COMPARATIVE STUDY ON PROFITABILITY OF NABIL BANK AND NEPAL SBI BANK LIMITED

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

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August, 2021

Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Comparative study on profitability of NABIL Bank and Nepal SBI Bank”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degree nor has been proposed and presented as part of requirement 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 references sections of the dissertation.

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Report of Research Committee

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Acknowledgement

This thesis has been prepared for partial fulfillment of requirement of the degree of Master of Business (MBS). This study shows the profitability position of NABIL Bank and Nepal SBI Bank limited. All the available data were incorporated at suitable place by using the tables and graphs.

I would like to express my enormous gratitude to my respected supervisor Asso. Prof. Gyan Mani Adhikari Reader of Central Department of Management Kirtipur, Tribhuvan University for his constructive guideline and valuable suggestions without which this work would not have been completed. His guideline and help has been a great source of encouragement and inspiration to me.

Similarly, I would also like to express my sincere gratitude to Prof. Dr. Ramji Gautam, Head of Department, Central Department of Management and Prof. Dr. Sanjay Kumar Shrestha, Research Committee Head, for their valuable suggestions and motivation in writing this dissertation.

I am indebted to my parents and all my family members who always supported and inspired me to go ahead. Likewise my special thanks to all my respected teachers and lectures of Central Department of Management who helped me during my study of MBS and preparation of this thesis.

Lastly, I would like to thanks all my colleagues for their co-operations, suggestions, ideas which helped me to complete this dissertation.

Pancharatna Rai

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Abbreviation

CBBTDR	= cash & bank balance to total deposit ratio
CV	= coefficient of variation
Etc	= Et cetera
F/Y	= fiscal year
i.e	= that is
ltd.	= limited
NPM	= net profit margin
NRB	= Nepal Rastra Bank
NBTDR	= NRB balane to total deposit ratio
OPM	= operating profit margin
ROA	= return on assets
ROE	= return on equity
SD	= standard deviation
&	= and
%	= percentage

Abstract

Profitability is one of the important indicators for the efficient operation of an enterprise. Its shows how efficiently the management can make profit by using all the resources available in the market. The main objective of the study is to identify the profitability position of NABIL bank and Nepal SBI bank ltd. for this purpose top two joint venture banks has taken as sample by using convenient sampling. Data from financial statements of two banks for seven years period from F/Y 2070-71 to 2076-77 has used in the study and data collected from secondary sources. The variables used to measure the profitability are the ROA and ROE as dependant variables. The independent varaibles includes operating expenses, liquidity, bank size, capital etc. have used. Descriptive as well as analytical research design has applied to analyzed the data. The study find that average operating profit margin, net profit margin, ROA, ROE ratios of NABIL bank is higher than Nepal SBI bank ltd. The study conclude that NABIL bank profitability performance is better than Nepal SBI bank on the basis of average return. However,Nepal SBI bank is good performer due to lowest CV, more consistent and low variation. The independent varioables are negatively and positively related with bank profitability (ROA,ROE).ROA is positively related with liquidity and capital.ROA is negatively related with operating expenses and bank. ROE is negatively related with operating expenses, bank size and capital. There is positive effect liquidity on ROE. The study recommend that Nepal SBI bank should control the cost and expenses associated with bank operation to increase the profit. NABIL Bank has recommended to increase its cash and bank balance to fulfill demand of its depositors and NABIL bank should hold more cash and bank balance to create new investment opportunities.

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Bank and financial institutions are the back bonds of the economy of the country everywhere in Nepal and all over the world. A bank is a financial institution which deals with deposits and advance and other related services. It receives money from those who want to save in the form of deposit and lends money to those who need it. Banking sectors play the role of intermediaries between the deficits and surplus of financial resources. According to Cambridge English Dictionary(2003), Bank is “An organization where people and businesses can invest or borrow money, change it to foreign money etc or a building where these services are offered.” According to Crowther(2017), “A bank collects money from those who have it to spare or who are saving it out of their incomes and lend this money to those who require it.”

Profit is the prima facie object of every business. A business cannot breathe well without profit. It may be considered as a mirror of the operating performance of a company. In the words lord keyney “profit is the engine that drives the business enterprise.” a business needs profit not only for existence but also for the expansion and diversification. Profit is the barometer of the success of the business. It is indeed a magic eye that mirrors all aspects of entire business operations including the quality of outputs. Profits are the soul of the business without which it is lifeless. In fact profits are useful intermediate beacon towards which a firm capital should be directed. M.E. Murphy has rightly remarked that “business cannot exist without profit, as an economy cannot exist without sound business. Profit must be something for all to be proud of they should not be suspected.”

Profitability means an ability to make profit from all the business activities of an organization, company, firm or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. Profitability is the ratio of the effectiveness of management based on the returns generated from sales and investment. Every business should earn sufficient profit in order to survive and grow over for a long period. Profitability indicates how well

management of an enterprise generates earning by using the resources at its disposal. Profitability is one of the important indicators for the efficient operation of an enterprise. Profitability is an essential condition to ensure business success of an economic entity and it is measured by obtaining positive results after comparison of the financial effects with the financial efforts involved. Profitability has to be considered in relation to the growth of various selected variables. Raising profitability is one of the important ways by which a bank can vigorously expand its operations on a sustained long term basis. To measure the productivity of capital employed and to measure operational efficiency profitability analysis is considered as one of the best techniques. Profitability is the main indicator of the efficiency and effectiveness of a business enterprise in achieving its goal of earning profit. Profitability ratios measure the firm ability to generate profit and central investment to security analysis, shareholders and investors. Profitability is the primary measure of the overall success of enterprise. The analysis of profitability ratio is important for the shareholders, creditors, prospective investors, bankers and government alike.

According to Hardward & Upton (2012)“profitability is an ability of given investment to earn a return from its use.” According to Malik (2011) “profitability is one of the most significant objectives of financial management since one goal of financial management is to maximize the owners’ wealth and profitability is a very important determinant of company’s performance.” According to Weston & Brigham, (2019) clearly state that “to the financial management profit is the test of efficiency and measure of control, to the owners a measure of the worth of their investment, to the creditors the margin of safety, to the government a measure of taxable capacity and a basis of legislative action and to the country profit is an index of economic progress, national income generated and the rise in the standard of living”, while profitability is an outcome of profit. The variables used to measure the profitability are the return on assets (ROA) and return on equity (ROE). ROA and ROE will hold still as the dependent variables that are used in evaluating bank profitability. ROA measures how effectively and efficiently firms using business assets to generate profit. The independent variables include revenue, operating expenses, interest expenses, capital investment, tax, liquidity, bank capital, non-performing loan etc.

The history of modern financial system began in Nepal with the establishment of Nepal Bank Limited in 1937AD as the first commercial bank of Nepal. The bank was established to render services to the people and for economic progress of the country. In 1956 AD there was established Nepal Rastra Bank which is known as Central Bank. With the establishment of NRB, the development of financial system took momentum. The second commercial bank, the Rastriya Banijya Bank was established in the public sector in 1996 AD, with the equity participation of Government of Nepal and NRB. Nepal Arab Bank Limited (now name changed as NABIL Bank Ltd.) the first joint venture commercial bank of Nepal was established in 1984 AD. The Nepal Indo Suez Bank Ltd.(now name changed as Nepal Investment Bank Ltd.) and Grinlays Bank Ltd.(now name changed as Standard Charter Bank Ltd.) the two other joint venture commercial bank were established in 1986 AD and 1987 AD respectively. Some commercial banks are established under joint venture while some are fully domestic banks. According to the latest data, 27 commercial banks are operating inside the country.

NABIL Bank Limited first joint venture bank of Nepal was established on July 12 1984 under a technical services agreement with Dubai Bank Limited Dubai. The bank is managed by a team of qualified and highly experienced professionals. Shareholders of NABIL is distributed as 50% of owned by NB International Limited, Ireland 20% by local financial institutions and 30% by the Nepalese public. NABIL is the sole principal agent bank in Nepal of Western Union financial services and facilities transfer of funds, through on online computer system instantly to or from more than 170000 locations in 196 countries and territories. NABIL is moving forward with mission to the "1st choice provider of complete financial solutions" for all its stakeholders, customers, shareholders, regulators, communities and staffs. It's reflected in its brand promise "Together Ahead."

Nepal SBI Bank Limited is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters namely State Bank of India, Employee Provident Fund and Agriculture Development Bank limited. Nepal through a memorandum of understanding signed on 17th July 1992. Nepal SBI bank limited was incorporated as public limited company at the office of the company register on 28th April 1993 and was licensed by NRB on 6th July 1993. The bank commenced

operation from 7th July 1993. Shareholder of SBI is distributed as 55% share hold by State Bank of India, 15% of share hold by Employee Provident Fund and rest of share hold by general public.

1.2 Statement of the problem

Nepalese commercial banks have faced many difficulties over the years for a multitude of reasons; the major cause of serious banking problems continue to be directly related to changes that being due to many political turmoil and changes in rules and regulations. One such example can be the global financial crisis of 2008 that is affecting the economy of the country till date. Financial sector which has been correlated with trading and industry was heavily affected as the investment in the productive sector kept decreasing due to security and labor problem.

Apart from that, NRB regulations of increasing the minimum paid up capital for 'A' class commercial banks making it mandatory to reach 8 billion, is causing turmoil in banking industry. Various mergers and acquisitions are being encouraged by NRB to foster the consolidation process so reducing the number of banks operating and also changes in its administration are prevalent.

Banks today are under great pressure to meet the objectives of their stockholders, employees, depositors and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, investment are sound. An analysis of the profitability reveals how the profit positions stand as a result of total transaction made during the year. Such analysis is particularly interesting to suppliers of funds who can evaluate their investment and take decision accordingly. Profit ratios are equally beneficial to the management because these ratios reflect the efficiency of the enterprise as a whole.

Profitability can be analyzed either on the basis of operating profit or net profit. In operating profit, we generally exclude all non operating items which may be income or expenditure. On the other hand, in net profit all operating and non operating income and expenditure are included. To exist in the market, commercial banks have to maintain certain level of profit. They must make profit out of the responsibilities assigned so the manager should take the decision very carefully to tackle with the situations.

The open and liberal economic policy towards the banking sector of Nepal initiated many private and joint venture banks to operate inside the country which creates the sharp competition among each other. Profitability of the bank is also affected by this competition. Various factors create problem to profitability position of the commercial banks. Monetary policy of the government, strong competition between the banks, strikes and political situation of the country directly hampers the profitability of the bank. This study has tried to explore the following research questions:

i. What are the determinants of profitability of selected commercial banks?
ii. What is the trend of profitability of selected commercial banks?
iii. What is the relationship of profitability with its determinants?

1.3 Objectives of the Study

Profit plays a vital role in every business organization. It is equally important for commercial banks. Banks are those institutions which provide many facilities to develop the economic conditions for a country by providing facilities for trade, industry, business, agriculture, tourism etc. The objectives determine the future and outcomes of research. No work is started without any objectives. The overall objective of the study is to find out the profitability of NABIL bank and Nepal SBI bank. Following are the objectives of this study:

i. To identify the determinants of profitability of selected commercial banks.
ii. To analyze the trend of profitability of selected commercial banks.
iii. To examine the relationship of profitability with its determinants.

1.4 Rationale of the Study

The word profitability may be defined as the ability of a given investment to earn return from its use. Profitability has been considered to a great extent as one of the main criteria to judge the extent to which management has been successful in maximizing its profits or minimizing its loss, if any.

i. Investors are good actors in the field of overall economy. They are much concerned with the profitability position of organization. Therefore this study can provide reliable information to them.

ii. This study will be concise practically usable and valuable to the major parties interested in the profitability of NABIL bank and Nepal SBI bank's shareholders, management of bank, brokers, financial institutions, general public depositors, prospective customers, creditors etc.

iii. This study provides required information to the management of the bank for taking corrective decision, formulating the policy and implementing timely.

iv. This study will help research student to carry further studies as well as helpful to the interested groups in the selected banks to analyze their position at present and search for the prospective investors.

1.5 Limitations of the study

i. The study covers seven year period from the fiscal year 2070/71 to 2076/77.

ii. The dependent variables ROA and ROE have used.

iii. The independent variables operating expenses, liquidity and bank size have used.

iv. The study only covered two joint venture commercial banks namely NABIL Bank and Nepal SBI Bank.

1.6 Organization of the Study

The whole study has organized into five chapters. Chapter one to five consists of introduction, literature review, methodology, results and discussion, and summary and conclusion.

Chapter-I Introduction

This chapter is the introductory part of the study. This chapter consists of background of the study, statement of the problem, objectives of the study, rationale of the study, limitation of the study and organization of the study.

Chapter-II Literature review

This chapter is concerned with the literature review. This chapter deals with theoretical review, review of empirical studies and research gap.

Chapter-III Research Methodology

This chapter explains about the methodology of research used for the study. This chapter deals with research design, population and sample, sources of data, data collection procedure, technique of analysis.

Chapter-IV Results and discussion

This chapter has covered the presentation and analysis of data with presentation chart figures and using other statistical tools as well as financial tools. In this chapter data are collected from different sources are being presented in meaningful manners as per the demand and need of the study.

Chapter-V Summary and conclusion

This chapter is related to summary, conclusion and implication. The reference and appendix are also organized at the end of this study.

