PROFITABILITY ANALYSIS OF COMMERCIAL BANKS IN NEPAL

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

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"PROFITABILITY ANALYSIS OF COMMERCIAL BANKS IN NEPAL".** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Report of Research Committee

Mr Manoj Prasad Bhatt has defined research proposal entitled **"PROFITABILITY ANALYSIS OF COMMERCIAL BANKS IN NEPAL"** 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 **Lecturer Santosh Kumar Ghimire** and submit the thesis for evaluation and Viva voce examination.

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Approval Sheet

We have examined the dissertation entitled **"PROFITABILITY ANALYSIS OF COMMERCIAL BANKS IN NEPAL "**Presented by **Manoj Prasad Bhatt** for the degree of **Master of Business Studies (MBS).** We hereby certify that the dissertation is acceptable for the award of degree.

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ABSTRACT

Profit maximization is one of most important objectives of commercial banks because survive and face competition in competitive business environment at long term.This study examines the profitability analysis of selected commercial banks in Nepal. In order to investigate the profitability analysis, 5 commercial banks have been taken as sample covering the period of time 2016/ 17 to 2020/ 2021. Data are collected from annual report of the selected commercial banks.

In the study, the researcher used various types of tools for data analysis, trend analysis, descriptive analysis, correlations and regression analysis. Profit is dependent variable while, bank capital, deposit; lending, size and CAR are independent variables. The research study show the positive relationship of return on assets with BD and CAR where as negative with BC, BL and BS but. ROE have negative relationship with BC, BL, BS and CAR but positive with BD. It is the evident from the finding that profit of Nepalese commercial bank are strongly affected by the bank capital, deposit, lending, size and capital adequacy ratio.

Keywords: ROA, ROE, CAR, Bank Capital, Deposit, Lending, Size.

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ABBREVIATIONS

ATM	Automated Teller Machine
BAFIA	Bank and Financial Institutions Act
BC	Bank Capital
BD	Bank Deposit
BFIs	Bank and Financial Institutions
BL	Bank Lending
BS	Bank Size
CAR	Capital Adequacy Ratio
CDM	Central Department of Management
FY	Fiscal Year
LN	Natural Log
Ltd.	Limited
NRB	Nepal Rastra Bank
Pvt.	Private
ROA	Return on Assets
ROE	Return on Equity
S.D.	Standard Deviation
T.U.	Tribhuvan University

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The development of the national economy is regarded as being supported by the bank. It is a financial organization that facilitates the exchange of funds by taking various deposit types, disbursing loans, and providing other financial services. According to bank history, an institutional banking system didn't exist in Nepal until the 19th century, but before then, it's important to understand the definition of a financial institution and how banks came to be. In general, the term "financial institution" refers to a company that provides financing for trade, business, and industry. A financial entity that deals with monetary transactions is a bank.

The word “bank” is derived from the Latin word “Bancus” or the French word “Banque” and the Italian word “Bancus” which mean a “Bench”. During those days the bankers used to do their banking business sitting on a bench in the market.The bank's beginnings began in Italy. The banker makes money by accepting other people's debts and offering them to him in exchange. The bank's standard banking operations include charging cash for bank deposits and bank deposits for cash, transferring bank deposits from one person or firm to another, exchanging bank deposits for checks, government bonds, and secured or unsecured repayment obligations from businesspeople.

A bank is a type of financial institution that has a big impact on how a nation develops. It promotes the development of business, industry, and trade, all of which can strengthen the country's economy. The collection of household savings from various economic sectors is primarily the responsibility of the banking sector. Even the most remote regions of the nation are now serviced by the banking industry, which has significantly boosted the expansion of the national economy. The banks have helped the economy flourish by investing their capital in small-scale businesses through extensive financing programs (Van Horne,2000).

In a broad sense, a bank is a significant financial institution that gathers and protects the public's finances, distributes them for beneficial uses, transfers cash, and ensures the exchange of currency. Given that banks offer a wide range of services to people from all walks of life and have grown to be an integral element of contemporary society. In fact, a modern bank performs so many different tasks that it is challenging to provide a clear and comprehensive definition of it. This is the reason why many economists have provided various definitions of it. A bank is a business that advances money to people as needed while ensuring their safety, and to which people entrust their money when it is not needed for immediate use.

A bank gathers funds from those with extra cash or who are saving it from their wages and lends it to others in need. The banking sector has taken on a significant role in attracting resources for financing and for the nation's socioeconomic growth. Financing is the most crucial function to the economy and its component parts. Banks support both the transfer of products and services from producers to consumers as well as the government's financial operations.

An important component of the financial system that makes loans to sustain and boost the level of consumption and production in the economy is banking, which gives a nation's monetary system of payment. A strong banking system is essential for the economy because of the fundamental roles it plays in intermediation, maturity transformation, enabling payment flows, credit allocation, and upholding borrowers' financial discipline. By allowing savings to be used outside of the sector from which they came, banks can promote prudence and allocation of funds. Banks are the principal providers of payment services, a hub for the execution of monetary policy, and the center of economic and financial activity in any economy, regardless of how well established or how underdeveloped its financial markets are.

It is believed that banks, which are a need and a major source of national wealth, must be kept in constant fear, just as good banks are necessary for the nation's industry and trade. As a result, the importance of banking as the driving force behind economic development cannot be overstated.. Finance industry in Nepal basically consists of two components, banking sector and non-banking sector. The banking sector includes commercial banks while co-operatives, Grameen Banks, Development Banks, Finance Companies and NGO’s make up non-banking sector. Commercial banks make up the banking sector of the Nepalese financial system. Commercial banks play a crucial role in economic development of every nation, and their significance and role are well above average. They are viewed as the core of the financial system because they hold deposits from numerous people, businesses, and government agencies, and because they lend and invest money to borrowers who are individuals, businesses, and government agencies. It keeps diverse economic sectors confident and gives people credit (Argent,1968).

The amount of financial institutions has dramatically increased during the past 25 years. Following the implementation of economic emancipation policy, in particular the liberalization of the financial sector, new banks and non-banking financial institutions were encouraged to be established. The foundation for financial planning, analysis, and decision-making is financial information. To forecast, contrast, and analyze the firm's earning potential, financial data is required. It is essential for supporting economic judgment. The financial statements or accounting reports of an organization contain its financial information.

1.1.1 Profit and Profitability

Generally speaking, profit is the difference between revenue and expense. To put it another way, profit is the remaining income, which is equal to the sales proceeds less the cost. In other words, profit is what remains after costs are deducted from sale revenues. Profit is the money left over for the company to use for future growth and expansion or as a reward to be given to the entrepreneur in the form of dividends or something similar. Profit, to put it simply, is the remaining earnings that are anticipated to be accessible to the company after all expenses, fees, charges, and provisions have been subtracted from the total revenue for a given period of time. Every company organization needs to turn a profit in order to endure and develop over time. The key indicator of a business's success is profit.

The ability of a business to use its resources to produce more money than it spends defines profitability. In other words, this refers to a business's ability to make money off of its operations. One of the four pillars for evaluating financial statements and overall company success is profitability. The other three are market prospects, solvency, and effectiveness. These fundamental ideas are used by creditors, managers, and investors to assess a company's performance and potential for growth in the future.

Revenues and expenses are the two main components of profitability. The income of a business is its revenues. This is the revenue generated by selling goods or rendering services to clients. But earning money doesn't come for free. In order to create these goods and offer these services, businesses must employ their resources. Payroll for employees, rent, utilities, and other production-related costs are covered by resources, such as cash. In order to determine how well a firm is functioning and what potential growth it may have in the future, profitability examines the relationship between revenues and expenses.

Like all businesses, banks make money when their revenue exceeds their outgoing costs. The fees a bank charges for its services and the interest it makes on its assets account for the lion's share of its profits. Interest on its liabilities is its main outlay. A bank's primary assets are its loans to people, companies, and other organizations, as well as the securities it owns. In contrast, its primary liabilities are its deposits and the money it borrows, either from other banks or by purchasing commercial paper in the money market.

Profitability is significant in banks for the reasons listed below.

i. To keep the capital fund required as per Nepal Rastra Bank regulations.
ii. Banks need to be profitable in order to last and expand over the long term.
iii. Because shareholders spent their hard-earned money in the hope of a return, profitability serves to please them.
iv. To pay the depositors interest.
v. To release the deposit and invest in various sectors.
vi. To know the situation of nonperforming assets and nonperforming loan.
vii. For dealing with transaction of foreign exchange.

1.1.2 Introduction of Commercial

Bank often refers to a commercial bank. A commercial bank is a bank that serves the general public in the banking industry. Commercial banks are those financial institutions that help a country's industry, commerce, and trade grow and operate. The primary goal of commercial banks is to generate profits. In Nepal, Nepal Bank Limited is the first commercial bank established in B.S 1994. In Nepal, commercial banks kept in 'A' class categories. Nepal Rastra Bank regulated to commercial banks.

Commercial banks provide short term and mid term loan to public. In Nepal, there are 27 commercial banks operates financial transactions. Commercial banks play significant role of economic develop of a nation. It works as a bridge between selling and productions. It has different types of function i.e. accept deposit, loan provide, foreign exchange, open L/C and agent function etc. Commercial banks invest public deposit on productive sector whose give maximum return. Profit maximization is the main goal of Nepalese commercial banks and it is the main financial indicator of business entity (Wagle & Dahal, 2004). Brief introduction of sample commercial banks are as follows.

Agriculture Development Bank Ltd (ADBL)

Agriculture Development Bank Limited (ADBL) is an autonomous organization largely owned by government of Nepal. The bank established in 21 January 1968, has completed glorious 54 year of its service. Thus ADBL operates as an "A" category financial institution under the legal framework of BAFIA and the company act act. The bank has a 51 percent share of the government of Nepal and 49 percent of the general public. The slogan of bank is "Sampurna Banking Suvidha Sahitko Tapai Hamro Ghar Aanganko Bank " The bank has been working as a premier rural credit institution since the last three decades contributing a more than 67 percent of institutional credit supply in the country. Hence, rural finance is the principal operational area of ADBL. Besides it has also been executive Small Farmer Development Program (SFDP). Bank has also been involved in commercial banking operations since 1984. It provides deposit facility, various loan facility advance ABBS service, Internet banking along with the ATM. Agriculture Development Bank operates all over the 7 provinces and 77 district of the nation with its 278 offices and 73 ATM. ADBLNPKA is the swift code.

Global IME Bank Ltd (GIBL)

Global IME Bank Limited emerged after successful merger of Global Bank Ltd (an “A” class commercial bank), IME Financial Institution (a “C” class finance company) and Lord Buddha Finance Ltd (a “C” class finance company) in year 2012. Two more development banks (Social

Development Bank and Gulmi Bikas Bank) merged with Global IME Bank Ltd in year 2013. Later, in the year 2014, Global IME Bank Ltd made another merger with Commerz and Trust Bank Nepal Ltd (an “A” class commercial bank). During 2015-16, Global IME Bank Limited acquired Pacific Development Bank Limited (a “B” class development bank) and Reliable Development Bank Limited (a “B” class development bank).Janata Bank also merged with Global IME Bank in year 2019.

Global IME Bank Limited was established in 2007 as “A” class commercial bank in Nepal which provided entire commercial banking services. It is in line with the aim of the bank to be “The Bank for All” by giving necessary impetus to the economy through world class banking services.

GIBL has been conferred with “The Bank of the Year Award 2014” for Nepal by the Bankers Magazine (publication of the Financial Times UK) and “Best Internet Bank 2016-Nepal” by International Finance Magazine, London.

The bank has been maintaining harmonious correspondent relationships with above 60 different international banks from various countries to facilitate trade, remittance and other cross border services. Through these correspondents the bank is able to provide services in any major currencies in the world. The bank also maintains its extension offices in India and Middle East to assist in the remittance of funds from overseas Nepalese workers. The bank is now operating 287 branches, 48 extension counters and revenue collection counters spread throughout Nepal. All of bank’s branches have been established as full service outlets that offer a large range of banking services to its customers. The bank also operates 237 ATMs throughout the country strategically placed for the convenience of customers.

