

EFFECT OF FINANCIAL PERFORMANCE ON MARKET PRICE OF  
COMMERCIAL BANKS IN NEPAL

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fulfilment of the requirements for the 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 **EFFECT OF FINANCIAL PERFORMANCE ON MARKET PRICE 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 this dissertation.

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## **REPORT OF RESEARCH COMMITTEE**

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## APPROVAL SHEET

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## **Abbreviations**

ADBL:	Agriculture Development Bank Limited
ASEAN:	Association of Southeast Asian Nations
BOD:	Board of Director
BVPS:	Book Value Per Share
DPS:	Dividend Per Share
DY:	Dividend Yield
EBL:	Everest Bank Limited
EPS:	Earnings Per Share
GCG:	Good Corporate Governance
GDP:	Gross Domestic Product
LBL:	Laxmi Bank Limited
MPS:	Market Price per Share
NABIL:	Nabil Bank Limited
NEPSE:	Nepal Stock Exchange
NGO:	Non Governmental Organization
NRB:	Nepal Rastra Bank
NSE:	National Security Exchange
PE:	Price to Earning Ratio
ROA:	Return On Assets
SCB:	Standard Chartered Bank Limited
SEBON:	Securities Board of Nepal
SEM:	Structural Equation Model

## ABSTRACT

This study investigates the dynamics of stock price behavior among banks listed on the Nepal Stock Exchange, employing a hybrid descriptive and exploratory research design. Utilizing secondary data from the annual reports of major national banks over a decade, the research focuses on the impact of financial indicators such as Return on Assets (ROA), Earnings Per Share (EPS), Book Value Per Share (BVPS), Size per Share, and Dividend Per Share (DPS) on the market price per share (MPS). The analysis, adhering to APA 6th edition standards, employs regression models to explore the intricate relationships between these variables and stock prices across different banking institutions. The introduction of new variables aims to provide a comprehensive understanding of the factors influencing stock price volatility. The findings reveal a complex, variable impact of these indicators on stock prices, highlighting the necessity for a nuanced, context-specific approach to understanding stock price behavior in the banking sector. This study contributes novel insights into the financial underpinnings of stock price volatility and suggests avenues for future research, with significant implications for academics, financial analysts, and policymakers in forecasting, investment decision-making, and regulatory frameworks. The results indicate that EPS and DPS significantly impact stock prices, suggesting market authorities should manage these variables to stabilize the market.

*Keywords:* market price, regression analysis, correlation analysis, commercial banks, financial performance

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the study

The banking sector is crucial for a country's economic growth, acting as an institution that gathers deposits from various sources and allocates these funds into different economic sectors such as agriculture, trade, commerce, industry, and tourism. Commercial banks play a significant role in this process, contributing to economic development by fostering economic confidence across societal segments and providing loans to individuals (Bhalla 2014).

The capital market facilitates the trading of financial assets with a maturity of more than one year, ranging from long-term government bonds to company shares. An essential part of the capital market is the stock market, where company shares are bought and sold. This trading occurs in two main markets: the primary market, where companies issue new shares to investors, and the secondary market, where investors trade shares among themselves (Sharpe et al. 1999).

Stock markets are vital for economic development as they direct investments to where they can be most effectively used (Ritter & Silber 1993). They serve as conduits for channeling public savings into the industrial and business sectors. The efficient allocation of resources to various investment projects is critical for economic growth, a function efficiently performed by stock markets (Berthelemy & Varoudakis 1996).

By preventing the premature withdrawal of capital, stock markets help firms manage liquidity and productivity risks, thereby enhancing firm productivity. They also indirectly spur growth by minimizing liquidity risks, which boosts firm investment. The key functions of stock markets include providing a platform for firms to raise capital, enabling investors to diversify their portfolios and reduce risk, thereby lowering the cost of capital. Moreover, stock markets play a crucial role in screening and monitoring investments. They may also complement other financial intermediaries, contributing positively to the financial system's overall functioning (Sharpe et al. 1999).

The existence of highly developed, widely accessible, and smoothly functioning financial markets is of crucial significance in transmitting savings into the hands of

those desiring to make investment expenditure. Those who can visualize and exploit potentially profitable investment opportunities are frequently not the same people who generate current savings. If the financial transmitting mechanism, such as stock markets, is inefficient, the flow of funds to business investment will be impeded, and the level of economic activities will fall below its potential (Ritter & Silber 1993).

In efficient and liquid stock markets, investors face a lower risk level, encouraging them to invest in stock portfolios. Concurrently, companies benefit from continuous access to capital generated through equity offerings. Liquid markets facilitate long-term and more profitable investments, improving capital allocation and boosting the potential for sustained economic growth. Moreover, by reducing the risk and increasing the profitability of investments, stock market liquidity can encourage higher levels of investment (Pradhan 1993). Thus, stock markets play a crucial role in meeting the long-term capital requirements for productive investments, and the mobilization of such capital is vital for economic progress. They help increase capital formation by directing savings towards the more productive areas of the economy.

Instruments used in capital market are debt, stock, preferred stocks, bonds and convertible issues. Capital markets are also classified as primary market and secondary market. Stock market is a place where shares of listed companies are traded, transferred from one hand to another at a fair price through the organized brokerage system. Principally, stock market refers to the secondary market for the securities whereas primary market refers to the market for new issues. In the secondary market, to make transactions primary role to perform by the broker, in exchange they receive commissions. Stock market had been a global phenomenon in the present world regardless of the size of the economy of any particular nation. The primary role of the capital market is to allocate the economy's capital stock among various firms and industries involving in trading, investment and production dimension. Due to globalization of economic market, present world economy has been more competitive and complicated. Every sort of changes occurring in one sector of the world affects the others. Economic efficiency is simply impossible without a good system of allocating capital within the economy (Pradhan 1993).

The functionality of the primary market is heavily dependent on the presence of a robust secondary market. A well-operating secondary market, where investors trade

existing securities, provides confidence to those buying in the primary market by ensuring liquidity if needed. Therefore, the primary and secondary markets complement rather than compete with each other, as each market is incomplete without the other. In essence, secondary markets are crucial for the economy's smooth operation. Efficient financial markets are vital for securing sufficient capital formation and promoting economic growth within an economy (Van Horne 2001).

It implies that market equilibrium and rational financial market are also essential for adequate development of financial markets, which is necessary for growth, and prosperity of economy. However, the actual practice equilibrium is not found in the real world. Mainly, financial market refers to money and capital market. Money market may be defined as short-term financial assets markets, which facilitates liquidity and marketability of securities. It is the market for short-term debt instrument having maturity to less than one year. Capital market plays a vital role in the national economy. It plays an important role in reinvigorating and boosting economic activities in a country. For mobilization of invisible resources, capital market is an important intermediary through the network of borrower and lender of funds within the economy (Ritter & Silber 1993).

Bhattacharai (2019) identified various temporal patterns in the international stock market, including the calendar effect, day effect, weekend effect, and seasonal effect, indicating variability in returns and volatility across different days of the week and seasons. A similar study by the Securities Research Center and Services (SRCS) Pvt. Ltd noted that these trends are also present in the Nepali stock market, with Sundays being particularly volatile and yielding the highest returns. Silwal and Napit (2019) discovered that while dividend yield slightly positively affects stock prices, company size has an insignificant negative relationship, and book value per share is a critical determinant of stock prices in Nepal. Jermsittiparsert et al. (2019) found that in ASEAN markets, the price-earnings ratio and return on equity significantly influence stock prices.