CHAPTER-II

REVIEW OF LITERATURE

A literature review is a comprehensive summary of previous research work on a topic. The literature review surveys scholarly articles, books and others sources relevant to a particular area of research. The review should enumerate, describe, summarize, objectively evaluate and clarify this previous research. It should give theoritical base for the research and help you determine the nature of your research. The literature review acknowledges the work of previous researchers, and in so doing, assures the reader that your work has been well conceived. It helps the researcher to gain knowledge about related field and it can be strong bridge between previous and present studies. It is assumed that by mentioning a previous work in the field of study, that the author has read, evaluated, and assimilated that work into the work at hand.

The purpose of this chapter is to find out what research studies have been conducted in one's chosen field of study, and to have some ideas for developing a research design. Thus, the previous studies cannot be ignored because they provide the foundation for the present study. In other words, there has to be continuity to research. This continuity is emerged by linking the present study with past research studies. This, various books, journals, and articles concerned to this topic have been reviewed. The review has been organized as:

2.1 Theoritical review

2.2 Review of empirical studies

2.3 Research gap

2.1 Theoritical Review

2.1.1 Pure expectations theory

According to this theory, a rising term structure of rates means the market is expecting short-term rates to increase. So if the two year rate is higher than the one year rate, rates should rise. If the curve is flat, the market is expecting short term rates will remain low or hold constant in the future. A declining rate-term structure indicates the market believes that rates will continue to decline. The theory states that,

the expected return from holding long term money or capital market investment until maturity is equal to the expected return from rolling over a series of short term investment. This implies that the long term investment yield is the average of the expected short rates. Equally, the forward rate is the expected future short rate (Kim & Orphanides, 2007).

It is not hard to see that the pure expectations theory is similar to a pure intellectual exercise. It is rare to achieve the perfect results of this theory where today's predicted rates over different maturities exactly match future realized spot rates. In addition, although the theory explains the simultaneous movement of rates, and also the relationship between the long and short terms well, it does not say anything about why the yield curve has an upward slope most of the time, that is, why longer term maturities command a higher interest rate in comparison to the short term (Cook & Hahn, 2010). Since we noted that all maturities are equivalent in function, the slope is equally likely to be upward as downward (in tune with the boom-bust cycle, and rising and falling future rate expectation.) but this is not the case. Clearly, investors attach a higher risk to longer maturities due to some intrinsic factor not explained or predicted by the pure expectations theory.

2.1.2 Liquidity preference theory

This is a variant of the pure expectations theory. It basically adds a premium to the PTE- calculated yield for long term debt to account for investor preference for short-term bonds over long term ones. This premium is called the term premium or the liquidity premium. It acknowledges the risks involved in holding long term debt, which is more likely to experience catastrophic events and price uncertainty than is short term debt. A second premium is also included in LTP, for default risk, which more likely when holding a bond for a long period of time, once again due to uncertainty.

2.1.3 Portfolio theory

The portfolio theory approach is the most relevant and plays an important role in bank performance studies (Nzongang & Atemmkeng, 2011). According to the portfolio balance model of asset diversification, the optimum holding of each asset in a wealth holder's portfolio is a function of policy decisions determined by a number of factors such as the vector of rates of return on all assets held in the portfolio, a vector of risks

associated with the ownership of each financial assets and the size of the portfolio. It implies portfolio diversification and the desired portfolio composition of commercial banks are results of decisions taken by the bank management and the unit costs incurred by the bank for producing each component of assets (Nzongang & Attemnkeng, 2011).

2.1.4 Market power theory

Applied in banking the MP hypothesis posits that the performance of bank is influenced by the market structure of the industry. There are two distinct approaches within the MP applied in banking the MP hypothesis posits that the performance of bank is influenced by the market structure of the industry. There are two distinct approaches within the MP according to SCP approach, the level of concentration in the banking market gives rise to potential market power by banks, which may raise their financial performance. Banks in more concentrated markets are most likely to make "abnormal profits" by their ability to lower deposits rates and to charge higher loan rates as a results of collusive (explicit or tacit) or monopolistic reasons, than firms operating in less concentrated markets, irrespective of their efficiency (Tregenna, 2009). Unlike the SCP, the RMP hypothesis posits that bank financial performance is influenced by market share. It assumes that only large banks with differentiated products can influence prices and increase profits. They are able to exercise market power and earn non-competitive profits (Tregenna, 2009)

2.1.5 Efficiency theory

An alternative hypothesis is the efficiency structure (ES) hypothesis that emerges from criticism of the SCP hypothesis (Athanasoglou, Sophocles, & Mathiaos, 2013). The efficiency hypothesis postulates that the relationship between market structure and performance of any firm is defined by the efficiency of the firm. Firms with superior management or production technologies have lower costs and therefore higher profits. There are also two distinct approaches within the ES; the X-efficiency and Scale-efficiency hypothesis (Athanasoglou, Sophocles, & Mathiaos, 2013). According to the X-efficiency approach, more efficient firms are more profitable because of their lower costs. Such firms tend to gain larger market shares, which may manifest in higher levels on market concentration, but without any causal relationship from concentration to profitability. (Athanasoglou, Sophocles, & mathiaos, 2013).

The scale approach emphasizes economies of scale rather than difference in management or production technology. Larger firms can obtain lower unit cost and higher profits through economies of scale. This enables large firms to acquire market shares, which may manifest in higher concentration and then profitability (Athanasoglou, Sophocles, & Mathiaos, 2013).

Fama, (2012) says that an efficient market is one that quickly adjusts to new information. It prevails in markets where prices “fully reflect” available data. This constitutes the impossibility of attaining extra profit by trading the basis of knowledge of information already incorporated. It means that in its strongest form, there should be no cost of information. We know this in untrue, and that a whole industry is based on selling information. This is why the need arises to further define efficiency of the markets. This has been taken the form 3 levels of information integration; the weak form of efficiency, the semi strong form of efficiency and the strong form of efficiency. In its weakest form, the efficient market hypothesis assumes that all historical share prices are already incorporated into the pricing of assets. Therefore, no excess profit can be earned by basing investment strategies on past returns. This implies that technical analysis, which studies formations in past returns, is useless in predicting the future. Since past performance is already known to the market, the current situation remains unknown. This is where fundamental analysis gains attention and may be rewarding for those keen investors who do their homework on companies’ financial statements.

2.1.6 Technological acceptance model

It is an information systems theory that models how users come to accept and use a technology. Davis defined this as the degree to which a person believes that using a particular system would be free from efforts (Davis 1989).Based on the theory of reasoned Action. Davis (1986) developed the Technology Acceptance Model which deals more specifically with the prediction of the acceptability of an information system. The purpose of this model is to predict the acceptability of a tool and to identify the modifications which must be brought to the system in order to make it acceptable to the users. This model suggests that the acceptability of an information system is determined by two main factors: perceived usefulness and perceived ease of use.

As demonstrated in the theory of reasoned Action, the technology Acceptance model postulates that the use of an information system determined by the behavioral intention, but on the other hand, that the behavioral intention is determined by the person's attitude towards the use of the system and also by his perception of its utility. According to Davis, the attitude of an individual is not the only factor that determines his use of a system, but is also based on the impact which it may have on his performance. Therefore, even if an employee does not welcome an information system, the profitability that he will use it is high if he perceives that the system will improve his performance at work. Besides, the Technology Acceptance model hypothesizes a direct link between perceives usefulness and perceives ease of use. With two systems offering the same features, a user will find more useful the one that he finds easier to use (Dillon & Morris, 2011).

According to Bertrand & Bouchard, (2008), the acceptance and rejection of technology can be predicted by using the Technology Acceptance Model(TAM), which demonstrates the relationship connecting belief, attitude and action purpose. The model was adopted from the Theory of Reasoned Action (TRA) which was developed by Ajzen and Fishbein (1980) to explain virtually any human behavior, but it is very general. There are several models existing that have been used to investigate adoption of technology. Several studies focusing on adoption of mobile services have their roots in Technology Acceptance Model (TAM) originally proposed by Davies in 1986. The model is originally designed to predict user's acceptance of Information Technology and usage in an organizational context. TAM focuses on the attitude explanations of intention to use a specific technology or service; it has become a widely applied model for user acceptance and usage. There are number of meta-analysis on the TAM that have demonstrated that it is a valid, robust and powerful model for predicting user acceptance (Bertrand & Bouchard, 2008).

2.1.7 Diffusion of innovation theory

It's a theory that seeks to explain how, why and at what rate new ideas and technology spread through culture. Rodgers (2003), argues that diffusion is the process by which an innovation is communicated through certain channels over time among the participants in a social system. This theory is related to the study as it presents the process of newness and implementation of innovation. Deposit

mobilization is a new model of approaching savers through marketing and financial inclusion and come up with new techniques which were not used by traditional banking. It is perceived and communicated through channels and the social system facilitates its adoption.

2.2 Review of Empirical Studies

Olweny & Shipho (2011) evaluated the relationship between bank profitability with bank specific variables in the context of Kenya, using 38 commercial banks in Kenya for the period of 2002 to 2008. The study adopted an explanatory approach by using multiple linear regression models. The study employed secondary data obtained from Central Bank of Kenya and Banking Survey 2009. Capital adequacy, assets quality, liquidity management, operational cost efficiency, and income diversification had taken as bank-specific factors and foreign ownership structure and market concentration as market structure factors. The study concluded that all the bank-specific factors have statistically significant impact on bank profitability while none of the market factors has significant impact on profitability of commercial banks in Kenya. The study recommended that policies that would encourage revenue diversification, reduce operational costs, minimize credit risk and encourage banks to their liquidity holding.

Saleem & Rehman (2011) evaluated the effects of liquidity ratios on profitability through examining the oil and gas sector of Pakistan by selecting 26 companies during 6 year period from 2004-2009 by applying linear regression through SPSS. The result showed that there is a significant impact of only liquid ratio on ROA while insignificant on ROE and ROI; the results also showed that ROE is no significantly effected by three ratios current ratio, quick ratio and liquid ratio while ROI is greatly affected by curent ratio, quick ratio and liquid ratio. The main results of the study demonstrated that each ratio (variable) has a significant effect on the financial positions of enterprises with differing amounts and that along with the liquidity ratios in the first place. The study concluded that liquidity ratios affect the profitability ratios. The study recommended that company needs to maintain adequate liquidity so that liquidity greatly affects profits of which some portion that will be divided to shareholders. Liquidity and profitability are closely related because one increases the other decreases.

Sthapit & Maharjan (2012) examined the effects of liquidity on profitability. To address the objectives, the study took NABIL and SCBN for the period between 2003/4 and 1010/11. The study used descriptive and analytical research design. Arithmetic mean, standard deviation, simple regression analysis used as statistical tools and LFTCLR, LFTDR, NRBTDT, CHTDR, and CABTDR used as financial tools. The study found that trend of average liquidity ratios and profitability of both banks were not seem to be fluctuating but average variation in liquidity ratios as well as profitability SCBN is lower than that of NABIL. The study concluded that the LFTDR and NRBTDR were negative significant effect on ROA of SCBN whereas CHTDR was a positive significant effect. But, liquidity ratios were not significant effect on profitability of NABIL. Therefore, the liquidity performance of SCBN is better than NABIL.

Obamuyi (2013) investigated the effects of bank capital, bank size, expenses management, interest income and the economic condition on banks' profitability in Nigeria. The fixed effects regression model was employed on panel data obtained from the financial statement of 20 banks from 2006 to 2012. The study found that the relationship between profitability and capital was positive and statistically significant. Bank size has a negative but statistically significant effect on banks' profitability. The expenses management variable has negative and significant effect on banks' profitability as expected. The variable of interest rate was positive and statistically significant. The GDP variable has positive and statistically significant relationship with profitability. The study concluded that improved bank capital and interest income, as well as efficient expenses management and favourable economic condition, contribute to higher banks' performance and growth in Nigeria. The study recommended that government policies in the banking system should encourage banks to regularly raise their capital and provide the enabling environment that will accelerate economic growth in the country. Bank management should efficiently manage their portfolios in order to protect the long run interest of profit making.

Almazari(2014) investigated the internal factors that affecting profitability of banks. A sample of twenty three Saudi and Jordanian banks was considered with 161 observations for the period 2005-2011. Financial ratios were calculated and statistical tools including Pearson's correlation, descriptive analysis of variance and regression

analysis were utilized in testing the hypothesis and to measure the differences and similarities between the sample banks according to their different characteristics. The factors influencing the profitability were tested empirically. However the results showed that there is a significant positive correlation between ROA of saudi banks with TEA, TIA and LQR variables as well as a negative correlation with NCA, CDR, CIR and SZE variables. Meanwhile there is a significant positive correlation between ROA of Jordanian banks with LQR, NCA, TEA, and CDR variables, also there is a negetive correlation of return on assets with CIR, TIA and SZE. The study recommended that empirical studies should be undertaken in the same field to find out what more internal factors could affects profitability of banks.

Shrestha (2015) examined the effect of ALM on commercial banks' profitability in Nepal. AML deals with optimal investment of assets in view of meeting current goals and future liabilities. For this purpose top seven private commercial banks were taken as sample, which constitutes 49 percent share of total net profit of overall 30 commercial banks over 7 years time period from 2007-08 to 2013-14. Descriptive, correlation and regression analysis was applied to study and compare the the effect independent variables on the dependant variables. The report emphasized that the rate of return on assets is positive and varies across assets, and the rate of cost on liabilities is negetive and varies across liabilities. The pooled OLS regression analysis result showed that all assets, including fixed assets, maily loans and advance as well as other assets affect profitability positively, while all liabilities, mailty deposits, and other liabilities have negetive effects on commercial banks profitability. With regard to macroeconomic variables, GDP and inflationrate have negetive effects on commercial banks profitability.