Nabil Bank Limited (NBL)

Nabil Bank Limited is an A class commercial bank in Nepal. It established in July 12 1984 with the name of Nepal Arab Bank Limited. It is the first joint venture bank in Nepal. The bank mission is "To be the Bank of 1st choice of all our stockholders." Nabil bank won Global SME finance awards in 2021. Its branch network is 135, 5 extension counters and 185 ATMS locations all over Nepal. It has broad international relationship in banking. Nabil Invest Bank is the subsidiary company of Nabil bank Ltd. NARBNPKA is the swift code Nabil bank.

Himalayan Bank Limited (HBL)

Himalayan bank limited is an A class commercial bank in Nepal. The bank was established in 18 January 1993 with the partnership of Employment Provident Fund and Habib Bank Limited of Pakistan. It provides banking services to its customer through 73 branches, 5 extensions counter and 148 ATMS. "To become the Bank of first choice is the main objective of Bank." It also involves various CSR activities like as free health camp and financial support to patients. HIMANPKA is the swift code of HBL

Siddhartha Bank Limited (SBL)

SBL is an A class commercial bank in Nepal was established in 24 December 2002. It provides banking facilitates to its customers from 189 branches including extension counters and 208 ATMS. It focuses on integrity, innovation and customer centricity.

1.2 Statement of the Problem

Profit is the essence of the commercial banking through the formulation and implementation of lending strategies are most important responsibilities of top level management and other staff. Liquidity management and non-performing loan and asset policies also vital role play for earning profit in commercial banks.

Gautam (2018) founded that positive relation of return on asset with capital adequacy ratio of Nepalese commercial banks. In the competitive business environment every business organizations should be more concerned about factors affecting their financial performance. Bhattrai (2017) concluded that bank size had positive significant effect on commercial banks profitability in Nepal.

Financial sector, which has been correlated with trading and industry, has been adversely affected. Investment in the productive sector has been adversely affected and has been decreasing due to social security and labor problem. Profit is the most for a bank to survive in the competitive market. And traditional profit is possible only if the bank makes proper and safe investment. The increasing situation of non-performing asset and loan also badly effect on commercial bank profit.Global financial crisis of 2007-08 negatively impact of Nepalese commercial banks profitability.

However, recent changes and trends happening in the Nepalese banking sectors, especially the shortage of liquidity, merger& acquisition and decreasing foreign exchange reserve also affect the commercial banks profitability in Nepal. Covid-19 pandemic also impact the business environment and Nepalese economy.

1.2.1 Research Questions

The research questions to be raised for covering the issues of this study are as follows:

i. What is the profitability position and it's determining factors (Bank Capital, Bank Deposit, Bank Lending, Bank Size, CAR, ROA and ROE)of selected commercial banks in Nepal?
ii. Is there any relationship between profitability and its determinants factors of selected commercial banks in Nepal?
iii. Does determining factors impact on profitability of selected commercial banks in Nepal?

1.3 Objectives of the Study

The general objective of this study is to examine the profitability position and its determinants factors of selected commercial banks in Nepal. The specific Objectives of the study are as follows:

i. To assess the profitability position and it's determining factors (Bank Capital, Bank Deposit, Bank Lending, Bank Size, CAR, ROA and ROE) of selected commercial bank in Nepal.
ii. To examine the relationship between profitability and its determinants factors of selected commercial bank in Nepal.
iii. To analyze the determining factors impact on profitability of selected commercial bank in Nepal.

1.4 Rationale of the Study

From the perspective of investors, this study is crucial since they will base their investment decisions in the future on the profitability of the investing banks. I learned through reading a study of the literature in the form of research articles and theses that practically all of them only discuss the profitability analysis of various types of sector banks, including private, public, foreign, cooperative, and combinations of these. I haven't come across any research that goes beyond analyzing profitability to pinpointing the profitability position and its influencing elements of particular Nepalese commercial banks.

One of the important elements in a nation's economic and social development is the mobilization of its own resources. The main players in this industry are financial institutions. The stronger an economy's ability to thrive economically is, the more wholesome its banking practices are. Since profitability determines how successful a bank is, profit is the primary metric. The rate of interest on deposits has significantly increased lately, which has decreased the bank's profit. In this situation, the banks must also manage their operating costs and fund costs.

Numerous studies on the financial performance of Nepalese commercial banks have been conducted, although the most of them have focused on the investment function and financial analysis. The improved application of management techniques and strategies for creating the best course of action to produce remarkable performance in the banking industry is the main emphasis of this study.

i. This study support to examine the profitability position and determining factors of selected commercial banks in Nepal,
ii. This study supports in predicting, comparing and evaluating the earning ability of Nepalese commercial banks,
iii. The profitability analysis of banks is useful to the policy maker to identify the success or failure of banks and to adopt good strategy for success of bank,
iv. This study will be useful for researcher, students and other, who wants to further research in details,

1.5 Limitations of the Study

Following are the some of the limitations of this study:

i. Research is based on secondary data from 2073/74 to 2077/78 collected from respective annual reports of banks. As such, reliability of the data is limited to the fair disclosure of data by the banks in their annual reports.
ii. Statistical tools used in the data analysis to draw inferences are prone to their inherent limitations considering sample size of the study.
iii. The study includes samples drawn from the five commercial banks out of the 27 which may not be sufficient to draw inferences about the whole population sample.
iv. Other determinants of bank's profitability mainly macroeconomic factors have not been incorporated in the study.
v. Only profitability aspect of banks is carried under this research. Liquidity aspect of the bank and its impact on profitability has not been pursued.

1.6 Chapter Plan

An outline known as a chapter plan aids in the clear organization of the material. It can be a very helpful tool for aiding in the identification of the chapter's important ideas. Except for the introduction, references, and appendix, the report will be organized into five chapters. The title page, approval page, acknowledgement, table of contents, list of tables and list of figures, acronyms, and abstract are all included in the preliminary section.

Chapter 1: Introduction

The study area and a concept remark regarding the research challenge are included in the first chapter. It covers the background of the study, a problem statement, the study's purpose, its justification, its limitations, and its chapter plan.

Chapter 2: Literature Review

The second chapter deals with the review of literature. Review of literature includes review of related books, journals, articles, and previous thesis etc.

Chapter 3: Research Methodology

This chapter presented about research methodology, which is used in research study. It includes the introduction, research design, study of population and sampling, nature and sources of data, data collection method and method of data analysis.

Chapter 4: Results and Discussion

This chapter discusses the analysis of pertinent data that has been gathered from a variety of sources. Additionally, it analyzes the data and provides an explanation in line with the study's goals.

Chapter 5: Summary and Conclusion

This final chapter gives a succinct overview of the study's history, research purpose, literature review, methodology, findings, conclusion, and implementation.

CHAPTER II

LITERATURE REVIEW

2.1Introduction

Reviewing the literature entails analyzing research papers or other pertinent arguments in the study's linked field in order to identify all previous studies' limitations and conclusions and perform new research. It is a necessary and essential step in the study process. . A dissertation for an undergraduate or graduate program must include a thorough literature review, which frequently takes up a distinct chapter or a sizable chunk and is typically placed near the start of the final product. It offers the fundamental data needed to support the research topic and develop the study design.

The major goal of reviewing prior research is to learn the findings of studies conducted in fields where similar ideas and techniques have been applied successfully in the past. Additionally, a thorough or exhaustive review process may provide important connections with the various trends and phases in the research in one's field of expertise, familiarizing one with the distinctive perceptions, concepts, and interpretation with the specialized terminology, and providing the justification for understanding one's proposed investigation. In this connection, a review of previous related research projects will help the researcher to formulate a satisfactory structure for the project (Wolf & Pant, 2002).

A review of the literature is an inventory of the sources that are accessible for a particular area of study. The idea of financial analysis, conceptual review, reviews of related studies, empirical review, and research gaps are all included.

2.2Theortical Review

To explain the profits made by business owners, economists have proposed a number of profit theories. The debate regarding the entrepreneur's function is at the center of the majority of hypotheses. Some of the fundamental ideas of profit are briefly explored in the section that follows.

Frictional Theory of Profit

This theory was developed by prof.G.J. Stigler. This idea holds that there is a normal rate of profit, or return on capital, that must be paid to capital owners as compensation for saving and investing their money rather than using up all of their income or hoarding it. According to this hypothesis, economic profit is temporarily lost as a result of frictional components adjusting to the new situation. For instance, during the 1990s spike in oil prices brought on by the US-Iraq conflict, numerous oil refining companies made substantial financial gains.

Monopoly Theory of Profit

Monopoly theory of profit was created by John Robbinson, E.H. Chamberlin, and M. Kalecki. Due to the significant barriers to entry for new businesses, monopoly enterprises can continue to make money even over the long term. Monopoly corporations have complete control over the resources needed to provide a good or service, whether through economies of scale, legal sanction, ownership patents, or government import restrictions.

Innovation theory of Profit

Joseph A. Schumpeter created the innovation hypothesis of profit. According to the innovation theory of profit, entrepreneurs' successful innovations lead to economic profit. Innovation can be split into two categories. The first kinds of innovation are those that lower production costs. The introduction of new and less expensive technology and machines are among the first sorts of innovation. The second category of innovation is one that raises consumer demand for the good. The launch of a new product and a new variety or design of the products is examples of second forms of innovation.

Surplus Theory of Profit

The surplus value, according to Karl Marx's surplus theory of profit, is the difference between the price and the wages (or labor value). It asserts that all productive values, and as a result, the sales value of any good, derive only from the quantity of effort put into its production. It follows that capital and enterprise are not products, only labor is. A residual theory of profits is surplus theory. Marx's theory states that surplus value is the extra value produced by workers over and above the cost of their own labor, which is then seized by the capitalist as profit when goods are sold.

Theory of Risk and Uncertainty Bearing

The theory of taking chances was first created by F.B. Hawley, who came to the conclusion that profit is an entrepreneur's reward for taking risks. Professor F.H. Knight adopted the theory, however, and split risk into insurable and uncertain components. Knight therefore claims that the payoff for an entrepreneur's non-transferable role in assuming non-insurable risk and uncertainties is profit.

2.3 Conceptual Review

Profit and ability are the two words that make up the word "profitability." It speaks to an organization's ability to turn a profit. It is also known as the investment's earning power or earning capacity. Commercial bank profitability analysis has made for excellent academic study courses. A commercial bank is a bank that provides banking services to both businesses and the general public. Maximizing profits is the commercial bank's primary goal. A bank is a business that accepts deposits from various accounts or other forms and gives customers the option to withdraw funds using checks or promissory notes.

Profit is the main indicators of every business organization. The profitability of bank is a course of great interest in bank management, financial market, bank supervision and academics (Pawlowska, 2016).

Bank is an organized institution, which established for doing financial transactions. The goal of the conceptual literature review is to categorize and describe the concepts relevant to the study or topic and outline a relationship between them, including relevant theory and empirical research. Review of conceptual studies on the major concepts and issues relating to banks profitability are as follows.

Structure Conduct Performance (SCP) Hypothesis

According to structure conduct performance (SCP) paradigm, market structure influence firm behavior, which influences performance. It is derived from the neo-classical analysis of market. The SCP model was developed by Bain in 1951 but formalized by Mason in 1939 as the method of identifying markets and firms.

Most early research interpretation for the relationship between the concentration and profitability based on structure- conduct- performance (SCP) hypothesis and focused on the explanation of a positive empirical relationship between concentration and profitability.(Goddard et.al 2004). The, SCP paradigm contend that there is a relationship between degree of market concentration and the degree of competition among firm.

Pawlowska(2016) analyzed the effect of market structure as it relates to profitability, with particular focus on whether banks that are operating in concentrated market create more profit or not.

The Efficient Structure Hypothesis(ESH)

Efficient structure hypothesis was developed by Demsetz in 1973. Efficient structure of hypothesis is a theoretical framework for studying determinants of commercial banks profitability. It implies that increasing concentration that leads to increase profitability. A good concentration – profitability association may imply a positive link between the size and efficiency, according to efficient hypothesis.

Berger& Hannan(1989) observed that banks in more concentrated markets pay lower deposit rates is consistent with the structure conduct performance hypothesis implication although it is not a prediction of the efficient structure hypothesis common form.

