastra Bank is required to implement corrective action if it rises above 5%.

$$\text{NPL to Loans and Advances Ratio} = \frac{\text{Non-performing Loan}}{\text{Loan and Advance}}$$

Return on Assets

One of the main measures of managerial effectiveness is the ratio. It shows how effectively the bank used its resources (Ranabhat, 2019). The ratio calculates the extent to which the bank's management has used all of its resources to generate profits. Greater ROA is correlated with more effective use of all available assets, and vice versa.

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Return on Equity

The term equity describes a bank's owner's claim. Shareholder's equity is the entire asset quantity that exceeds outsiders' liabilities. Net wealth is another name for it (Budathoki & Rai, 2020). This ratio assesses how wisely the management has used shareholder funds while preserving and increasing the net worth of the shareholders. It is a measurement of the rate of return that the shareholders of the bank can obtain. The ratio enables the business to produce a respectable return on equity. Net profit is divided by total equity capital to get this ratio.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit After Tax}}{\text{Shareholders equity}}$$

3.4.2 Statistical Tools

Statistical Tools

Statistical tools which are used to the analysis of the data more accurately in this study are given below;

- Arithmetic Mean

- Standard Deviation
- Co-efficient of Variation (CV)

Correlation Analysis

Hypothesis (H₁); $\rho \neq 0$ i.e. The correlation between the variables are significant in the population. Level of significance: Level of significance $\alpha = 5\%$

Decision: The null hypothesis is accepted if the calculated correlation coefficient's p-value is greater than the significance level, indicating that the coefficient is not significant in the population, and it is rejected if the calculated correlation coefficient's p-value is less than the significance level, indicating that the coefficient is significant in the population.

Regression Analysis with Model Specification

Regression analysis tools were used in the bank analysis of certain profitability elements in this study in an attempt to examine the profitability factors in microfinance enterprises and their impact on profitability. The profitability of the banks is examined in this study through the analysis of ROA and ROE, while the main research variables are bank-specific characteristics such as bank size, loan to asset ratio, equity to asset ratio, cash reserve ratio, and non-performing loan ratio. The following regression equation is examined in this study to determine how the independent factors affect the dependent variables:

Model 1

$$\text{ROA} = \beta_0 + \beta_1 \text{LnSize} + \beta_2 \text{EAR} + \beta_3 \text{CRR} + \beta_4 \text{NPLR} + e$$

$$\text{ROE} = \beta_0 + \beta_1 \text{LnSize} + \beta_2 \text{EAR} + \beta_3 \text{CRR} + \beta_4 \text{NPLR} + e$$

Where,

ROA = Return on Assets

ROE = Return on Equity

β = Beta coefficient of the regression equation

Ln Size = Logarithm of Total Assets

EAR = Equity to Assets Ratio

CRR = Cash Reserve Ratio

NPLR = Non-performing Loan Ratio

E = Residual term of the regression equation

3.5 Research Framework

The following multiple conceptual framework has been assumed in order to examine the relationship between the dependent variables (ROA and ROE) and the independent variables (bank size, equity to assets ratio, cash reserve ratio, and NPL ratio). This framework was used in this study using Mishra, Kandel, and Aithal's (2021) and Kosumi and Kosumi's (2021) studies as references. It is stated that this conceptual framework is;

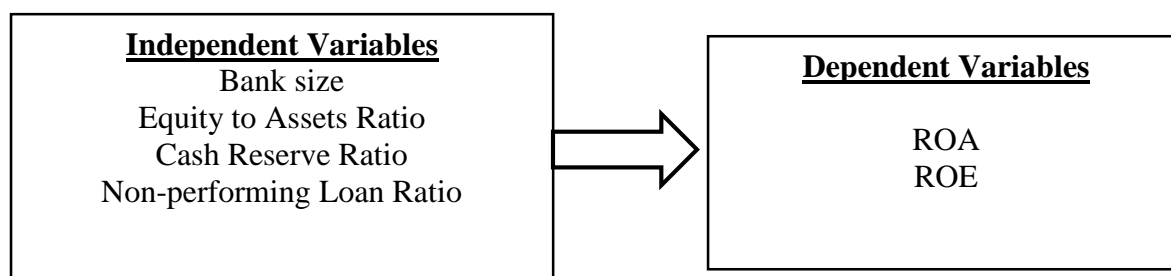


Figure 1

Research Framework

Source: Mishra, Kandel and Aithal (2021); Kosumi and Kosumi (2021)

Definition of Variables

Bank Size

Bank size is represented by total assets, total deposits, and operational income variables. An essential part of a bank is its assets. Due to their better level of efficiency, banks with larger asset sizes tend to be more lucrative than those with smaller ones.

Total Equity to Total Assets Ratio

The ratio of total equity to total assets measures the amount of reserves and equity that a bank has in relation to its total assets (Saeed, 2014). Examining the bank's entire equity position and the risk of protection against depositor claims and unforeseen losses is the goal of this study's ratio analysis. It is anticipated that the total equity ratio, also known as the capital adequacy ratio, will have a substantial impact on financial performance.

Cash Reserve Ratio

In order to reduce the risk of a bank failing, the cash reserve ratio is calculated by dividing the total deposit of the banks by the cash and bank balance. The bank may not be able to pay its depositors and fund its regular payments if it does not have enough cash on hand and in its bank account (Kosumi & Kosumi, 2021).

Non-performing Loan Ratio

The non-performing assets in the entire loan and advance portfolio are identified by this ratio. A higher ratio suggests that the bank's asset quality is below par (Mahmud, Mallik, Imtiaz & Tabassum, 2016). Therefore, it is better to have a lower percentage of non-performing assets to loans and advances. Up to 5% of the entire loan and advance amount is available as NPA. Nepal Rastra Bank is required to implement corrective action if it rises above 5%.