Patel & Bhanushali(2017) examined the profitability of nationalised banks and private sector banks with special reference to selected three banks in India during the period 2010-2011 to 2014-2015. The samples are selected through random sampling technique and data collected from secondary sources. The study examined the relationship among the profitability of Indian commercial banks both public and private sector banks. The study found that Analysing the banks both nationalised and private sector banks are profitable. With the increasing competition in the banking sector, profitability has become a greatest challenge to Indian commercial banks. The

study recommended that banks should explore very possibility for improvement and increase the profitability. Attemps should be made to control over express and also the resources sholud be utilized.

Bhattarai (2017) examined the effect of non-performing loan on the profitability of Nepalese commercial banks using descriptive and causal comparative with pooled data of 14 commercial banks with 77observation during period of 2010 to 2015. The estimated regression result showed that non-performing loan ratio was negative effect on overall profitability (ROA) whereas non-performing loan was positive effect on shareholders return (ROE). Moreover the result showed that bank size has significant positive effect on bank profitability (ROA, ROE). Unlikely, gross domestic product growth rate was significant positive effect only on shareholders return (ROE). The study concluded that profitability of Nepalese commercial banks is influenced by non-performing loan ratio, and other covariates like; bank size cost per loan assets and gross domestic growth rate. The study recommended that Nepalese commercial banks should strictly follow the prevailing NRB Directives as well as Basel II Accord while granting loan and advance to the customers. Bank should eliminate unexpected influence by exercising good political culture and maintaining the law and order in Nepal.

Boateng (2018) evaluated the factors that make significant impact on profitability of banks in both India and Ghana and also the factors that make unique significant impact on profitability of banks in India but not Ghana and vice-versa. Data from financial statements of 10 banks from each country for 7 years period was used in the study. ROA and multiply regression was the tools used in the analysis of data. The study concluded that credit risk, net interest margin, capital adequacy and inflation were the most important factors that significantly affect profitability of banks in both Ghana and India. Cost to income ratio and bank size had an insignificant impact on profitability of Indian bank but impacted significantly on Ghanaian bank's profitability. The study recommended that strict compliance of capital adequacy requirement must be enforced the regulatory bodies in both countries. Also prudent credit risk management practices must be adhered to by managers of banks in both countries. Again as the size of bank increases, internal control measures must be

strengthened by managers of banks in both countries in order to minimize excessive cost of operation.

Alarussi & Alhaderi (2018) examined the factors affecting profitability in Malaysian-listed companies. Data of 120 comapanies listed on Bursa malaysia covering the period from 2012 to 2014 were extracted from companies annual reports. Pooled ordinary least squares regression and fixed-effects were used to analyzed the data. The result showed that a strong positive relationship between firm size(total sales), WC, companies efficiency(assets turnover ratio) and profitability. The result also showed negetive relationship between both debt equity ratio and leverage ratio and profitability. Liquidity (current ratio) has no significant relationship with profitability. The study recommended that internal user of company should concentrate more on the factors that enhance their companies' profitability. And the external user of company should concern about the profitability of companies and the determinants of their profitability after the currency's depreciation.

Mujuka(2018) evaluated the determinants of the financial performance of commercial banks in have revealed various factors such as internal bank specific factors, industry specific factors, and external macro economic factors. The target population was 88 and the sample size was 72. Data analysis was done using frequency counts, percentages, means, and standard deviation, regression, correlation, and the information generated is presented in form of graphs, charts and tables. The study revealed that there is a positive correlation between the independent variables and the dependent variable. The study found that there was a positive correlation between inflation rates, credit risk, interest rates. The study concluded that stability in inflation rates helps in regulating both foreign exchange rate and interest rates. When the inflation rate is high, borrowers must often default causing loss of revenue to the commercial banks. That secure loans through collateral are less likely to default as compared to unsecured loans. Thus this helps the commercial banks to conserve its capital thereby reducing losses. The study recommended that commercial banks continue to use technology to attract more clients to use same to earn commercial banks revenue; Diversify revenue streams and not just depends on interest income for commercial banks to remain profitability.

Al-Harbi (2020) explored and compared the drives of bank's profitability in Iran and Sudan as both countries Islamized their financial system. This study employed panel data techniques specifically one-way fixed effect model, data obtained from bank scope database, to address this paper title for the period 1992-2008. The descriptive statistics results showed that Iranian banks are more profitable and have higher loan to total asset ratio in comparison to Sudanese banks. Contrary, Sudanese banks are more liquid; more capitalized and have higher reserves. The regression analysis reported that capital adequacy (positive), oan intensity (negative), management efficiency (negative), lagged GDP growth (positive) and real interest rate (positive) had the same significant effect on banks' profitability in Iran and Sudan. Meanwhile, liquidity albeit had the same positive effect on banks'profitability in Iran and Sudan the results were significant in case of Iran. On the other hand, size, credit risk and industry concentration had opposite effect on banks in Iran and Sudan. The effect of size was negative for Iranian banks and positive and significant for Sudanese banks. Also, credit risk was negative and variable impacted Iranian banks negatively (significant) and Sudanese banks positively (significant). The study concluded that capital adequacy, liquidity, GDP growth and real interest rate contributed positively to the profotability of banks in Iran and Sudan. On the other hand, loan did not improve banks' profitanility. The study recommended that banks in Iran and Sudan should improve its management practices to boost its profitability. Iranian banks should improve its risk management practices. Iranian banks should increase its size to improve its profitability.

Neupane (2020) examined the cause and effect relationship between sales, liquidity, and profitability. The study cncentrated on the cement industry in Nepal for the four year's data. The quantuitative research design used to draw a valid conclusion. The descriptive statistics, correlation analysis regression analysis were used in the analysis of the sample and there is any relationship among sales, liquidity and profitability in the cement industry in nepal. The study found that a significant positive relationship between sales and profitability, similarlly insignificant positive relation between net working capital and profitability.

Adhikari (2020) examined the impact of liquidity on profitability in nepalese commercial banks. The study determine the association between liquidity and

profitability indicators of 27 commercial banks out of 28 commercial banks in Nepal. Market price, earning per share, net profit margin and return on assets are used as the indicators of profitability. Deposit-credit rario, cash reserve ratio and capital adequacy ratio are used as the indicators of liquidity. Descriptive and causal comparative research design were applied to analyzed the data. Correlation analysis multiple general linear regression analysis were applied to established the association. This study found that all CARs are above the requirement of NRB. All associations are statically insignificant. Relation of profit margin with CD ratio, CRR and CAR is not linear and relationship of ROA with CD ratio, CRR and CAR also not linear. The study concluded that there is no statically significant association between liquidity and profitability indicators in Nepalese commercial banking industry.

Lan & Cong(2020) investigated the determinants of the financial performance of 1343 Vietnamese companies categorized into six different industries listed to on the Vietnamese Stock Exchange over a four year period from 2014-2017 using STATA software. Those determinants include firm size, liquidity, solvency, financial leverage, and financial adequacy while the financial performance is evaluated by three different ratios: return on assets (ROA), return on equity (ROE), and return on sales (ROS). The research results from these companies during the given period indicated that: (1) firm size has a positive impact on both ROA and ROS, especially ROA but it has the opposite effect on ROE, (2) adequacy ratio impacts positively on ROA and ROS but negatively on ROE, (3) financial leverage considerably negative influences on ROE and ROS but positively impacts on ROA, (4) liquidity has positive effect on both ROA and ROE but negative one on ROS and (5) solvency has a positive impact on ROA and ROS but the negative impact on ROE. Furthermore, agriculture accounted for the highest percentage of profitability at the beginning, which was replaced by service for ROA but manufacture for ROE from 2016 to 2017 as opposed to the least in transportation. The research concluded that a significant difference in the impact of five different independent variables on ROA, ROE and ROS. The research recommended that the state should regulate the economy and promote the development of Vietnamese enterprises by regulations and law relating to the use of loans at reasonable interest rate. The state should support Vietnamese enterprises to expand production scale through labor education incentives, production and business premise sustenance, and input guarantee. Listed company of Vietnam should

necessary to identify clearly different factors affecting profitability in operating the business since they cannot achieve their goals without profitable influencer recognition. Vietnam business should not rely dominantly on debts to maintain their operating capital.

Abdulkareem (2020) analyzed and examined the profitability performance of two selected private banks in India; HDFC Bank and ICICI Bank. Simple random sampling used to select the sample size from top five banks which are functioning in the stock market based on the current situation. Mathematical and statistical tools and techniques like ratio, trends, simple & multiple correlations used to analyze data. The most appropriate parametric and non parametric test employed and the analysis of data presented through different graphs and tables. The study found that gross profit ratio of HDFC Bank is higher than ICICI Bank. Net profit ratio of both banks is similar. Return on assets in higher in HDFC. Overall, the profitability performance of HDFC Bank is higher in term of ratios. The study concluded that HDFC bank profitability performance is better and higher than ICICI bank. The study recommended that ICICI bank should control the cost and expenses associated with bank operations. ICICI bank should increase its income and reduce its expenses to maximize the profit. ICICI bank should reduce variables cost and improve the customer loyalty and improve services offered to customers. ICICI bank should invest its cash in order to give maximum benefits to ICICI bank and charge more interest from the beneficiary companies.

Alvarez, Sensini, & Vazquez (2021) investigated the impact of working capital management on the profitability of Argentine manaufacturing firms,using the main theoritical framework suggested by the literaature review. Many studies have addressed this problem in developed economies, but such studies are quite rare in emerging and developing economies. The companies analyzed were selected using a stratified sampling technique based on an economic criterion. The data cover a time horizon of three years from 2014 to 2016 and collected througha questionnaire. Overall, 194 companies were analyzed. The study uesd a fixed effects regression model. The results highlighted a positive and statistically significant relationship between all components of working capital and profitability. Leverage has negative and statistically significant relationship between all components of working capital

and profitability. The study concluded that an increase in each variable considered determines an improvement in performance in terms of ROA and ROE. An increase in debt has a negetive impact on firm performamce.

2.3 Research Gap

There are several research have been done before on the topic of comparative study on profitability of selected commercial bank in Nepal. All of those researches have many useful finding, own limitations and their findings are equally important and useful. The suggestion and recommendations given by the preceding researchers to improve and strengthen the financial decisions have been really benefiting to the relevant banks. This is a comparative analysis of profitability of selected commercial bank. Among the 27 commercial banks two banks namely NABIL and Nepal SBI banks are taken to observe the profitability trends. This study shows the profitability position of two commercial banks in Nepalese context by using various tools and techniques. This study evaluates the data of seven years period of listed banks. The study is based on secondary information. This research should facilitate readers to identify the profitability position and operating financial efficiency of selected commercial banks. Findings the more influencing variables revenue, operating expenses, interest rate, capital investment, tax, liquidity, bank size and non-performing loan to ROA and ROE. In scanning through the profitability of NABIL and Nepal SBI banks, it was evidenced that there has been an inconsistence in their reported profits over the study period which calls for a study to ascertain the factors responsible for these fluctuations. This study area is ripe for future research. There are several significant issues to be considered for future research. This study may give new understanding the subject phenomenon. This study will helpful to the interested people in the selected commercial banks to analyze their profitability position at present. The economic condition is also changes through time which can be fulfill by this study.

CHAPTER-III

RESEACH METHODOLOGY

Research means to search again to find out something new and more about a phenomenon. It is systematic an organized effort to inquire about a specific problem that needs an answer. It is an art of scientific investigation. The search for knowledge through objective and method of finding solution to a problem is research. The process of gathering, recording, analyzing and interpreting data with the purpose of finding solution to the problem is called research. Methodology is a systematic rules and procedure upon which research is based. Research methodology is the systematic way to solve the research problem with the certain objectives.

Research methodology adopted in this study includes research design, population and sample, sources of data, data collection procedure, and data analysis tools and techniques.

3.1 Research Design

Research design is a detailed outline of how an investigation takes place. A research design includes how data is to be collected, what tools and techniques are utilized, how the tools and techniques are used and how to analyzed collected data. Some financial and statistical tools are applied to make the data effective and to evaluate the profitability position of the both banks. To achieve the objectives of the study, descriptive as well as analytical research design has been used. The descriptive research design has been adopted for fact finding and searching adequate information. It is a type survey which is generally conducted to assess the opinions, behaviors and characteristics of a given population and to describe the situation and event occurring at present.

3.2 Population and sample

There are many commercial banks are operating in the country and their stock are traded actively in stock market. The population of this study is comprised of 27 commercial banks of Nepal, which are currently in operation which may be government domestic or joint venture bank. Among them the two major banks have been selected as sample namely NABIL bank limited and Nepal SBI bank limited using convenient sampling method.

3.3 Sources of data

The study basically focuses on the secondary data. The secondary data are taken from annual reports, auditor's reports, balance sheet, profit & loss account, respective website, unpublished / published thesis, newspapers, journals, articles, magazines etc.

3.4 Data collection procedure

This research is based on various data which are published by banks, their financial performance reports, articles, journals, reference, annual reports and respective websites will be considered for the observation, various data and information are collected from the economic journals, periodicals, bulletins and documents from various sources for needed observation.