Market Structure Theories and Bank Profitability

Market structure theory explains that how different industries are classified and differentiated based on their degree and nature of competition for goods and services. The classical firm theory claimed that a company goal is to maximize profit. In practice this theory is not applicable because different organization has different goal. In the previous research market structure can be divided into two types, they are structure- conduct- performance (SCP) paradigm and the efficient structure hypothesis(ESH).

Market structure theory based on two alternative policy drives in order to increase profit of the banks industry and for rationalizing market structure in banking industry.

2.4 Empirical Review

An empirical review analyzes earlier research works and provides research questions with answers. It is founded on research or observations. It provides a thorough report of a different study project.

2.4.1 Review of Journal Articles

Berger and Hannan (1989) investigated non-competitive pricing practices may account for the positive association between market concentration and banks' profitability. The empirical findings are strongly in line with the structure performance hypothesis' implications. The apparent influence of concentration on deposit rates was examined to determine why there are such large variations over the sample period.

Neceur (2003) used ten sample Tunisian banks from 1980 to 2000 and a panel linear regression model, reported a strong positive effect of capitalization to ROA. Use CAMEL framework to examine the banks performance.

Alexio and Voyazas (2009) examined the conventional Structure- Conduct-Performance (SCP) hypothesis was included into an empirical framework to explore the influence of bank-specific and macroeconomic factors of banks profitability. On six Greek banks, a panel data technique has been successfully deployed. The study contends that the profitability association is only somewhat strong for any regular or systematic size. Most bank-specific factors have a big impact on bank profitability.

Jha and Hui (2012) used a sample of eighteen Nepalese commercial banks from the period 2005 to 2010 and based on CAMEL model.. This research report compares the financial performance of Nepal's commercial banks with various ownership structures. While capital adequacy ratio affects return on equity, return on assets was impacted by capital adequacy ratio, interest expenditures to total loan, and net interest margin. ROA and ROE have been used to gauge profitability. According to the study, CAR, interest payments on loans, and NIM all significantly impacted ROA, with CAR's impact on ROE also being taken into account.

Al-Jafari and Alchami (2014) investigated the determinants of bank profitability in Syria.The hypothesis was tested using a sample of 17 banks from the years 2004 to 2011 and the GMM approach. Inflation rate and bank profitability as defined by

ROAwere shown to have a positive and significant link by the study, however real gross domestic product growth rate and bank profitability had a negative and significant relationship.

Aldwan (2015) in their study about the effect of bank size on profitability categorized banks into three categories according to their asset size, in the respect to their Total assets, the (ROE) ratio measure the bank profitability, which is dependent variable.

Fissena (2015) suggested the comprehensive model, which incorporates macro-economic, industry specific and bank specific determinants of commercial bank profitability. It is recommended to acquire pertinent data for decision-making via meta analysis. Bank profitability is not greatly influenced by capital adequacy

Hooshyari and Moghanloo (2015) examined the impact of inflation on profitability of banks. Sample populations are state and private banks in Iran. The study period is between fiscal year 2010 till 2013. Deductive and descriptive statistical method are used to analyze the data resulted from collected questionnaire. Inflation, NIM, bank size, liquidity, taxation, capitalization, cost efficiency, non- transaction and BDS are the variables which impact the profitability of banks.

Ishfaq (2015) had used annual report from the period 2008-2012 from 26 commercial banks in Pakistan. With 130 observations, the researcher had utilized a panel data model. Two different metrics that assess bank profitability are ROA and NIM. The researcher employs arithmetic mean, coefficient of variation, correlation, and trend analysis to analyze the data and determine the outcome.

Pawlowska (2016) analyzed the impact of banking sector structure and microeconomic changes on bank profitability in the Polish banking sector over the past fifteen years. Researcher tests the impact of foreign capital on the profitability of Polish banks. Researcher find out foreign ownership and disintermediation have a positive effect on bank profitability in the period 1997to 2012.This study find out no evidence support the SCP by hypothesis. The study concluded that insignificant correlation between profitability and concentration for all estimations but positive correlation between profitability, relative market power and size.

Bhattarai (2017) have examined the effect of non- performing loan on the profitability of commercial banks in Nepal, using poled data of fourteen commercial banks with

77obsevations during the period of 2010 to 2015. The result found that non-performing loan ratio has negative effect on overall banks profitability and positive effect on shareholders return.

Islam and Rana (2017) investigated the determinants of profitability of fifteen selected private commercial banks in Bangladesh over the period 2005- 2015.The impact of non-performing loan cost to income ratio, loan to deposit ratio, commission fees, cost of funds, and operating expenses on bank profitability metrics like return on asset and return on equity was investigated by the researcher using a panel data model. According to the empirical findings, it is clear that operational costs and non-performing loans are crucial factors in determining the profitability of private commercial banks in Bangladesh.

Nuhiu, Hoti and Bektashi (2017) adopted an explanatory approach by using balanced panel data research design to achieve the stated objectives. 10 commercial banks are taken as sample from the period 2010- 2015. The model based on regression analysis. Study concluded that commercial banks profitability in Kosovo is driven mainly by internal determinants factor such as capital adequacy, asset quality and management efficiency, while macroeconomic factors have insignificant impact effect on financial performance of commercial banks. Capital adequacy and liquidity presented negative impact on financial performance of commercial banks.

Shrestha (2017) examined the relationship between liquidity management and profitability and its impact on profitability of commercial banks in Nepal. The relation between the liquidity management and profitability is investigates using Pearson correlation analysis. Using regression to analyzed the effect of liquidity on profitability. Using four year sample data taken from commercial banks. Researcher found that liquidity does not have its significant impact on profitability in Nepalese commercial banks.

Gautam (2018) analyzed the determinants of financial performance of commercial banks in Nepal.Ten commercial banks were chosen as a sample for the study, which looked at the factors influencing financial performance from 2006–2007 to 2016–17. Data gathered from annual reports of banks. The gathered data is examined using multiple regression models. The gross domestic product, asset quality, managerial effectiveness, liquidity management, and capital adequacy ratio all affect the financial success of Nepal's commercial banks. The capital adequacy ratio, management effectiveness, and gross domestic product are all positively correlated with return on assets, but asset quality, liquidity and management efficiency are negatively correlated

Abbas, Iqbal and Aziz (2019) analyzed the impact of bank capital, bank liquidity and credit on the profitability of commercial banks in the past crisis period between 2011 to 2017 in 481 on development economies comparison to USA banking industry. Researcher used two- step GMM method to analyze the data. Study find out 6% increase in capital leads to 1% increase profit a, 3.5% increase in liquidity leads to a 1% increase in profit.

Bapu (2019) evaluated the profitability and liquidity position of banks with reference to pre and post merger in India. CAMEL approach used for data analysis. 17 banks taken are as sample size from the period 1998- 2016. Researcher finding that better financial performance for ICICI bank after the merger.

Dao and Nguyen (2020) aims to explored the relationship between profitability and its determinants in commercial banks of Vietnam, Thailand and Malaysia from 2012 to 2016. Researcher use panel data regression. Data collection from 135 observations of 27 domestically- incorporated commercial banks consisting of ten, nine and eight banks in Vietnam, Thailand and Malaysia. ROA, ROE and TOBINQ are defined as profitability indicators, which are impacted by three main types of independent variables namely bank-specific, industry-specific and macroeconomic-specific. Researcher found the significantly negative relationship between operational risk and banking profitability.

Mishra,kandel and Aithal (2020) **c**onducted a research work to insect the profitability of commercial banks in Nepal.Seven commercial banks that were not registered with Nepal Rastra Bank were the subject of the study. The purpose of the study is to evaluate the influence, contribution, and relationship of size, loan and deposit, inflation, and capital on the profitability of the banks using secondary data from 2013 to 2019. Tools for correlation, regression, and ratio analysis were utilized to ensure that return on assets (ROA), return on equity (ROE), and net interest margin all contributed to each other (NIM). While there is a positive correlation between ROA and ROE and bank size and inflation, there is a negative correlation with loan ratios, deposit ratios, and capital ratios.

Neupane (2020) showed that banks profitability measured by return on assets of Nepalese commercial banks is significantly affected by concentration ration, banking sector development, gross domestic product, growth, inflation and exchange rate where significantly not effected by internal factor like bank size, capital and deposit.

Pandey and Budhathoki (2020) attempted to investigate the impact of liquidity and profitability of the private banks in Nepal by focusing on certain ratios over a period of nine years.For the sample, four commercial banks have been chosen. Measures of bank profitability Investment ratio, capital ratio, and liquidity ratio are chosen as the independent factors, and ROA and ROE are the dependent variables. To test the hypothesis, a linear regression model was used in the study. According to the study, a high capital ratio indicates a high return.

Shrestha (2020) used panel data of 17 commercial banks for the period of 2010/11-2017/18.According to research, managerial effectiveness, asset quality, and operational effectiveness significantly improve the financial performance of Nepalese commercial banks, whereas credit risk has the opposite effect. The study found that the financial performance of Nepalese commercial banks is significantly impacted by bank-specific characteristics.

Adhikari (2021) investigated the efficiency, profitability and stability of the Nepalese commercial banks.In their study, the researchers utilized a descriptive and casual comparative research approach. Data collected from 2011/12 to 2019/20, based on 243 observations from 27 commercial banks. The relationship between dependent and independent variables was explored using correlation, simple, and multiple regression analysis. The study found a strong and negative correlation between bank profitability and stability, but a significant and positive correlation between bank efficiency and profitability.

Buchory (2021) analyzed funding strategy and credit performance and its effect on banking profitability. The descriptive and verification method with the quantitative approach used in this research. Secondary data used from the quarterly published financial statements of the CIMB Niaga bank in Indonesia from 2012- 2020 and multiple regression used for data analysis. Study concludes that particularly TPFS has a negative but not significant effect on ROA.

Hakuduwal (2021) examined the impact of bank specific factor on profitability of Nepalese commercial banks. The study applied pooled least square method. Taking 112 observations from sixteen commercial banks, the period is 2012 to 2019. Researcher find out total assets and total loan and advance have significant effect on profitability of Nepalese commercial banks.

Infpnta and Ashwin (2021) examined the profitability analysis of the selected private banks in Indi. Three private banks are taken as sample from the period of 2015/16-2019/20. Research used profitability ratio for analyze collective data. Study concludes that Axis bank and ICICI banks performance is strong during the study period.

Kryeziu and Hoxha (2021) included 19 euro area countries with 323 observations from the period 2003 to 2019. Secondary data collected from World Bank data base. Researcher used fixed- effect regression and Arellan- bond GMM estimator for analyze the data. Study concluded that CAR, liquidity funds of source, asset quality, non- performing loans and economic growth affect the bank profitability.

2.3.2 Review of Previous Thesis

Pokharel (2011) examined the comparison on the profitability of the profitability of Nepal SBI and Nepal Bangladesh bank.. The goal of the study is to assess the banks' deposit and lending trends. Study essentially follows secondary data throughout the course of five years. To examine the data gathered, the researcher employed statistical tools including the standard deviation and coefficient of variation as well as financial instruments. The study came to the conclusion that Nepal SBI is superior to Nepal Bangladesh bank based on trend analysis of the deposit collecting position, lending position, invest position, and net profit position trends over the time.

Chandulal (2016) investigated the evaluation of financial performance of private and public bank and also analyze the factors which determine the strong / week financial performance of private and public sector banks in India.12 years of secondary data were used in the study. To assess the data gathered, the researcher used statistical methods and financial ratios. According to the study, the financial performance of private sector banks is superior to public sector banks on the basis of CAN.

Adhikari (2018) had used annual general report of NABIL and SBI from 2012/13 to 2016/17.In order to examine the gathered data, the researcher employed the least squares approach, regression, the Karl Pearson coefficient of correlation, and financial instruments. The goal is to determine the liquidity situation of particular commercial banks. NABIL has a worse relative liquidity position than SBI bank, although it has the biggest investment in government securities relative to current assets.

Baral (2018) studied the profitability analysis of commercial bank in Nepal. The objective of the study is comparison of profitability between RBB and GBIME during the period. The researcher used least square method and ratio analysis. The researcher used five years secondary data, which is collection from annual report. The study found profitability position of GBIME is better than RBB in the study period.

