Internal factors affecting the profitability of City Banks

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ABSTRACT: Banks as intermediaries' money resources besides the institutions like investment stock market and insurance markets are considered as the main pillars of financial. Study for identification of the performance of banks in the implementation of each of the functions can present a spectrum of strengths points and the existing weakness in the banks. As far as the banks just like the other companies follow economic profitability, to achieve this important goal is necessary to recognition of effective variables on the profitability. The present research examined the internal factors affecting the profitability of city banks during the years 2012-2009. Internal factors affecting the profitability of banks, including; deposit amount, the payment facilities, credit risk management, cost management and the amount of liquidity. The research method was a descriptive –correlational and testing of hypotheses by examining the correlation and regression. The results showed that there is a direct relationship between the profitability of the banks with the credit risk management and cost management, and the amount of deposits, loan payments, and the amount of liquidity are negatively and significantly related.

Keywords: cash; city banks; deposits; internal factors; loan payments; profitability

INTRODUCTION

Banks as intermediaries of money resources besides other institutions like investment stock market and insurance are considered as the main pillars of financial markets. They are one of the major causes for the economic policies and also executors for monetary decision of Central Bank. Banks by contraction and expansion of credits and redirect funds from part to part, aside from helping to stabilize the economy at the large level, have an important role in the regulation of the economy. Due to the lack of necessary development of capital market in economy of Iran, banking is more important and in practice these are the banks which are responsible for long-term financing (Shadkam, 2001).

Today banks offer a variety of services to its clients, including deposits, granting loans and new services that are offered through the World Wide Web. Increasing efficiency and providing a variety of services in the minimum of time are some of the expectation which banking network always had faced in this regard the initiate action such as SHETAB plan (Interbank Information Network) and electronic banking in the country's banking system has been designed and implemented. Banking system through directing resources to manufacturing and service sectors, to fulfill their social responsibility can create production; employment and economic growth in the country. The field of activity in banking are divided into three parts resource mobilization, allocation of resources and services. Thus identification of banks performance in the implementation of each of its tasks can present a range of strengths and weaknesses in banks. Since banks just like the other firms seek economic profitability to achieve this important goal, it is necessary to identify effective variables.

Determinant factors of bank profitability are separated to both internal factors which is controlled by bank management and external factors outside the control of management and under the condition of massive environment. Role of financial markets (banks) in Iran in providing financial of various economic sectors is stronger and bolder than the capital markets. The basic goal of any business and economic bank is profitability. Banks use all of their efforts to achieve the objectives and meet the economic needs of the community they serve and they are considered as one of the main tools of monetary policy in each country's economic system for on one hand gather small savings and wandering funds in the hands of the people and on the other hand in line with the implementation of economic policies and credit which has been set, direct the financial resources
to steering the wheel of manufacturing and industrial sectors. But alongside these, banks in order to achieve their objectives are following effective factors on positive performance and profitability thus identification of banks performance in the implementation of each of its tasks can present a range of strengths and weaknesses in banks. Since banks just like the other firms seek economic profitability to achieve this important goal, it is necessary to identify effective variables. In this study Among the country's bank the city bank was investigated and the variables that affect the development and activities of the bank examined. With regard to the fact that one of the functions of city bank profitability is improvement of the rights of the owners of the capital stock It means that the profitability is quite repeated.

Over the past few years of the establishment of city a bank, in addition to financial services for different activities it has been effort for increasing the profitability and less relied on government resources. This article will attempt to answer the question what are the internal factors affecting the profitability of the city banks and what role to play each of the attained variables in achieving the higher goals of the bank.

**Theoretical background and review of literature**

Factors influencing the profitability of banks are divided into two internal and external categories (Taheri, 2010) which in this article internal factor are dealt with.

Factors that are under management control, some of them are as follows:

**capital**

in the economy capital investment is the right or interests of the owners of an institution in the assets. This amount is achieved by decreasing the debt of the institution from the total assets it (Nabavi, 2010). One of the main reasons for high ratio of banks investment is to enable them to deal with the risk of non-repayment of credits by the borrowers, because banks use their own investment as a buffer against insolvency (Ahmadzade & others, 2005). Adequate and sufficient investment is one of the necessary conditions for maintaining the banking system healthy, and each of the banks and credit institutions to ensure stability of its operations must always guarantee the investment and the risk of assets. For this purpose, one of the parameters of interest is capital adequacy ratio of banks and financial institutions (Shabahang, 2002).