Return on Assets

One of the main measures of managerial effectiveness is the ratio. It shows how effectively the bank used its resources (Ranabhat, 2019). The ratio calculates the extent to which the bank's management has used all of its resources to generate profits. Greater ROA is correlated with more effective use of all available assets, and vice versa.

Return on Equity

The term equity describes a bank's owner's claim. Shareholder's equity is the entire asset quantity that exceeds outsiders' liabilities. Net wealth is another name for it (Budathoki & Rai, 2020). This ratio assesses how wisely the management has used shareholder funds while preserving and increasing the net worth of the shareholders. It is a measurement of the rate of return that the shareholders of the bank can obtain.

CHAPTER – IV

RESULTS AND DISCUSSION

The main objective of this study is to investigate the relationship between liquidity and the profitability of microfinance companies in Nepal, as was previously indicated in the earlier chapters. Consequently, the findings and their analysis are covered in this chapter, which is split into three pieces. The first portion contained information on the structure of profitability and liquidity as well as a descriptive and correlation analysis of the study's variables. In the second phase, the linear regression model's assumptions were met, and in the third, the regression's results were reported. Data analysis techniques were used to compute the ratio of the chosen dependent and independent variables as well as the ratio scale measurement for further statistical analysis. Software for statistics was used to analyze the collected data. SPSS version 23.

4.1 Descriptive Statistics of Variables

The descriptive statistics for the variables used in the study are shown in Table 2. The findings show that in Nepal, the non-performing loan ratio (NPLR), cash reserve ratio, equity to assets ratio, and bank size (SIZE) are some of the independent variables that establish the minimum and maximum performance metrics for profitability indicators like ROE and ROA.

Table 2

Descriptive Statistics of Variable of Sample Banks

Particulars	N	Minimum	Maximum	Mean	S.D.
Cash Reserve Ratio	27	1.23	148.25	17.66	18.94
Bank Size	27	1230.0	80031.00	19043.24	21327.55
Equity to Assets Ratio	27	0.02	45.25	12.93	6.53
Non-Performing Loan Ratio	27	0.11	16.18	1.55	2.248
Return on Assets	27	-5.51	3.59	1.28	1.36
Return on Equity	27	-14.29	50.25	12.51	8.56

Source: Appendix – I

The descriptive statistics for the dependent and independent variables of the study are shown in Table 2. The average return on assets for the research period was 1.28 percent, with a standard deviation of 1.36 percent, according to the ROA summary. The highest return on assets was 3.59 percent, while the lowest was -5.51 percent. The return on assets measures how well banks use their assets to generate profit by dividing profit before interest and taxes by total assets. The ROE mean, 12.51 percent from the range of lowest -14.29 to

maximum 50.25 percent, is not very desired because it falls between ROE -15 and 50, or average. But the standard deviation of ROE is low, at 8.56.

The descriptive statistics for the dependent and independent variables of the study are shown in Table 2. The average return on assets for the research period was 1.28 percent, with a standard deviation of 1.36 percent, according to the ROA summary. The highest return on assets was 3.59 percent, while the lowest was -5.51 percent. The return on assets measures how well banks use their assets to generate profit by dividing profit before interest and taxes by total assets. The ROE mean, 12.51 percent from the range of lowest -14.29 to maximum 50.25 percent, is not very desired because it falls between ROE -15 and 50, or average. But the standard deviation of ROE is low, at 8.56.

4.2 Correlation Analysis

A table displaying correlation coefficients between variables is called a correlation matrix. The correlation between two matching variables is displayed in each cell of the table. Data can be summarized using a correlation matrix. This gives us a quick overview of the variables that correlate at different strengths and levels of significance. A correlation value of 0 signifies the absence of a linear relationship between the two variables. The correlation coefficient between two variables goes from +1, which represents a perfect positive link, to -1, which represents a perfect negative relationship. In Table 11, the correlation matrix is displayed.

Table 3

Pearson Correlation Coefficient of Study variables

Variables	CRR	Size	ETA	NPLR	ROA	ROE
Cash Reserve ratio	1					
Bank Size	-.004	1				
Equity to Total Assets	.234*	-.147	1			
Non-Performing Loan Ratio	.033	-.156	-.130	1		
Return on Assets	-.193	.290**	.085	-.123	1	
Return on Equity	-.328**	.392**	-.300**	-.045	.357**	1

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

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

Source: Appendix II

The correlation test employing a correlation coefficient matrix is shown in Table 3 for both dependent and independent variables. The results of the correlation test indicate that, at the

five percent significance level, the cash reserve ratio (CRR) and ROA have an insignificant relationship, with correlation values of -0.193, indicating a negative association. In addition, there is a negligible positive correlation between the cash reserve ratio and NPLR. Then, the equity to asset ratio and ROA have a negligible positive correlation, whereas the equity to asset ratio and ROE have a strong negative association. Likewise, there is a statistically significant positive correlation between bank size and ROE and ROA. The size of banks and ROA have a substantial positive connection of 0.290, and there is a significant positive correlation of 0.392 between the size of banks and ROE.

4.3 Regression Analysis

The size of banks and ROA have a substantial positive connection of 0.290, and there is a significant positive correlation of 0.392 between the size of banks and ROE.

Table 4

Model Summary of ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.398a	.159	.109	1.27997	1.321

a. Predictors: (Constant), NPLR, CRR, Size, ETA

b. Dependent Variable: ROA

The coefficient of determination R^2 values obtained in model summary is 0.159 which shows 15.90% of change is explained by Independent variables i.e. NPLR, CRR, Size and equity to assets ratio in dependent variables i.e. ROA. It shows the total variance or combined effect of all independent variables on the dependent variables.

Table 5

ANOVA Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	25.965	5	5.193	3.170	.011
Residual	137.619	84	1.638		
Total	163.584	89			

a. Dependent Variable: ROA

b. Predictors: (Constant), NPLR, CRR, Size, ETA

Table 5 shows the ANOVA table to show the impact of independent variables on dependent variables. The F-value is 3.170 which is high and the p-value is 0.011 lesser than 5% level of significance which shows that the independent variables NPLR, CRR, Size and equity to assets ratio has significant impact on dependent variables i.e. ROA.