2.3.3 Literature Review Matrix

The whole review of literature with writers, objectives, methodology and findings are as follows.

Authors(year)	Objective of research	Research Methodology	Findings
Jha and Hui (2012)	The study compared the financial performance of different commercial banks in Nepal.	.Multivariate regression analysis	The study concluded that ROA has affected by CAR, interest expenses to loan ratio and NIM where as CAR had considerable impact on ROE.
Baral (2018)	The study compared profitability of RBB and GBIME in the selected period.	Least square method and ratio analysis	The result revealed that profitability position of GBIME is better than RBB in the study period.
Gautam (2018)	This study analyzed the financial performance of	Multiple regression	The positive relation of ROA with CAR, Management

	commercial banks in Nepal.	model	efficiency and GDP where as negative with assets quality and liquidity.
Mishra, Kandel and Aithal (2020)	This study assed the impact, contribution and relationship of bank size, loan, deposit, Inflation and capital on the profitability of the banks.	Correlation, regression and ratio analysis	There is negative relation of ROA and ROE with loan ratio, deposit ratio, where positive with bank size and inflation.
Neupane (2020)	The study analyzed the key determinants of profitability in Nepalese commercial banks.	Panel data regression model	The study founded that external factors affect the bank's profitability in Nepal, measured by ROA.
Pandey and Budhathoki(2020)	The study attempted to investigate impact of liquidity and profitability of commercial banks in Nepal.	Liner regression model	The study concluded that higher capital ratio indicates higher return and vice versa.
Adhikari (2021)	To investigated efficiency, profitability and stability of Nepalese commercial banks.	Correlation and multiple regression	The study concluded negative relation between bank efficiency and profitability and positive with stability.
Hakuduwal (2021)	The study examined the impact of bank specific factors on profitability of Nepalese commercial banks.	Pooled least square method	The researcher found total assets; loan and advance have significant effect on profitability of Nepalese commercial banks.

Source: Review of literature

2.5 Research Gap

Pokharel (2011) examined the comparison on the profitability of the profitability of Nepal SBI and Nepal Bangladesh bank.. The goal of the study is to assess the banks' deposit and lending trends. Study essentially follows secondary data throughout the course of five years. To examine the data gathered, the researcher employed statistical tools including the standard deviation and coefficient of variation as well as financial instruments. The study came to the conclusion that Nepal SBI is superior to Nepal Bangladesh bank based on trend analysis of the deposit collecting position, lending position, invest position, and net profit position trends over the time.

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Second the previous research work has not been conducted profitability analysis between ADBL, GBIME, NABIL, HBL and SBL. Now a day business environment is more competitive. So that Nepalese banking sector also more competitive on the basis of profit earning. Profit earning is main goal of every banking sector. Every year change the financial performance of banking sector according to the business environment of country.

This research therefore will facilitate readers to identify the profitability position and operating financial efficiency of ADBL, GBIME, NABIL, HBL and SBL, which will help to evaluate past and present performance of both the banks as well as it will help to project their future prospect also. Therefore, thisstudy fulfills the confusion and uncertainty about profitability analysis by using various financial ratios of sample commercial banks in Nepal. . This study is beneficial from an academic and policy standpoint to interested individuals, parties, academics, students, businesspeople, and the government.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The term "research methodology" refers to a strategy or approach for gathering, sorting, processing, and analyzing data on a particular subject.

Research methodology describes the methods and process applied in entire study. It sequentially refers to the various steps to be followed by a researcher .This study basically helps to conclude the real profitability position and its determining factors of Agriculture Development Bank, Global IME Bank Ltd NABIL Bank Ltd, Himalayan Bank Ltd and Siddhartha Bank ltd. To accomplish the goal, the study follows the research methodology describe in this chapter.

3.2 Research Design

The research design acts as a framework for the study, directing the use of the research instrument and the sampling strategy as well as the data collecting and analysis. The study largely adhered to both a descriptive and analytic research design. Descriptive research designs collect and display data in a methodical way to paint a clear picture of the research problem. The study's primary goal was to evaluate the profitability of a few particular banks. To examine facts, some financial tools, statistical tools, graphs, and many lines have been used.

3.3 Population, Sample and Sample Size

The population of this study comprised all the 27 commercial banks in Nepal. Out of 27 commercial banks in Nepal there are 3 government ownerships, 7 joint venture and 17 Nepalese invest only banks, for the research only Agriculture Development Bank, Global Ime Bank Limited, NABIL Bank Limited, Himalayan Bank Limited and Siddhartha Bank Limited, had taken as a sample.

In the study, stratified random sampling method is used and where whole populations divide in to three sub groups and five samples taken from three groups. 5 years data is used from the period of 2073/74 to 2077/78.In the study, one banks selected from three government ownership banks, two banks selected from seven joint ventures banks and three banks selected from seventeen Nepalese invest only banks.

List of Sample Commercial Banks

S. N.	Name of Commercial Banks	Symbol
1	Agriculture Development Bank Limited	ADBL
2	Global Ime Bank Limited	GBIME
3	NABIL Bank Limited	NABIL
4	Himalayan Bank Limited	HBL
5	Siddhartha Bank Limited	SBL

3.4 Nature and Sources of Data

The nature of data is quantitative, where data collected in the form of quantity.

The study is conducted on the basis of secondary data. Secondary data refers to those for already collected by others. Secondary data obtained from internal and external sources. The study basically followed external secondary data include, annual report of selected banks. Another data and information are collected from external sources may include books, published and unpublished reports, related articles, official documents, government publication, technical and trade journal and findings.

3.5 Data Collection Procedures

Data was gathered from annual reports from several fiscal years (from 2073–74 to 2077–78), which the banks released on their official websites. The digital version of the annual report was downloaded from the banks' official website and utilized to compile the data pertaining to the relevant variables for study. Various papers, journals, dissertations, and other materials included in the literature review have been retrieved from the internet.

3.6 Data Processing Procedure and Data analysis Tools

Data processing is a method of gathering unprocessed data and converting it into information that can be used. Data were coded, edited, and classified after being collected from multiple sources and then organized into a systematic presentation. Selected and examined in the form of a table and chart were the necessary facts. An essential component of the study was the presentation and analysis of the data. To assess the data gathered and accomplish the study's goal, a variety of financial and statistical methods were used. The data analyses were carried out in accordance with the patterns of the data that were accessible. In this study, simple analytical statistical procedures like graphing, correlation analysis, and regression analysis were used due to a lack of time and resources.

In the same way, some strong financial tools, ratio analysis and trend analysis, were used in the study. The data extracted from annual report, financial highlights and other available information were processed and tabulated in various tables and charts under different headings according to the nature. The various tools applied in this study, are present as follows:

Financial Tools

To assess the bank's financial strength and weaknesses, financial instruments are employed. Financial tools like profitability ratio and capital adequacy ratio analysis have been applied in the research effort.

Trend Analysis

Data from several time periods are gathered and plotted on a graph for further analysis as part of the trend analysis approach. Bar charts and various line graphs are included in the study's trend analysis.

One of the simplest and most popular methods for displaying the majority of the gathered business and economic data is a bar chart. Particularly suitable for categorical data or series, these are. The data is presented in Graph in a straightforward, understandable format. In research, various bar graph types are used. The study included several bar graphs.

Relationships between independent and dependent values of many types of data are represented by different line graphs. It is employed to depict patterns throughout a given period of time. Each value is represented by a point on the graph, which is connected by a line.

Profitability Ratios

The profitability ratio displays the company's overall profitability. Profitability Ratios are used to assess a company's operational effectiveness in terms of profitability. It serves as a gauge of an institution's financial performance. This suggests that stronger bank financial performance is correlated with higher profitability ratios and vice versa.

Different metrics of profitability exist. Return on equity, interest-to-earnings spread, gross margin, operational profit margin, and net profit margin are some examples of financial metrics.

The researcher commonly used profitability indicators are Return on assets and Return on equity. The NRB assume return on total assets as a main indicator of commercial banks profitability. Though different indicators can be used to measure the profitability of Agriculture Development Bank Ltd, Global IME Bank Ltd, NABIL Bank Ltd, Himalayan Bank Ltd and Siddhartha Bank Ltd, is evaluated through following different ratios.

3.6.1Statistical Tools

Tools for descriptive and inferential statistics were employed in the study to achieve the goal of the data collected throughout a number of periods.

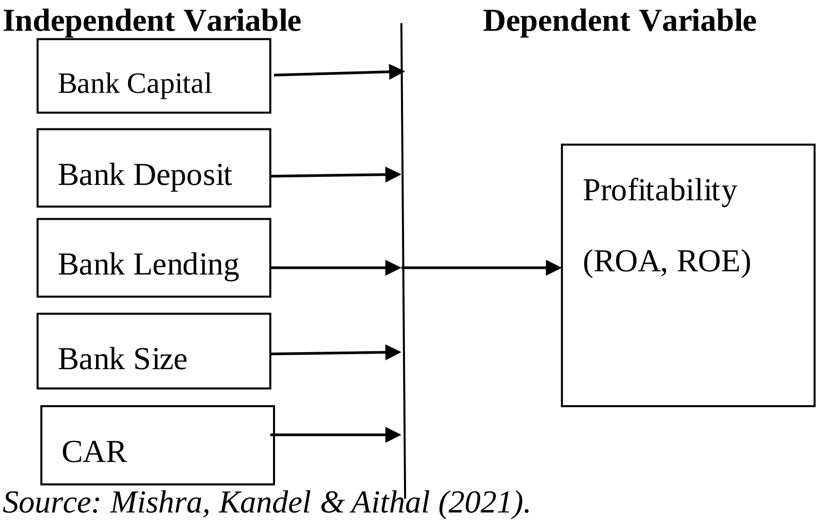
Maximum, minimum, mean, and standard deviation have been employed in descriptive statistics

Inferential statistics where as correlation and regression analysis is used in the study for analyze the relationship between the selected dependent and independent variables. It also identifies the impact of independent variable on dependent variables. Multiple regressions model is used to explore the impact of profitability position of sample commercial banks.

3.7 Research Framework and Definition of Variable

Research framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the whole study proceeds. Research framework the relationships among the variables, elaborate the theory, underlying these relations and describe the nature and direction of the relationship. A good research framework is the logical base for developing testable hypothesis. In the study, bank capital, bank deposit, bank size, bank lending and capital adequacy ratio shown in the independent variable and bank profitability shown in dependent variable.

Conceptual Framework and Variable of Profitability Analysis of Commercial Bank in Nepal



Source: Mishra, Kandel & Aithal (2021).

Definition of variable

Independent variable

Sekaran (2012) said the independent variable positively or negatively influenced the dependent variable. Independent variable is the variable the experiment or manipulates or changes and is assumed to have a direct effect on the dependent variable. It is not influenced by other variable, so that it is called independent variables. It explains an event or outcomes.

The research work has been used bank profitability specific indicators such as Bank Capital (BC), Bank Deposit (BD), Bank Lending (BL), Bank Size (BS) and Capital Adequacy Ratio (CAR) as explanatory variables. The definition of selected variables is showed in the following paragraphs.

i. Bank Capital

The difference between a bank's assets and liabilities, or bank capital, is what investors view as the bank's net worth or equity value. Ordinary shares and irredeemable preference shares are both included in the bank's share capital.

ii. Bank Deposit

Money deposited in a bank for storage is referred to as a bank deposit.