**operational Risk Management**

Credit risk is the probability of not returning resource of banks by debtors. And banks are faced with this risk when the recipient of the credits due to inability to repay the loans cannot commit their obligation on the due date toward the banks. In calculating credit risk use the total ratio of unfavorable receivable to the entire loans, past due receivables to total receivables in appropriate, overdue receivables to total receivables inappropriate, doubtful receivables to total receivables inappropriate, savedoubtfulreceivables toentirereceivables, total loans to total deposits, total loans granted to hundreds of superior customer to total loans, total of hundred massive loans to total loans (Nabavi, 2010).

**liquidity**

Liquidity is the bank ability to obtain cash, in order to meet current and necessary needs. Banks should have sufficient liquidity to meet the demands of depositors and loan holder so in this way gain the public assurance. Therefore financial institutions need effective assets and liabilities management system to decrease the noncompliance of assets and liabilities and to optimize returning. Also, due to the inverse relationship between liquidity and profitability, creating a perfect balance between these two variables is also important (Ahmadzade et al., 2005).

**cost management**

The ultimate goal of any business is to increase shareholder value. Indeed, in modern condition of business, institution sustainable success depends on producing value for shareholders, for the owners of the equity invest where the expected output can be achieved. There are several different ways to increase the profitability and thus producing value for shareholders. Although creating appropriate capital structure and enhancing the firm's portfolio is the most common action to increase value but another important resource for profitability is derived from the cost of management by different units of the organization (Fakharian, 2009). In simple and brief definition cost management is the collection of measures which is done by the management to ensure customers satisfaction while controlling and continuous reducing of the cost (Fakharian, 2010).

**bank deposits**

All deposits are divided into the following three groups (Bagheri, 2005):

Current loan deposits (demand): the legal nature and quality of this account is like demand deposit in traditional banks. Real and legal persons and entity, corporate body with a current account, deposit their additional funds to the bank, receive check book to use it on checking accounts in monetary transactions in appropriate time and since the incentive of depositors of this account is preserving and facilitating the exchange of monetary
funds through the banking service, the use of loanwords is not correct. It seems that the phrase applied to this account is due to the opinion that any interest-free loan is a loan while it is wrong. According to the Quran's verses and ahadith, a loan fund (money loaned without interest) is where lender to earn spiritual reward help the person who needs and gives him an interest-free loan. So if a lender lends money to the banks or the other with purposes like keeping money, facilitating transactions, transfer funds and so on, although the loan is interest free and is legitimate and permissible in Islam but it does not apply as a (loan*) and as mentioned above most of the current account depositors invest with such purposes.

Saving interest-free loan deposit: saving account is the most common deposit in banking system. This is the characteristic of this account which the real persons and sometimes legal persons or entity deposit their extra funds of their cost to this accounts for along indefinite time and for that receive a booklet so when they need get back the mentioned funds. The nature of such deposit is loan and generally in traditional banks interest will accrue to them. In banking without usury payment of interest is prohibited but to encourage the depositors consider some rewards. These rewards will be paid without prior contract or commitment by non-fixed option (cash or ware) and will be distributed by lottery to the owners of accounts. Since the owners of these types of deposits usually in addition to saving money intent to help the banks in granting interest-free loan and gain the holy and spiritual reward of this act, the application of interest-free loan word in appropriate.