Table 6

Regression Coefficients

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients		
1	(Constant)	.688		-.503	.616
	CRR	-.013	.009	-.187	.143
	Size	.456	.156	.342	.004
	ETA	.037	.022	.176	.099
	NPLR	-.034	.063	-.057	.589

a. Dependent Variable: ROA

Source: Appendix- III

Regression analysis output: coefficient

The linear equation of this model is,

$$Y = a + b_1CRR + b_2SIZE + b_3ETA + b_4NPLR + \dots e$$

$$\text{Net Profit} = -346 - 0.013x_1 + 0.456x_2 + 0.037x_3 - 0.034x_4$$

This section examines the correlation between the dependent variable (ROA) and the independent variables, which include Bank Size (SIZE), Non-Performing Loan Ratio (NPLR), Equity to Assets Ratio (EAR), and Cash Reserve Ratio (CRR).

The independent variable accounts for 15.90% of the Net Profit, as indicated by the coefficient of determination (r^2), which is 0.159. The dependent variable, or ROA, tends to rise or fall in response to the negative coefficient of NPLR, or CRR. The bank's size is shown as an independent variable in the above table and is statistically significant because its p-value is less than the significance level of 5%, at 0.005.

Table 7

Model Summary of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.564a	.318	.277	7.28110	1.275

a. Predictors: (Constant), NPLR, CRR, Size, ETA

b. Dependent Variable: ROE

The coefficient of determination R^2 values obtained in model summary is 0.318 which shows 31.80% of change is explained by Independent variables i.e. NPLR, CRR, Size and equity to assets ratio in dependent variables i.e. ROE. It shows the total variance or combined effect of all independent variables on the dependent variables.

Table 8

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2073.107	5	414.621	7.821	.000b
	Residual	4453.205	84	53.014		
	Total	6526.312	89			

a. Dependent Variable: ROE

b. Predictors: (Constant), NPLR, CRR, Size, ETA

Table 5 shows the ANOVA table to show the impact of independents variables on dependent variables. The F-value is 7.821 which is high and the p-value is 0.000 lesser than 5% level of significance which shows that the independent variables NPLR, CRR, Size and equity to assets ratio has significant impact on dependent variables i.e. ROE.

Table 9

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.652	3.911		1.189	.238
	CRR	-.183	.052	-.406	-3.556	.001
	Size	2.302	.885	.273	2.601	.011
	ETA	-.226	.125	-.173	-1.812	.074
	NPLR	.130	.361	.034	.360	.720

a. Dependent Variable: ROE

Source: Appendix- IV

Regression analysis output: coefficient

The linear equation of this model is,

$$Y = a + b_1\text{CRR} + b_2\text{SIZE} + b_3\text{ETA} + b_4\text{NPLR} + \dots e$$

$$\text{ROE} = 4.652 - 0.183x_1 + 2.302x_2 - 0.226x_3 + 0.130x_4$$

The independent variable accounts for 31.80%, or 0.318, of the ROE, according to the coefficient of determination (r^2). The dependent variable, or ROE, tends to rise or fall with the negative coefficients of CRR and ETA. The bank and cash reserve ratio (CRR) size as an independent variable is statistically significant, as seen in the above table, as its p-value is below than the significance level of 5%, at 0.005. Conversely, at a 10% significance level, equity to assets (ETA) is likewise statistically significant. However, even at the 10% significance threshold, or 0.720, NPLR is not significant. According to the regression model explanation above, there is a positive relationship between the dependent variable, or ROE, and a few chosen independent factors, such as size and the non-performing loan ratio (NPLR). However, there is a negative correlation between the variables cash reserve ratio (CRR) and equity to assets (ETA)..

4.4 Discussions

Examining the variables influencing the profitability of microfinance firms in Nepal is the primary objective of this research. Return on assets, the primary metric used to assess the profitability of microfinance organizations, is directly impacted by liquidity which is similar to the findings of Adedeju and Adeniran (2018) but contradict with the findings of Nimer (2015). The banking industry will work more efficiently the higher the liquidity position.

The investment ratio is significantly correlated with net profit. As a result, this study's conclusions on the effect of liquidity on profitability are similar to the findings of Ibe (2018), but contradict from findings of Swain and Mishra (2020). Nonetheless, there is a negligible inverse link between ROA and the loan to deposit ratio. This is in line with Saleh, Afifa, and Murray's (2020) findings that there is a positive correlation between EQR and ROA and that bank size is not relevant. Sample banks show variations in terms of average equity to assets for each bank, standard deviation variability, and consistency over the course of the study. This study is similar to the study of Akhter (2018) that impact of Loan and Advance on ROA is significant but it is not similar to the findings of Al-Homaidi, Tabash and Farhan (2019).

At the 5 percent significance level, the cash reserve ratio (CRR) and ROA have an insignificant relationship with correlation coefficients of -0.193, indicating a negative connection. This finding was reported in a prior study by Paul et al. (2021); Saleh, Afifa, and Murray (2020). In addition, bank size shows a negligible negative relationship with ROA, which is consistent with Saleh, Afifa, and Murray's (2020) findings. The results of Ibrahim (2017) are then supported by the negligible positive connection between deposit ratio and ROA, but the substantial positive link between NPLR and ROE is similar with the findings of Paul et al. (2021) and Menicuccl and Paolucci (2016). The correlation between bank size and ROA is -0.290, indicating a significant negative correlation that is consistent with Bhattarai's (2016) findings. Similarly, the correlation between bank size and ROE is significant negative, which is consistent with Saleh, Afifa, and Murray's (2020) and Ranabhat's (2019) findings.

