

PROFITABILITY ANALYSIS FOR NEPALESE COMMERCIAL BANKS

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

by

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CERTIFICATION OF AUTHORSHIP

I hereby certify that I am the author of this document and that any assistance I received in its preparation is fully acknowledged and disclosed in the document. I have also cited all sources from which I obtained data, ideas or words that are copied directly or paraphrased in the document. Sources are properly credited according to accepted standards for professional publications. I also certify that this research project report was prepared by me for the purpose of partial fulfillment of requirements for the MBS degree of Faculty of Management, Tribhuvan University

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REPORT OF RESEARCH COMMITTEE

Mr. Pawan Sapkota has defended research proposal entitled “**Profitability analysis for Nepalese commercial banks**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Associate Professor. Dr. Achyut Gyawali and submit the thesis for evaluation and viva voce examination.

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We, the undersigned, certify that we have carefully read the research project report submitted by **Pawan Sapkota** and conducted the viva-voce examination of the candidate. We are fully satisfied with the quality and academic standard of the research project report. The candidate has defended his research work very satisfactorily. We therefore recommend that the research project entitled **“Profitability Analysis For Nepalese Commercial Banks”** be accepted as partial fulfillment of the requirements for the award of the degree of **Master of Business Studies (MBS)** of Tribhuvan University.

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ABSTRACT

The financial system of Nepal is dominated by the commercial banks. A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiency allocating resources and makes easy the trade of goods and services. The major objectives of the study is to examine the impact of independent variables on the performance of the commercial bank in Nepal. The return on assets (ROA), return on equity (ROE), and net interest margin (NM) are the dependent variables which have been used to measure the profitability situation of the banks taken under the study. The variables like market capitalization, liquidity management, leverage and operating expense have been used as independent variables in this study. The result indicated that there is a positive relationship between operating expense and net interest margin. This indicates that higher the operating expense, higher would be the net interest margin. There is also a negative relationship between leverage and net interest margin. This indicates that higher leverage, lower would be the net interest margin. Similarly there is also negative relation between liquidity and net interest margin. Likewise, market capitalization has a positive relationship with net interest margin. The result shows that there is positive relationship between gross domestic product and inflation with net interest margin.

The study observed that there is a positive relationship between operating expense, return on equity and return on assets. It indicates that higher the operating expense, higher would be the return on equity & return on assets. The results shows that market capitalization positively related to return on assets and return on equity. It indicates that higher the market capitalization, higher would be the return on assets and return on equity. Similarly, leverage and liquidity management is negatively related to return on assets and return on equity. This indicated that higher the leverage lower would be the return on assets and return on equity and higher the liquidity management, lower would be the return on assets and return on equity. The major conclusion of the study is that performance of Nepalese commercial banks in highly influenced by liquidity. This indicates that higher the liquidity, higher the more capable the commercial bank on paying its obligations and has more investment opportunities.

ABBREVIATIONS

ADBL	: Agriculture Development Bank Limited
CBS	: Central Bureau of Statistics
CCBL	: Century Commercial Bank Limited
CRR	: Cash Return Ratio
EBIL	: Emirates Bank International Limited
EBL	: Everest Bank Limited
GDP	: Gross Domestic Product
GIBL	: Global IME Bank Limited
HBL	: Himalayan Bank Limited
JVB	: Joint Venture Bank
KBL	: Kumari Bank Limited
LBL	: Laxmi Bank Limited
MOF	: Ministry of Finance
NABIL	: Nabil Bank Limited
NBL	: Nepal Bank Limited
NIBL	: Nepal Investment Bank Limited
NPL	: Non-performing Loan
NRB	: Nepal Rastra Bank
RAROC	: Risk Adjusted Return on Capital
ROA	: Return on Assets
ROE	: Return on Equity
SCBL	: Standard Chartered Bank Limited
TU	: Tribhuvan University