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Determinants of the Profitability: Empirical Analysis of the Conventional Listed Banks in Pakistan

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Abstract

Profitability acts as an evaluative index which is use to calculate the firm's performance. This is reported that a country's economy depends on the performances of firms. Moreover, banks also play a vital role in growth of a county's economy. This is revealed that the main factor is profitability, which enhances economic growth. Banking sector of Pakistan frequently changes the system of banking to facilitate investors and achieve their goals in order to overcome the financial crises. The main objective of this paper is to examine the determinants of commercial banks in Pakistan. For this purpose used as determinants of profitability-return on assets and return on equity. For analysis purpose used panel data methods and collected data of 19 banks' financial statements during 2012-2020. The results revealed that inflation has a positive and significant relation with return on assets and insignificant relationship with return on equity. Moreover, concluded that CAR has a positive and significant effect of the profitability. This is revealed that large size banks achieve a higher performance level. Liquidity has negatively and significantly affect the level of return on equity. The results also demonstrated that capital adequacy, liquidity and GDP have insignificant effect on bank profitability. Therefore, suggested that concern authorities need to enhance the approaches which improve the financial outcomes of the banking sector.

Keywords: *Bank Size, Bank Performance, Gross Domestic Product, Inflation, Liquidity, Capital Adequacy.*

Introduction

Banks play a significant role in the economy's growth and progress. Banks contribute to the country's financial development and providing opportunities to people to make their saving to invest. Profitability in

the banking sector contributes to economic growth and aids in coping with the external shocks that are related to financial positions (Athanasoglou, Brissimis, & Delis, 2008). Rose (1999) define profitability as net after-tax income computed using asset and equity return. Rent ability refers to a company's ability to make money. However, real interest rates, inflation, real domestic gross output, and country imports and exports are all macroeconomic factors that affect profitability. The determinants of profitability, therefore, tend to be extremely relevant to research. The critical issue is profitability, which reveal the banks' performance with many external and internal factors. Internal considerations include liquidity, bank size, and operational efficiency in large part; however, inflation and Gross Domestic Product (GDP) are external factors (Albertazzi & Gambacorta, 2009).

Due to the effects of profitability banks undertake and promote intermediary roles between depositors and end-users in various business activities. As the financial sector, the banking sector has an 88% stake in Pakistan over the last ten years. Now, 24 banks (commercial banks) in Pakistan are planned and cooperative of which, the Stock Exchange of Pakistan covers 17 traditional banks. Pakistan's banking sector has been continuously undergoing reforms and systemic changes. To implement the structural reforms, many commercial banks were consolidated after 1947. Around 90 percent of banks held the highest share of total assets. Thus, the results were lowered, and banking reforms, such as loan rates and privatization, were eventually allowed to fix these issues. The banks began working successfully and gained huge profits even in the 2008-2009 world financial crisis after bank registration in stock exchanges, and Islamic banks began in 2002. Commercial banks played a crucial part in the formation and expansion of the economy (Anwar, 2011).

That is why banking sector is dominant in Pakistan. The relation of their profitability with Pakistan's growth should, therefore, be studied. The financial results are available for stakeholders, including investors, customers, and regulators, with appropriate financial data and information. Financial results also illustrate how the company was able to make investment decisions over a specific timeframe. This financial reporting operation offers the necessary information for vital business opportunities (Dubelaar, Sohal, & Savic, 2005). As a result, this research is investigated external and internal profitability elements of conventional banks in Pakistani context. Moreover, this is important in terms of profitability, a thorough investigation of macro and microeconomic aspects unique to the banking business because banks role is very important in economic development. Now, banks lack the capacity with structured costs to demonstrate increased income and market share. Important profitability is not meet and bank efficiency declines. There is also a shift in profitability from commercial level to public banks, and a change also happens because of the profitability of such reforms while on the other hand, uncertainty in the financial part that could be prevented immediately in the period the economy is at the recession if macro-economic shocks resolve this burden on policymakers to enhancing financial staking. So, the financial institution some factors is influencing the economic activity.

lhomovich (2009) analyzed the performance of internal and external banks operating in Malaysia from 2004 to 2008. He realized internal banks more profitable than external banks. But external banks that exists in Pakistan affecting financial qualities because all banks offers better and low cost banking during strong competition. (Farooq et al., 2021). Therefore, this research investigated the profitability determinants because it is one of financial management's primary purposes, optimizing the resources of the owner. Hence, to investigate the impact of profitability determinants in financial banks performance in Pakistan.