Regression analysis revealed that bank size had a positive but negligible impact on ROA; this finding is similar with that of Nourrein and Mennawi (2020) and Al-Husainy and Jadah (2021). In the interim, bank size affects ROA favorably and marginally. This result is contradict with research by Wuave, Yua, and Yua (2020); Zidan (2020) but similar with the findings of Ibrahim (2017) and Dawood (2014). Then, at the 1 percent level, NPLR has a negative and significant impact on ROA, which is in conflict with Ibrahim's (2017) findings but supported with the conclusions of earlier empirical investigations by Budhathoki et al. (2020). Regression analysis shows that CRR has a positive but negligible impact on ROA; this finding is consistent with that of Nourrein and Mennawi (2020) and Al-Husainy and Jadah (2021). In the interim, NPLR has a favorable and negligible effect on ROA; this result is in line with previous research by Wuave, Yua, and Yua (2020); Zidan (2020); Ibrahim (2017); and Dawood (2014).

Negative coefficients of CRR and ETA have a tendency to raise and lower the dependent variable in regression in ROE. According to the table above, the size of the bank and cash reserve ratio (CRR) as an independent variable is statistically significant. These results are consistent with those of Menicuccl and Paolucci (2016), Budhathoki et al. (2020), and Paul et al. (2021). Equity to assets (ETA) is also statistically significant at the same time, which is in line with the results of earlier empirical research by Wuave, Yua, and Yua (2020). However, even at the 10% significance level, NPLR is not significant, which supports Saha and Bishwas's (2019) findings but contradicts Emmanuel and Stephen's (2020) conclusions.

This is consistent with the findings of San and Heng (2012), who found that certain independent variables, such as size and the non-performing loan ratio (NPLR), have a positive relationship with the dependent variable, or ROE. However, there is a negative correlation between the variables cash reserve ratio (CRR) and equity to assets (ETA).

CHAPTER – V

SUMMARY AND CONCLUSION

5.1 Summary

A bank with a suitable liquidity position is defined as a corporation with a pool of liquid assets large enough to satisfy its liabilities. Operating risk may perform poorly as a result of limited liquidity. Therefore, the financial sector as a whole may run inefficiently and with low profitability as a result of the high liquidity. Long-term banking performance failure could result from it. Both a high liquidity crisis and a high liquidity level are bad for microfinance enterprises. The policies of the central bank, microfinance institutions, the general public, and the government all influence the amount of liquidity that exists in the economy at any one time. The central bank's instructions to maintain the money standard. How much cash the commercial bank should invest, how much it should keep in liquid assets, and how much it should lend out?

This study's primary goal is to examine the variables that affect Nepali microfinance firms' profitability. The other specific goals are to assess the profitability and liquidity positions of microfinance firms in Nepal, as well as to investigate the impact of bank size (i.e., total assets), the equity to asset ratio, the cash reserve ratio, and the non-performing loan ratio on the profitability of microfinance firms in Nepal. Some of the most recent information, statistics, and concerns about non-performing loans and loan loss provisioning will be provided by this research. Therefore, this study will be important for depositors, bankers, shareholders, students, and future academics.. Therefore, it is crucial to keep in mind that the majority of bank failures worldwide are caused by the decline in the value of advances and loans. The study's goal is to compare Nepali microfinance enterprises' nonperforming loans (NPLs) to international norms. Additionally, the NPL level among the microfinance firms will be verified. It will dispel some common misconceptions concerning microfinance enterprises' non-performing assets (NPAs)..

The majority of the secondary material used in this study came from public records, books that were published, unpublished reports, essays written by various authors, yearly reports from the chosen banks, and so on. Out of the 57 microfinance organizations, 3 have been included in this study. The data and information used in this study span just nine years.

While cluster sampling was employed by other researchers, purposive sampling is used in this work.

Although the previous researcher employed a generalized technique, a descriptive research design has been adopted to complete the methodology. Ultimately, the study's fourth and fifth chapters demonstrate the strong correlation between the independent and dependent variables as well as the influence of the former on the latter. Both descriptive and causal comparative studies have been done in order to meet the study's specific goal. The pattern and state of liquidity and profitability are examined using descriptive design. In order to quantify the effect of liquidity on the profitability of microfinance firms in Nepal, a causal study methodology is employed. Data from secondary sources were used in this investigation. The information is derived from associated office annual reports for a period of nine years, spanning from 2013/14 to 2021/22.

5.2 Conclusion

The following conclusion has been reached based on the examination and interpretation of the data. The average value of every variable is denoted by the term "Mean". The middle value of each variable when placed in ascending order is referred to as the "Median". The maximum value recorded for every variable is indicated by the term "Maximum". For every variable, the "Minimum" displays the lowest value that has been seen. The degree of asymmetry in the data distribution is measured by "Skewness". The data distribution's peakedness or flatness is measured by the "Kurtosis".

The non-performing loan ratio was shown to have a negligible beneficial impact on ROA, which is consistent with the findings of Nourrein and Mennawi (2020) and Al-Husainy and Jadah (2021). In line with the findings of Wuave, Yua, and Yua (2020), Zidan (2020), Ibrahim (2017), and Dawood (2014), bank size has a negligible beneficial impact on ROA. The results of Budhathoki et al. (2020), Paul et al. (2021), and Menicucci and Paolucci (2016) are in line with this. Bank size significantly reduces ROA, which is in line with earlier empirical research by Budhathoki et al. (2020) but at odds with Ibrahim (2017) findings. This is not consistent with the findings of Kajola et al. (2019) and San and Heng, but it is consistent with Ranbhat (2019), who noted that bank size has a negative effect on ROA. (2012).

The size of the bank and cash reserve ratio (CRR) as an independent variable is statistically significant, which is consistent with the findings of Menicucci and Paolucci (2016), Budhathoki et al. (2020), and Paul et al. (2021). In addition, the loan to deposit ratio (LDR) and equity to assets (ETA) are both statistically significant, which is in line with the results of earlier empirical research by Wuave, Yua, and Yua (2020). However, even at the 10% significance level, NPLR is not significant, which supports Saha and Bishwas's (2019) findings but contradicts Emmanuel and Stephen's (2020) conclusions.