3.5 Data analysis tools and techniques

Under this, various profitability measurement tools and techniques are applied to gain the fact results. The data which are collected and arranged in a systematic form are analyzed and presented through financial and statistical tools via ratio analysis and karl Pearson's correlation coefficient.

3.5.1 Financial tools

A powerful and most widely used tool of financial tools is ratio analysis. Ratios can be calculated between any two items of financial statements. A financial ratio is the relationship between two accounting figures, expressed mathematically or the term ratio refers to the numerical or quantitative relationship between two items / variables. Ratio helps to summarize the large quantities of financial data to make qualitative judgment so ratio is regarded as the best indicator to any business to know the performance. There are numerous ratios to analyze and interpret the financial performance of the enterprise or firm. However, for our purpose, only important and relevant ratios are evaluated. Some of the important ratios for evaluating the company's performance are:

3.5.1.1Profitability ratio

A company should earn profit to survive and grow over a long period. It is a fact that sufficient profit must be earned to sustain the operations of the business, to able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to

measure the operating efficiency of the company. Profitability ratios are the highlight of the business activity so any business organization should maximize their profitability performance. To meet the objective of the study, following calculation are done regarding profitability performance.

Operating profit margin

It looks at earning as a percentage of sales before interest expenses and income taxes are deducted. Company with high operating profit margins are generally more well-equipped to pay for fixed costs and interest an obligations have better chances to survive an economic slowdown and one more capable of offering lower prices than their competitors that have a lower profit margin. It used to assess the strength of a company's management.

Operating profit margin= $\frac{\text{operating profit}}{\text{total revenue}}$

Net profit margin

It provides the final picture of how profitable a company is after all expenses, including interest and taxes have been taken into account. It takes everything into account.

Net profit margin = $\frac{\text{net profit}}{\text{total revenue}}$

Return on assets

It shows the percentage of net earning relative to the company's total assets. It reveals how much after tax profit a company generates for every one dollar of assets it holds. It measures the assets intensity of a business.

Return on assets = $\frac{\text{net profit}}{\text{total assets}}$

Return on equity

Express the percentage of net income relatives to stockholders equity. Company with high return on equity is usually more capable of generating cash internally and therefore less dependent on debt financing.

Return on equity = $\frac{\text{net profit}}{\text{total equity}}$

Operating efficiency ratio

Operating efficiency ratio is a measure of a bank's ability to turn resources into revenue. To maximize profitability and the value of the shareholders' investment, banks must maintain efficiency in their operations. As lower efficiency ratio means that a bank is operating better, banks try to reduce their operating expenses like interest expenses and operating expenses while increasing their productivity of their operating activities. The ratio can be expressed as:

Operating efficiency ratio = $\frac{\text{total operating expenses}}{\text{total operating income}}$

3.5.1.2Liquidity ratio

Liquidity ratios are used to judge the firm's ability to meet short-term obligation. It is the comparison between short-term obligation and the short-term resources available to meet these obligations. These ratios are calculated to find the ability of banks to meet their short-term obligation, which are likely to mature in the short period. The following are used to find the liquidity positions of selected banks.

Cash and bank balance to total deposit ratio

This ratio shows the ability of banks immediately fund to meet their deposits. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. In this study, cash and bank balance includes cash on hand, foreign cheque and other cash items, balance with domestic bank and balance held abroad. The total deposits of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

It is hidden fact that the deposits would not withdraw total deposits, in case at a time so the bank keeps a certain margin of case. This ratio includes that if the ratio is higher, there is higher liquid and if lower the bank is less liquid. The ratio not only analyzes the use of total resources of the firm, but also the use of various components of total assets. The ratio can be expressed as:

Cash and bank balance to total deposit ratio$=\frac{\text{cash and bank balance}}{\text{total deposits}}$

High ratio indicates sound liquidity position of the bank. Even after that too high ratio is not good enough as it reveals under utilization of fund.

NRB balance to total deposits ratio

Commercial banks have to hold a balance of certain percentage of their total deposits amount in Nepal Rastra Bank in other to fulfill legal requirements.

NRB balance to total deposit ratio$=\frac{\text{balance withNRB}}{\text{total deposit}}$

3.5.2 Statistical tools

Statistical tools performs very important role in business activity. Each and every performance should be calculated in business world to know the exact profit/loss. Here are some mathematical tools which are widely in practice.

Mean

The statistical mean refers to the average that is used to derive the central tendency of the data in question it is determined by adding all the data points in a population and then dividing the total by the number of points. The resulting number is known as the mean or average. Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if X_1,X_2, X_3…………X_n are the given observations, and then arithmetic mean usually denoted by $\bar{X}$ is given by X_1, X_2, X_3,……X_n.

$$\bar{X} = \frac{x_1+x_2+x_3\ldots\ldots\ldots+x_n}{n}$$

Where, n=number of observation.

$\bar{X}$ = average return

Standard deviation

Standard deviation (S.D.) is defined as the positive square root of the mean of the deviations taken from the arithmetic mean. It is denoted by σ. It is said to be the best

measure of the dispersion as it satisfies most of the requisites of the good measure of dispersion. Standard deviation is an estimate of the likely divergence of an actual return from an expected return. It measures the risk of the return. The higher the standard deviation, more risk will be in the assets.

$$\sigma = \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

Where, σ = standard deviation

Coefficient of variation

Coefficient of variation is the standardization measure of risk per unit of return. It is calculated as the standard deviation divided by expected rate of return. It provides a more meaningful basis for comparison when two investments of different expected return and standard deviation are to be compared. It is calculated by following equation:

$$CV = \frac{\sigma}{\bar{X}}$$

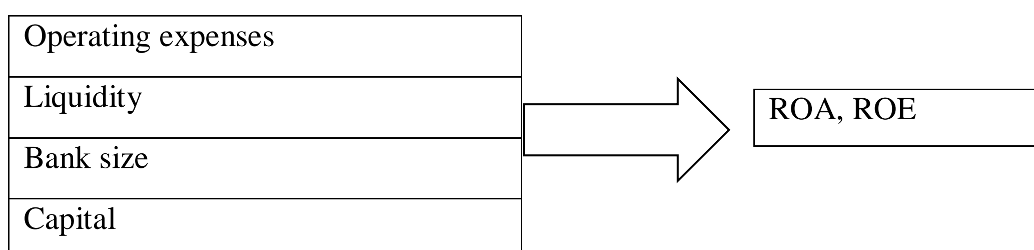
Correlation

The popularly known method of correlation is Karl Pearson's coefficient of correlation which is applied in this study. Correlation refers to degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. Correlation coefficient using direct formula is written as,

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

3.6 Research framework and defination of variables

Independent variables dependent variable



Operating expenses

An increase in any type of operating expenses lower the profit. Operating expenses are only one type of expenses that reduces net sales to reach net profit. The relationship between operating expenses and profit can seen most directly when looking at operating profit. Operating profit included rent, utilities, wages, office supplies business travel etc. Some business expenses, such as purchase of new information technology innovations can lower net profit over the short term but raise income potential over long term. Operating expenses is frequently referred to as how well management implements the use of its assets. This ratio is closely related to the notion of efficient management. In other words, the more efficient a bank's management is at keeping operating costs low, the greater its profitability will be. In Hashem (2016) the empirical evidence they found that the lower the expenses were for the bank, the more efficient was the bank as evidenced by higher profits.

Liquidity

Liquidity describes the degree to which an assets can be quickly bought or sold in the market at a price reflecting its intrinsic value. Cash is universally considered the most liquid asset because it can most quickly and easily be converted into other assets. Financial analysts took at firm's ability to use liquid assets to cover short-term obligations. The relationship between liquidity and banks profitability explained by expected bankruptcy cost hypothesis and the concept of opportunity cost. The former states the increase of liquidity reduces default profitability leading to higher profitability. The study conducted by the Oluwasegun and Samuel (2015) and Lartcy et al. (2016) supports the expected bankruptcy cost hypothesis argument. On the other hand, liquid assets have low return thus holding high level of liquidity will impose an opportunity cost on banks leading to a lower profitability.

Bank size

The size of a business means the ability it processes, the variety and number of production capability or the quantity and multiplicity of services or business it can offer concomitantly to its customers. In a simply way, the best indication of bigness of a firm is the size of its management group or the amount of assets it processes compared to others in the same industry (Sritharan, 2015). Size is commonly

measured by gross sales or gross value of assets, logarithm of total assets, number of employee and sales turnover. Growth in size of a firm can be terms of revenue, profits, assets or number of employee which are all essential for increased or decreased financial health and profitability. Bank size has been remarkably considered as an important determinant of firm profitability. Larger firms are said to be produce goods more cheaply as compared to small firms. This is because the former have achieved more learning, greater cumulative experience and day are able to soread their fixed costs over a greater amount of production (Kigen,2014). Size has been considered as a fundamental variable in explaining firms profitability by and a number of studies on the relationship between these two conclude that impact of size on profitability can be negetive or positive. Result by Mule, Mukras and Nzioka (2015), indicated that there is a positive significant relationship between firm size and profitability, that is, return on equity, implying that a unit change in firm size leads to an increase in return on equity of firms. Contrarily, some authors claim that a unit change in firm size may have no or negative impacts on profitability. Shephered (1972) found that growth in size causes a diseconomies of scale whereas Niresh and Velnampy (2014), had results showing that firm size has no profound impact on profitabilty of firms. Redmond et al. (2007) studied about the effect of bank size on profitability. They were categorized bank into 5 categories according to their size of assets, the return on equity ratio is used as a measure of profitabilty, and found that, there is a negeative significant relationship between profitability and the volume of assets.

Capital

Capital refers to the amount of own funds available to support a bank’s business and, therefore, bank capital acts as a safety net in the case of adverse development (Athanasoglou et al.,2005). The capital is calculated as the ratio of equity to total assets. The ratio measures how much of the banks’ assets are funded with owners’ fund and is a proxy for capital adequacy of a bank by estimating the ability to absorb losses (Ommeren, 2011). Based on past literature, the relationship between capital and profitable is said to be unpredictable (Sharma & Gounder, 2005). This is because while positive relationship had been found by some studies (Berger 1995; Demirguc-Kunt & Huizinga, 1999; Hassan & Bashir, 2005; Athanasoglou et al. 2005; Dietrich &

Wanzenrid, 2009; davydenko (2010); Olweny & Shipho, 2011; Ommeren, 2011; Ani et al., 2012; and Rao & Lakew, 2012), other studies found a negetive relationship between capital and profitability (Saona, 2011; Ali et al., 2011; Qin & Pastory, 2012). Staikouras and Wood (2004) argue that a positive (negative) coefficient estimate for capital indicates an efficient (inefficient) management of banks' capital structure.

CHAPTER-IV

RESULTS AND DISCUSSION

This chapter is the heart of the study, where collected data are presented and analyzed. In this chapter the effort has been made to analyze "comparative study on profitability of Nabil bank and Nepal SBI bank". With the help of various financial and statistical tools, profitbility position of selected banks are tried to evaluate.

4.1 Data Presentation and Analysis

With the presentation and analysis of relevant and available data of Nabil Bank and Nepal SBI banks in order to fulfill the objective of the study. The data have been analyzed according to the research methodology as prescribed in chapter three to gain the best result.

4.1.1 Financial tools

This study is done to analyze the profitability posittion of Nabil bank and Nepal SBI bank. Financial statement such as balance sheet and profit and loss accout can be analyzed to assess the profitability of bank. Despite of several financial tools axisting, the research has mainly on ratio analysis assuming it as the most suitable tool along with other financial tools. The various financial ratios applied in this study are as follows:

4.1.1.1 Profitability ratios

Profitability ratios are a class of financial metrics that are uesd to assess the ability of business to construct earning to its expenses and othe relevant cost incurred during a specific period of time. Profitability ratios are very helpful to measure the overall efficiency of operation of financial institutions. The purpose of company's existence is to make profit for its shareholders. It is important to see how well the company is doing in this respect. Here, profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Higher ratio shows the higher efficiency of the bank. The following profitability ratios are uesd to evaluate to measure the profitability of NABIL bank and Nepal SBI Bank.