Literature Review

Different factors can affect the profitability of banking industry. Some of these factors can have positive effects on banks' profitability, while others have negative effects. The banks that control some of these factors that affect a bank's productivity and the others are out of the way. Interior factors largely influence the management of the bank. They are also known as bank factors, and they might be classified as negative or positive depending on their impact on the bank's profitability.

Theoretical Background

There are several theories regarding the relationship between profitability of banks and factors that affect performance in term of profitability. It is still a challenge to unify all empirical results within a theoretical framework. Hence, the profitable determinants are a difficult sensation that cannot be described by a single theory (Isik & Uygur, 2021). There are several existing theories explain relationship between bank profitability and determinants of profitability. The two basic theories were used to identify the main determinants that have a relation with bank profitability.

Signaling Theory

Some prior researches used the explanatory theory to perform his research. As a result of the information asymmetry, agencies with the most up-to-date information provide the essential information support to users with limited knowledge. Banks have cited an increase in debt utilization to the market as a positive development. Banks that are very profitable and growth-oriented borrow more than banks that are less profitable and non-growth oriented. Borrowing is influenced by a variety of factors, according to various capital structure theories. Profitability, bank size, asset structure, earnings variations, and expansion prospects are all factors that influence borrowing. According to the capital structure theories discussed, the variables have both positive and negative effects on borrowing. Bank's profitability, including the signaling theory states that bank's management sends different signals that the capital will be increase in future (Berger, 1995; and Trujillo-Ponce, 2012). Therefore, this is reported that relation of this theory with my study is that if the GDP is positive and there is no inflation then the bank's profitability will be positive. In addition, the CAR has a positive and significant effect on profitability. This suggest that larger banks can achieve a higher level of profitability (Al-Homaidi, Almaqtari, Yahya, & Khaled, 2020).

Theory of Market Power

A company's ability to set price of its product or service in order to maximize profit is known as market power. In addition, estimating market power through concentration, there have been other studies in the cattle packing business that link market power to other industrial characteristics. For example, employ an agent-based auction model to investigate changes in banking market dominance in the United States. According to the increasing competition between customers, market power can be diminished by the noisy signal of buyers or sellers (Banto & Monsia, 2021).

Gross Domestic Product and Bank Performance

GDP is one of the most important economic metrics used to measure a country's economic strength. It is the ratio of normal fiscal output to a given period, mostly within a country's borders. The performance of the economic sector is indivisibly tie to the growth of the economy (Levine et al., 2000). The bank's competitiveness is likely to benefit from increased real GDP growth. The effect of external and internal factors on bank production was studied, and it was discovered that liquidity, inflation, asset quality, and capital adequacy were found to have strong positive correlations with bank performance. However, bank success is strongly linked to GDP, management effectiveness, earnings quality, and stock market performance. Besides, Kamran, Johnson, & Sammer (2016). In Pakistan, researchers looked at the factors that influence a bank's profitability. They discovered that the bank's profitability was influenced by GDP, size, and leverage ratio. Furthermore, it is revealed that GDP can positively effect ROA and ROE (Bilal, Saeed, Gull, & Akram, 2013).

Inflation and Bank Performance

Kosmidou and Zopounidis (2008) there is a link between inflation and bank outcomes, according to the analysis. Egbunike and Okerekeoti (2018) examined the connection between macroeconomic parameters,

financial performance, and manufacturing business characteristics multiple linear regressions were used in Nigeria to test the idea and found no important influence on the exchange rate or interest rate, but a large impact on inflation and gross domestic product. Furthermore, the business's characteristics have exposed the importance of firm size, liquidity, and leverage. Internal variables such as deposit, operating performance, liquidity, asset quality, asset management, asset size, gearing ratio, and financial risk, as well as external drivers such as inflation and GDP, was shown to have a substantial effect on ROA and ROE, according to Ali (2015).