It displays the amounts that customers have deposited into various accounts. Banks will accept deposits from both domestic and international clients. Commercial banks only have one main duty: accepting deposits.

iii. Bank Lending

Bank lending is the procedure by which banks grant loans to clients on the basis of short- and long-term repayment plans. It represents the customer loan advance. In accordance with certain rules and regulations, banks offer loan facilities to their clients. Bank performance is impacted by the risk component in bank loans.

iv. Bank Size

Bank size is measured as the natural logarithm of the value of total assets or liability and equity in Nepalese rupees. Large bank size indicates easier to raisins of banks capital and large bank size covering large market. Bank size is the bank specific factors which determine the bank profit.

v. Capital Adequacy Ratio

It is the ratio of a bank capital in relation to its risk weighted assets and current liabilities. Capital Adequacy Ratio is also called capital to risk weighted assets ratio. CAR is an international standard, which measured a bank's risk of insolvency from excessive losses (Chandulal, 2016). It is a sum total of tier-1 capital ratio plus tier-2 capital ratio. It can be express as following formula.

$$CAR = \frac{Tier-1\ Capital + Tier-2\ Capital}{Risk\ Weighted\ Assets}$$

As per NRB total capital (tier one plus tier two capital) less certain deductions to total risk weighted credit exposure to be not less than 10 percent

Dependent variable

The variable being tested and measured in an experiment is known as a dependent variable, and it depends on independent variables. If the values of these variables depend on other factors, they are known as dependent variables (Pant, 2016).The researcher objective is to research work, prediction the variability in the dependent variables. The study has been used banks profitability specific parameters such as Return on assets (ROA) and Return on equity (ROE) as dependent variables. The definition of selected dependent variables is as following paragraph.

i. Return on assets

Return on assets shows how a bank's earnings stack up against its entire holdings. A bank's ROA shows how effectively it uses all of its assets. The financial performance of banks is higher and vice versa with better asset utilization. Increased ROA increases bank profitability. It is demonstrated in the formula below.

$$ROA = \frac{Net\boldsymbol{Income}}{Total\boldsymbol{Assets}}$$

ii. Return on Equity

It shows the banks' capacity to use the money from the shareholders. When banks use shareholders' money wisely, their equity returns rises, which improves their profits.

Return is another metric used to assess a bank's success. It can be expressed using the formula below.

$$ROE = \frac{NetIncome}{Shareholder's Equity}$$

CHAPTER IV

RESULT AND DISCUSSION

The findings and a description of the study's goal are covered in this chapter. Tables and graphics are used in this chapter to present the study's data. This chapter includes trend analysis, descriptive statistics, a correlation matrix, a regression analysis, data interpretation, and conclusions and discussion. It was structured as follows: initially, a descriptive statistical analysis of the variables. The correlation analysis's second finding. The third is a regression analysis's outcome. In the fourth portion, the explanation of the outcome is included. The discussion of the findings/results is now complete.

4.1 Results

This component of the study will look at the Nepali commercial bank that was chosen for the analysis of profitability. These key variables that influence financial performance are taken into account for analysis.

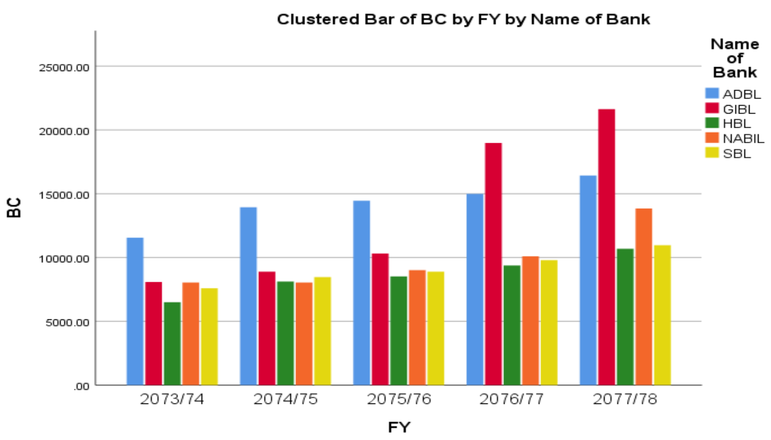
4.1.1 Data Presentation and Analysis

This section discusses the study's descriptive and inferential statistics. The study of trends, descriptive statistics of the variables, correlation analysis, results, and regression analysis results are all explained.

Trend Analysis

Figure 4.1

Trend Analysis of Bank capital (Rs. in million)

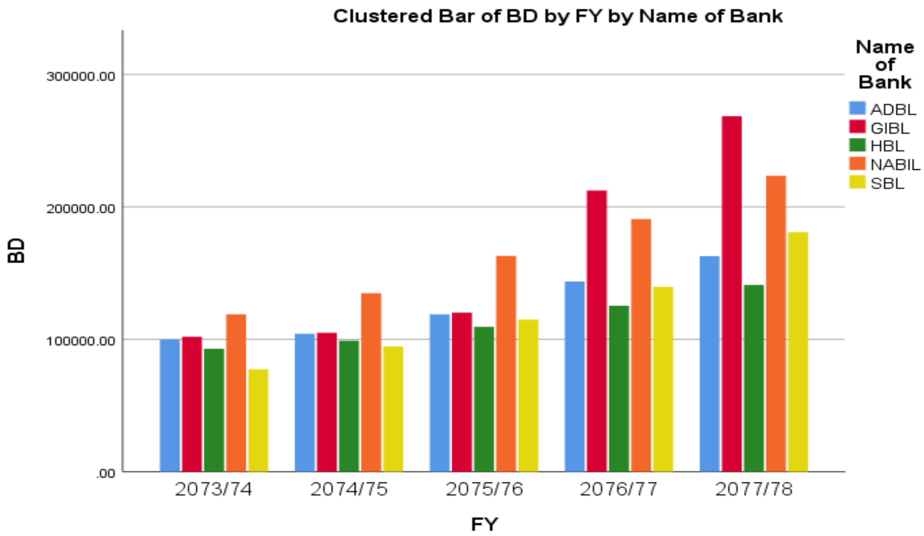


Source: Annual report of sample banks

Figure4.1 shows the bank capital of selected commercial banks in Nepal. All banks have increasing trends of banks capital in the study period. Bank capital of Global Ime Bank is high in fiscal year 2077 to 2078 because different financial institutions merged with Global Ime Bank.

Figure 4.2

Trend Analysis of Bank Deposit (Rs. in million)

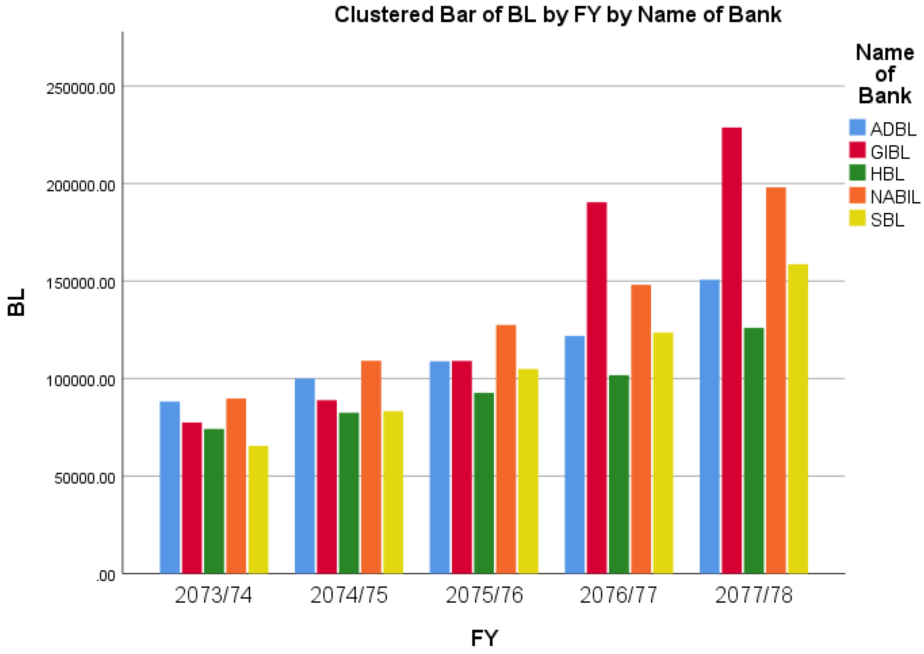


Source: Annual report of sample banks

Figure 2 depicts the bank deposit of selected commercial bank in Nepal. All banks have growth trends of banks deposit in sample period. Fiscal year 2076/77 to 2o77/78 Global Ime Bank has highest bank deposit by customers. It has high number of branch all over Nepal and outside of Nepal.

Figure 4.3

Trend analysis of Bank Lending (Rs. in million)

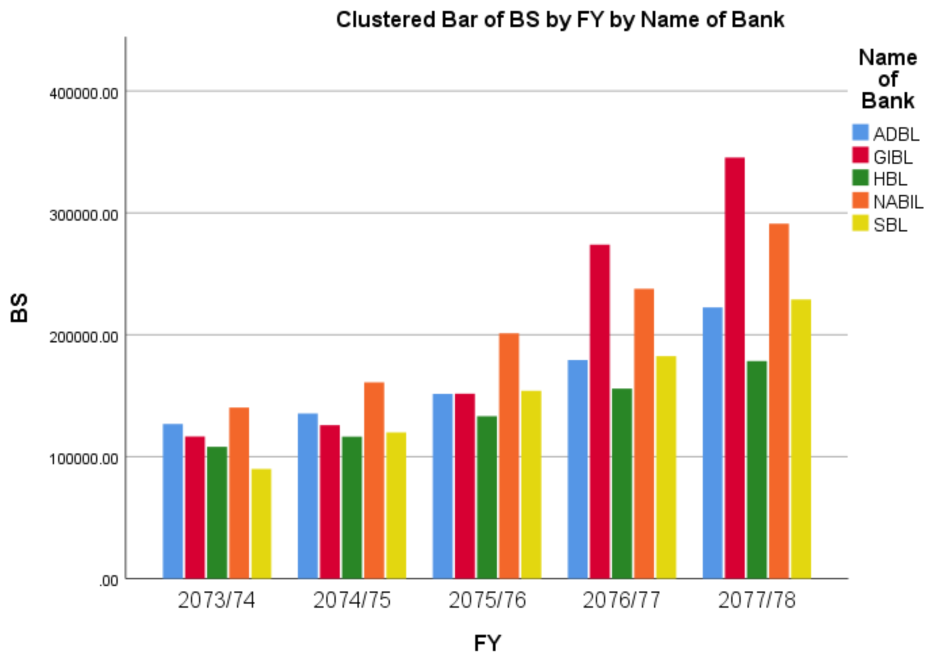


Source: Annual report of sample banks

Figure 4.3 reveals that bank lending of sample banks in sample periods. Bank lending of all banks have increasing trends. In fourth and fifth year Global Ime Bank give high level of loan and advance to its customer than others banks.

Figure 4.4

Trend Analysis of Bank size (Rs.in million)

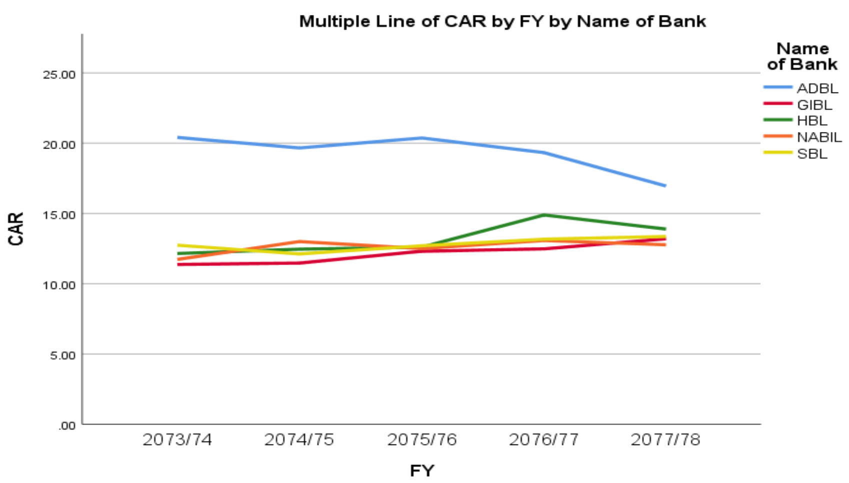


Source: Annual report of sample banks

Figure 4.4 present the bank size of selected commercial banks. Each bank has increasing trend of bank size in the sample periods. Till 2076 Nabil Bank has high bank size but 2077 and 2078 Global Ime Bank has high bank size.