Time investment deposits: they have many cash assets which for different reason do not employing them. So they are seeking institutions which in addition to preserving the investment give them more benefits. Traditional banks in the form of fixed deposits absorb the funds and in addition to the obligation of repaying the money, appropriate to the duration of investing pay interest to the owners. Because of the legal nature of this type of loan was obviously lending with interest and usury, the laws of banking has basically changed in banking without interest. As in three to six usury-free banking law is mentioned, banks take the term investment deposit from the owners in the form of delegation contract and as the agent of depositors and apply them in participations, bailment of a capital (Mudaraba), rent on the condition of possession, installment transactions, contract of farm letting, sharecropping, direct investment, no interest loan for the lender and borrower will then repay the same value (Salaf), minor building works contract with a bank for a loan (Ja'ale). Banks can guarantee or insure the main time investment deposits and according to the contract the profits derived from the mentioned operation, appropriate to the duration and amount of deposits, with regard of the bank’s resources share, after decreasing the cost and the fee of delegation, are divided between the owners of deposits. Although the interest rate on this account is not clear initially but due to the extent and variety of secure transaction which the benefits will income so that before full auditing bank can pay them in part account. Time investment deposits exist in two forms short and long term. Short term investment deposit is maintained in booklet and is opened with at least ten thousand Riyals for the first time, in three month to stay in account. Account owner by presenting the booklet at any time can accesses to their fun or add money to it with considering this point that the first three month and also taking into account that to the minimum balance each month will be accrued benefit ratio. These deposits extend monthly and automatically contract in accordance with the initial contract after the first three months and there is no need to go back to renew the contract. Long-term investment deposits will be accepted in Banks in form of deposit sheet with at least fifty thousand Riyals and for a period of one year, two years, three years and five years. After the due date, extending of deposit will be easy with regard to the function of coefficient three month (Mehrabi, 2010).

pay loan

Payment of credit loan is the main activity and the main source of Banks revenue. Economic growth, without increasing the quantity of capital as a factor of production is not possible and for various reasons is impossible for all person in all cases and stages of their activities to meet their needs by just using their own financial resources and in addition, the receipts and payments of economic units are rarely applicable so they are forced to use loans and money resources of financial and credit institutions which the banks are the most important one (Hedayati, 1993).

personnel

Successful senior managers of service organizations have found that in new economy service, corporate employee sand customers should be the center of management attention. Successful managers in the services sector consider factors which in modern era will result profitability (Johnsson, 1995).

One of the internal indirect affecting factors of bank profitability is improving personnel knowledge through holding training courses. In a study conducted by Ben Naceur 2003, as determinant factors of profitability in the Tunisian banking industry, profitability of 10 major banks which accept deposits in Tunisia during 1980-2000 are evaluated. The results showed that among internal factors, high capital, overhead costs and bank lending rates to customers have no direct impact on increasing profitability and among the indicators of financial structure, concentration of free competition has less positive effect on profitability and banks net profit Indicator of stock market development has a positive impact on banks' profitability, which shows the
The relationship between the deposits amount and profitability of City bank.

There is a relationship between loan amount paid and profitability of City bank.

There is a relationship between credit risk management and profitability of City bank.

There is a relationship between cost management and profitability of City bank.

There is a relationship between the amount of liquidity and profitability of City bank.

METHODS

This study which is practical in purpose, is descriptive analysis, and the procedure and method are considered as correlation and regression analysis because in this study the independent variables to the dependent variable is evaluated. The sample was City Bank in Rey in 2009-2012. In this study, some of the data that form the basis of the design are compiled by library methods. Also part of the data to test hypotheses is derived from financial statements of the City Bank and Tehran Stock Exchange Site.

Hypotheses

There is a relationship between the deposits amount and profitability of City bank.

There is a relationship between loan amount paid and profitability of City bank.

There is a relationship between credit risk management and profitability of City bank.

There is a relationship between cost management and profitability of City bank.

There is a relationship between the amount of liquidity and profitability of City bank.
DATA ANALYSIS METHODS

For data analysis, first the descriptive statistics including mean, standard deviation etc. is applied and then inferential statistics including normality tests, correlation and regression testing will be used.

RESULTS

descriptive statistics

Descriptive statistics of research variables included the rate of Return On Assets (ROA), Deposits amount (D), Credits (C), credit Risk Management (RM), cost management (CM), and the liquid (L) is given in Table 1.