Chundali (2020) explored factors affecting share price movements in Nepalese commercial banks, revealing that dividend per share, earnings per share, and book value per share significantly positively correlate with share prices. However, the study noted inconsistency in the relationship between market price per share and various

financial indicators like EPS, DPS, dividend yield, book value per share, and P/E ratio, highlighting the impact of external factors such as political stability, regulatory changes, and financial metrics on share prices.

Ojha (2021) observed that Nabil Bank exhibited higher earnings per share compared to others, with a market value to book value ratio above 1, indicating overvalued stocks. This study suggested that technical factors, rather than fundamental ones, predominantly influence stock prices, with significant correlations observed between dividend per share and market value per share in specific banks.

These studies indicate a mixed impact on stock prices, with some highlighting the importance of the price-earnings ratio and others emphasizing different financial metrics or external conditions. Despite the varied findings, no recent studies have systematically compared these perspectives within the Nepalese context. This gap underscores the need for comprehensive research to understand the influence of financial performance indicators on the stock prices of commercial banks in Nepal, considering the long-term fluctuations and the development of various theories and models regarding securities price behavior. Therefore, this study is concerned with the analysis of the effect of financial performance indicators in the stock market prices of commercial banks in Nepal.

## **1.2 Problem statement**

The banking sector holds immense significance on a global scale, serving as a pivotal entity for both individuals and organizations, whether as depositors or borrowers. Banks play a critical role in upholding confidence in the monetary system through their close ties with regulatory authorities and governments, who impose essential regulations upon them. Consequently, there is a widespread and substantial interest in the well-being of banks, particularly in terms of their solvency, liquidity, and the varying degrees of risk associated with their diverse business operations.

Profit stands as a key indicator of sound financial performance in this context. It typically results from effective business management, prudent cost control, adept credit risk management, and overall operational efficiency. Profit is indispensable for an enterprise's survival and growth, contributing to the maintenance of capital adequacy through profit retention. In addition to profitability, banks must ensure they maintain adequate liquidity to address a wide array of contingencies. Liquidity

signifies the availability of sufficient funds to meet obligations, including deposit withdrawals and other financial commitments as they become due. Solvency, on the other hand, refers to the surplus of assets over liabilities, highlighting the adequacy of a bank's capital. To ensure stability, banks must also maintain adequate cash reserves and bank balances, supporting both their day-to-day operations and potential unforeseen contingencies.

Huy et. Al. (2020) found that among seven factors considered in their study, GDP growth, lending rate, and risk-free rate had a significant impact on the stock price of commercial bank in S&P 500. Sholichah (2021) found that the EPS, and financial distress had the most effect on the stock prices of commercial banks. Chen et. Al. (2022) found that the multi-step output static prediction can predict the stock prices more accurately and help investors and companies make more profitable decisions. Sarkar and Rakshit (2023) found that the external variables significantly affect the commercial bank's performance which impacts the stock market price of those banks. Despite various studies on the financial performance of the banking sector in Nepal, there is a notable absence of comprehensive research focused on commercial banks listed on the Securities Board of Nepal. This study aims to analyze the financial position of five such commercial banks operating in Nepal.

The intricacies of stock market behavior pose a significant challenge to investors and analysts alike, particularly in understanding the precise determinants of stock price movements. Despite the established influence of key financial performance indicators such as Earnings per Share (EPS), Book Value per Share (BVPS), and Dividend per Share (DPS) on stock prices, as noted by Sharma and Singh (2006), there exists a persistent ambiguity in the predictability of stock returns when these indicators are applied across different market scenarios and timeframes. This study aims to probe the complexities underlying the volatility of stock prices within the banking sector of Nepal over a 10-year period, recognizing that such volatility is a reflection of not only the banks' financial performance but also of the economic and regulatory milieu at large. Conflicting evidence in the literature—illustrated by the works of Naveed and Ramzan (2013), who found an inconsistent relationship between company size and stock prices, and Tandon and Malhotra (2013), who observed varied correlations between financial ratios and stock prices—highlights the need for a reconciled and multifaceted approach. The issue is further compounded by the influence of market

sentiment, which can be swayed by factors such as rumors, thereby necessitating a robust regulatory framework to ensure market stability. Therefore, the problem this research confronts is the development of a nuanced regression model that integrates a spectrum of financial ratios and other relevant variables, aiming to refine the predictability of stock returns and contribute to the formulation of informed investment strategies and regulatory policies. Raubaiyath and Lalon (2023) conducted research to examine the influence of various bank-specific variables, including the Book to Market Ratio, Return on Equity, Price/Earnings to Growth Ratio, Cash Flow per Share, Debt to Equity Ratio, Earnings per Share, Dividend per Share, Bank Size, and Institutional Ownership Percentage, on the share price movements of 10 commercial banks listed between 2011 and 2020. Their findings indicated that among the factors studied, only Bank Size and Book to Market Value were significantly associated with variations in bank share prices. This study contributes to existing literature by highlighting the significance of specific bank-related factors that encompass all metrics in their analysis.

In summary, the banking sector plays a vital role globally, impacting individuals and organizations alike. It serves as a cornerstone of economic stability, and understanding the financial health of commercial banks, especially those listed on the Securities Board of Nepal, is crucial. This study endeavors to fill this gap by providing insights into the financial performance and stability of these commercial banks, contributing to a deeper understanding of Nepal's banking sector. The researcher problem of the study will try to explore in the following question form:

- i. What is the status of market price per share and bank specific factors affecting the stock market price of Nepalese Commercial Banks?
- ii. How is EPS, DPS, ROA, BVPS, and Size related to MPS of commercial bank?
- iii. What is the effect of EPS, DPS, ROA, BVPS, and Size on MPS commercial banks in Nepal?

### **1.3 Objectives of study**

The main objective of the study is to find the impact of bank specific variables in the price of commercial banks in NEPSE.

Specific Objectives:

- i. To assess the status and trend of market price per share and bank specific factors affecting the stock market price of Nepalese Commercial Banks.
- ii. To examine the relationship between MPS, EPS, ROA, and Size.
- iii. To analyze the impact of EPS, DPS, ROA, BVPS, and Size on MPS of commercial banks in Nepal.

#### **1.4 Hypothesis**

The main hypothesis of this study is that the financial performance variables such as EPS, DPS, ROA, BVPS, and Size of the commercial banks have significant effect on the stock market price of commercial banks in Nepal.

#### **1.5 Rational of the study**

Investor invest their money on those banks, who provide high dividend, high profit as well as high amount, customer needs pre-information about the ability of payment whereas they needed. If banks need to survive in competitive market for a long run, it should be considered; liquidity position, profitability position, market position as well as other positions. Therefore, this study depends upon the financial position of Commercial Banks, which are operating in Nepal. There are various studies on the Banking Sector's Financial Performance in Nepal, but no broad study has been done about Commercial Banks which are listed in security board of Nepal. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector. The local Nepalese promoters hold 50% stock in the Bank's equity, while joint venture partner PNB contributes 20 % of equity whereas the public holds remaining 30%. The bank enjoys the status of the largest international bank currently operating in Nepal. There is a lot of research work on the other performances of commercial banks but this specific topic does not seem given importance before in the context of Nepal. Therefore, this study is an effort to bring forth the facts related to stock price behaviors of Nepalese commercial bank. This research will provide more information regarding securities market trend of banking sector. Investors can assess how market fluctuation affects their investment and return. This study may provide guidelines to government for review and reforms of financial policy. Similarly, this study will provide useful feedback for academic institutions, S bank employees, trainees,

investors, for financial person, policy making bodies and other concerned people with banks.