Operating profit margin

This ratio establishes the relation between operating profit and total revenue. The main objective of computing this ratio is to determine the operational efficiency of the management. Operating profit means the net profit arising from the normal operations and activities of the firm without taking into account of extraneous transactions and expenses of purely financial nature. Higher the operating ratio, the better would be the operational efficiency of the firm. A higher operating profit ratio means that the firm has been able not only to increase its revenue but also been able to cut down its operating expenses. This ratio is calculated by dividing the amount of total operating profit by the total revenue of the banks. Which are shown in the table below:

Table No. 4.1

Operating profit margin

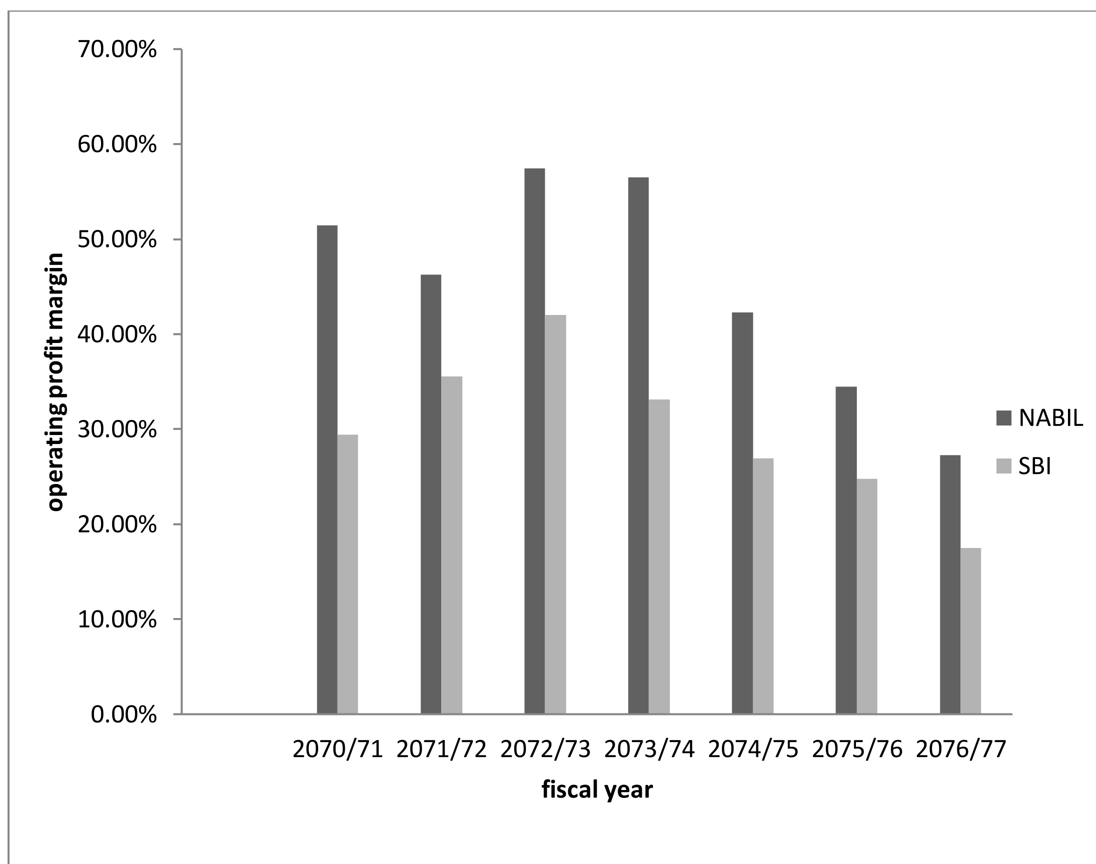
In (%)

Fiscal year	**Ratio**	
	NABIL Bank	**Nepal SBI Bank**
2070/71	51.46	29.39
2071/72	46.26	35.53
2072/73	57.47	42.01
2073/74	56.48	33.11
2074/75	42.32	26.92
2075/76	34.48	24.80
2076/77	27.28	17.50
Average	43.68	29.89
SD	11.2722	7.9326
CV	0.2581	0.2654

Source : appendix I

Figure No.4.1

Operating profit margin



The table 4.1 and figure 4.1 show that operating profit nargin of the Nabil bank and Nepal SBI bank limited during the period of the study from 2070-71 to 2076-77. In NABIL bank, the ratio shows fluctuating trend. The average ratio of the NABIL bank is 43.68% during the study period. The ratio is the highest of 57.47% in fiscal year 2072/73, where as it is the lowest of 27.28% in fiscal year 2076/77. In case of Nepal SBI bank the ratio shows fluctuating trend. The average ratio of Nepal SBI bank is 29.89% during the study period. The ratio is the highest of 42.01% in fiscal year 2072/2073, where as it is the lowest of 17.50% in fiscal year 2076/77. The standard deviation of NABIL bank is 11.2722% and Nepal SBI bank is 7.9326% . The CV of NABIL bank is 0.2581 and Nepal SBI bank is 0.2654.

On the basis of average return NABIL bank has performed better than Nepal SBI bank because average operating profit margin for NABIL bank is 43.68% while for Nepal SBI bank it is 29.89%. Similarly, on the basis of standard deviation Nepal SBI bank is better performer due to lower standard deviation. However, NABIL bank is

best performer due to lowest CV. Lowest CV indicates the lower risk per rupee. The higher level of operating profit will generally increase the profitability.

Net profit margin

Net profit margin is an indicator of the efficiency of the management in manufacturing, selling and financing. It helps in measuring the relationship between revenue and net profits. A high net profit margin would ensure adequate return to the owners as well as enable a firm to face the adverse economic conditions, if the net profit margin is inadequate, the company will not be in a position to pay off its debts and give a satisfactory return to its shareholders. This ratio is calculated by dividing the amount of net profit bty the total revenue. Which is shown in the table below

Table no.4.2

Net profit margin

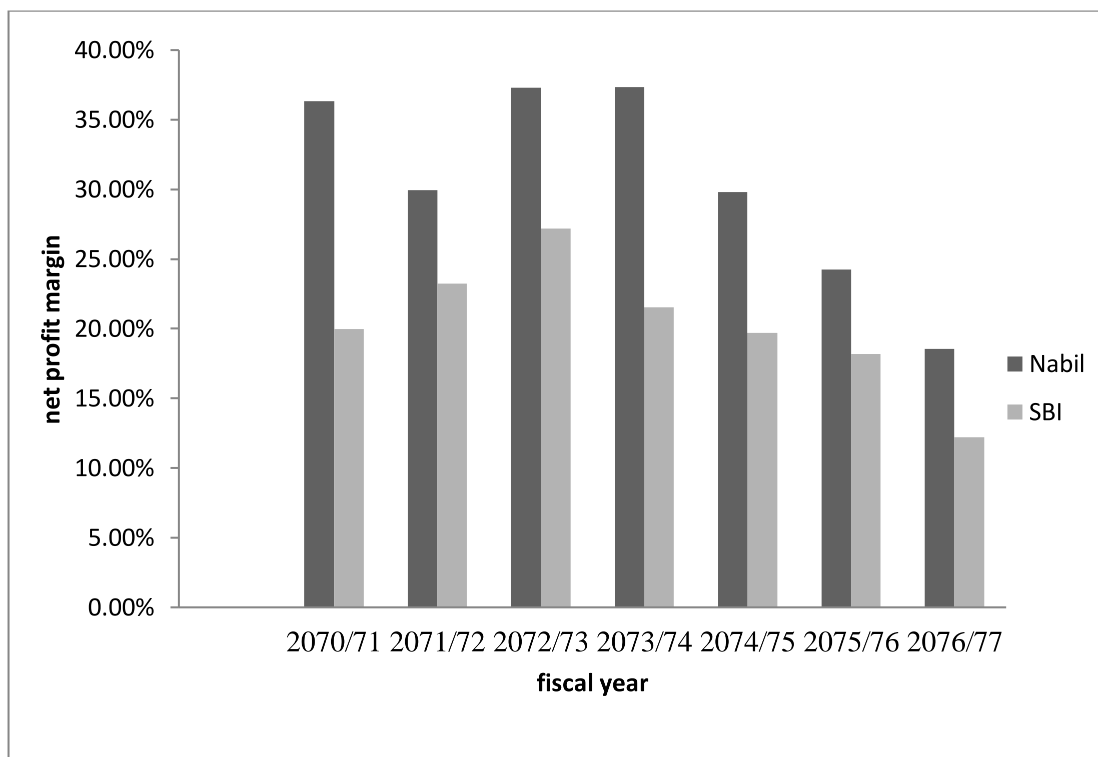
In (%)

Fiscal year	**Ratio**	
	NABIL Bank	**Nepal SBI Bank**
2070/71	36.33	19.97
2071/72	29.93	23.22
2072/73	37.30	27.17
2073/74	37.35	21.56
2074/75	29.81	19.72
2075/76	24.25	18.20
2076/77	18.55	12.23
Average	30.50	20.30
SD	7.1858	4.6059
CV	0.2356	0.2268

Sources:appendix II

Figure No.4.2

Net profit margin



The table 4.2 and figure 4.2 show that net profit margin of the NABIL Bank and Nepal SBI bank limited during the period of the study from 2070/71 to 2076/77. In NABIL Bank ratio shows fluctuating trend. The average ratio of NABIL Bank is 30.50% during the study period. The ratio is the highest of 37.35% in fiscal year 2073/74, where as it is thee lowest of 18.55% in fiscal year 2076/77. In case of Nepal SBI bank limited the ratio shows fluctuating trend . The average ratio of Nepal SBI bank is 20.30% during the study period. The ratio is the highest of 27.17% in fiscal year 2072/73, where as it is the lowest of 12.23% in fiscal year 2076/77. The standard deviation of NABIL bank is 7.1858% and Nepal SBI bank is 4.6059% . The CV of NABIL bank is 0.2356 and Nepal SBI bank is 0.2268.

NABIL Bank has performed better than Nepal SBI bank from the view point of average return because average return of NABIL Bank is 30.50% while for Nepal SBI bank it is 20.30%. On the basis of standard deviation Nepal SBI bank performed better due to lower standard deviation. Similarly, Nepal SBI bank performed better than NABIL bank due to lowest CV.

Return on assets

Return on assets is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analysis an idea as to how efficient a company's management is at using its assets to generate earnings. ROA is calculated by dividing a company's net income by total assets.

Table No.4.3

Return on assets

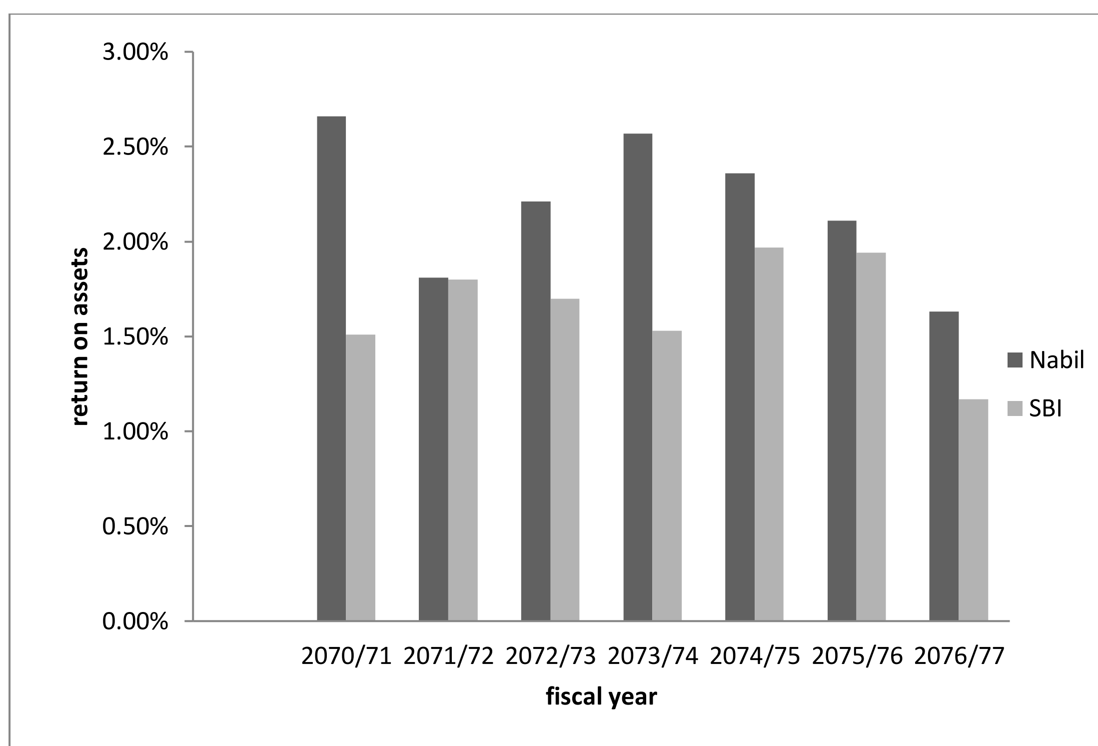
In (%)

Fiscal year	**Ratio**	
	NABIL Bank	**Nepal SBI Bank**
2070/71	2.66	1.51
2071/72	1.81	1.80
2072/73	2.21	1.70
2073/74	2.57	1.53
2074/75	2.36	1.97
2075/76	2.11	1.94
2076/77	1.63	1.17
Average	2.19	1.66
SD	0.4519	0.2814
CV	0.2063	0.1695

Sources: appendix III

Figure No.4.3

Return on assets



The table 4.3 and figure 4.3 show that the return on assets ratio of NABIL Bank and Nepal SBI bank limited during the period of study from 2070/71 to 2076/77. The ratio for NABIL Bank is fluctuating trend. The average ratio of NABIL Bank is 2.19% during the study period. The highest ratio calculated is 2.66% for fiscal year 2070/71 and lowest ratio is 1.63% for the fiscal year 2076/77. In case of Nepal SBI bank the ratio shows fluctuating trend. The average ratio of Nepal SBI bank is 1.66% during the study period. The ratio is highest of 1.97% in fiscal year 2074/75, where as it is lowest of 1.17% in fiscal year 2076/77. The standard deviation of NABIL bank is 0.4519% and Nepal SBI bank is 0.2814%. The CV of NABIL bank is 0.2063 and Nepal SBI bank is 0.1695.

NABIL Bank has performed better than Nepal SBI bank from the view point of average return because average return of NABIL Bank is 2.19% while Nepal SBI bank is 1.66%. On the basis of standard deviation Nepal SBI bank performed better than NABIL bank due to lower SD. However, Nepal SBI bank performed best due to lowest CV.