5.3 Implications

Based on the findings of the research the following recommendations were given:

- This study evaluates the marginal impact of liquidity indicators on profitability and makes certain conclusions. It so signals the need for corrective action to be taken by regulators, policy makers, and bank management.
- The results may aid various participants in making financial decisions regarding the deposit of their excess funds with microfinance firms and other financial establishments. Additionally, knowing if banks can return investors' money when needed could be helpful. In order to prevent profitability uncertainty, banks must maintain a reasonable liquidity position..
- According to the study, an effective management of banks' liquidity would benefit not only the banks themselves but also individuals, businesses, and the economy as a whole. This is because banks' profitability is influenced by a variety of factors, including liquidity. Consequently, this enhances the welfare of the financial industry within the economy and the community at large.
- This study is important because it addresses the biggest financial risks that Nepalese microfinance enterprises encounter in both their operational and long-term cycles. Additionally, the study can help policy and decision-makers in Nepal's financial sector manage the risks stated above.
- The study also forces microfinance organizations' management to evaluate their own historical performance and provides guidance for future plans and initiatives. This study can provide some of the most recent information, data, and challenges related to liquidity. Therefore, bankers, stockholders, depositors, as well as future scholars and students, will find this study to be significant.

Increasing the sample size and lengthening the study period could lead to more reliable outcomes in subsequent research. It's important to look into how other macroeconomic factors and other liquidity proxies, such the loans to total deposit ratio, investment ratio, cash ratio, and current ratio, affect profitability.

REFERENCES

- Adedeju, A., & Adeniran, A. (2018). Impact of liquidity management on profitability in Nigeria's banking sector. *Global Journal of Management and Business*, 17(34), 45-59.
- Adhikari, S. (2020). Impact of liquidity on profitability in Nepalese commercial banks. *Lumbini Journals of Business and Economics*, 2(2), 59-72.
- Ahamed, F. (2021). Determinants of liquidity risk in the commercial banks in Bangladesh. *European Journal of Business and Management Research*, 6(1), 164-169.
- Akhter, N. (2018). Impact of liquidity and profitability on operational efficiency of selected commercial banks in Bangladesh: A panel data study: *Global Journal of Management and Business Research: An Administration and Management*, 18(7), 13-24.
- Al-Homaidi, E. A., Tabash, M. I., Farhan, H. N. (2019). The determinants of liquidity of Indian listed commercial banks. *Cogent Economic & Finance*, 7(1), 94-108.
- Almazari, A., & Alamri, A. (2017). The effect of capital adequacy on profitability: A comparative study between Samba and Saab banks of Saudi Arabia. *International Journal of Economics, Commerce and Management*, 5(11), 8698.
- Bhandari, S. (2017). *A case study of liquidity management of agricultural development Bank Ltd.* Kathmandu: An unpublished master's degree thesis, submitted to office of the dean, faculty of management, T.U.
- Bhatta, P., & Joshi, P. (2010). *Analysis of corporate finance*. Kathmandu: Kala publication.
- Bhattarai, R. (2020). Effect of non-performing loan on profitability of commercial banks in Nepal. *Journal of Science*, 9(1), 38-47.
- Bhattarai, Y. R. (2016). Effect of credit risk on the performance of Nepalese commercial banks. *NRB Economic Review*, 28(1), 41-64.
- Bista, R. B. & Basnet, P. (2022). Measuring determinants of time deposit in the commercial banks in Nepal. *Journal of Social Sciences and Humanities*, 2(1), 201-213.
- Bordeleau, M. (2010). The impact of liquidity on bank profitability: *International Journal of Science*, 9(2), 55-72.
- Budathoki, P. (2020). Loan management of agricultural development bank limited?. *Management of Research*, 9(2), 15-23.
- Budathoki, P., & Rai, C. (2020). The effect of specific factors on bank profitability: Evidence from Nepalese banks. *Journal of Economics and Business*, 3(1), 8289.

- Chand, S. (2019). *Profit: Concept, policies, measurement, planning and controlling*. The next Generation Library. Retrieved from <http://www.yourarticlelibrary.com/economics/profit-concept-policies-measurement-planning-andcontrolling/29040>
- Chaudhary, M. (2021). The practice of profitability and liquidity of Nepalese joint venture banks: A comparative study. *Patan Pragya*, 5(1), 180-187.
- Chaudhary, M., Dhakal, A., & Adhikari, M. (2021). The practice of profitability and liquidity of Nepalese joint venture banks: A comparative study. *International Journal of Modern Agriculture*, 10(1), 444-450.
- Dangol, R. (2017). *Accounting for business*. Kathmandu: Taleju Pustak Bitarak. Edwards,
- Duan P. (2020). Liquidity creation and bank profitability: *Journal of Asian Finance, Economics and Business* 7(4), 133- 143.
- Fregmen, J. M. (1976). *Accounting for managerial analysis*. New York: Illinos Publications.
- Gauttam, M. (2018). *A study on non-performing assets and profitability of Rastriya Banijya Bank Ltd*. Kathmandu: An unpublished master's degree thesis, submitted to office of the dean, faculty of management, T.U.
- Gnawali, A. (2018). Non-performing asset and its effects on profitability of Nepalese commercial banks. *International Journal of Research in Business Studies and Management*, 5(9), 39-47.
- Gurung, J. B., & Gurung, N. (2022). Factors determining profitability of commercial banks: Evidence from Nepali banking sector. *Prithvi Academic Journal*, 5(1), 100–113.
- HANH, Nguyen Thi Van; DUT, Vo Van. (2022). The effect of liquidity on stock price volatility: Empirical study on listed commercial banks on Vietnamese stock sxchange. *VNU Journal of Science: Economics and Business*, 38(1), 108-128.
- Horngren, C. (1992). *Cost accounting and management emphasis*. New Delhi: Prentice Hall of India Pvt. Ltd.
- Ibe, S. O. (2018). The impact of liquidity management on the profitability of banks in Nigeria. *Journal of Finance and Bank Management*, 1(1), 37-40.
- Ibrahim, S.S. (2017). Impacts of liquidity on profitability in banking sectors of Iraq: *Journal of Finance & Banking Studies* 6(1), 113-121.
- Islam, M., & Nishiyama, S. (2016). The determinants of bank profitability: Dynamic panel evidence from South Asian countries. *Journal of Applied Finance & Banking*, 6(3), 77-97.