Liquidity and Bank Performance

Petria, Capraru, and Ihnatov (2015) investigate that the bank's liquidity is measure based on liquid assets percentage. This ratio reproduces the bank's willingness to make payments when it is required by its investors and other financial sources. The smaller share would make it hard for the bank to collect payments on schedule, resulting in insufficient liquidity. The smaller share would make it difficult for the bank to obtain reserves or would otherwise have an extremely high premium rate that would increase the cost of supporting and badly impact profitability. A much higher percentage would indicate the excess of idle liquid assets.

Petria et al. (2015) also examined the key elements of bank profitability in the European Union 27 during 2004-2011. To arrive at a conclusion, the panel used fixed effects and discovered that managerial efficiency, credit, liquidity risk, market diversity, and economic development all had an effect on the bank's profitability, both in terms of ROE and ROA. They also discovered that competition had a favorable impact on the bank's profits. Albulescu and Ionescu (2018) examined banks' internal profitability determinants in the countries of South and Central America and carried out a panel review.

Bank Size and Bank Performance

According to "Economic Theory," if a company is exposed to economies of scale, it can become progressively skilled at producing low-cost goods. The size of a bank or its economies of scale are frequently linked to profitability. In comparison to big banks and small banks, big banks supposed to grow economies of scale and produce a vast range of products economically and efficiently. In this way, big banks are prepared to produce higher rates of return than small banks. Furthermore, between 2009 and 2014, Albulescu and Ionescu (2018).They discovered that the bank size had negative effect on profitability and asset quality, whereas inflation and market mix had a favorable impact.