Return on equity

The equity is the wealth of shareholders. The bank is accountable to provide a good return on the wealth of the shareholders. Return on shareholder's equity basically measures the company's return on the investment made by owner of the company. This ratio helps us to judge whether the firm has earned satisfactory return for its equity holders or not. ROE is calculated by dividing company's net income by total shareholder equity.

Table No.4.4

Return on equity ratio

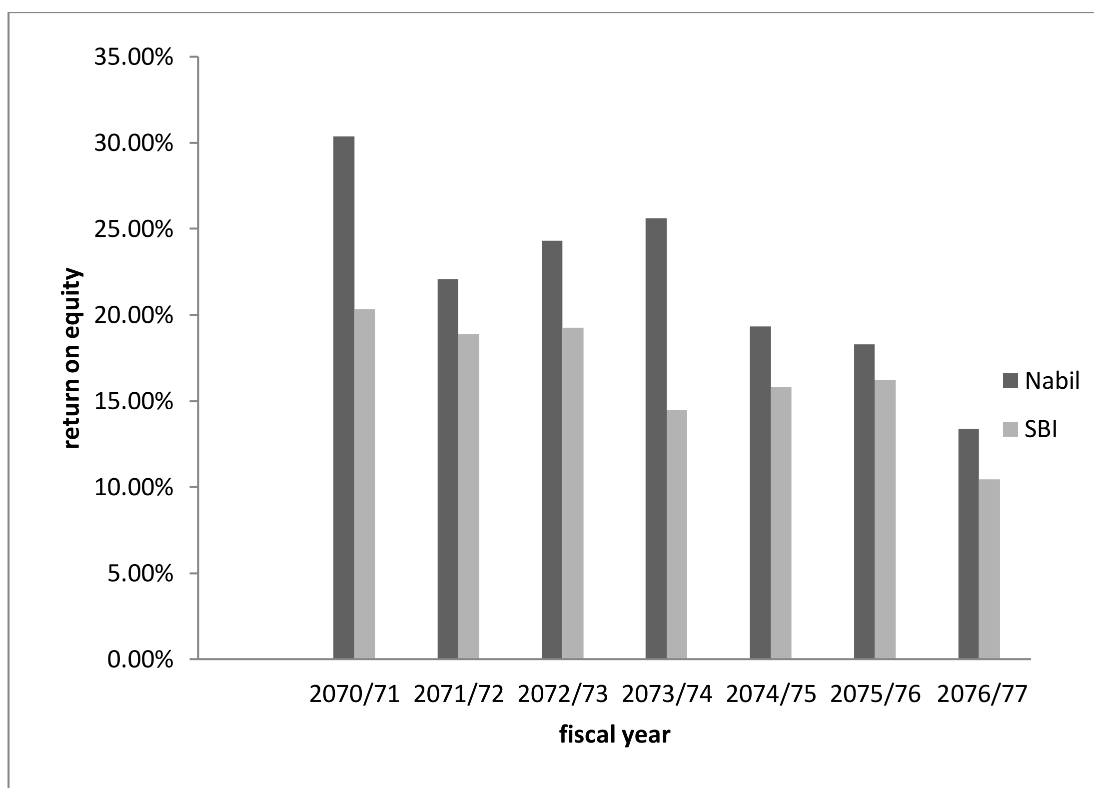
In (%)

Fiscal year	Ratio	
	NABIL Bank	Nepal SBI Bank
2070/71	30.36	20.35
2071/72	22.07	18.87
2072/73	24.32	19.25
2073/74	25.63	14.45
2074/75	19.34	15.81
2075/76	18.28	16.20
2076/77	13.39	10.44
average	21.91	16.48
SD	5.5294	3.4032
CV	0.2523	0.2065

Sources: appendix IV

Figure No.4.4

Return on equity



The table 4.4 and figure 4.4 show that the return on equity ratio of NABIL Bank and Nepal SBI bank limited during the period of study from 2070/71 to 2076/77. In NABIL Bank the ratio shows fluctuating trend. The average ratio of NABIL Bank is 21.91% during the study period. The ratio is highest of 30.36% in fiscal year 2070/71, where as it is the lowest of 13.39% in fiscal year 2076/77. In case of Nepal SBI bank the ratio shows fluctuating trend. The average ratio of Nepal SBI bank is 16.48% during the study period. The ratio is the highest of 20.35% in fiscal year 2070/71, where as it is the lowest of 10.44% in fiscal year 2076/77. The standard deviation of NABIL bank is 5.5294% and Nepal SBI bank is 3.4032%. The CV of NABIL bank is 0.2523 and Nepal SBI bank is 0.2065.

NABIL bank limited has performed better than Nepal SBI bank from the view point of average return because average return of NABIL Bank is 21.91% while Nepal

SBI bank is 16.48%. On the basis of SD Nepal SBI bank is better than NABIL bank due to lower SD. However, Nepal SBI bank is better performer due to lowest CV.

Operating efficiency ratio

Operating efficiency ratio is a measure of a bank's ability to turn resources into revenue. To maximize profitability and the value of the shareholders' investment, banks must maintain efficiency in their operations. As lower efficiency ratio means that a bank is operating better, banks try to reduce their operating expenses like interest expenses and operating expenses while increasing their productivity of their operating activities.

Table no. 4.5

Operating efficiency

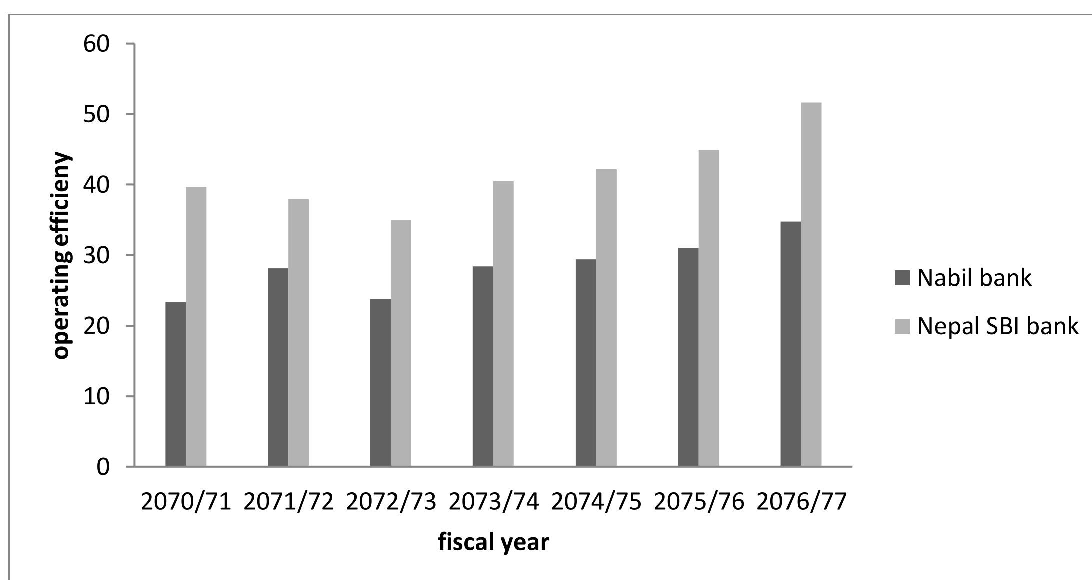
In (%)

Fiscal year	Ratio	
	NABIL Bank	Nepal SBI Bank
2070/71	23.28	39.7
2071/72	28.09	37.9
2072/73	23.74	34.94
2073/74	28.44	40.48
2074/75	29.37	42.21
2075/76	31.05	44.89
2076/77	34.79	51.66
Average	28.39	41.68
SD	4.0171	5.4000
CV	0.1414	0.1296

Sources: appendix V

Figure no. 4.5

Operating efficiency



The above table 4.5 and figure 4.5 show that the operating efficiency of NABIL bank and Nepal SBI bank limited during the period of study from 2070/71 to 2076/77. Both banks ratio show fluctuating trend. The average ratio of NABIL bank is 28.39% during the study period. The ratio is highest of 34.79% in F/Y 2076/77, where as it is lowest of 23.28% in F/Y 2070/71. In case of Nepal SBI bank, the average ratio of bank is 41.68% during the study period. The ratio is highest of 51.66% in F/Y 2076/77, where as it is lowest of 34.94 in F/Y 2072/73. The SD of NABIL bank is 4.0171% and Nepal SBI bank is 5.4%. The CV of NABIL bank is 0.1414 and Nepal SBI bank is 0.1296.

The NABIL bank performed better than Nepal SBI bank in term of average operating efficiency because average operating efficiency ratio of NABIL bank is 28.39% while Nepal SBI bank is 41.68%. On the basis of SD NABIL bank performed better than Nepal SBI bank due to lower SD. However, Nepal SBI bank performed best due to lowest CV.

4.1.1.2 Liquidity ratio

Liquidity ratios are used to judge the firm's ability to meet short-term obligation. It is the comparison between short-term obligation and the short-term resources available to meet these obligations. These ratios are calculated to find the ability of banks to

meet their short-term obligation, which are likely to mature in the short period. The following are used to find the liquidity positions of selected banks.

Cash & bank balance to total deposit ratio

This ratio shows the ability of bank immediately fund to meet their deposits. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. If there is higher ratio, there is higher liquid and if lower the bank is less liquid. The ratio not only analyzes the use of total resources of the firm, but also the use of various components of total assets. High ratio indicates sound liquidity position of the bank. Even after that too high ratio is not good enough as it reveals under utilization of fund.

Table No.4.6

Cash & bank balance to total deposit ratio

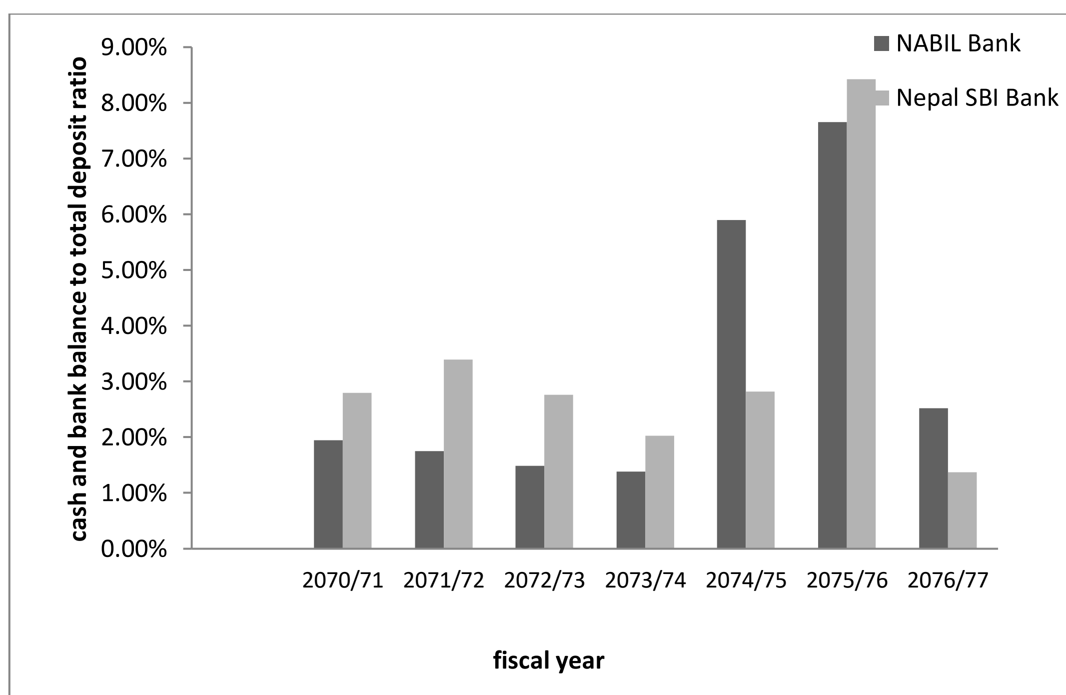
In (%)

Fiscal year	Ratio	
	NABIL Bank	Nepal SBI Bank
2070/71	1.95	2.80
2071/72	1.75	3.40
2072/73	1.49	2.76
2073/74	1.38	2.03
2074/75	5.90	2.82
2075/76	7.66	8.42
2076/77	2.52	1.37
Average	3.24	3.37
SD	2.5012	2.3201
CV	0.7719	0.6884

Sources: appendix VI

Figure 4.6

Cash and bank balance to total deposit ratio



The table 4.6 and figure 4.6 show that the cash and bank balance to total deposit ratio of the NABIL Bank and Nepal SBI bank limited during the period of the study from 2070/71 to 2076/77. In NABIL Bank the ratio shows fluctuating trend. The average ratio of the NABIL Bank is 3.24% during the study period. The ratio is the highest of 7.66% in fiscal year 2075/76, where as it is the lowest of 1.38% in fiscal year 2073/74. In case of Nepal SBI bank the ratio shows fluctuating trend. The average ratio of Nepal SBI bank is 3.37% during the study period. The ratio is the highest of 8.42%in fiscal year 2074/75, where as it is the lowest of 1.37% in fiscal year 2076/77. The standard deviation of NABIL bank is 2.5012% and Nepal SBI bank is 2.3201%. The CV of NABIL bank is 0.7719 and Nepal SBI bank is 0.6884.