- Javaid, S., & Alalawi, S. (2017). Performance and profitability of Islamic banks in Saudi Arabia: An empirical analysis. *Asian Economic and Financial Review*, 8(1), 38-51.
- Kahuthu, D.G. (2016). The impact of credit management and liquidity on financial performance of deposit taking SACCOs. *International Journals of Management of Business Research*, 6 (14), 121-126.
- Kamande, E., Zablon, E., & Ariemba, J. (2016). The effect of bank specific factors on financial performance of commercial banks in Kenya. *International Journal of Sciences: Basic and Applied Research*, 30(5), 165-180.
- Karimzadeh, M., Akhtar, S., & Karimzadeh, B. (2013). Determinants of profitability of banking sector in India. *Transit Stud Rev*, 20(1), 211-219.
- Khan, M., & Jain, P. (1992). *Financial management text and problems*. New Delhi: Tata McGraw hill publishing limited.
- Khan, M., Islam, F., Rizwan, M., & Rasheed, S. (2016). Effect of firm specific & country specific factor's on profitability of banks in Pakistan. *International Journal of Scientific and Research Publications*, 6(5), 335-340.
- Khan, R. A., & Ali, M. (2017). Impact of liquidity on profitability of commercial banks in Pakistan: An analysis on banking sector in Pakistan. Kathmandu: *Global Journal of Management and Business Research*, 16(1), 17-24.
- Khanal, B. (2016). Determinants of profitability in Nepalese commercial bank. *Nepalese Journal of Finance*, 3(3), 42-51.
- Konovalova, K. (2019). Management of liquidity and profitability in commercial banks: *RISEBA University of Business, Arts and Technology*, 725-736.
- Kosumi, A., & Kosumi, A. (2021). Banks specific factor that determinate the profitability of commercial banks in republic of North Macedonia. *ISSN Journals*, 17(3), 140-151.
- Kothari, C.R. (1994). *Research Methodology*. New Delhi: Vikash Publishing House Pvt. Ltd.
- Lamichhane, P. K. (2013). *Financial Sector is insulated from Liquidity Crunch*, Claims NRB. Kathmandu: www.nepalnews.com, p. 9.
- Lartey, O. (2013). The relationship between liquidity and profitability of listed banks in Ghana: *Research in International Business and Finance*, 48, 287-309.
- Lynch, R. M., & William, R. W. (1989). *Accounting for management*. New Delhi: Tata McGraw hill publishing co.

- Mahmud, K., Mallik, A., Imtiaz, F., & Tabassum, N. (2016). The bank-specific factors affecting the profitability of commercial banks in Bangladesh: A panel data analysis. *International Journal of Managerial Studies and Research*, 4(7), 6774.
- Mamtani, J. (2016). *How do banks make money? The Unicorn Economy*. Retrieved from <https://unicornomy.com/how-do-banks-make-money/>
- Mashamba, T. (2022). Liquidity dynamics of banks in emerging market economies. *Journal of Central Banking Theory and Practice*, 11(1), 179-206.
- Meghana, S. (2021). Top 4 theories of liquidity management. Retrieved from <https://www.microeconomicsnotes.com/banking/commercial-banks/top-4theories-of-liquidity-management/1234>
- Mehrotra, S. (2019). Effect of liquidity management on profitability: A comparative analysis of public and private sector banks in India. *Journal of Institute Public Enterprise*, XVII, 7-20
- Mishra, A., Kandel, D., & Aithal, P. (2021). Profitability in commercial bank: a case from. *International Journal of Case Studies in Business, IT, and Education*, 5(1), 61-77.
- Mishra, S. & Pradhan, B. B. (2021). Profitability in commercial bank-a case from Nepal. *Journal of Management and Applied Science*, 4(7), 98-102.
- Narwal, K., & Pathneja, S. (2015). Determinants of productivity and profitability of Indian banking sector: A comparative study. *Eurasian Journal of Business and Economics*, 8(16), 35-58.
- Neupane, B. (2020). Profitability determinants of Nepalese commercial banks. *Press Academia*, 12(1), 40-46.
- Neupane, G. (2019). Factors influencing profitability in Nepalese commercial banks. *The Lumbini Journal of Business and Economics*, 7(1), 97-107.
- Nimer, R. (2015). The impact of liquidity on Jordanian banks profitability through return on assets: *International Journal of Research in Commerce, Economics and Management*. New Delhi: 12, 1: 35-36
- Niraula, P. (2015). *Non-performing assets and profitability of commercial banks in Nepal*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Office of the Dean, Faculty of Management, T.U.
- Nourrein, A. & Mennawi, A. (2020). The impact of liquidity, credit, and financial leverage risks on the financial performance of Islam banks in Sudan. *International Journal of Applied Economics, Finance and Accounting*, 8(2), 73-83.