### **1.6 Limitations of the study**

The limitations of this study are as follow:

- i. This study uses the last ten years' data i.e. from 2010/011 to 2020/021.
- ii. The study is based on secondary data and taken from the annual reports, internet website of the banks.
- iii. The study covers past and present state of the stock price behaviors of commercial banks in Nepal and make any projections about its future.

## **CHAPTER II**

### **LITERATURE REVIEW**

The stock market significantly contributes to economic progress by facilitating capital formation and enhancing economic growth. It does so by allowing for the pooling of funds, sharing of risk, and redistribution of wealth through the trading of securities, thereby enabling the allocation of resources to the most efficient investments. Investment decisions are influenced by the share prices of companies, with theories indicating a link between shifts in share prices and financial fundamentals (Nisa & Nishat 2011). Macroeconomic indicators such as the GDP growth rate and inflation have been shown to have a positive and meaningful correlation with the market price per share (Shubiri 2010). Sharma (2011) found a positive correlation between earnings per share and market price per share. Naveed & Ramzan (2013) reported a positive relationship between company size and share price, though they found dividend yield, asset growth, and return on assets to have a negligible impact. Masum (2014) revealed that dividend policy significantly influences share market performance on the Dhaka stock exchange. Prabath (2014) discovered that internal, company-specific factors like dividend per share, earnings per share, and book value per share have a positive and significant effect on stock prices. Similarly, Stephen and Okoro (2014) found that earnings per share, book value per share, and dividends positively influence stock prices. This section delves into a detailed theoretical and empirical analysis of the existing literature in this area.

#### **2.1 Theoretical review**

It is imperative to be acquainted with the general concepts of the financial market and capital market before conducting the research. Additionally, other related matters and the general profiles of the banks under study need to be studied before getting into the main subject matter of the share price behavior.

Common stockholders of a corporation are its residual owners, their claim to income and assets comes after creditors and preferred stockholders have been paid in full. As a result, a stockholder's return on investment is less certain than the return to a lender to a lender or to a preferred stockholder. On the other hand, the return to a common stockholder is not bounded on the upside, as are returns to the others. A share of common stock can be authorized either with or without par value. The par value of

stock is merely a stated figure in the corporate charter and is of little economic significance. A company should not issue stock at a price less than par value, because stockholders who bought stock for less than par value would be liable for the difference between below the par price they paid and the par value (Francis & Van Horne 1997).

The founders of a corporation obtain a corporate charter from the state, have shares of common stock printed, and sell the shares to as many different people as they wish in order to raise the capital to start the new business. Thus, common stock is always the first security issued by every new corporation (Francis 1983) .

Common stock is a security that represents ownership in a corporation. Holders of common stock elect the board of directors and vote on corporate policies. This form of equity ownership typically yields higher rates of returns long term. However, in the event of liquidation, common shareholders have rights to a company's assets only after bondholders, preferred shareholders, and other debtholders are paid in full. Common stock is reported in the stockholder's equity section of a company's balance sheet.

### **2.1.1 Common stocks values**

#### **a) Par value**

Par value is the face value of a share of stock. It was originally used to guarantee that the corporation receives a fair price for the value of the firm represented by a share of stock. Another reason for the creation of par values was to keep stockholders with friends in the corporation from getting shares at a low price while other buyers of identical shares have to pay more. Selling shares at reduced prices to friends is a form of price discrimination against many potential investors (Francis 1983).

#### **b) Book value**

Book Value per share can be calculated by adding the common stock's total value (or par value plus paid-in surplus plus retained-earnings accounts) in the net worth section of the balance sheet and then dividing by the number of shares of common stock outstanding. Book value gives a picture of the assets of the corporation, but it has no real relation to stock prices. Companies sometimes find their common stock selling for prices far different from book value (Francis 1983).

#### **c) Market value**

Market value in the secondary markets is determined by the demand and supplies factors, and reflects the consensus opinion of investors and traders concerning the value of the stock. The market value is influenced by many factors including economic and industry conditions, expected earnings and dividends, and market and company risk considerations (Cheney & Mosses 1995).

### **2.1.2 Theories of stock price behavior**

Today, most of the developing countries are boosting their economic development through the contribution of the investment sector. The forces of demand and supply interact to determine a stock price. If demand is high and supply is low then price of stock goes up and vice-versa. Business cycle theories felt that tracing the evolution of several economic variables over time would clarify and predict the progress of the economy through boom periods. There are two theories of stock price behavior i.e. classical approach and efficient market theory approach. Classical or conventional approach includes fundamental analysis theory and technical analysis theory. Under efficient market theory, there are three forms of efficient market hypothesis. Classical approach assumes market as inefficient whereas the efficient market theory assumes that market is efficient. Prior to the development of the efficient market theory, investors were generally divided in to two groups, fundamental and technician (Reilly 1986).

#### **2.1.2.1 Classical approach**

The conventional or classical approach includes fundamental analysis and technical analysis theories. One of the major divisions in the ranks of financial analysis is between those using fundamental analysis (known as fundamental analysts or fundamental) and those using technical analysis (known as technical analyst or technicians).

##### **a) Fundamental analysis**

In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factors and related company information such as product demand, earnings dividends and management in order to calculate an intrinsic value for the firm's securities. Fundamental analysis begins with the assertion that the true value of any financial asset equals the present value of all cash flows. The owner of the asset expects to

forecast the timing and size of these cash flows and then converts the cash flows to their equivalent present value using an appropriate discount rate. The fundamentalist makes a judgment of stocks value with risk return framework based upon earning power and the economic environment.

The fundamentalists are of the opinion that the value of shares depends upon the anticipated future stream of returns and corresponding capitalization rates. The capitalization rate is an appropriated risk related cost of equity. Therefore, value of share, under this model, is equal to the present value of future incomes from an equity discounted at risk adjusted capitalization factor. It requires full disclosure of financial and economic information. If the dissemination of information is not regular, reliable and complete, the market value of shares cannot be properly ascertained. The actual price of the security is considered a function of set of anticipation. Price changes as anticipation change which in turn changes as result of new information. The market price of share is based on its intrinsic values. The value of the common stock is simply the present value of all the future income which the owner of the share will receive (Francis 1986).

#### **b) Technical analysis**

The technical analysis theory of share price behavior is based on past stock market information in an attempt to predict future price movements. This theory includes the study of the past price and value data of stocks to forecast future price movement. Past prices are examined to identify recurring trends or patterns in price movements. Then more recent stock prices are analyzed to identify emerging trends or patterns that are similar to past ones. This analysis is done in the belief that these trends or patterns repeat themselves. A highly specialized form of market is practiced by technical analyst. They try to predict future stock price as we might predict that the pattern of wallpaper behind the mirror is the same as the pattern above the mirror (Miller 1981)

Technical analysis is based on widely accepted premise that security prices are determined by the supply and demand of securities. Tools of technical analysis are designed to measure the supply and demand. Technical analyst records historical financial data on charts and studies these charts in an effort and find meaningful patterns to predict future prices. In this method, technical analyst thinks little about future earnings and dividend. The analyst usually attempts to predict short-term price

movements and thus makes recommendations concerning the timing of purchases and sales of either specific stocks or groups of stocks or stock in general. It is sometimes assumed that technical analysis is designed to answer the questions 'when'.