Figure 4.5

Trend Analysis of Capital Adequacy Ratio (in percent)

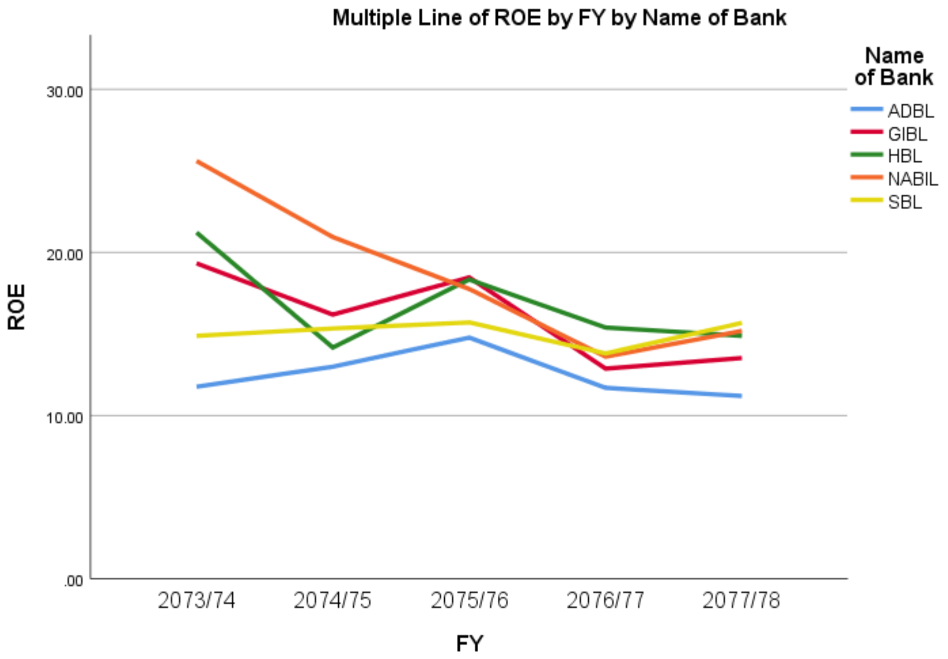


Source: Annual report of sample banks

Figure 4.5 shows capital adequacy ratio of sample banks from the periods 2073/74 to 2077/78. In above figure the capital adequacy ratio of ADBL is decreasing trend from fiscal year 2075/76. But except GBIL other banks capital adequacy ratio line slow fluctuations.

Figure 4.6

Trend analysis of ROE (in percent)

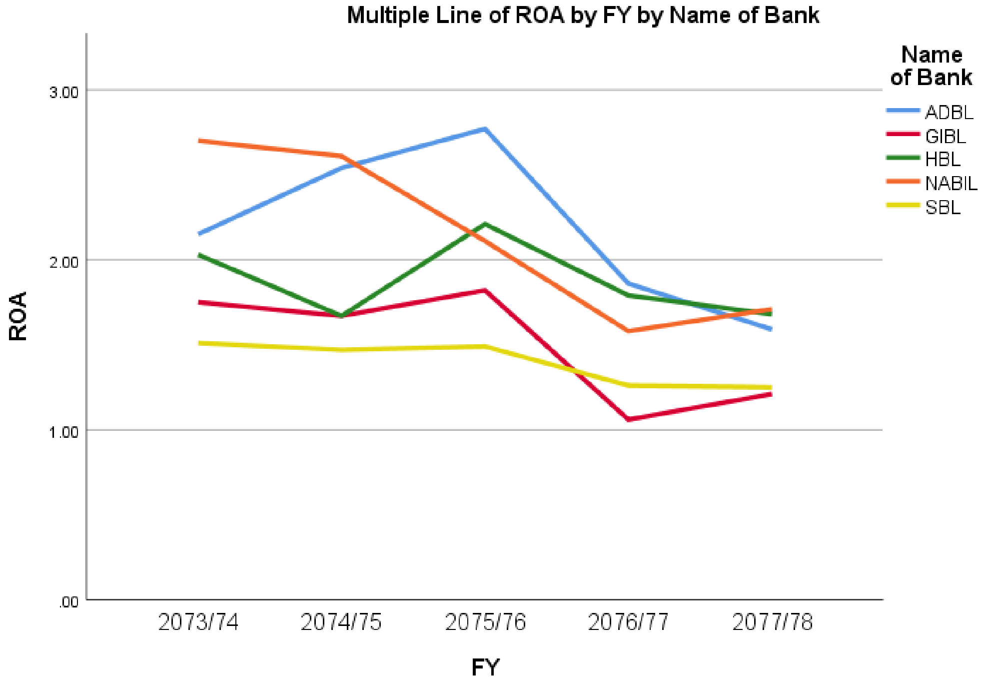


Source: Annual report of sample banks

Figure 4.6 show the return on equity of sample banks from the periods 2073/74 to 2077/78. The SBL has increasing trends of return on equity. The other sample bank has more fluctuating of return or not consistency.

Figure 4.7

Trend analysis of ROA(in percent)



Source: Annual report of sample banks

Figure 4.7 reveals return on assets of sample banks from fiscal year 2073/74 to 2077/78. After the period of 2076/77 the GIBL and NABIL has increasing trend of return on asset. The ADBL, HBL and SBL have fluctuating and decreases from 2076/77 period.

Analysis of Descriptive Statistics of the Variables

The descriptive statistics of independent and dependent variables for selected commercial banks in Nepal for fiscal year (FY) 2073/74- 2077/78 was presented on the following table to measure mean, median, maximum value, minimum value and standard deviation of different variables such as dependent variables (ROE and ROA) and independent variables (Bank Capital, Bank Deposit, Bank Lending, Bank Size and CAR).

Table4.1

Descriptive Statistics of the Variables

Variables	Observation (N)	Minimum	Maximum	Mean	Std. Deviation
BC	25	6491.62	21632.50	11085.9655	3808.00050
BD	25	77317.56	268433.79	137711.9174	46749.84244
BL	25	65511.59	228651.43	117962.9155	41162.06465
BS	25	89901.51	345423.26	173094.3056	62919.79541
CAR	25	11.37	20.41	14.0280	2.86623
ROE	25	11.20	25.61	15.8164	3.37062
ROA	25	1.06	2.77	1.8196	.47077

Source: Calculated from SPSS Software

Table no. 4.1 shows that, the mean value of bank capital is NPR 11085.965 millions. It indicates the average value that the selected banks issues securities and the standard deviation is NPR 3808.0050 millions. It indicates how much it deviates from the average to both sides. The minimum and maximum value for bank capital is NPR6491.62 millions and NPR21632.50 millions respectively. It indicates minimum and maximum securities issues by banks.

The average value of bank deposit is NPR137771.9114 millions. It indicates average value of customer deposit in banks and standard deviation is NPR46749.84244 millions. The minimum and maximum value bank deposit is NPR73317.56 millions and NPR268433.79 millions respectively. It indicates minimum and maximum deposit in selected banks.

The mean value of bank lending is NPR11762.9155 millions. It represents the average value of loan and advance to customer by selected commercial banks and standard deviation is NPR41162.06465 millions. It shows the how much it deviate from average to both size. The minimum and maximum loan give to its customer by banks is NPR65511.59 million and NPR228651.43 million respectively.

The mean value of bank size is NPR173094.056 millions. It represents the average value of total assets or total liabilities and equity of selected banks and standard deviation is NPR62919.79541 million. The minimum and maximum size of bank is NPR89901.51 million and NPR345423.26 million respectively.

The mean value of capital adequacy ratio is 14.028 percent, which indicates that average value of bank capital to its risk weighted assets. It has standard deviation is 2.86630 percent. The minimum and maximum capital adequacy ratio is 11.37 percent and 20.41 percent.

Banks return on equity shows a mean of 15.6164 percent, which indicates the average value that selected commercial banks gain on average with related to its shareholders equity and standard deviation is 3.37062 percent. The maximum and minimum value for return on equity is 11.20 percent and 25.61 percent respectively. It indicates minimum and maximum return of selected banks during the period.

The mean value of return on assets is 1.8196 percent. It indicates the average value that the sample banks earn on average related to its assets and standard deviation is 0.47077 percent. The minimum and maximum value for return on assets is 1.06 percent and 2.77 percent respectively. It represents the minimum and maximum return earn by sample banks.

Correlation Analysis

Correlation is a popular statistical tool, it represents the how strongly two variables are related to each other's or it gives information about degree and direction of relationship between two variables. It is measured by the correlation coefficient. Correlation coefficient ranges from -1 to +1. When one variable is shift in the same direction it is called positive correlation. It means one variable increase then other variable also increase in same proposition and vice versa. Negative correlation, where as variables are not correlated each other. It means if one variable increase then other variable decrease by same direction. Under research work the objective of correlation is to find out the empirical relationship between independent and dependent variables.

Table 4.2

Correlation matrix between variables

Pearson Correlation	BC	BD	BL	BS	CAR	ROE	ROA
BC	1			.			
BD	$.730^{**}$	1					
	.000						
BL	$.796^{**}$	$.984^{**}$	1				
	.000	.000					
BS	$.762^{**}$	$.995^{**}$	$.994^{**}$	1			
	.000	.000	.000				.
CAR	$.422^{*}$	-.086	-.011	-.042	1		
	.036	.683	.958	.841			
ROE	$-.590^{**}$	-.284	-.373	-.339	$-.548^{**}$	1	
	.002	.168	.066	.098	.005		
ROA	-.260	$-.420^{*}$	$-.445^{*}$	$-.437^{*}$	.393	$.470^{*}$	1
	.209	.037	.026	.029	.052	.018	

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

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

Source: Calculated from SPSS Software

Correlation between Dependent variable and Independent variables

Table no.4.2 shows that the Pearson correlation coefficient between the dependent and independent variables taken in the research work. It reveals that correlation coefficient of ROA with BD, BL and BS are 0.420, 0.445 and 0.47 respectively, which indicates there is significant negative relationship between ROA and BD, BL and BS at 5% significant level of 2- tailed test. It indicates the above showed variable increase, the profitability of banks decrease and vice versa. The bank loan and deposit not properly utilized. In addition, the correlation coefficient of ROA with CAR is 0.393, which indicates positive relationship but ROA with BS is 0.260, which indicate negative relationship ROA and BS but both are not statistically significant.

In contrast, as table no.4.2 shows that the result of correlation coefficient of ROE with BC and CAR are 0.590 and 0.548 which explain there is significant negative relationship between ROE with BC and CAR at 1% significant level of 2- tailed test. It indicates the higher the BC and CAR leads to lower the banks profit. In others, the result of correlation coefficient of ROE with BD, BL and BS are 0.284,0. 373 and 0.339 which indicates negative relationship between them and that is not statistically significant.

Multiple Regression Analysis

Multiple regression analysis is the statistical tool, which can be used to forecasting the relationship between the dependent and independent variables. The objective of multiple regression analysis is to use the independent variables whose values are known to forecast the value of the single dependent value. The correlation between two variables is in sufficient to determine the estimation equation. So that, determine the estimation equation which describe the relationship with greater accuracy.

ROE as a Dependent variable

Table 4.3

ROE Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.744[a]	.554	.436	2.53116

Source: Calculated from SPSS Software

a. Predictors: (Constant), CAR, LN_BS, LN_BC, LN_BD, LN_BL

Dependent Variable: ROE

Table no.4.3 presents the model summary of the regression analysis between the independent variables (CAR, BD, BC, BL and BS) and dependent variable (ROE). The R column show the multiple correlation coefficient value is 0.744, which indicates the good level of prediction. R square column present R square value, also called coefficient of determination. It tells us what percent of variability in the dependent variable accepted for by the regression on the independent variables.

In the table value of R square is 0.554, it means that 55.4% ROE explained by bank capital, bank deposit, bank lending, capital adequacy ratio and bank size and remaining 44.60% is explained by other factors. Next value adjusted R square is a modified variable of R square that has been adjusted for number of predictors in the model. In the above table shown adjusted R square is 0.436, it indicates 43.60% is explained by different factors. Moreover, standard error of estimates is 2.53116 indicates the variation of the observing value of ROE from regression line is 2.53116 units.

Statistical significance

The F- ratio in the ANOVA table test by overall regression model is fit for data or not. The P value is lower than alpha value (0.05), that independent variables statistically significant predict over dependent variable otherwise it is not significant.