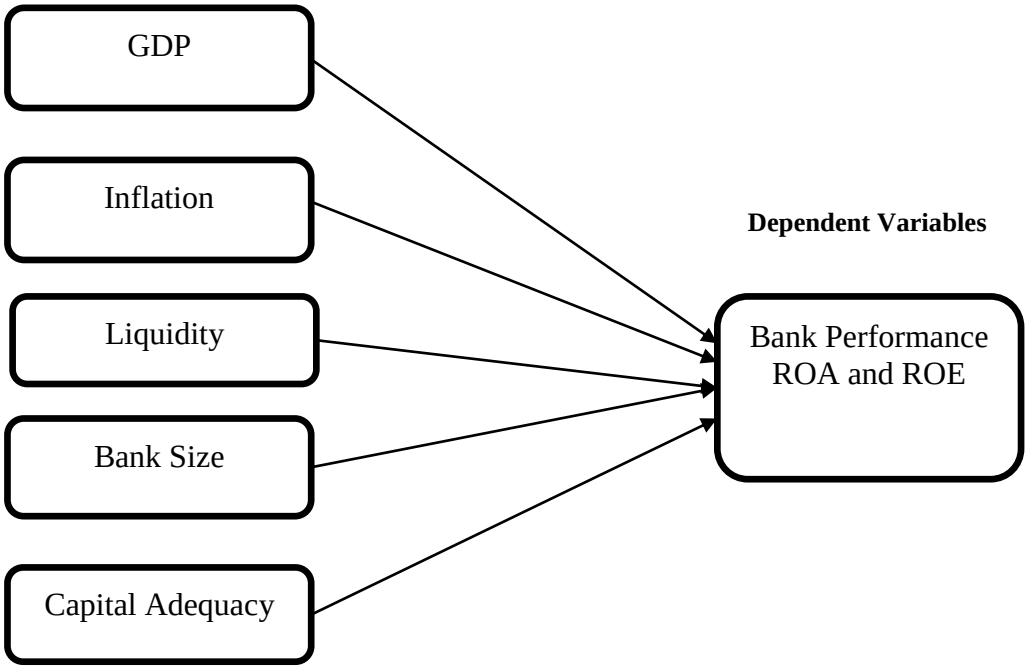
Capital Adequacy and Bank Performance

The capital adequacy ratio is a critical metric for determining capital strength. It is defined as the equity-to-total-assets ratio of a corporation (Abel & Le Roux, 2016). A strong correlation has been found between commercial banks' capital adequacy and profitability (Ebenezer, Omar, & Kamil, 2017). Used a stable panel of data set of 13 Jordanian banks to examine the key drivers that influenced commercial bank profitability during 2005-2014. The study revealed that the variables of leverage, capitalization, and capital adequacy positively affect bank performance (Alshatti, 2016).

Hypothesis of the Study

H_1: GDP, inflation, liquidity, size and capital adequacy has an impact on ROA and ROE in conventional banking of Pakistan.

Conceptual Framework



Research Methodology

In this research work used panel data of banks for a period of 2012 to 2020. Data for the dependent and independent are collected from various sources such as State Bank of Pakistan's website, Pakistan economic survey and respective websites of banks.

Liquidity, capital adequacy, GDP, inflation and company size are the independent variables used in this research study, for performance measurement used ROA and ROE as dependent variables. ROA is a calculation of how much profit a firm produces from its capital. This profitability ratio shows the rate of increase in income produced by a company's assets in percentage terms (Rolle, Herani, et al., 2020). It is calculated as the ratio of net profit after t to total assets. Moreover, ROE shows how effectively a company management manage the funds that shareholders have invested. It assesses a company's profitability in relation to the equity held by investors. The higher a company's ROE is, the better it is at generating income and growth from its equity financing (Kamran et al., 2016)**.** However, these independent variables are used in this study: inflation, which is influencing company/firm pricing behavior. Banks are restricting inflation and preventing deflation from keeping the economy running smoothly. If companies expect general inflation to be higher in the future, they will assume that they can boost their prices without experiencing a drop in demand for their production. Inflation can be measure via percentage from the previous year. (Umar, Maijama'a, & Adamu, 2014; Jin, 2022). GDP is the total amount of financial or market value of finished goods/services produced within a country's borders during a given time period and it is measured once a year, although it can also be done quarterly (Ullah et al. 2020).

The Capital to Risk Assets Ratio, the amount of capital a bank has in comparison to its risk is known as capital adequacy. It is a metric for liable a bank's capital. (Farooq et al., 2021). Liquidity is the amount of cash and other assets on hand by banks to pay bills and encounter short-term commercial and financial requirements. Central bank reserves and government bonds are common examples of liquid assets (Ali,

Akhtar, Ahmed, & Science, 2011). The natural logarithm of the value of total assets is sued as proxy of firm size; Ullah et al. 2020). When looking at the inflation-profitability link, there are a few things to consider (Bourke, 1989). The first thing to consider was how much employee costs and other operating costs had risen in comparison to inflation. A bank's ability to manage operational expenses depends on the maturity of the economy in two ways. First, the accuracy of future inflation estimates can have a significant impact. Additionally, Perry (1992) stated that if the inflation rate is fully expected, banks can regulate the interest rates imposed on loans and deposits properly to increase economic profits (Farooq et al., 2021).

Models of the Study

$$ROA= \beta_o+\beta_1 GDP_{it}+ \beta_2 Inf_{it} + \beta_3 Lq_{it}+ \beta_4 CAR_{it} + \beta_5 Size_{it} + u \quad (1)$$
$$ROE= \beta_o+\beta_1 GDP_{it}+ \beta_2 Inf_{it} + \beta_3 Lq_{it}+ \beta_4 CAR_{it} + \beta_5 Size_{it} + u \quad (2)$$

For investigation of the profitability determinants used ROA and ROE as profitability measures.