Some basic assumptions of technical analysis theory are as follows:

- Market value is determined by interaction of demand and supply.
- Demand and supply are governed by numerous factors, both rational and irrational.
- Security prices tend to move in trends that persist for an appreciable length of time despite minor fluctuations in the market.
- Changes in trends are caused by shifts in demand and supply.
- Shift in supply and demand, no matter why they occur, can be detected eventually in charts of market transactions.
- The pattern tends to repeat itself.

Technical analysis believes that past patterns of market action will recur in the future and can therefore be used for predictive purchase. For which it indulges in the study of past market behavior with reference to various financial and economic variables to forecast the future. Financial and economic variables do change, but these variables are to be adjusted in the light of present situation.

Stock price always move in trend because of an imbalance between supply and demand, when the supply of stock is greater than the demand, the trend will be down as there are more seller than buyers. When demand exceeds supply, the trend will be up and the "buyer bid" up the price and if demand and supply are merely equal, the market will move sideways in what is called a trading range.'

Charles Dow is the greatest protagonist of this theory. Since the following of this theory anticipate future share prices based on charts and graphs of the past movements in prices, this approach is popularly known as Chartist approach. Some charts are used to predict the movement of single security where as others are used to predict the movement of market index.

### **2.1.2.3 Efficient market theory**

An efficient market is one where shares are always correctly priced and where it is not possible to outperform the market consistently except by luck. In an efficient capital market, current market prices fully reflect available information. The role of markets in a competitive economy is to allocate scarce resources between competing ends in a

way that leads to the scarce resources being used most productively. This means that the highest bidder for the resources gets to use them. When this occurs, markets are said to be allocatively efficient. The role of capital or securities market is to allocate investible resources in a way that is allocatively efficient.

The information dissemination in market plays a significant role to estimate the market price of securities. Rapid and accurate adjustment of information system has signified more efficient market and only possible to earn normal profits and normal gain. The subject of market efficiency has been much concerned area of the study in recent time. The efficient markets are not only related to informational efficiency but also allocation, operational efficiency etc. allocation efficiency signifies that rate of return adjusted the risk that are equated the margin for all investors. At time, minimum transferred cost of investment funds refers operationally efficiency.

The requirements for a security market to be efficient are as follows:

- A large number of knowledgeable profit maximizing investors exist who actively participate in the market by analyzing valuing and trading stocks. These investors are price taking that is one participant alone cannot affect the price of the securities.
- Price must be efficient so that new inventions and better products will cause a firm's securities price to rise and cause investors to want to supply capital to the firm.(i.e. buy its stock)
- Information is costless and widely available to market participants at approximately the same time.
- Information is generated in a random fashion such that announcements are independents of one another.
- Investors react quickly and accurately to the new information causing stock price to adjust accordingly (John 2014).
- Investors must be rational and able to recognized efficient assets so that they will want to invest money where it is needed most i.e., in the assets with relatively high returns (Bhalla 2014).

**Weak -form market efficiency:** The stock prices are assumed to reflect all past information about the price movements in the weak form of efficiency. This hypothesis holds that no investor can earn excess returns by developing trading rules based in historical prices or return information (Weston & Copland 1992). The

significant conclusion derived from the weak form hypothesis is that past rates of return and any other security market information should have no relationship with future stock prices or future rates of return. It is not possible for an investor to predict future security price by analyzing historical prices and achieve a performance (return) better than the stock market index. It is so because the capital market has no memory, and the stock market index has already incorporated past information about the security prices in the current market price.

To know that the capital market is efficient in its weak form, we can find out the correlation between the 'security prices over time'. In an efficient capital market, there should not exist a significant correlation between the security prices over time (Fama 1965).

**Semi-strong form of efficiency:** In the semi-strong form of efficiency, the security prices reflect all publicly available information. This implies that no investors could earn excess return using publicly available resources such as corporate annual reports, stock market price information or all publicly available data such as earnings, dividends, stock split announcements, new products development, financing difficulties, accounting changes, or financial dailies/magazines (e.g. The Economic Times). In fact, such publicly available information is already impounded in the current security prices. If the semi-strong hypothesis is true, then only a few than what could be earned by using a naive buy and hold strategy (Francis 1986).

This form of efficiency is most controversial because it implies that a security analyst who tries to identify mispriced using publicly available information is wasting time because that information is already reflected in the current price. The semi-strong efficient market hypothesis implies that the share price reflects an event or information very quickly, and therefore, it is not possible for an investor to beat the market using such information.

**Strong form of efficiency:** In the strong form of efficiency, the security prices reflect all published and unpublished public and private information. The strong form encompasses both the weak form and the semi strong form. This version implies that no opportunities should exist for any investors to derive above average rates of return. The most stringent form of market efficiency is the strong form which asserts that prices fully reflect all information public and non public (John 2014).

An obvious way to check the validity of the strong efficient market hypothesis is to examine the profitability of traders in securities made by insiders to see if the insider's access to information allows them to earn statistically significant trading profits.

#### **2.1.2.4 Random walk efficient market theory**

The random walk theory assumes that all future stream of income from the equity investment are independent of preceding income. In other words, future prices cannot be predicted based on past price behavior. It means if we attempt to predict future prices in absolute terms using only historical price change information, we will not be successful i.e., successive price changes at any time will on the average reflect the intrinsic value of the security. The random walk theory says that nothing more than that successive price changes are independent. This independence implies that prices at any time will on the average reflect the intrinsic value of the security. If a stock price deviates from its intrinsic value because of different insights into future prospects of the firm, professional investors and smart nonprofessionals will seize upon the short term or random deviations from the intrinsic value and their active buying and selling of the stock in question will force the price back to its equilibrium position. In other words, the share prices fluctuate randomly; however, this does not mean that the market is irrational in the determination of prices. It operates through market mechanism. In a free and competitive market, the relative forces of demand and supply determine the share price. The so-called efficient market automatically adjusts the prices of shares since the market is very sensitive. Any discrepancies in the market are automatically correlated and the actual prices fluctuate randomly about its intrinsic value. This is a free and most competitive market and the prices of shares in the market are assumed to reflect all relevant information. Though the subject of market efficiency has been much concerned area of the study for the academicians and researchers in recent times, the advocates of the efficient market theory are matched by an equally eloquent opposing camp, which argues that the stock market is neither competitive nor efficient. The critics contend that one or more of the following factors cast their shadow over the efficiency and competitiveness of the stock market (John 2014).

## **2.2 Empirical review**

The stock market of Nepal has been less subjected to investment research than their counterparts elsewhere. In Nepalese context, there is little study available about stock

market behavior in small capital markets. Some of the available relevant studies are reviewed below. Even though these studies were carried out few years back, it can provide intellectual ground in our domestic stock market and its dimension in the present context also.