Table 4.4

Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	150.938	5	30.188	4.712	.006[b]
	Residual	121.729	19	6.407		
	Total	272.667	24			

Source: Calculated from SPSS Software

a. Dependent Variable: ROE

b. Predictors: (Constant), CAR, LN_BS, LN_BC, LN_BD, LN_BL

The table no.4.4 ANOVA result shows that P value less than alpha value (0.006<0.05). It means there is significant relationship between independent variable (BC, BD, BL, BS and CAR) and dependent variable (ROE). The ANOVA with F-statistic of 4.712 is show the overall regression model is fit for data.

Coefficient Matrix

Coefficient matrix shows the statistically effect each of over independent variables on dependent variable.

Table 4.5

ROE Coefficient Matrix

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	46.949	24.598	1.909	.072
	LN_BC	-4.479	4.455	-1.005	.327
	LN_BD	24.856	17.278	1.439	.0167
	LN_BL	-8.272	18.305	-.452	.656
	LN_BS	-15.278	25.788	-.592	.561
	CAR	-.211	.289	-.729	.475

Source: Calculated from SPSS Software

The theoretical model of regression equation:

$$Y = \beta_0 + \beta 1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Model 1

ROE= $\beta_0 + \beta_1$ LN_BC + β_2 LN_BD + β_3 LN_BL + β_4 LN_ BS + β_5 LN_ CAR + ε

Where,

Y = Dependent variable.

β_0 = Constant.

$\beta_1, \beta_2, \beta_3, \beta_4 \& \beta_5$ are parameters of the independent variables.

. X_1,X_2,X_3, X_4&X_5 are independent variables.

LN_BC = Natural Log of Bank Capital.

LN_BD = Natural Log of Bank Deposit.

LN_BL = Natural Log of Bank Lending.

LN_BS = Natural Log of Bank Size.

CAR = Capital Adequacy Ratio.

ε = Error.

The established regression equation is ROE = 46.949 – 4.479* bank capital + 24.856* bank deposit – 8.272* bank lending – 15.278*bank size – 0.211* CAR + ε

Table 4.5 shows the regression result for the factors effecting profitability position and determining factors of selected commercial banks in Nepal in the study period. The results reveal that bank deposit and return on equity has positive relationship with beta coefficient 24.856. Except bank deposit no coefficients are to be found statistically significant at 5% level of significant. Since P- value of bank deposit is less than 5%, this result is statistically significant at 5%. Higher bank depositleads to higher bank profit. 1% change in bank deposit causes 24.85% change in return on equity.

ROA as a Dependent variable

Table 4.6
ROA Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.686[a]	.471	.332	.38488

Source: Calculated from SPSS Software

a. Predictors: (Constant), CAR, LN_BS, LN_BC, LN_BD, LN_BL

Dependent Variable: ROA

The table no.4.6 describes the model summary of the regression analysis between the independent variables, (BC, BD, BL, BS and CAR) and dependent variable (ROA). The column R shows the multiple correlation coefficient value is 0.686; it indicates the good level of prediction. R square column present R square value, also called coefficient of determination, which tells us what percent of variability in the dependent variable accepted for by the regression on the independent variable. In above table value of R square is o.471, which means the 47.10% variation in ROA explained by bank capital, deposit, lending, size and capital adequacy ratio and remaining 52.90% is explained by other factors. Adjusted R square is comparing the explanatory power of the regression model. The adjusted R square is a modified variable of R square that has been adjusted for no. of prediction in the model. The above table shows adjusted R square is 0.332, it indicate 33.20% variation in ROA is explained by other factors. Standard error of estimate is 0.38488 which indicates the variation of the observing value of ROA from regression line is 0.38488 units.

Statistical significance

The F- ratio in the ANOVA table test by overall regression model is fit for data or not. The P value is lower than alpha value (0.05), that independent variables statistically significant predict over dependent variable otherwise it is not significant.

Table 4.7

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.504	5	.501	3.381	.024[b]
	Residual	2.815	19	.148		
	Total	5.319	24			

Source: Calculated from SPSS Software

a. Dependent Variable: ROA

b. Predictors: (Constant), CAR, LN_BS, LN_BC, LN_BD, LN_BL

The table no.4.7 ANOVA result shows that P value less than alpha value (0.024<0.05). It means there is significant relationship between independent variable

(BC, BD, BL, BS and CAR) and dependent variable (ROA). The ANOVA with F-statistic of 3.381 is show the overall regression model is fit for data. The F- value proved that there is a significant relationship between independent variable and dependent variable (ROA).

Coefficient Matrix

Coefficient matrix shows the statistically effect each of over independent variables on dependent variable.

Table 4.8

ROA Coefficient Matrix

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	4.415	3.740	1.180	.252
	LN_BC	-.849	.677	-1.253	.225
	LN_BD	3.996	2.627	1.521	.145
	LN_BL	-.293	2.783	-.105	.917
	LN_BS	-3.360	3.921	-.857	.402
	CAR	.137	.044	3.107	.006

Source: Calculated from SPSS Software

Dependent Variable: ROA

The theoretical model of regression equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Model 2

ROA= $\beta_0 + \beta_1$ LN_BC + β_2 LN_BD + β_3 LN_BL + β_4 LN_ BS + β_5 LN_ CAR + ε

Where,

Y = Dependent variable

β_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4 \& \beta_5$ are parameters of the independent variables.

X_1,X_2,X_3, X_4&X_5 are independent variables.

LN_BC = Natural Log of Bank Capital.

LN_BD = Natural Log of Bank Deposit.

LN_BL = Natural Log of Bank Lending.

LN_BS = Natural Log of Bank Size.

CAR = Capital Adequacy Ratio.

ε = Error

The established regression equation is ROA = 4.415 – 0.849* bank capital + 3.996* bank deposit – 0.293* bank lending – 3.360*bank size + 0.137* CAR + ε

Table no.4.8 shows the regression result for the factors effecting profitability and determining factors of selected commercial banks in Nepal in the study period. The result reveals that bank deposit and CAR are positively related with banks return on assets and beta coefficient 3.396 & 0.137. Higher bank deposit and CAR leads to higher banks profit. Except CAR, no coefficients are found to be statistically significant at 5% level of significant. Since P- value of CAR is less than 5 percent, this result is statistically significant at 5 percent. Higher CAR leads to higher banks profit. 1% change in capital adequacy ratio causes 13.7% change in return on asset.

4.1.2 Findings

According to sample commercial banks collected data major finding of the research study are as follows.

i. From the trend analysis the bank capital, deposit, lending and size values increase in every year of sample commercial banks.

ii. Through the trend analysis of capital adequacy ratio, return on equity and return on assets the trend line of Agriculture Development Bank is more fluctuating than other sample banks.

iii. From the above analysis the study found the mean value of return on assets and return on equity is 1.8196 and 15.8164 percent respectively. It represents the average value of selected commercial banks earn on average with relates to proper utilization of assets and equity. The standard deviation of return on asset and return on equity is 0.47077 and 3.3762 percent, indicates the how much deviation from mean to both sides. The maximum value of ROA and ROE is 2.77 and 25.61 percent. The minimum value of ROA and ROE is 1.06 and 11.20 percent. It means maximum and minimum return, which can be gain by sample commercial banks.

iv. Commercial banks have Bank capital, Bank deposit, Bank lending, Bank size and Capital adequacy ratio shows a mean value of NPR 11085.9655, 137711.9174, 117962.9155, 173094.3056 and 14.0280 percent and standard deviation of BC, BD, BL, BS and CAR is NPR 3808.00050, 46749.84244, 41162.06465, 62919.79541 and 2.86623 percent. It means how much it deviates from mean to both sides. The minimum values are NPR 6491.62, 77317.56, 65511.59, 89901.51 and 11.37 percent and maximum values are 21632.50, 268433.79, 228651.43, 345423.26 and 20.41 percent respectively.

v. Correlation result depicts the positive relation between return on assets and return on equity but return on assets has negative relation with BD, BL and BS. Moreover, return on equity has positive relation with return on assets and negative with BC and CAR.

vi. Multiple regression analysis present there is beta coefficient of bank capital, lending and size are negative to ROA, which implies that larger the beta coefficient of BC, BL and BS lower would be the return on assets and these results are statistically not significant. Beta coefficient of bank deposit is positive to ROA, but result is statistically not significant. Since p- value of CAR is less than 5 percent, the result is statistically significant at 5 percent level.1% change in capital adequacy ratio causes 13.7% change in return on asset.

Moreover,except bank deposit no coefficients are to be found statistically significant at 5% level of significant. Since P- value of bank deposit is less than 5%, this result is statistically significant at 5%. Higher bank deposit leads to higher bank profit. 1% change in bank deposit causes 24.85% change in return on equity.

4.2 Discussion

According to sample commercial banks collected data the major discussions of the research study are as follows.

i. Trend analysis of bank capital, deposit, lending and size shows the amount increase of every year, which shows in figure 4.1, 4.2, 4.3 and 4.4. It indicates these variables values is increasing trend of sample banks in future. The trend analysis present the Global Ime Bank has the highest bank capital, deposit, lending and size.
ii. Trend analysis of capital adequacy ratio, return on equity and return on assets depicts the Agriculture Development Bank is more fluctuating than other sample banks. It show figure 4.5, 4.6 and 4.7.
iii. The mean value of bank capital is NPR11085.965 millions. It indicates the average value that the selected banks issues securities and the standard deviation is NPR3808.0050 millions. It indicates how much it deviates from the average to both sides. The minimum and maximum value for bank capital is NPR6491.62 millions and NPR21632.50 millions respectively. It indicates minimum and maximum securities issues by banks.
iv. The average value of bank deposit is NPR137771.9114 millions. It indicates average value of customer deposit in banks and standard deviation is NPR46749.84244 millions. The minimum and maximum value bank deposit is NPR73317.56 millions and NPR268433.79 millions respectively. It indicates minimum and maximum deposit in selected banks.
v. The mean value of bank lending is NPR11762.9155 millions. It represents the average value of loan and advance to customer by selected commercial banks and standard deviation is NPR41162.06465 millions. It shows the how much it deviate from average to both size. The minimum and maximum loan give to

its customer by banks is NPR65511.59 million and NPR228651.43 million respectively.

vi. The mean value of bank size is NPR173094.056 millions. It represents the average value of total assets or total liabilities and equity of selected banks and standard deviation is NPR62919.79541 million. The minimum and maximum size of bank is NPR89901.51 million and NPR345423.26 million respectively.

vii. The mean value of capital adequacy ratio is 14.028 percent, which indicates that average value of bank capital to its risk weighted assets. It has standard deviation is 2.86630 percent. The minimum and maximum capital adequacy ratio is 11.37 percent and 20.41 percent.

viii. Banks return on equity shows a mean of 15.6164 percent, which indicates the average value that selected commercial banks gain on average with related to its shareholders equity and standard deviation is 3.37062 percent. The maximum and minimum value for return on equity is 11.20 percent and 25.61 percent respectively. It indicates minimum and maximum return of selected banks during the period.

ix. The mean value of return on assets is 1.8196 percent. It indicates the average value that the sample banks earn on average related to its assets and standard deviation is 0.47077 percent. The minimum and maximum value for return on assets is 1.06 percent and 2.77 percent respectively. It represents the minimum and maximum return earn by sample banks.

x. Correlation result depicts the positive relation between return on assets and return on equity but return on assets has negative relation with BD, BL and BS. Moreover, return on equity has positive relation with return on assets and negative with BC and CAR. Mishra, kandel & Aithal (2021) in the study found return on assets is positively related with banks size and return on equity. It shows higher bank size and return on equity leads to higher banks profit in Nepalese commercial banks. Gautam (2018) in his study shows that return on assets is positive relation with capital adequacy ratio. It means higher the capital adequacy ratio higher would be bank return.

vii. Multiple regression analysis present there is beta coefficient of bank capital, lending and size are negative to ROA, which implies that larger the beta coefficient of BC, BL and BS lower would be the return on assets and these results are statistically not significant. Beta coefficient of bank deposit is positive to ROA, but result is statistically not significant. Since p- value of CAR is less than 5 percent, the result is statistically significant at 5 percent level.1% change in capital adequacy ratio causes 13.7% change in return on asset.