![Table 1. Descriptive analysis of variables](image)

First in this section descriptive statistics are presented. Due to the usage of the Sectional and time series combined data method to test the hypothesis; the number of monthly observations of City Banks was based on a balanced panel data for 36 months (3 years), respectively. According to descriptive statistics, the distribution of these variables in different companies is low. The maximum standard deviation is for deposits amount variable and the lowest standard deviation is for the rate of Return on Assets variable. To evaluate the skewness and dispersion of each variables and to compare it with normal distribution, it seems that all the variables normally distributed. Because when the absolute values of skewness and dispersion is large, it can be concluded that it is very different from the normal distribution.

test the normality of the variables

To check the normality of the variables in this study, "Kolmogorov - Smirnov" test is used; in fact this test is used for checking the normality distribution of variable which in this study is done by SPSS.

![Table 2. Test of normality of variables](image)

As it can be seen, since the level of significance in all variables is over 0.05, therefore research variables are normally distributed.

correlation test

Before embarking on test the hypothesis, we investigated the correlation between variables. As in the previous section it was shown the data distribution is normal so to investigate the correlation between variables, the Pearson correlation coefficient is used.

test the first hypothesis

The first hypothesis examined the relationship between the deposit amount and profitability of City Bank. Pearson correlation test results are in Table 3:

![Table 3. Correlation test between deposits and profitability](image)
According to above the table, because of the significance level is less than 0.05, so that there is a significant correlation between the amount of deposits and profitability and because Pearson correlation coefficient is – 0.763 so that there is a strong negative significant correlation between the amount of deposits and profitability.

**Test the second hypothesis**

The second hypothesis examined the relationship between loan amount paid and profitability of City Bank. Pearson correlation test results are in Table 4:

<table>
<thead>
<tr>
<th>loan amount paid</th>
<th>Profitability</th>
<th>Pearson correlation coefficient</th>
<th>Significance level (reciprocal)</th>
<th>number</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0.243</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.000</td>
<td>0</td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>1</td>
<td>-0.243</td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>0</td>
<td>0.000</td>
<td></td>
<td></td>
<td>36</td>
</tr>
</tbody>
</table>

According to above the table, because of the significance level is less than 0.05, so that there is a significant correlation between loan amount paid and profitability and because Pearson correlation coefficient is – 0.243 so that there is a weak negative significant correlation between the loan amount paid and profitability.

**Test the third hypothesis**

The third hypothesis examined the relationship between credit risk management and profitability of City Bank. Pearson correlation test results are in Table 5:

<table>
<thead>
<tr>
<th>Reverse indicator of credit risk management</th>
<th>Profitability</th>
<th>Pearson correlation coefficient</th>
<th>Significance level (reciprocal)</th>
<th>number</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0.792</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.000</td>
<td>0</td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>1</td>
<td>-0.792</td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>0</td>
<td>0.000</td>
<td></td>
<td></td>
<td>36</td>
</tr>
</tbody>
</table>

According to above the table, because of the significance level is less than 0.05, so that there is a significant correlation between Reverse indicator of credit risk management and profitability and because Pearson correlation coefficient is – 0.792 so that there is a strong positive significant correlation between credit risk management and profitability.

**Test the forth hypothesis**

The forth hypothesis examined the relationship between costs management and profitability of City Bank. Pearson correlation test results are in Table 6:

<table>
<thead>
<tr>
<th>Reverse indicator costs management</th>
<th>Profitability</th>
<th>Pearson correlation coefficient</th>
<th>Significance level (reciprocal)</th>
<th>number</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0.862</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.000</td>
<td>0</td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>1</td>
<td>-0.862</td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>0</td>
<td>0.000</td>
<td></td>
<td></td>
<td>36</td>
</tr>
</tbody>
</table>

According to above the table, because of the significance level is less than 0.05, so that there is a significant correlation between Reverse indicator of costs management and profitability and because Pearson correlation coefficient is – 0.862 so that there is a strong positive significant correlation between cost management and profitability.
test the fifth hypothesis

The fifth hypothesis examined the relationship between amount of liquidity and profitability of City Bank. Pearson correlation test results are in Table 7:

<table>
<thead>
<tr>
<th>The amount of liquidity</th>
<th>Profitability</th>
<th>Pearson correlation coefficient</th>
<th>Significance level (reciprocal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.542</td>
<td>1</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>0.000</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>36</td>
<td>36</td>
<td>1</td>
<td>0.542</td>
</tr>
<tr>
<td>1</td>
<td>-0.542</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td>0</td>
<td>0.000</td>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>

According to above the table, because of the significance level is less than 0.05, so that there is a significant correlation between the amount of liquidity and profitability and because Pearson correlation coefficient is -0.542 so that there is average negative significant correlation between the amount of liquidity and profitability.