Results and Discussion

The Shapiro–Wilk test, Skewness, Kolmogorov-Smirnov, and mean with SD are some of the maximum prominent techniques for determining the normality of continuous data (Mishra et al., 2019). According to the OLS concept of no multi-collinearity, the independent variables should not have a linear connection. Because the overall amount of correlation among the variables is less than 0.60, multi-collinearity cannot lead to skewed findings. In economics, it is believed that when a regression analysis is used with independent variables that have a correlation of greater than 0.60, there is a risk of multi-collinearity, and the regression results produced may not be generalizable. The solution could be to remove the variables or change their values according to various date and time (Mansfield & Helms, 1982).

Variance inflation factor (VIF) for every independent variable is the second method for determining multi-collinearity. It's a measure for calculating the multicollinearity of a set of multivariate regression variables. The stronger the connection between one variable and the others, the higher the VIF value (Shrestha, 2020; Jinqiao et al., 2022).

Homoscedasticity

Homoscedasticity is another important assumption of regression model, it means same variances. “A scenario known as homoscedasticity occurs when error term, or noise,” or random disturbance in the relationship between the independent and the dependent variables, as the same for all value of the independent variable.

According to this OLS assumption, the variance of the error components in the regression should be the same. If the variance is not constant, the linear regression model will contain heteroscedastic errors, resulting in erroneous estimations (Shah, 2022).

The Breusch Pagan Test assumes that the error components are normally distributed when testing for heteroskedasticity in a linear regression model. It determines if the independent variables' values have an impact on the variance of regression errors (Shah, 2022).

Autocorrelation

This assumption of OLS states that disturbance terms of different observations should not be related with its previous values. When dealing with time series data (for example, yearly unemployment data in Pakistan), autocorrelation is almost certain to occur because unemployment next year will almost certainly

be influenced by unemployment this year. As a result, error terms in several observations will virtually always be linked (Shah, 2022).

Autocorrelation is diagnosed using a correlogram, and the Durbin-Watson test can be used to confirm it. Autocorrelation refers to data that is related with itself rather than with other data, and the auto in autocorrelation derives from the Greek word for self (Babii, Ghysels, & Striaukas, 2020).

Panel Data Analysis Technique

For analysis of panel data used specific techniques of panel data such as pooled, fixed and random. This is reported that when separate sample is selected for each year/month/period of the panel data, pooled OLS is used Wooldridge (2010). In this study use the same sample of all periods. F-test/Chow test is use to reveal that pooled effect or fixed effect model is appropriate. Moreover, if the results suggest that test value is 0.000 then fixed effect model is suitable for analysis. Second approach of panel data analysis is fixed effect model. It assume that explanatory variable and the response variable are supposed to have a fixed or constant relationship across all observations in fixed effect models. The country and industry had a fixed or random effect on the firm's profitability and valuation in the case below. The F-Test and Chow-test are used to check for fixed effects. It's most commonly used to compare statistical models that have been fitted to a data set to evaluate which one best fits the population. Sanderson and Windmeijer (2016) in this study also use the Chow-test to see if the regression coefficients of each regression line are the same. If the test finds that the coefficients between the regression lines are not equal, there is strong evidence that the data contains a structural break (Sun & Wang, 2021). In addition, explanatory components in a random-effects model have consistent relations with the response variable, but these fixed effects may vary from one observation to the next. Let's imagine you're interested in learning more about how varying levels of policies affect the firm's flexibility (Geisser, 1974). The assumption is that each level of policy and its accompanying consequence have a fixed difference (i.e., Profitability). This fixed difference, on the other hand, can vary from person to person (Sun & Wang, 2021).

Model Selection Criteria of Panel Data

The appropriate model is a fixed-effects model when the inputs used to train the model have fixed levels/categories (such as age group, gender, nation, industry, and so on. If one or more parts only examine a small number of levels/categories for training and the model output is intended to apply to all other levels/categories, this could be a random effect or mixed effect model. When we use both fixed and random models, we get the best results.