Cash and bank balance to total deposit ratio Nepal SBI bank is higher than that of NABIL Bank. The average ratio of Nepal SBI bank of 3.37% is more than that of NABIL Bank of 3.24%. Similarly, on the basis of SD Nepal SBI bank is better than NABIL bank. On the basis of CV Nepal SBI bank is better due to lower CV. On the basis of cash and bank balance to total deposit ratio Nepal SBI bank limited is better than NABIL Bank which shows that Nepal SBI bank has better liquidity position.

NRB balance to total deposit ratio

Commercial banks have to hold a balance of certain percentages of their total deposits amount in Nepal Rastra Bank in order to fulfill legal requirements. This ratio measures the capacity performance of the bank. This ratio is calculated by dividing NRB balance with the amount of total deposit.

Table No.4.7

NRB balance to total deposit ratio

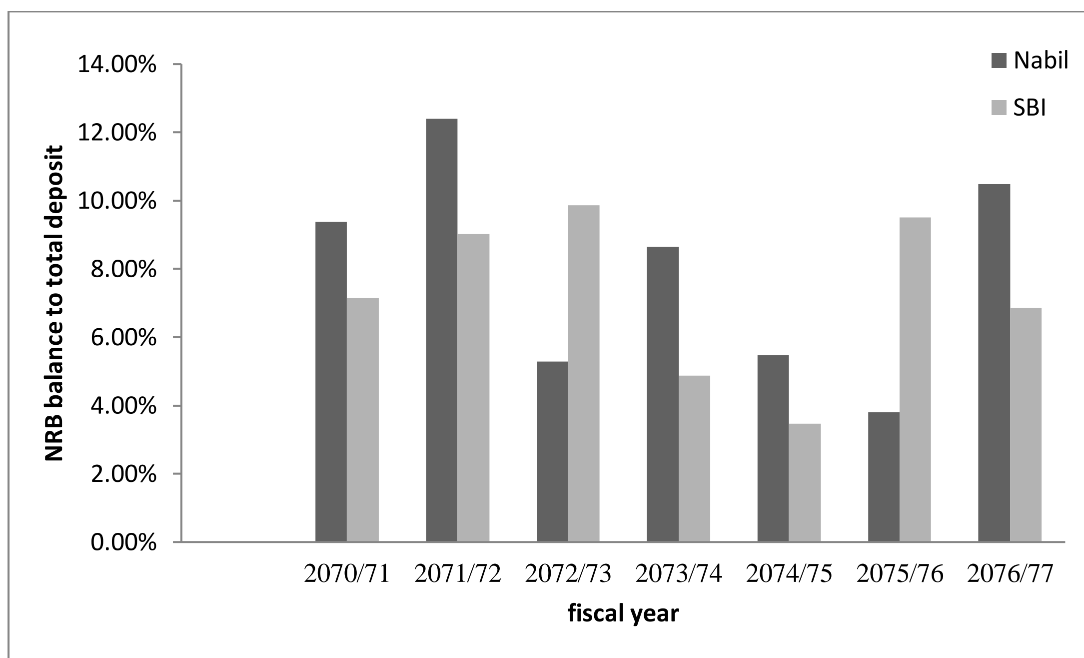
In (%)

Fiscal year	Ratio	
	NABIL Bank	Nepal SBI Bank
2070/71	9.38	7.14
2071/72	12.40	9.03
2072/73	5.28	9.86
2073/74	8.64	4.87
2074/75	5.47	3.47
2075/76	3.80	9.51
2076/77	10.49	6.86
Average	7.92	7.25
SD	3.1430	2.4223
CV	0.3968	0.3341

Sources: appendix VII

Figure No.4.7

NRB balance to total deposit ratio



The table 4.7 and figure 4.7 show that the NRB balance to total deposit ratio of NABIL Bank and Nepal SBI bank limited during the period of study from 2070/71 to 2076/77. In NABIL Bank the ratio shows fluctuating trend. The average ratio of NABIL Bank is 7.93% during the study period. The ratio is the highest of 12.40% in fiscal year 2071/72, where as it is lowest of 3.80% in fiscal year 2075/76. In case o f Nepal SBI bank the ratio shows fluctuating trend. The average ratio of Nepal SBI bank is 7.25% during the study period. The ratio is the highest of 9.86% in fiscal year 2072/73, where as it is the lowest of 3.47% in fiscal year 2074/75. The standard deviation of NABIL bank is 3.1430% and Nepal SBI bank is 2.4223%. The CV of NABIL bank is 0.3968 and Nepal SBI bank 0.3341.

NRB balance to total deposit ratio of NABIL Bank is higher than that of Nepal SBI bank. The average ratio of NABIL Bank of 7.92% is more than that of Nepal SBI bank of 7.25%. On the basis of SD Nepal SBI bank is better than NABIL bank due to lower SD. Similarly, Nepal SBI bank is good performer due to lowest CV.

4.1.2 Statistical tool

In this study, the correlation has used to achieve the objectives of the study.

Correlation

Correlation analysis is a statistical method used to evaluate the relationship between two or more relationship with each other, while a weak correlation means that two or more variables are hardly related. Correlation coefficients between each of the variables are computed to determine any kind of association. The study has used bank specific variables to analyze the banks' profitability. Pearson correlation coefficient is a measure of linear association between two variables. Hence, this section attempts to explain the relationship among the bank profitability and variables using Pearson correlation coefficient during sample periods. Table no. 4.7 presents the value of bivariate Pearson correlation coefficient between different variables with ROA and ROE of sample banks during the study period.

Table 4.8

Correlation matrix of dependent and independent variables

	ROA	ROE	Operating expenses	liquidity	Bank size	Capital
ROA	1					
ROE	0.488	1				
Operating expenses	-0.457	-0.856*	1			
Liquidity	0.629	0.21	0.036	1		
Bank size	-0.165	-0.868*	0.781*	0.161	1	
Capital	0.309	-0.677	0.576	0.303	0.814*	1

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

Table no.4.8 shows that the bivariate Pearson correlation coefficient between different pairs of variables used in the study for analyzing bank profitability of sample bank during the study period of 2070/71 to 2076/77. ROA indicates return on assets, ROE

refers return on equity, operating expenses indicates operating efficiency ratio, liquidity indicates cash & bank balance to total deposit ratio, bank size is log of total assets, capital indicates capital to total assets ratio. * indicate that correlation is significant at the 5 percent level.

Table 4.8 shows that return on assets (ROA) is negatively related to operating expenses and bank size. ROA is positively related to liquidity and capital. Among all the variables liquidity has stronger positive relation with ROA. Similarly return on equity (ROE) is negatively related to operating expenses, bank size and capital. ROE is positively related to liquidity. There is a significant relationship between ROE with operating expenses and bank size at 5 percent level of significance. Among all the variables bank size reveals stronger negative relation with ROE.

4.2 Major findings

The earlier chapter have discussed and explored the facts matters are required for the various parts of the study. Analytical part, which is the heart of the study, makes an analysis of various aspects of the commercial banks in Nepal by using some important financial as well as statistical tools. Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding issues and gap of the study and give suggestions for further improvement. The main findings are:

I. Operating profit margin of NABIL and Nepal SBI both bank are fluctuating trend during the study period. The highest operating profit margin of NABIL bank is 57.47% in fiscal year 2072/73 and lowest is 27.28% in fiscal year 2076/77 in fiscal year where as highest operating profit margin of Nepal SBI bank is 42.01% in fiscal year 2072/73 and lowest is 17.50% in fiscal year 2076/77. The standard deviation of NABIL bank is 11.2722% and Nepal SBI bank is 7.9326% . The CV of NABIL bank is 0.2581 and Nepal SBI bank is 0.2654.On the basis of average margin NABIL bank has performed better than Nepal SBI bank because average operating profit margin for NABIL bank is 43.68% while for Nepal SBI bank it is 29.89%. Similarly, on the basis of standard deviation Nepal SBI bank is better performer due to lowest standard deviation. However, NABIL bank is best performer due to lowest CV. Lowest CV indicates the lower risk per rupee.

II. Net profit margin of NABIL and Nepal SBI bank both are fluctuating trend during the study period. The highest net profit margin of NABIL bank is 37.35% in fiscal year 2073/74 and lowest is 18.55% in fiscal year 2076/77 where as highest net profit margin of Nepal SBI Bank is 27.17% and lowest is 12.23% in fiscal year 2076/77. The standard deviation of NABIL bank is 7.1858% and Nepal SBI bank is 4.6059% . The CV of NABIL bank is 0.2356 and Nepal SBI bank is 0.2268. NABIL Bank has performed better than Nepal SBI bank from the view point of average net profit margin because average net profit of NABIL Bank is 30.50% while for Nepal SBI bank it is 20.30%. On the basis of standard deviation Nepal SBI bank performed better due to lower standard deviation. Similarly, Nepal SBI bank performed better than NABIL bank due to lowest CV.

III. Return on assets of NABIL bank and Nepal SBI bank both are fluctuating trend during the study period. The highest ratio calculated is 2.66% for fiscal year 2070/71 and lowest ratio is 1.63% for the fiscal year 2076/77. The ratio is highest of 1.97% in fiscal year 2074/75, where as it is lowest of 1.17% in fiscal year 2076/77. The standard deviation of NABIL bank is 0.4519% and Nepal SBI bank is 0.2814%. The CV of NABIL bank is 0.2063 and Nepal SBI bank is 0.1695. NABIL Bank has performed better than Nepal SBI bank from the view point of average return because average return of NABIL Bank is 2.19% while Nepal SBI bank is 1.66%. On the basis of standard deviation Nepal SBI bank performed better than NABIL bank due to lower SD. However, Nepal SBI bank performed best due to lowest CV.

IV. Return on equity of NABIL Bank and Nepal SBI Bank both are fluctuating trend during the study period. The highest return on equity of NABIL Bank is 30.36% in fiscal year 2070/71 and lowest is 13.39% in fiscal year 2076/77 where as the highest return on equity of Nepal SBI Bank is 20.35% in fiscal year 2070/71 and lowest is 10.44% in fiscal year 2076/77. The standard deviation of NABIL bank is 5.5294% and Nepal SBI bank is 3.4032%. The CV of NABIL bank is 0.2523 and Nepal SBI bank is 0.2065. NABIL bank limited has performed better than Nepal SBI bank from the view point of average return because average return of NABIL Bank is 21.91% while Nepal SBI bank is 16.48%. On the basis of SD Nepal SBI bank is better than NABIL bank due to lower SD. However, Nepal SBI bank is better performer due to lowest CV.

V. Operating efficiency ratio of NABIL bank and Nepal SBI both banks ratio show fluctuating trend during the study period. The average ratio of NABIL bank is 28.39% during the study period. The ratio is highest of 34.79% in F/Y 2076/77, where as it is lowest of 23.28% in F/Y 2070/71. In case of Nepal SBI bank, the average ratio of Nepal SBI bank is 41.68% during the study period. The ratio is highest of 51.66% in F/Y 2076/77, where as it is lowest of 34.94 in F/Y 2072/73. The SD of NABIL bank is 4.0171% and Nepal SBI bank is 5.4%. The CV of NABIL bank is 0.1414 and Nepal SBI bank is 0.1296.The NABIL bank performed better than Nepal SBI bank in term of average operating efficiency because average operating efficiency ratio of NABIL bank is 28.39% while Nepal SBI bank is 41.68%. On the basis of SD NABIL bank performed better than Nepal SBI bank due to lower SD. However, Nepal SBI bank performed best due to lowest CV.

VI. Cash and bank balance to total deposit ratio of NABIL Bank and Nepal SBI Bank both are fluctuating trend during the study period. The highest cash and bank balance to total deposit ratio of NABIL Bank is 7.66% in fiscal year 2075/76 and lowest is 1.38% in fiscal year 2073/74 where as the highest cash and bank balance to total deposit ratio of Nepal SBI Bank is 8.42% in fiscal year 2074/75 and lowest is 1.37% in fiscal year 2076/77. The standard deviation of NABIL bank is 2.5012% and Nepal SBI bank is 2.3201%. The CV of NABIL bank is 0.7719 and Nepal SBI bank is 0.6884. Cash and bank balance to total deposit ratio Nepal SBI bank is higher than that of NABIL Bank. The average ratio of Nepal SBI bank of 3.37% is more than that of NABIL Bank of 3.24%. Similarly, on the basis of SD Nepal SBI bank is better than NABIL bank. On the basis of CV Nepal SBI bank is better due to lower CV. On the basis of cash and bank balance to total deposit ratio Nepal SBI bank limited is better than NABIL Bank which shows that Nepal SBI bank has better liquidity position.

VII. NRB balance to total deposit ratio of NABIL Bank and Nepal SBI Bank both are fluctuating trend during the study period. The highest NRB balance to total deposit ratio of NABIL Bank is 12.40% in fiscal year 2071/72 and lowest is 3.80% in fiscal year 2075/76 where as the highest NRB balance to total deposit ratio of Nepal SBI bank is 9.86% in fiscal year 2072/73 and lowest is 3.47% in fiscal year 2074/75. The standard deviation of NABIL bank is 3.1430% and Nepal

SBI bank is 2.4223%. The CV of NABIL bank is 0.3968 and Nepal SBI bank 0.3341. NRB balance to total deposit ratio of NABIL Bank is higher than that of Nepal SBI bank. The average ratio of NABIL Bank of 7.92% is more than that of Nepal SBI bank of 7.25%. On the basis of SD Nepal SBI bank is better than NABIL bank due to lower SD. Similarly, Nepal SBI bank is good performer due to lowest CV.