**Table 1**

Review Table

Author(s)	Methodology	Findings
Raubaiyath and Lalon (2023)	four estimation models such as Fixed effects, Random effects, GLS, and Pooled OLS has been used to ensure the robustness of the models	Only Bank Size and Book to Market Value explanatory variables are found significantly responsible for fluctuation in the change in share price of banks, contributing to the current literature by revealing the importance of bank-specific factors that include all metrics in their calculation.
Sarkar and Rakshit (2023)	Dynamic panel data analysis using GMM	Results indicated that external variables significantly affect commercial banks' performance and these findings remain unaltered with the sequential inclusion of all control variables. This work has immense importance to the bankers, planners and policymakers in shaping appropriate policy

Author(s)	Methodology	Findings
Chen et. al. (2022)	novel hybrid deep learning approach	<p>decisions for the commercial banks.</p> <p>They found that the hybrid model performs better than the single model in generalization ability and accuracy (i.e. R-SQUARE, MAE, MSE). Moreover, the multi-step output static prediction outperforms the dynamic rolling prediction for long-term prediction. They summarized that this approach can predict stock prices more accurately and help investors and companies to make more profitable decisions.</p>
Sholichah, Widagdo, Nurjannah & Aulia (2021)	<p>Jihadi, Mardiani, The data obtained was analyzed using SEM (Structural Equation Model) with the AMOS Program.</p>	<p>The results showed that RGEC, EPS, and financial distress affect stock prices. This is based on testing the direct effect as indicated by a p-value that is smaller than 0.05. Based on the mediation test, the results show that financial distress cannot mediate the effect of RGEC and EPS on stock prices as indicated by a p-value greater than 0.05.</p>

Author(s)	Methodology	Findings
Huy, Loan and Anh (2020)	Regression analysis	The results of quantitative research, in a seven-factor model, show that the increase in GDP growth and lending rate and risk free rate has a significant effect on increasing VCB stock price with the highest impact coefficient, the second is decreasing the exchange rate, finally is a slight decrease in S&P500.
Bhattacharai (2019)	Secondary data analysis using trend and regression	The study shows the average NEPSE index changed to the highest (1.117 points) on Sunday and lowest (0.094 points) on Wednesday. Similarly, daily returns also reached the highest on Sunday and the lowest on Wednesday. The volatility in index return is the highest on Sunday and lowest on Tuesday, a similar result has been found in the volatility on the daily change in NEPSE index. This is the highest on Sunday and the lowest on Tuesday.

Author(s)	Methodology	Findings
Pradhan and Dahal (2016)	The multiple regression models were estimated to test impact of firm specific and macroeconomic factors on share price of Nepalese commercial banks.	Size was found to be the most important determining variable that affects the share price. It means, the larger the firm size, higher would be the stock price. Among the macro-economic variables such as gross domestic product, inflation and money supply, gross domestic product is a major variable that affect the share price.
Bhattra (2016)	Data were sourced from the annual reports of the sampled banks and analyzed using regression model.	The results revealed that earning per share and price-earnings ratios have the significant positive association with share price while dividend yield showed the significant inverse association with share price. The major conclusion of the study is that dividend yield, earning per share and price-earnings ratio are the most influencing factors in determining share price in Nepalese commercial banks.
Arkan et al. (2016)	multiple regression model	The results showed that

Author(s)	Methodology	Findings
	after eliminating non-effective variables with the STEPWISE method.	some ratios could give strong positive and significant relationships to stock price behavior and trends, the most effective ratios on the stock price for the industrial sector are ROA, ROE and net profit ratio.
Enow and Brijlal (2016)	multiple regression analysis	The result reveals that dividend per share, earnings per share, and priceearnings ratio accounts for 57.8% of share prices movements. Furthermore, earnings per share and price earnings are significantly positively correlated to share prices although dividend per share was not.
Almumani (2014)	Data over 2005-2011 using empirical analysis of a set of independent variables such as: DPS, EPS, BVPS and PE ratios and market price as dependent variable.	. The empirical findings show that there is a positive correlation between the independent variables DPS, EPS, BVPS, PE with dependent variable MP. Moreover, there is a significant relationship between banks BVPS and MP. Another empirical finding from the

Author(s)	Methodology	Findings
Tandon and Malhotra (2013)	A sample of 95 companies is selected for the period 2007-12. For analysis of the data, researcher has used linear regression model	regression analysis shows a positive relationship between P/E and MP. Finally, other variables DPS have insignificant impact on market price. . The results indicate that firms' book value, earning per share and price-earnings ratio are having a significant positive association with firm's stock price while dividend yield is having a significant inverse association with the market price of the firm's stock.
Naveed and Ramzan (2013)	The analysis utilized fixed effect regression model.	Results show that size has a positive significant relationship with the share price while the other variables (Dividend yield, Asset growth, return on assets) have insignificant relationship.
Shrestha (2013)	Combination of primary data analysis and secondary data analysis	The article stated that problems at the NEPSE are twofold. The first is that it is basically an extension of the casino, with the people speculating rather than

Author(s)	Methodology	Findings
		investing wisely. The other is that the volume of stock is too low.
Srinivasan (2012)	Fixed Effects model and Random Effects model have been employed to investigate the objective.	The empirical results reveal that earning per share, price-earnings ratio and size have a positive and significant impact on the share price of commercial banks.
Kheradyar and Ibrahim (2011)	Used dividend yield (DY), earning yield (EY) and book-to-market ratio (B/M) and applied generalized least squares (GLS) techniques to estimate the predictive regressions in form of simple and multiple models of panel data sets.	The obtained results indicate that the financial ratios can predict stock return, as the B/M has the higher predictive power than DY and EY respectively.
Sharma and Singh (2006)	160 companies is studied over a period of five years ranging from 2001 to 2005.	Earnings per share and book value per share are important determinant of share price. Dividend per share is important determinant of share price, which shows that the companies should adopt a liberal dividend policy to activate the primary as well as secondary market.

Raubaiyath and Lalon (2023) used four estimation models such as Fixed effects, Random effects, GLS, and Pooled OLS has been used to ensure the robustness of the models. They found only Bank Size and Book to Market Value explanatory variables are found significantly responsible for fluctuation in the change in share price of banks, contributing to the current literature by revealing the importance of bank-specific factors that include all metrics in their calculation. Sarkar and Rakshit (2023) used dynamic panel data analysis using GMM results indicated that external variables significantly affect commercial banks' performance and these findings remain unaltered with the sequential inclusion of all control variables. This work has immense importance to the bankers, planners and policymakers in shaping appropriate policy decisions for the commercial banks.

Sholichah et al. (2021) explored the impact of risk profile, good corporate governance, earnings, capital, and earnings per share on stock prices in Indonesian banks from 2012-2018, concluding that these factors, along with financial distress, significantly affect stock prices. Ojha (2021) conducted a comparative study on the stock price behavior of commercial banks in Nepal, identifying Nabil Bank for its notably high EPS. The study revealed that bank stocks were generally overvalued, as indicated by an MVPS/BVPS ratio greater than 1. The research suggested that technical, rather than fundamental, factors predominantly influence stock prices, with a strong correlation observed between dividend per share (DPS) and market value per share (MVPS), especially in the case of Kumari Bank. The study implies the applicability of the random walk theory in the Nepalese market, suggesting a lack of predictability based on fundamental factors alone.