Table 1: Descriptive Statistics

	ROA	ROE	GDP	INF	LIQUIDITY	CAR	SIZE
Mean	9.6E-06	0.01	4.1646	7.469	1.6186	13.150	20.0749
Median	8.7E-06	0.01	4.6750	7.189	0.9852	14.600	20.1007
Maximum	0.00	0.23	10.5780	21.187	3.4821	25.070	22.0162
Minimum	-3.7E-05	-0.17	0.5260	2.529	1.5283	-45.160	17.3666
Std. Dev.	1.7E-05	0.03	2.0679	4.437	2.6778	7.511	0.9717
Skewness	3.921	2.36	-0.2539	1.444	1.9726	-3.706	-0.3168
Kurtosis	52.14	28.05	3.2917	5.340	4.0084	26.455	2.6127
Jarque-Bera	182.55	4631.08	2.4441	98.525	2.2538	4311.365	3.9302
Probability	0.0000	0.000000	0.2946	0.0000	0.0000	0.0000	0.1401

The best-fitting model is chosen using the Hausman Test (Hausman, 1978), a method for determining a model's suitability and accuracy. The test's null and alternative hypotheses are as follows. The random

effect model is the best and most suitable model, according to the null hypothesis. The fixed effect model, on the other hand, is the best and most appropriate model, according to the alternative hypothesis. We will choose a fixed or random effect model based on the Hausman and other tests to improve the accuracy of the results (Babii et al., 2020).

Table 1 reports descriptive statistics of the variables used in this study such as mean, standard deviation, minimum, maximum values, skewness, and kurtosis. The mean of ROA and ROE varies importantly across the selected banks and periods. The overall results of the descriptive statistics are satisfactory.

Correlational Analysis

Table 2: Correlation Matrix of Model 1

Variables	ROA	GDP	INF	Liquidity	CAR	Size
ROA	1.000					
GDP	0.0105	1.000				
INF	0.0579	-0.1790	1.000			
Liquidity	0.0401	-0.1642	0.0845	1.000		
CAR	0.3171	-0.0935	-0.2815	0.2154	1.000	
Size	0.1290	-0.0807	0.1117	0.8177	0.1499	1.000

Table 2 show the correlation between variables .The correlation coefficient describe the relationship between. The value of 1 is representing the perfect correlation in the model 1 ROA and GDP has low positive relationship. The relationship of ROA and inflation is also positive and significant. The liquidity, capital adequacy relation and size all have positive association respectively.

Table 3: Correlation Matrix of Model II

Variables	ROE	GDP	INF	Liquidity	CAR	Size
ROE	1.000					
GDP	0.0157	1.000				
INF	0.0165	-0.1790	1.000			
Liquidity	0.0547	-0.1542	0.0845	1.000		
CAR	0.2751	-0.0935	-0.2815	0.2154	1.000	
Size	0.1602	-0.0807	0.1117	0.8177	0.1499	1.000

Table 3 show the relationship of model II. ROE and other independent variables are positively and significantly associated with GDP and inflation. The liquidity and CAR are also have a positive association, which show change in ROE can change the value of liquidity and CAR. The multicollenarity problem was also investigated through the VIF. Variables values are less than 10 which also show that both model 1 and model 2 having no issue of multicollenarity (Shah, 2022).

Multicollenarity

Table 4: Variance Inflation Factor Results

Variables	VIF	1/VIF
Liquidity	3.18	0.3143
Size	3.07	0.3256
CAR	1.18	0.8580
INF	1.17	0.8580
GDP	1.09	0.9215
Mean VIF	1.94	

To overcome the problem of multicollenarity are also addressed is the model 1 the values of VIF are less than 10, which show the model is free from multicollenarity problem. Moreover, Table 2 representing the perfect correlation, which is slightly a positive and significant relationship. Table 3 shows the relation of ROE and other variables positive and significant as well as the model is free from multicollenarity problem (Jaara, AL-Dahiyat, & AL-Takryty, 2021).