Regression test

In order to perform regression testing, first we explain the assumptions test of the regression model. According to the F statistic in the regression table, since the significance level is less than 0.05, the regression model is significant for all hypothesis tests. Variables linear test described in the following table:

<table>
<thead>
<tr>
<th>Model</th>
<th>Row</th>
<th>Eigen values</th>
<th>Status indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>5.295</td>
<td>1.000</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>1.115</td>
<td>2.180</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>.952</td>
<td>2.358</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>.912</td>
<td>2.410</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>.840</td>
<td>2.510</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>.667</td>
<td>2.819</td>
</tr>
</tbody>
</table>

As it can be seen, the eigenvalues indicate the possibility of internal correlation between variables. However, all the status indicators are less than 15, indicating the absence of multicollinearity among the independent variables. Durbin-Watson statistic in the hypothesis testing table represents a test of autocorrelation between variables. Since this statistic in each regression testing tables is between 1.5 and 2.5, so there is no autocorrelation problem between variables.

This section examines the relationship between the amount and type of deposit, the amount and type of loan paid, credit risk management, cost management and liquidity with profitability.

H0 = between the amount and type of deposit, the amount and type of loan paid, credit risk management, cost management and liquidity with profitability, there is no significant relationship H0: β = 0

H1 = between the amount and type of deposit, the amount and type of loan amount paid, credit risk management, cost management and liquidity with profitability there is a significant relationship. H1: β ≠ 0
The test results are presented in Table 9:

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>sign</th>
<th>Variable name</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>Significant level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variable</td>
<td>Y</td>
<td>Profitability</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Constant value</td>
<td>α</td>
<td>Alpha</td>
<td>3.870 *</td>
<td>2.015</td>
<td>0.000</td>
</tr>
<tr>
<td>Independent Variables</td>
<td></td>
<td>The type and amount of deposits</td>
<td>-0.145 *</td>
<td>-1.055</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The type and amount of credits</td>
<td>-0.394 *</td>
<td>-1.995</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reverse indicator of credit risk management</td>
<td>-0.299 *</td>
<td>-1.615</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inverse indicator of Cost Management</td>
<td>-0.794 *</td>
<td>-1.291</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Amount of liquidity</td>
<td>-0.164 *</td>
<td>-1.691</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Durbin- Watson</td>
<td>1.863</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>F-statistic</td>
<td>1.925</td>
<td>-</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The correlation coefficient</td>
<td>0.767</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R Square</td>
<td>0.589</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td></td>
<td>Adjusted coefficient of determination</td>
<td>0.582</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*: Significance level is 0.05

As the figure shows, amount and type of deposit, amount and type of loan paid, reverse indicator of credit risk management, reverse indicator of cost management and liquidity variables (p-value <5%) have a significant relationship with profitability. The variables coefficient indicates that costs management's variable effect on profitability is more than other examined variables.

Amount and type of deposit, amount and type of loan paid, reverse indicator of credit risk management, reverse indicator of cost management and liquidity variables have an inverse relationship with profitability, therefore, cost management and credit risk management variables are directly related to profitability. According to the F-statistic amount, processed regression model is significant and the coefficient of determination these variables, explain 58.9 percent of profitability changes. Because Durbin - Watson statistic is between 1.5 and 2.5, then it is possible to conclude that there is no autocorrelation problem between variables.

CONCLUSIONS AND RECOMMENDATIONS

The main purpose of this study was “The internal factors affecting City Bank profitability in the years 2009 to 2012” in this regard, among the internal factors affecting bank profitability examined the relationship between variables including amount and type of deposits, and the amount and type of loan paid, credit risk management, cost management and liquidity with profitability. Rate of return on on assets is considered as criterion to evaluate bank profitability. In general, the statistical methods used in this study are a regression using combined data. Hypotheses were tested through the results of econometric and multivariate regression models.