Huy, Loan, and Anh (2020) studied the influence of macroeconomic factors on Vietcombank's stock prices in Vietnam from 2014-2019, showing that GDP growth and lending rates significantly impact stock prices. Chundali (2020) explored the factors influencing share price movements in Nepalese commercial banks through a descriptive research design, incorporating both primary and secondary data. The study found a general consensus among respondents that various factors, including political conditions, EPS, dividend distribution patterns, book value, and regulatory changes, affect share prices. Over a five-year analysis from 2013/14 to 2017/18, significant

positive correlations were found between share price and DPS, EPS, and book value per share, despite inconsistencies in the relationship between MPS and various financial indicators. The research highlighted the impact of environmental factors on share price fluctuations, underscoring the importance of EPS, DPS, book value per share, dividend yield, and P/E ratio in share price determination.

Silwal and Napit (2019) assessed the fundamentals affecting stock prices in Nepalese commercial banks, highlighting the significant impact of book value per share on stock prices, among other findings. Jermisittiparsert et al. (2019) analyzed the risk-return relationship through financial ratios in the ASEAN region, finding price earnings ratio and return on equity as significant determinants of stock prices. Adhikari (2019) concentrated his research on identifying the determinants affecting the share prices of commercial banks in Nepal from 2008/09 to 2014/15. The study examined earnings per share (EPS), price-to-earnings (P/E) ratio, size (S), dividend yield (DY), and dividend payout ratio (DPR) as independent variables against market price per share (MPS) as the dependent variable. Utilizing linear multiple regression analysis, the study concluded that EPS, P/E ratio, DY, and DPR significantly influence share prices, with EPS being the most critical factor. Thus, the study recommends commercial banks to focus on increasing their EPS to enhance share value. Bhattarai (2019) investigated the Nepali calendar's impact on the capital market, identifying common temporal effects in the stock market such as the day, weekend, and seasonal effects, with Sundays showing the highest volatility and returns.

Bista (2018) conducted a study on the impact of dividend on market price of shares of selected commercial banks with the aim to highlight the various aspects of dividend policies and practices in Nepal and to analyze the variables such as DPS, DPR, dividend yield and their relationship with market value. The calculation EPS and DPS of commercial banks in average are fluctuating year by year. MPS is also in fluctuating trend since coefficient of variation of MPS for the sample banks is 28.17 which indicate the fluctuation. The major findings were national and international studies in the field of dividend policy have reported a certain kind of relationship model to explain the relation between price and dividend. The concepts and practices prevailed on the then period when study was made are not exactly same as of two days' concepts and practices. Hence, conducting a recent study on dividend policy

based on the previously developed model is the main aim of reviewing literature in the dividend policy.

Timsina (2018) conducted a study on dividend policy and its impact on stock price of selected commercial banks. The main objectives were identifying the trend and development of stock market and economic growth. To assess the relationship of stock market indicators with different macroeconomic indicators. There is high degree positive relationship between DPS and EPS in most of the bank. There is normal positive relationship between DPS and EPS in most of the banks. While comparing the impact of EPS and lagged DPS on DPS, It is found that there is normal positive role of change in EPS to change the DPS but there is nominal or very less role of lagged DPS. CBL is highest of the firms.

Enow and Brijlal (2016) explored the determinants of share prices in fourteen Johannesburg stock exchange companies from 2009-2013, concluding that dividend per share, earnings per share, and price-earnings ratio significantly influence share prices, accounting for a significant percentage of price movements. Arkan et al. (2016) researched the predictive value of financial ratios on stock price trends in Kuwait from 2005–2014, identifying significant ratios that influence stock prices in the industrial sector, such as ROA, ROE, and net profit ratio.

Bhattra (2016) studied the determinants of share prices in Nepalese commercial banks from 2006 to 2014, finding that earnings per share and price-earnings ratios positively correlate with share prices, while dividend yield inversely affects them. Pradhan and Dahal (2016) analyzed factors affecting Nepalese commercial bank share prices, incorporating both firm-specific and macroeconomic variables. Their findings indicated firm size and GDP as significant determinants of share prices.

Arshad et al. (2015) identified determinants of share prices for commercial banks listed on the Karachi stock exchange from 2007-2013, finding a positive and significant relationship between earnings per share and share prices, while other variables showed no significant impact. Almumani (2014) sought to pinpoint quantitative factors affecting share prices of banks listed on the Amman Stock Exchange between 2005-2011. The study's regression analysis indicated a positive correlation between dividends per share, earnings per share, book value per share, price-earnings ratios, and market price, with book value per share showing a

Naveed and Ramzan (2013) examined the share prices of 15 banks on the Karachi stock exchange from 2008 to 2011, using a fixed effect regression model. They found a positive correlation between company size and share price, whereas other variables like dividend yield, asset growth, and return on assets showed no significant impact. Tandon and Malhotra (2013) aimed to identify factors affecting stock prices in the National Stock Exchange's top 100 companies from 2007 to 2012, revealing that book value, earnings per share, and price-earnings ratio positively correlate with stock prices, while dividend yield inversely affects them. Shrestha (2013) delved into stock investment behavior in Nepal, highlighting issues with the NEPSE's speculative nature and low stock volume. The study called for regulatory oversight and corporate governance improvements for a stable financial sector, suggesting electronic trading and incentives for mutual funds and institutional investors to foster a healthier stock market environment.

Srinivasan (2012) analyzed fundamental share price determinants in India across six major sectors from 2006 to 2011. Employing both Fixed Effects and Random Effects models, the study found a positive and significant impact of earnings per share, price-earnings ratio, and company size on commercial bank share prices. Kheradyar and Ibrahim (2011) investigated if financial ratios could forecast stock returns from January 2000 to December 2009 on the Malaysia stock exchange, focusing on dividend yield, earning yield, and book-to-market ratio. Using generalized least squares techniques for predictive regressions, they found that these financial ratios, especially when combined in a multiple regression, could indeed predict stock returns, with the book-to-market ratio showing the highest predictive power.

Sharma and Singh (2006) explored the empirical connection between several factors such as dividend per share, earnings per share, price-earnings ratio, book value per share, company size, cover, return on capital employed, and payout ratio, and their impact on share market prices. Their study spanned five years from 2001 to 2005 across 160 companies, revealing that earnings per share and book value per share are critical determinants of share price, suggesting companies should maintain a generous dividend policy to energize both primary and secondary markets.

These studies illustrate a diverse range of factors influencing stock prices, from firm-specific variables to macroeconomic indicators and financial ratios, underscoring the complexity and multifaceted nature of stock price determination. The research suggests that understanding stock price behavior requires a comprehensive analysis of

both internal company metrics and external economic conditions. Most of the studies on share price behavior are conducted by different scholars in the context of Nepal at the secondary market through different point of view. They organized the study using different approaches and tools to analyze the behavior of stock price more realistically at the specific point of time. This nature of stock prevails more or less similar both abroad and in Nepalese market. The study of market regarding the secondary market in Nepal is very few because the capital market started to develop lately and hence does not have very long history to look for. It still is in the process of development. The result of the study differs depending upon the factors like sample size and methodology used during the study. The earlier studies were based on randomly selected sample stocks while this study is based on fully paid up and actively traded equity shares related to each commercial bank taken into consideration. Moreover, the earlier studies were conducted when the organized stock market was at the initial stage without considering necessary information while this present study is based on the information almost fourteen years after establishment of NEPSE, which undoubtedly portrays the real scenario of the stock market on present context. Previous researches have been conducted to identify share price behavior by using limited tools i.e. run tests, serial correlation, risk and return analysis, etc. in particular company's share.