VIII. Return on assets (ROA) is negatively related to operating expenses and bank size. ROA is positively related to liquidity and capital. Among all the variables liquidity has stronger positive relation with ROA. Similarly return on equity (ROE) is negatively related to operating expenses, bank size and capital. ROE is positively related to liquidity. There is a significant relationship between ROE with operating expenses and bank size at 5 percent level of significance. Among all the variables bank size reveals stronger negative relation with ROE.

4.3 Discussions

This research attempts to analyze the profitability position of selected commercial bank. Profitability ratio of this study shows that NABIL bank is higher in term of average net profit margin than Nepal SBI bank which gives the strength of the bank. It is consistent in with the previous studies of profitability analysis. The previous study shows the positive and negative correlation between the dependent and independent variables however this study shows negative correlation between the variables.

Obamayi (2013) concluded that the relationship between profitability and capital was positive and statistically significant. Bank size has a negative but statistically significant effect on banks profitability. Expenses management has negative and significant effect on banks' profitability. Bhattarai (2017) stated that bank size has significant positive effect on bank profitability (ROA, ROE). Lan & Cong (2020) found that firm size has a positive impact on ROA and opposite effect on ROE. Liquidity has positive effect on both ROA and ROE. This study shows that operating expenses and bank size have negative relation with ROA. Liquidity and capital have positive relation with ROA. Operating expenses, bank size and capital have negative effect on ROE. Liquidity has positive impact on ROE. An increases in any type of operating expenses lower the profit.

All the data used in this study are secondary data published by and collected from the annual reports of respective banks website. The data gathered for this purpose are presented in tables and graphs.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

A strong and sound financial system is essential to mobilized financial resources for the economic development of a nation. The economic development of any country is always measured by the economic indicators. Therefore, every country has given emphasis on the development of the economy and financial institutions are viewed as catalyst in the process of economic growth. Financial policies of any concern are directly or indirectly influenced by its profitability. Therefore, the research studies about the comparative study on profitability of NABIL Bank and Nepal SBI Bank limited.

As banking sector plays an important role in the economic development of the country, financial institutions like commercial banks are necessary to collect scattered saving and put them into productive channels. Commercial banks today are under great pressure to meet the objectives of their stockholders, employees, depositors and borrowing customers while somehow keeping government regulations at bay. The majority of these stakeholders are related with the profitability of the banks. Thus, the foremost objective of the commercial bank is profit maximization. Profitability analysis is performed for financial decision. Profit being the main financial indicator of a commercial bank is essential to raise the market price of share and to attract additional capital investment.

The present study attempts to examine the profitability position of selected Nepalese commercial bank namely NABIL Bank and Nepal SBI Bank limited. The specific objectives of the study are: (a) to identify the determinants of profitability of selected commercial bank, (b) to analyze the trend of profitability of selected commercial banks, (c) to examine the relationship of profitability with its determinants.

For the study, the profitability of NABIL Bank and Nepal SBI bank have been analyzed as on sampling for one is first joint venture bank of Nepal and sole principal agent bank in Nepal of Western Union financial services and another is also the first Indo-Nepal joint venture in the financial sector sponsored by three institutional

promoters namely State Bank of India, Employee Provident Fund and Agriculture Development Bank limited. The sampling is done to gain objective with the wider range of commercial banks in Nepal. The study in the context is mainly focused on the financial performance of these banks in terms of profitability. The profitability analysis of the banks had done on the basis of their financial statements from the fiscal year 2070/71 to 2076/77. The study is mainly based on secondary data. The available data have been analyzed according to the need to portray the overall financial performance of commercial banks. This study is descriptive as well as analytical one. The data are analyzed with the help of financial tools and statistical tools. The data has presented in tabular as well as graphical form that can be easily interpreted and understood.

The findings of this study show that average operating profit margin, net profit margin, ROA, ROE and NRB balance to total deposit ratio of NABIL Bank is higher than that of Nepal SBI Bank. Operating efficiency ratio and cash and bank balance to total deposit ratio of Nepal SBI Bank is higher than that of NABIL bank. However, Nepal SBI bank has lower CV. Return on assets (ROA) is negatively related to operating expenses and bank size. ROA is positively related to liquidity and capital. Among all the variables liquidity has stronger positive relation with ROA. Similarly return on equity (ROE) is negatively related to operating expenses, bank size and capital. ROE is positively related to liquidity. There is a significant relationship between ROE with operating expenses and bank size at 5 percent level of significance. Among all the variables bank size reveals stronger negative relation with ROE. Nepal SBI bank should control cost and expenses associated with bank operations to increases the profit. Management of Nepal SBI bank should utilize their assets effectively to generate more profit. NABIL Bank has recommended to increases its cash and bank balance to fulfill demand of its depositors and NABIL bank should hold more cash and bank balance to create new investment opportunities.

5.2 Conclusions

The study analyzed profitability position of selected commercial banks. Some of the financial and statistical tools are used to analyze the profitability position. The profitability ratio shows the profitability position of firm. The ratios measure the operating efficiency of the company. Average operating profit margin, net profit

margin, ROA, and ROE of NABIL Bank is higher than Nepal SBI Bank which indicates that the NABIL Bank is generating more profit in comparison to Nepal SBI Bank. Higher level of profit will generally increase the profitability position. Higher level of ROA ratio shows the higher profitability position of the banks that gives the strength of the bank. ROA of NABIL bank indicates that the management of NABIL bank is effectively utilizing all the assets of the bank for profit generation. ROE ratio of NABIL Bank is higher than Nepal SBI Bank which indicates that NABIL bank getting more returns on the investment made by owner of the bank. NABIL Bank ROE ratio reflects that the future investment is good and prospective investor will get attraction. NABIL bank lower level of operating efficiency ratio indicates that a bank is operating better. However, SBI bank performed better than NABIL bank due to lowest CV.

Cash and bank balance to total deposit ratio of Nepal SBI Bank is higher than that of NABIL Bank. Higher ratio shows the higher liquidity position of the banks that gives more useful for new investment opportunity. Nepal SBI Bank is holding more cash and bank balance against total deposit amount than that of NABIL Bank which indicates Nepal SBI bank has better liquidity position. NRB balance to total deposit ratio of NABIL Bank is higher than that of Nepal SBI bank which indicates the amount deposited in NRB by NABIL Bank is more than Nepal SBI bank. However, CV of Nepal SBI bank is lower than NABIL bank which indicates that Nepal SBI bank is more consistent in liquidity position.

Return on assets (ROA) is negatively related to operating expenses and bank size. ROA is positively related to liquidity and capital. Among all the variables liquidity has stronger positive relation with ROA. Similarly return on equity (ROE) is negatively related to operating expenses, bank size and capital. ROE is positively related to liquidity. There is a significant relationship between ROE with operating expenses and bank size at 5 percent level of significance. Among all the variables bank size reveals stronger negative relation with ROE.

5.3 Implications

On the basis of analysis and findings the following possible implications can be made:

i. Average operating profit margin, net profit margin, ROA, ROE of Nepal SBI bank is lower than NABIL bank. Nepal SBI bank should control cost and expenses associated with bank operations to increases the profit. Management of Nepal SBI bank should utilize their assets effectively to generate more profit. To attract future prospective investor Nepal SBI bank should generate more returns on the investment made by owner of bank.

ii. Cash and bank balance hold by Nepal SBI bank is higher than NABIL bank. NABIL Bank has recommended to increases its cash and bank balance to fulfill demand of its depositors and NABIL bank should hold more cash and bank balance to create new investment opportunities.

iii. In comparison to NABIL bank, performance of the Nepal SBI bank during the study period has seen as lower riskier. Two banks have mostly similar ratios and as they have low returns from assets, it is highly suggested for two banks for better utilization of assets to exist in this competitive market.

iv. Two banks are advised to adapt cost management strategy to have control over its cost of funding as cost management strategy is an ideal strategy to reduce various costs and increase profitability.

v. Nepal SBI Bank covers most of the urban region but is a rare business identity on the rural areas. These areas missed out by the firm are a huge opportunity loss.

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Appendix I

Operating profit margin

FY	NABIL			SBI		
	Operating profit	Total revenue	Operating profit margin	Operating profit	Total revenue	Operating profit margin
2070/71	3549363372	6897795233	51.46%	1358469532	4622147113	29.39%
2071/72	3235924937	6995562324	46.26%	1630332826	4588840832	35.53%
2072/73	4344447596	7559328400	57.47%	2059235045	4901513740	42.01%
2073/74	5464678241	9674767669	56.48%	2339982324	7066609786	33.11%
2074/75	5652961500	13356741380	42.32%	2761672771	10259036440	26.92%
2075/76	6026650782	17477797690	34.48%	3123892733	12596005460	24.80%
2076/77	5093065383	18666639070	27.28%	2207607242	12614298250	17.50%
Mean			43.68%			29.89%

Sources:annual report of Nabil and Nepal SBI bank

Appendix II

Net profit margin

FY	NABIL			SBI		
	Net profit	Total revenue	Net profit margin	Net profit	Total revenue	Net profit margin
2070/71	2319557472	6897795233	36.33%	922984007	4622147113	19.97%
2071/72	2093813608	6995562324	29.93%	1065436141	4588840832	23.22%
2072/73	2819333752	7559328400	37.30%	1331881801	4901513740	27.17%
2073/74	3613200322	9674767669	37.35%	1523237401	7066609786	21.56%
2074/75	3981892950	13356741380	29.81%	2023511124	10259036440	19.72%
2075/76	4238853581	17477797690	24.25%	2292524396	12596005460	18.20%
2076/77	3463240822	18666639070	18.55%	1543348770	12614298250	12.23%
Mean			30.50%			20.30%

sources:annual report of Nabil and Nepal SBI bank limited

Appendix III

Return on assets

FY	NABIL			SBI		
	Net profit	Total assets	Ratio	Net profit	Total assets	Ratio
2070/71	2319557472	87274545920	2.66%	922984007	61082972355	1.51%
2071/72	2093813608	115985701411	1.81%	1065436141	59277290453	1.80%
2072/73	2819333752	127300195373	2.21%	1331881801	78515345284	1.70%
2073/74	3613200322	140332060182	2.57%	1523237401	99751765474	1.53%
2074/75	3981892950	169076096297	2.36%	2023511124	102538669895	1.97%
2075/76	4238853581	201138821464	2.11%	2292524396	118314225860	1.94%
2076/77	3463240822	211824371003	1.63%	1543348770	132145861578	1.17%
Mean			2.19%			1.66%

Sources: annual report of Nabil and Nepal SBI bank.

Appendix IV

Return on equity ratio

FY	NABIL			SBI		
	Net profit	Total shareholder's equity	Ratio	Net profit	Total shareholder's equity	Ratio
2070/71	2319557472	7640986496	30.36%	922984007	4535798670	20.35%
2071/72	2093813608	9485591487	22.07%	1065436141	5645914521	18.87%
2072/73	2819333752	11595025720	24.32%	1331881801	6920462451	19.25%
2073/74	3613200322	14094834780	25.63%	1523237401	10539742841	14.45%
2074/75	3981892950	20586357305	19.34%	2023511124	12801103793	15.81%
2075/76	4238853581	23188612393	18.28%	2292524396	14154449362	16.20%
2076/77	3463240822	25855658567	13.39%	1543348770	14781851324	10.44%
Mean			21.91%			16.48%

Sources: annual report of Nabil and Nepal SBI bank

Appendix VI

Cash & bank balance to total deposit ratio

FY	NABIL			SBI		
	Cash & bank balance	**Total deposits**	**Ratio**	**Cash & bank balance**	**Total deposits**	**Ratio**
2070/71	1468154377	75388790862	1.95%	1527028783	54492993606	2.80%
2071/72	1820201446	104237910083	1.75%	1753912290	51628221954	3.40%
2072/73	1640632219	110267271749	1.49%	1799377270	65213519724	2.76%
2073/74	1637483131	118896156802	1.38%	1637483131	80818815835	2.03%
2074/75	7952350362	134810669677	5.90%	2374354666	84227327384	2.82%s
2075/76	12479697526	162953999572	7.66%	8243366584	97924444003	8.42%
2076/77	4799629907	190806469972	2.52%	1511151966	110445872817	1.37%
Mean			3.24%			3.37%

Sources: annual report of Nabil and Nepal SBI bank

Appendix VII

NRB balance to total deposit ratio

FY	NABIL			SBI		
	Balance with NRB	**Total deposits**	**Ratio**	**Balance with NRB**	**Total deposits**	**Ratio**
2070/71	7068078842	75388790862	9.38%	3890989164	54492993606	7.14%
2071/72	12924604257	104237910083	12.40%	4662434374	51628221954	9.03%
2072/73	5826016495	110267271749	5.28%	6428009789	65213519724	9.86%
2073/74	10274403004	118896156802	8.64%	3932112099	80818815835	4.87%
2074/75	7372284966	134810669677	5.47%	2923436076	84227327384	3.47%
2075/76	6191827829	162953999572	3.80%	9309360793	97924444003	9.51%
2076/77	20021031281	190806469972	10.49%	7580527039	110445872817	6.86%
Mean			7.92%			7.25%

Sources: annual report of Nabil and Nepal SBI bank