- Olweny, P. (2011). Effect of banking sectoral factors on the profitability of commercial banks in Kenya: *The Journal of Asian Finance, Economics and Business*, 8(3), 451-458.
- Paney, I.M. (1999). *Financial management*. New Delhi: Vikash Publishing House.
- Panta, P.R. & Wolf, H.K. (2000). *Social Science Research and Thesis writing* Kathmandu: Buddha Academic Enterprises.
- Patel, B. (2017). *What are the bank's sources of income?* Learning of Economics. Retrieved from <https://www.quora.com/What-are-a-banks-sources-of-income>
- Paul, S. C., Bhowmik, P. K., & Famanna, M. N. (2021). Impact of liquidity on profitability: A study on the commercial banks in Bangladesh. *Advances in Management & Applied Economics*, 11(1), 73-90.
- Phuong, B. (2020). Determinants of profitability in commercial banks in Vietnam, Malaysia and Thailand: *Journal of Art and Science*, 24(2), 26-39.
- Pokhrel, S. P. & Pokhrel, B. P. (2019). Impact of liquidity on profitability in Nepalese Commercial Bank. *Patan Pragya*, 5(1), 180-187.
- Poudel, D. (2021). *A study of profitability analysis of Everest Bank Limited*. Kathmandu: An Unpublished Master's Degree Thesis, Submitted to Office of the Dean, Faculty of Management, T.U.
- Pradan, R.S. (2016). Impact of liquidity on bank profitability in Nepalese commercial banks, *Journal of Finance* 1-14.
- Pradhan, D. (2019). Impact of liquidity management on bank profitability in Nepalese commercial banks. *The Journal of Nepalese Business Studies*, 12(1), 87- 99.
- Ranabhat, D. (2019). Effects of internal factors on financial performance of joint venture banks in Nepal. *The Journal of Nepalese Business Studies*, 7(1), 87-100.
- Reed, E. W., Gill, E. K., Cotter, R. V., & Smith, R. K. (2002). *Commercial banking*. 2 Edition, New Jersey: Prentice Hall Inc.
- Robinson, E. (1951). *Commercial bank management*. New York: The Dryden Press Private Limited.
- Saleh, I. Afifa, M. A. & Murray, L. (2020). The effect of credit risk, liquidity risk and bank capital on bank profitability: Evidence from an emerging market. *Cogent Economics & Finance*, 8(1), 1-13.
- Sathyamoorthi, C.R. (2020). Liquidity management and financial performance: evidence from commercial banks in Botswana: *International Journal of Financial Research*, 11(5), 399-413.

- Seth, M. L. (1998). *Refresher course in economics*. Agra: Lakshmi Narain Agrawal, Educational Publishers.
- Shakya, A.S. (2014). A comparative study on profit planning in the context of particularly commercial banks. *Nepal Bank Patrika*, p. 15.
- Sharma, M. (2019). *Profitability analysis of commercial bank (with reference to Nepal SBI Bank Ltd.)*. Kathmandu: An unpublished master's degree thesis, submitted to office of the dean, faculty of management, T.U.
- Shehzad, C., Haan, J., & Scholtens, B. (2013). The relationship between size, growth and profitability of commercial banks. *Applied Economics*, 45(13), 1751-1765.
- Shrestha, B.P. (2012). Liquidity-association of commercial banks in Nepal. *People's Journal of Management*, 1(1), 1-8.
- Shrestha, R. (2014). *Profitability analysis of commercial bank (with reference to Nepal SBI Bank Ltd.)*. Kathmandu: An unpublished master's degree thesis, submitted to office of the dean, faculty of management, T.U.
- Sing, H. B., & Khadka, S. (2001). *Banking and Insurance: Principle, Legislation and Practice*. Kathmandu: Nabin Prakashan,
- Sinkey, J.F. (1983). *Commercial bank and financial management (5th Edition)*. New Jersey: Printice Hall Inc.
- Swain, R. K., & Mishra, B. (2020). Exploring the impact of liquidity management on profitability: Evidence from commercial banks of India. *UGC Care Group I Journal*, 10(8), 156-173.
- Tamang, T. (2020). *A study of profitability analysis Himalayan Bank Limited*. Kathmandu: An unpublished master's degree thesis, submitted to office of the dean, faculty of management, T.U.
- Upreti, H. B. (2015). *Impact of liquidity on profitability of commercial banks in Nepal*: Kathmandu: An unpublished master's degree thesis, submitted to office of the dean, faculty of management, T.U.
- Vaidya, S. (2001). *Banking and insurance management (3rd Edition)*. Kathmandu: Taleju Prakashan.
- Weston, J., Besley, J., & Brigham, E. (1996). *Essential of managerial finance (3rd ed.)*. Mishawaka: The Dryden Press.
- Wuave, T., Yua, H., & Yua, P. M. (2020). Effect of liquidity management on the financial performance of banks in Nigeria. *European Journal of Business and Innovation Research*, 8(4), 30-44.

APPENDICES

APPENDIX – I

Essential Information of First Microfinance Company

First	Year	Total Assets	Total Loan	Total Deposit	Net Profit	Total Equity	NPL	ROA	ROE
2070/71	2013/14	4902	3296	3927	70	847	-	1.73	8.26
2071/72	2014/15	6195	418	5185	63	906	-	1.86	6.95
2072/73	2015/16	7423	472	6333	103	1005	0.01	2	10.25
2073/74	2016/17	8918	699	7677	152	1157	0.65	2.21	13.14
2074/75	2017/18	13188	8977	10516	228	2552	0.96	1.73	8.93
2075/76	2018/19	23347	15877	19554	296	2881	0.4	1.48	10.27
2076/77	2019/20	42361	24774	36314	488	4504	0.54	1.46	10.83
2077/78	2020/21	36460	29719	25995	531	4007	0.92	1.15	13.25
2078/79	2021/22	71408	42915	53793	670	5637	0.84	1.11	11.89

(Source: Annual report of First)