Table 5: Regression Results of Fixed Effect Model 1

ROA	Coef.	Std.Err	Z	P>|z
GDP	4.39e-07	6.47e-07	0.68	0.497
INF	6.68e-07	3.44e-07	1.94	0.052
LIQUIDITY	-6.73e-14	3.71e-14	-1.81	0.070
CAR	8.37e-07	1.99e-07	4.21	0.000
Size	3.82e-06	2.59e-06	1.48	0.139
Cons	-00008	.00005	-1.60	0.109

Homoscedasticity Test Result

Chi2 (1) = 16.57
Prob > chi2 = 0.0000

Results in table 5 shows model I results. GDP and size of firms insignificant and positively affected the performance of firms in term of ROA. However, inflation, liquidity and CAR significantly affected the performance. Moreover, the effect of inflation and CAR are positive and liquidity is negatively affected the level of performance. Therefore, revealed that inflation, liquidity of firms and CAR are such variables which can affect the operations of firms. In addition, effect of GDP and size are positive.

Table 6: Fixed Effect Results of Model II

ROE	Coef.	Std.Err	Z	P>|z
GDP	.0005984	.0013211	0.45	0.651
INF	.0006828	.0007115	0.96	0.337
LIQUIDITY	-1.30e-10	7.68e-11	-1.69	0.091
CAR	.0013002	.0004088	3.18	0.001
Size	.0094872	.005368	1.77	0.077
Cons	-.1933743	.1049543	-1.84	0.065

Table 6 reports fixed effect results of panel data techniques. It shows liquidity is positively and significantly effected performance in term of ROE. Moreover, CAR and size of firms are positive and significant effect the performance. However, GDP and inflation are insignificant and positive effected the performance. Therefore, on the basis of these findings concluded that liquidity, CAR and size of banking sector play vital role in banking performance and efficiency.

Hasuman Test Results

Chi2 (4) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 46.14 Prob>chi2 = 0.0000

Homoscedasticity Test Results

chi2 (1) = 10.31
Prob > chi2 = 0.0013

The diagnostic tests of the panel data techniques shows that the most appropriate model is fixed effect model of the study for this study.

Conclusion

Profitability is one of the important indicator of performance generally and specifically for bank performance. This study examines the determinants of commercial bank profitability in Pakistan. For this purpose, the panel data method fixed effects technique is applied for analysis during 2012 to 2020. This is concluded that inflation has a positive and significant relation with ROA and insignificant relation with ROE. Moreover, CAR has positive and significant effect on profitability. It suggests that firms with higher level of CAR can perform competitively and achieve their targeted level of performance. In addition, the positive and significant effect of firm size on performance revealed that economies of scale theory is appropriate for banking sector in Pakistan. However, the ratios of liquidity demonstrated the negative and significant effect on ROE. The remaining bank-specific factors (capital adequacy, liquidity) and macroeconomic factors GDP have no effect on bank profitability.

The fact that the study was limited to listed commercial banks is one of the study's shortcomings. Additionally, Pakistan only tested these conclusions. All commercial banks, even those that are not publicly traded, should be included in future study. Additionally, it is possible to take into account the differences in profitability drivers between small and large, or high and low profitability institutions. The results also concluded that inflation has negatively affect ROA. Hence, this is suggested for higher authorities to design such policies which can control the dramatic changes in inflation rates that such approaches and systems can help and facilitate the financial exercises in the country.

The limitation of this study include the commercial banks only, which were restricted. In addition, the study has not undertaken to analyze the performance of other financial institutions. It suggests the government to enhance those approaches, which may improve the financial outcomes of the country. Furthermore banks management must decrease their funding cost, keeps their liquid assets in equal level to be more profitable. The banking sector should provide loans for any productive contingency that will strengthen the economy and providing them chances to grow in an expanding economy. Inflation is also a crucial signal for a country’s economy so the government should make such policies and take decisions that can positively affect financial sectors in order to avoid inflation. The result also suggests that government should contribute in facilitating all the financial sectors of the country. The banks may raise their funds and properly manage their capital in order to earn a sound profit as well as the result also includes the investors to invest in banking sector.

Future Research

For the future researcher, the next step regarding this research is to take other financial institutions i.e Islamic and conventional banks as well. More methodological work is needed to overcome the shortcomings of overall financial performance of banking sector. The result of this study show that the factors like capital adequacy, liquidity and GDP have not important effect on bank’s profitability. For future researcher is to find that why this is so.

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