The important findings of this study can be stated as follows:

During the study years (2009-2012), there is a negative relationship between the amount of bank deposits and profitability of City Bank. Because the Pearson correlation coefficient at the significance level of 5% is – 0.763; Thus There is a strong significant negative correlation between the amount and type of deposits and bank profitability. According to negative relationship between the amount of deposits and City Bank profitability and since in this study, the ratio of current deposits to total assets have been used to measure this variable, It seems that according to the results of this study, absorbing of long term deposits is for bank profitability and the more absorption of short term and current deposits based on this study caused the decrease in profitability and rate of return on City Bank's assets.

During the study years, there is a negative relationship between the amount of loan paid and City bank's profitability in 2009 to 2012. Because the Pearson correlation coefficient at the significance level of 5% is – 0.243; Thus there is a weak significant negative correlation between the amount and type of loan paid and bank profitability. According to negative relationship between the amount of loan paid and City Bank profitability and since in this study, the ratio of the total value of loan paid to total assets have been used to measure this
variable. It seems that according to the results of this study, more decreasing on paying unnecessary loan and credits which have not much impact on customers’ satisfaction, with regard of the inverse correlation coefficient between this variable and profitability, reduction in loan payments will increase the rate of return on assets and profitability of banks.

During the study years, there is a negative relationship between the inverse indicators of credit risk management and City bank's profitability in 2009 to 2012. Because the Pearson correlation coefficient at the significance level of 5% is – 0.792; thus there is strong positive significant correlation between credits risk management and profitability. According to negative relationship between the credits risk management and City Bank profitability and since in this study, the ratio of total past due, overdue and doubtful receivables to total primary loans have been used to measure this variable. It seems that according to the results of this study, the sooner banks can receipt their receivables and decrease overdue and doubtful receivables, with regard of this research result high inverse correlation coefficient between this variable and profitability, this lead to a better credit risk management and a high increase in the rate of return on assets and profitability of the bank.

During the study years, there is a negative relationship between the inverse indicators of cost management and City bank’s profitability in 2009 to 2012. Because the Pearson correlation coefficient at the significance level of 5% is – 0.862; thus there is strong positive significant correlation between cost management and profitability. According to positive relationship between the cost management and City Bank profitability and the amount of these costs represents how bank branches are able to manage costs so increasing these costs by managers lead to decreasing cost management. The ratio of total value of the administrative and personnel costs and depreciation to total assets is used as an inverse measure of the cost of managing thus with regard of this research result and according to high correlation coefficient between cost management and profitability, reducing of administrative and personnel costs and eliminate unnecessary expenses, increasing the efficiency and productivity of resources will lead to increased profitability and rate of return on bank assets.

During the study years, there is a negative relationship between the amount of liquidity and City bank’s profitability in 2009 to 2012. Because the Pearson correlation coefficient at the significance level of 5% is – 0.542; thus there is average negative significant correlation between liquidity management and profitability. According to negative relationship between the amount of liquidity and City Bank profitability and since in this study we used cash to total assets of City Bank to measure this value, it seems that with regard of this research results the amount of cash held by banks is lower and these funds can be spent on investment and growth opportunities, have a great impact on bank profitability.

**Practical suggestions**

According to the research findings, it seems the reduction of absorbing current deposits and efforts to increase long-term deposits can have a positive impact on the profitability of banks.

According to the negative relationship between the amount of loan paid and City Bank profitability reducing of unnecessary loan paid to customers can have a positive impact on the profitability of banks.

According to the positive relationship between cost management and City Bank profitability reducing of administrative and personnel costs increasing efficiency and productivity of equipment and human resources can have a positive impact on the profitability of banks.

According to the negative relationship between the amount of doubtful receivables and City Bank profitability, faster receiving of deferred and reducing of doubtful assets can have a positive impact on the profitability of banks.

According to the negative relationship between the amount of liquidity and City Bank profitability, reducing of bank liquidity and investing on efficient projects can have a positive impact on the profitability of banks.

**Suggestions for future research**

Examinations of internal and external factors affecting the profitability of banks over a period of 3 years. Similar studies with a comparative study between public and private banks. Other factors affecting profitability which are not addressed in this study. Examinations of profitability of City Banks in other measures of profitability, such as the net profit margin and return on equity.
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