Essential Information of RSDC Laghubitta Bittiya Sanstha

RSDC	Year	Total Assets	Total Loan	Total Deposit	Net Profit	Total Equity	NPL	ROA	ROE
2070/71	2013/14	4612	3458	4015	104	523	0.12	0.02	19.89
2071/72	2014/15	7452	5438	6358	144	973	0.29	0.02	14.80
2072/73	2015/16	10578	7909	9228	222	1203	0.31	0.02	18.45
2073/74	2016/17	17662	12835	293487	349	2829	0.24	0.02	12.34
2074/75	2017/18	25286	18619	21221	470	3167	0.27	0.02	14.84
2075/76	2018/19	38749	28211	29762	594	3791	0.2	1.53	15.67
2076/77	2019/20	50294	34862	42433	577	4347	0.79	1.15	13.27
2077/78	2020/21	72958	51687	63902	836	5348	0.72	1.15	15.63
2078/79	2021/22	80031	58046	68410	1030	6597	0.85	1.29	15.61

(Source: Annual report of RSDC)

Essential Information of Sana Kisan Bikas Laghubitta Bittiya Sanstha

SKBLB	Year	Total Assets	Total Loan	Total Deposit	Net Profit	Total Equity	NPL	ROA	ROE
2070/71	2013/14						16.18		
2071/72	2014/15	12396		10861	334	1411	8.33	2.69	23.67
2072/73	2015/16	29224	8367	25137	444	3436	4.1	1.52	12.92
2073/74	2016/17	31827	19962	27277	507	3790	3.91	1.59	13.38
2074/75	2017/18	32193	20443	26751	521	4199	3.92	1.59	12.41
2075/76	2018/19	37926	26157	30591	658	4669	2.59	1.73	14.09
2076/77	2019/20	43140	29438	36977	403	4787	3.21	1.39	8.42
2077/78	2020/21	47461	30151	38686	660	5579	2.8	1.55	11.83
2078/79	2021/22	54867	34913	42848	905	6308	2.43	1.65	14.35

(Source: Annual report of SKBLB)

APPENDIX - II

		CRR	Size	ETA	NPLR	ROA	ROE
CRR	Pearson Correlation	1	-.004	.234*	.033	-.193	-.328**
	Sig. (2-tailed)		.970	.027	.760	.069	.002
	N	27	27	27	27	27	27
Size	Pearson Correlation	-.004	1	-.147	-.156	.290**	.392**
	Sig. (2-tailed)	.970		.166	.141	.005	.000
	N	27	27	27	27	27	27
ETA	Pearson Correlation	.234*	-.147	1	-.130	.085	-.300**
	Sig. (2-tailed)	.027	.166		.222	.426	.004
	N	27	27	27	27	27	27
NPLR	Pearson Correlation	.033	-.156	-.130	1	-.123	-.045
	Sig. (2-tailed)	.760	.141	.222		.248	.676
	N	27	27	27	27	27	27
ROA	Pearson Correlation	-.193	.290**	.085	-.123	1	.357**
	Sig. (2-tailed)	.069	.005	.426	.248		.001
	N	27	27	27	27	27	27
ROE	Pearson Correlation	-.328**	.392**	-.300**	-.045	.357**	1
	Sig. (2-tailed)	.002	.000	.004	.676	.001	
	N	27	27	27	27	27	27

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

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

(Source: Calculation from SPSS)

APPENDIX – III

Impact of NPLR, CRR, Size and ETA on ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.398a	.159	.109	1.27997	1.321

a. Predictors: (Constant), NPLR, CRR, Size, ETA

b. Dependent Variable: ROA

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.965	5	5.193	3.170
	Residual	137.619	84	1.638	.011
	Total	163.584	89		

a. Dependent Variable: ROA

b. Predictors: (Constant), NPLR, CRR, Size, ETA

Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	-.346	.688	-.503	.616
	CRR	-.013	.009	-1.479	.143
	Size	.456	.156	2.932	.004
	LDR	-.004	.006	-.606	.546
	ETA	.037	.022	1.666	.099
	NPLR	-.034	.063	-.543	.589

a. Dependent Variable: ROA

(Source: Calculation of SPSS)

Impact of NPLR, CRR, Size and ETA on ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.564a	.318	.277	7.28110	1.275

a. Predictors: (Constant), NPLR, CRR, Size, ETA

b. Dependent Variable: ROE

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	2073.107	5	414.621	7.821	.000b
	Residual	4453.205	84	53.014		
	Total	6526.312	89			

a. Dependent Variable: ROE

b. Predictors: (Constant), NPLR, CRR, Size, ETA

Coefficients

Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients		t	Sig.
			B	Beta		
1	(Constant)	4.652	3.911	.238	1.189	.238
	CRR	-.183	.052	-.406	-3.556	.001
	Size	2.302	.885	.273	2.601	.011
	LDR	.068	.037	.228	1.834	.070
	ETA	-.226	.125	-.173	-1.812	.074
	NPLR	.130	.361	.034	.360	.720

a. Dependent Variable: ROE

(Source: Calculation of SPSS)

Factors Determining Profitability of Nepalese M...

By: Timila Munikar

As of: Apr 19, 2024 8:30:46 AM
15,421 words - 76 matches - 11 sources

Similarity Index

8%

Mode: ▾

sources:

240 words / 2% - from 30-May-2023 12:00AM
uniglobe.edu.np

157 words / 1% - from 21-Apr-2023 12:00AM
www.researchgate.net

122 words / 1% - Internet from 20-Feb-2023 12:00AM
www.researchgate.net

112 words / 1% - from 06-May-2023 12:00AM
www.researchgate.net

99 words / 1% - Internet from 20-Feb-2023 12:00AM
www.researchgate.net

99 words / 1% - Internet from 24-Feb-2023 12:00AM
www.researchgate.net

144 words / 1% - Internet from 04-Dec-2014 12:00AM
www.yourarticlelibrary.com

111 words / 1% - Internet from 06-Jan-2022 12:00AM
oaji.net

95 words / 1% - Internet from 22-Sep-2022 12:00AM
www.globalscientificjournal.com

83 words / 1% - from 18-Jan-2024 12:00AM
elibrary.tucl.edu.np

83 words / 1% - Internet from 14-Dec-2022 12:00AM
library.uniglobe.edu.np