Moreover except bank deposit no coefficients are to be found statistically significant at 5% level of significant. Since P- value of bank deposit is less than 5%, this result is statistically significant at 5%. Higher bank deposit leads to higher bank profit. 1% change in bank deposit causes 24.85% change in return on equity. Bhattrai (2017) in his study there is strong positive relationship bank size and banks profitability (ROA & ROE). It shows that large banks size get higher economic scale and able to produce services at cost efficiency, which positively affect the profitability on Nepalese commercial bank.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter deals with the summary, conclusions and recommendation in relation to profitability analysis of sample commercial banks in Nepal. This chapter is divided into three sections: a first portion that summarizes the study; a second section that draws conclusions; and a third section that offers recommendations based on the findings.

5.1 Summary

Generally profit is the defined as the excess of revenue over cost. In other words, profit is the residual income, which is equal to sale proceeds minus costs. Each organization had primary goal is profit earn except sociable organization. Profit is the essential for every business organizations because survive and growth in long time at competitive business environment. The term profitability means capacity of business or organization to earn profit. The word profitability may be defined as the ability or generating of the given investment to earn return on its use.

Profitability analysis is one of the key tools for financial decision and assist in making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is the quantitative relation, which can be used to diagnose strengths and weakness in a bank performance. Such analysis is considerable things for the bank's common stock holders, investors, bondholders and others.

Commercial bank is the financial institution which provides banking service to the public. Commercial banks play significant role of economic development of country. Its main objective is to earn profit. It provide banking services to public like as accept deposit, provide loan, fund transfer, agent function, foreign exchange and open L/C. The study in this context is mainly focused on the performance of the bank in terms of profitability. The general objective of this study is to explore the profitability position and its determining factors of commercial banks in Nepal.

As per the objectives of these studies, it tries to identify the profitability position and its determining factors of selected commercial banks in Nepal, to examine the relationship of profitability with its determining factors of selected commercial banks in Nepal and to analyze the profitability impact by its determining factors of selected commercial banks in Nepal. The study basically follows the descriptive and analytical research design. The population for this study consists of all the commercial banks in Nepal and out of them five commercial banks has been selected as a sample i.e. ADBL, GBIME, NABIL, HBL and SBL. The study used stratified random sampling method.

This study is completely based on secondary method of data were collected for the five year period i.e. from 2073/74 to 2077/78 and data has been obtained from banks annual reports and banks websites. For the data analysis it has used financial ratio, bar graph, multiple lines, pearson's correlation coefficient and multiple regression analysis.

Trend analysis of bank capital, deposit, lending and size shows the amount increase of every year, which shows in figure 4.1, 4.2, 4.3 and 4.4. It indicates these variables values is increasing trend of sample banks in future. The trend analysis present the Global Ime Bank has the highest bank capital, deposit, lending and size.

Trend analysis of capital adequacy ratio, return on equity and return on assets depicts the Agriculture Development Bank is more fluctuating than other sample banks. It show figure 4.5, 4.6 and 4.7.

From the above analysis the study found the mean value of return on assets and return on equity is 1.8196 and 15.8164 percent respectively. It represents the average value of selected commercial banks earn on average with relates to proper utilization of assets and equity. The standard deviation of return on asset and return on equity is 0.47077 and 3.3762 percent, indicates the how much deviation from mean to both sides. The maximum value of ROA and ROE is 2.77 and 25.61 percent. The minimum value of ROA and ROE is 1.06 and 11.20 percent. It means maximum and minimum return, which can be gain by sample commercial banks.

Commercial banks have Bank capital, Bank deposit, Bank lending, Bank size and Capital adequacy ratio shows a mean value of NPR 11085.9655, 137711.9174, 117962.9155, 173094.3056 and 14.0280 percent and standard deviation of BC, BD, BL, BS and CAR is NPR 3808.00050, 46749.84244, 41162.06465, 62919.79541 and 2.86623 percent. It means how much it deviates from mean to both sides. The minimum values are NPR 6491.62, 77317.56, 65511.59, 89901.51 and 11.37 percent and maximum values are 21632.50, 268433.79, 228651.43, 345423.26 and 20.41 percent respectively.

Correlation result depicts the positive relation between return on assets and return on equity but return on assets has negative relation with BD, BL and BS. Moreover, return on equity has positive relation with return on assets and negative with BC and CAR.

Multiple regression analysis present there is beta coefficient of bank capital, lending and size are negative to ROA, which implies that larger the beta coefficient of BC, BL and BS lower would be the return on assets and these results are statistically not significant. Beta coefficient of bank deposit is positive to ROA, but result is statistically not significant. Since p- value of CAR is less than 5 percent, the result is statistically significant at 5 percent level. 1% change in capital adequacy ratio causes 13.7% change in return on asset.

Moreover except bank deposit no coefficients are to be found statistically significant at 5% level of significant. Since P- value of bank deposit is less than 5%, this result is statistically significant at 5%. Higher bank deposit leads to higher bank profit. 1% change in bank deposit causes 24.85% change in return on equity.

5.2 Conclusion

Profitability is the ability to earn profit of any financial institutions. Every organization has set the different goals.The primary goal of every business organization is profit generate. The study used descriptive and analytical research design and stratified random sampling method used to select sample from whole population.

The study was conducted on five sample commercial banks in Nepal aimed to examine the profitability position of commercial banks in Nepal. The secondary data collected from financial statements of sample commercial banks for the period of five year i.e. from 2073/74 to 2077/78. The study shown Return on Asset and Return on equity as dependent variables and Bank Capital, Bank Deposit, Bank Lending, Bank Size and Capital Adequacy Ratio are shown in independent variables. The study used secondary quantitative data. Data analyzed by trend analysis, descriptive statistics and regression model. Third, descriptive statistics used for the values for mean, maximum, minimum and standard deviation was calculated by using SPSS to analyze how much the value of variables fluctuates with its maximum and minimum and how much variable deviate from average.

Trend analysis present increasing or decreasing the values in study periods. The Global Ime Bank is increasing trend of bank capital,deposit, lending, size, CAR, ROA and ROE.

Correlation result depicts the positive relation between return on assets and return on equity but return on assets has negative relation with BD, BL and BS. It means higher the bank deposit, lending and size lower the banks return. Banks does not properly utilized deposit, loan and assets. Moreover, return on equity has positive relation with return on assets and negative with BC and CAR.

To draw conclusion multiple regression model has been used by considering profitability (ROA) as dependent variable and bank capital, bank deposit, bank lending, bank size and CAR.The positive relation of return on assets with CAR, it indicates that higher CAR leads higher ROA. Negative relation of return on assetswith bank capital, lending and size, which implies that larger the beta coefficient of bank capital, lending and size, thelower would be the return on assets and these results are statistically not significant. Beta coefficient of bank deposit is positive to ROA, but result is statistically not significant. Since p- value of CAR is less than 5 percent, the result is statistically significant at 5 percent level.1% change in capital adequacy ratio causes 13.7% change in return on asset.

Moreover except bank deposit no coefficients are to be found statistically significant at 5% level of significant. Since P- value of bank deposit is less than 5%, this result is statistically significant at 5%. Higher bank deposit leads to higher bank profit. 1% change in bank deposit causes 24.85% change in return on equity. It concluded that capital adequacy ratio significant impact on return on assets and bank deposit impact on return on equity. Capital adequacy ratio and bank deposit significantly impact on bank profit on Nepalese commercial banks.

5.3 Implications

Commercial banks have a big impact on how trade, industry, and commerce grow in a country. Commercial banks are currently under pressure from Nepal Rastra Bank to combine and acquire. It has numerous issues, such as a lack of investments in productive industries, a lack of banking competition between institutions, political influence within banks, a lack of contemporary technology within banks, a lack of direction and control, etc.

Based on the major findings of the study of the sample commercial banks in Nepal, the following implications are highlighted.

i. Bank profitability has strong positive relation with bank deposit. Hence, Nepalese commercial banks have to consideration for the efficient and effective utilization of bank deposit to increase banks profit and its value.
ii. In this research work only private and public sector banks have been selected for analysis of banks profitability but this can be extended by increases the sample size i.e. development banks, finance company, microfinance and co-operatives.
iii. The research work is completely based on secondary data, which may be extended by taking opinions of top level employees of banks about financial performance of banks, which may support researcher to identifying factors responsible of profitability analysis of banks.
iv. Before investment in commercial banks the investor reviews the profitability position of commercial banks for better return in future.
v. Trend analysis show bank capital, deposit, lending and size values are increasing trend. Hence, Nepalese commercial banks consideration for proper utilization of banks assets to maximize the profit.

Scope for Further Research work

The major scopes for further research work are as follows.

i. The study may serve as literature and a direction for future research.
ii. The study helps in predicting, comparing and evaluating the earning ability of Nepalese commercial banks.
iii. The performance analysis of bank is useful to the policy maker to identify the success or failure of bank and to adopt suitable strategy for success of bank.
iv. The study may be useful for investor for taking investing decision.
v. The techniques and methods employed in this study effort for profitability analysis may be used by bankers.

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APPENDICES

Annexure-1

Selected Data of Sample Banks

S.n.	Name of Bank	FY	BC (NPR)	BD (NPR)	BL (NPR)	BS (NPR)	CAR (%)	ROE (%)	ROA (%)
1	ADBL	2073/74	11,555.68	99,816.27	88,206.55	126,866.60	20.41	11.77	2.15
2	ADBL	2074/75	13,937.93	104,216.46	100,030.11	135,419.61	19.66	13.00	2.54
3	ADBL	2075/76	14,448.24	118,884.92	108,806.70	151,457.73	20.37	14.78	2.77
4	ADBL	2076/77	14,989.17	143,628.52	121,849.39	179,320.22	19.33	11.70	1.86
5	ADBL	2077/78	16,422.64	162,814.93	150,598.36	222,440.35	16.95	11.20	1.59
6	GIBL	2073/74	8,080.34	101,910.48	77,461.63	116,592.27	11.37	19.33	1.75
7	GIBL	2074/75	8,888.38	104,850.51	88,878.10	125,847.43	11.47	16.19	1.67
8	GIBL	2075/76	10,310.52	120,088.44	108,977.61	151,653.56	12.31	18.47	1.82
9	GIBL	2076/77	18,975.88	212,315.39	190,336.85	273,876.59	12.48	12.88	1.06
10	GIBL	2077/78	21,632.50	268,433.79	228,651.43	345,423.26	13.20	13.53	1.21
11	HBL	2073/74	6,491.62	92,881.11	74,159.52	108,063.25	12.15	21.22	2.03
12	HBL	2074/75	8,114.53	98,988.79	82,474.99	116,462.30	12.46	14.17	1.67
13	HBL	2075/76	8,520.26	109,387.06	92,697.32	133,151.14	12.60	18.34	2.21
14	HBL	2076/77	9,372.28	125,264.38	101,728.47	155,884.92	14.89	15.40	1.79
15	HBL	2077/78	10,684.40	141,021.07	126,048.13	178,490.93	13.89	14.89	1.68
16	NABIL	2073/74	8,041.16	118,896.16	89,756.71	140,332.06	11.73	25.61	2.70
17	NABIL	2074/75	8,043.22	134,810.67	109,059.36	160,978.07	13.00	20.94	2.61
18	NABIL	2075/76	9,011.85	162,954.00	127,500.24	201,138.82	12.50	17.76	2.11
19	NABIL	2076/77	10,097.50	190,806.47	148,054.07	237,680.03	13.07	13.61	1.58
20	NABIL	2077/78	13,844.45	223,474.47	198,021.42	291,066.22	12.77	15.19	1.71
21	SBL	2073/74	7,584.54	77,317.56	65,511.59	89,901.51	12.74	14.89	1.51
22	SBL	2074/75	8,464.39	94,579.59	83,236.09	119,869.22	12.12	15.34	1.47
23	SBL	2075/76	8,887.60	114,923.37	104,876.30	154,031.13	12.70	15.71	1.49
24	SBL	2076/77	9,787.77	139,609.50	123,572.73	182,468.45	13.17	13.81	1.26
25	SBL	2077/78	10,962.30	180,924.01	158,579.24	228,941.96	13.36	15.68	1.25

Source: Respected Annual Report of Banks

*All amount figure are in million