### **2.3 Research gap**

Research gap is the difference between the earlier research and the current research. As the world is growing faster, the rapid changes and new developments may not be adequate to explain the current phenomena. Though much affiliated researches have been conducted in this area but there are very significant number of research has been done on the topic. A study on stock price behaviors of Nepalese commercial bank. A comparative analysis among various banks is essential, as neglecting the comparative data from other banks can have a negative impact in the long term. Customers and investors are drawn to banks that offer efficient services, high dividends, and substantial profits, along with the assurance of their ability to fulfill payment obligations when required. For a bank to sustain itself in a competitive market over the long term, it must consider its liquidity, profitability, market standing, among other financial positions. Consequently, this study focuses on evaluating the financial health of commercial banks operating within Nepal. There are various studies on the Banking Sector's Financial

Performance in Nepal, but no broad study have been done about Commercial Banks which are listed in security board of Nepal. This study concern to analyze the financial position of five Commercial Banks, which are operated in Nepal.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter outlines the methodologies employed during the research period, along with a concise overview of the financial metrics utilized in this study. It discusses the research design, the types and sources of data, the approach to sampling, and the statistical and financial instruments used for analyzing the data.

#### **3.1 Research design**

The research design includes specification of the method of the proposed study and detailed plan for carrying out the study with various empirical data for the analysis of the problem. The study is based on descriptive and causal comparative to make the analysis more conclusive. The diagnostic analysis is used to find out the actual position of the companies using different statistical and financial tools.

#### **3.2 Population and sample**

The stock market comprises diverse sectors, including commercial banks, insurance companies, finance firms, hotels, trading entities, manufacturing and processing units, among others. However, this study exclusively focuses on commercial banks. There are 20 commercial banks in Nepal but this study focuses on 5 sample banks. Everest Bank Limited and Standard Chartered Bank Limited are taken as a sample because they represent a segment of public bank in Nepal which are joint venture bank with foreign bank and the foreign bank has significant control over the operation of the bank. Nabil Bank Limited and Laxmi Bank Limited represents the private sector commercial bank in Nepal, and one of them is one of the biggest in the segment while the represents small and mid-size commercial bank in Nepal. Nepal Bank Limited is taken as a sample because it represents one of the three government owned bank in Nepal. These five banks each representing the categories of public sector bank, private sector commercial bank and joint venture bank have been selected.

- Everest Bank Limited
- Laxmi Bank Limited
- Nabil Bank Limited
- Nepal Bank Limited

- Standard Chartered Bank Limited

### **3.3 Nature and sources of data collection**

The necessary information and data are collected from different sources. This study is based on the secondary data. The data are taken from the annual report, trading report and official record of stock exchange and the annual reports of the specific banks as well as internet website ([www.nepalstock.com](http://www.nepalstock.com)). Other data pertaining to NRB, ministry of finance, national and international journals, sample banks are reviewed through concerned website. The method of collecting data is secondary.

### **3.4 Data analysis technique**

Mere presentation of data is not enough to analyze stock price behavior unless it is further processed. Many mathematical and statistical tools have been developed to process relevant data to reach a conclusion. In this study, both statistical and financial tools have been used to analyze and interpret the relevant data so that meaningful conclusions can be drawn.

#### **3.4.1 Descriptive analysis tools**

Statistical tools such as arithmetic mean, coefficient of correlation and probable error are the main tools applied in this study. Other statistical tools are also applied where necessary.

##### **Mean**

Mean or arithmetic average of a series is the figure obtained by dividing the total values of the various items by their number.

##### **Standard deviation**

In statistics, the standard deviation is a measure of the amount of variation or dispersion of a set of values. A low standard deviation indicates that the values tend to be close to the mean (also called the expected value) of the set, while a high standard deviation indicates that the values are spread out over a wider range. Standard deviation may be abbreviated SD, and is most commonly represented in mathematical texts and equations by the lower case Greek letter sigma  $\sigma$ , for the population standard deviation, or the Latin letter  $s$ , for the sample standard deviation.

### Correlation coefficient

Correlation analysis determines the strength of the relationship between two or more variables, assessing the extent of their association. The Karl Pearson's Coefficient of correlation is utilized for quantifying the level of association between variables.

### 3.5 Model

This research relies on secondary data collected from five commercial banks in Nepal. Primary sources include banking and financial statistics by Nepal Rastra Bank, annual reports of the sampled banks, Nepal Rastra Bank's supervision reports, and annual reports of the banks in question. Furthermore, various published articles, reports, books, journals, and graduate research projects were reviewed. Data on market price per share, earnings per share, dividend per share, price earnings ratio, book value per share, return on assets, company size, Gross Domestic Product, inflation, and money supply were collected. The analysis employed pooled cross-sectional data. The study's research design is of a causal comparative nature, focusing on the impact of firm-specific and macroeconomic variables on the market price per share. Specifically, it investigates how earnings per share, dividend per share, price earnings ratio, book value per share, return on assets, size, Gross Domestic Product, inflation, and money supply influence the market price per share, covering data from the period 2011/12 to 2020/21. Table 2 shows the number of commercial banks selected for the study along with the period and number of observations.

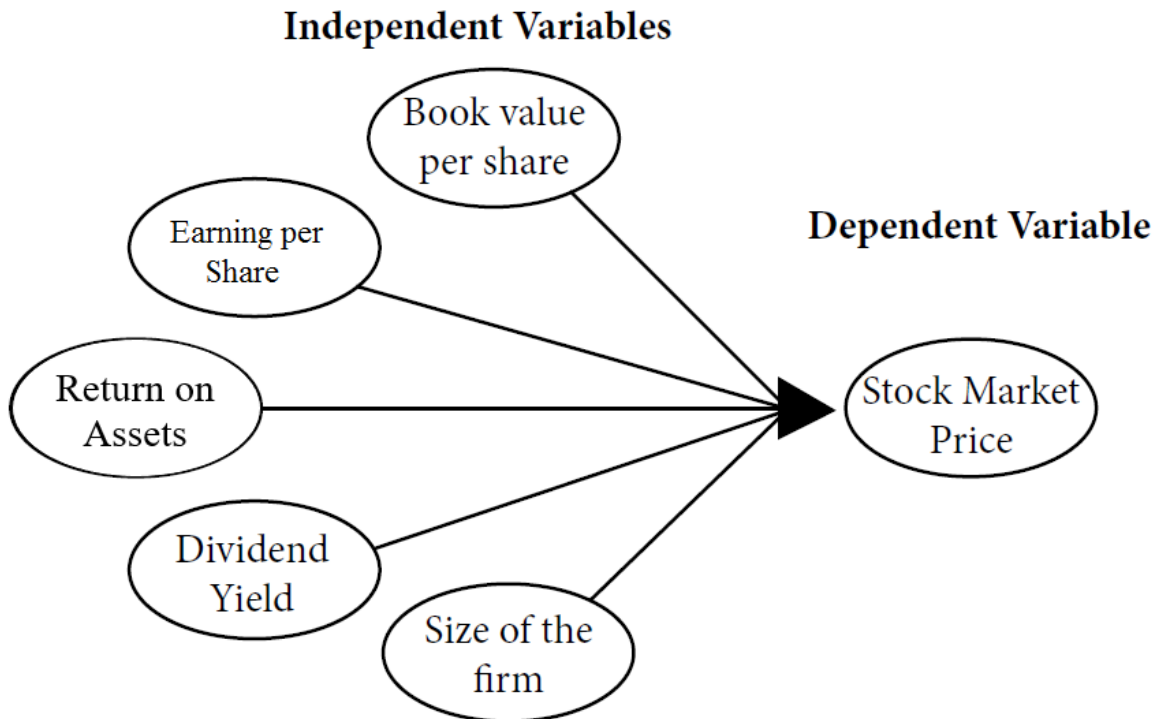
**Table 2**

*Bank Selection, study period and number of observations*

S.N.	Bank	Study Period	Number of Observations
1	Everest Bank Limited	2011/12-2020/21	10
2	Laxmi Bank Limited	2011/12-2020/21	10
3	Nabil Bank Limited	2011/12-2020/21	10
4	Nepal Bank Limited	2011/12-2020/21	10
5	Standard Chartered Bank Nepal Limited	2011/12-2020/21	10

## Framework

### *Dependent Variables and Independent Variables*



*Source: Silwal and Napit (2019)*

EPS= Earnings per share

DPS= Dividend per share

BVPS= Book value per share

ROA= Return on assets

S= Firm size

### **Earnings Per Share (EPS)**

EPS is a key indicator used to assess a company's profitability on a per-share basis. Nickolson (1960) discovered that stocks with higher EPS ratios tend to outperform those with lower EPS in terms of investment returns. Consequently, this study proposes the following hypothesis:

H1: A positive correlation exists between market price per share (MPS) and EPS.

**Dividend Per Share (DPS)**

DPS represents the total dividends issued to shareholders per share over a year, excluding special dividends but including interim dividends, divided by the total number of shares outstanding. Research by Rashid and Anisur Rahman (2008) and Zakaria et al. (2012) identified a significant positive link between dividend payouts and share price. This leads to the following hypothesis in the study:

H2: There is a positive association between MPS and DPS.

**Book Value Per Share (BVPS)**

BVPS calculates the per-share value of a company's equity, factoring in the original stock value adjusted for dividends, stock buybacks, and retained earnings divided by the outstanding shares. Studies by Sharma (2011) and Emamgholipour et al. (2013) have shown that BVPS significantly influences share market prices, leading to this hypothesis:

H3: A positive correlation is posited between MPS and BVPS.

**Return on Assets (ROA)**

ROA is a profitability ratio that measures the earnings generated from a company's assets. Emekekwe (2014) found that ROA effectively measures profits made from a firm's total assets. This forms the basis for the following hypothesis:

H4: A positive relationship exists between MPS and ROA.

**Firm Size (S)**

The size of a firm, often indicated by its total assets or net assets, impacts its share liquidity and marketability. Findings by Naveed and Ramzan (2013) suggest that larger firms have a positive correlation with share price. This observation leads to the hypothesis:

H5: There is a positive correlation between MPS and firm size (S).

## CHAPTER IV

### RESULTS AND DISCUSSION

This study's essence lies in the data presentation and analysis, focusing on a comparative evaluation of the financial performance of the companies. It examines the stock market price as the dependent variable, with book value per share, earnings per share, returns on assets, dividend per share, and the size of the firm serving as independent variables.

#### 4.1 Comparative analysis of financial performance

The performances of individual companies that are listed in the stock exchange have direct impact on capital market. A company having a good performance has highest market price, high volume of transaction, higher demand of stock, lower risk and low cost of capital. Various indicators are used to analyze the company performance. The used indicators are earning price per share, market price per share, dividend price per share, book value per share, return on assets and size. In this section, we perform comparative analysis of financial positions of sampled commercial banks.

##### 4.1.1 Total assets

Total assets are the sum of all current and noncurrent assets that a company owns. They are reported on the company balance sheet. The total asset figure is based on the purchase price of the listed assets, and not the fair market value.

**Table 3**

*Total Assets (in Billions)*

Fiscal Year	EBL	LBL	NABIL	NBL	SCB
2012/13	66.5457	29.808	73.241	70.777	45.6311
2013/14	71.3234	34.984	87.275	77.9805	53.3241
2014/15	100.034	45.58	115.986	88.211	64.9268
2015/16	114.841	55.194	131.347	103.48	65.1857
2016/17	117.507	71.406	144.018	112.057	78.356
2017/18	144.811	84.836	169.076	136.811	84.0316
2018/19	170.078	106.995	201.139	171.516	93.2642
2019/20	185.023	128.898	237.68	191.163	116.438
2020/21	225.381	152.24	291.07	222.645	114.74
2021/22	212.336	173.384	419.82	260.078	123.36
Average	140.79	88.33	187.07	143.47	83.93
$\sigma$	56.09	50.34	105.93	65.14	27.48
CV	39.84	56.99	56.63	45.40	32.74

Note: Size in Billion Rupees

Source: Financial Reports of sampled banks

Table 3 shows total assets of sample banks during the year under consideration. The market leader in terms of total assets is NABIL with an average of NRs 187.07 billion asset. SCB has lowest average assets with only NRs 83.93 billion. The lowest asset during the 10-year period was NRs 29.808 billion of LBL in the year 2012/13 and highest of NABIL with NRs 419.81 billion in the year 2078/79. The total assets of every bank are found to be increasing every year. Based on the total assets of the firm, NABIL is the best stock to invest.

#### 4.1.2 Earning price per share

The profitability of a firm from the point of view of the ordinary shareholders is the EPS. It measures the profit available to the equity holders on a per share basis, i.e., the amount that they can get on every share held. It is calculated by dividing the profits available to the shareholders by the number of outstanding shares. The profits ordinary shareholders are represented by net profits after taxes and preference dividends. EPS is closely watched by the investing by the investing public and is considered an important indicator of corporate success.

**Table 4**

*Earning Per Share of Sampled Banks*

Fiscal Year	EBL	LBL	NABIL	NBL	SCB
2012/13	91.88	24.78	91.05	198.53	65.7
2013/14	86.04	26.07	76.12	18.08	65.47
2014/15	78	19.42	57.24	7.48	57.38
2015/16	65.97	27.15	59.27	44.59	45.96
2016/17	44.32	19.15	59.86	38.77	35.49
2017/18	32.78	14.37	51.84	39.98	27.33
2018/19	38.05	17.82	50.57	26.99	30.81
2019/20	29.71	14.39	36.16	20.68	24.81
2020/21	19.91	14.73	33.57	23.43	14.83
2021/22	26.3	13.1	22.86	20.29	23.92
Average	51.30	19.10	53.85	43.88	39.17
$\sigma$	26.72	5.24	20.16	55.53	18.34
CV	52.09	27.43	37.43	126.53	46.83

Note: EPS in Rupees

Source: Financial Reports of sampled banks

Table 4 shows the variation of EPS of selected banks over the period of study. NABIL is found to be market leader with respect to average EPS with NRs 53.85 and LBL is found to have lowest average EPS with NRs 19.10. The lowest EPS was recorded in 2014/15 by NBL of value NRs 7.48 while highest EPS of 198.54 was recorded in 2012/13 by NBL. The coefficient of variation measures the volatility of EPS within the bank in the period under study. NBL has highest C.V. of 126.23% indicating highest variation of EPS within different years and LBL has lowest C.V. of 27.43%.

#### 4.1.3 Dividend per share

Dividend is the portion of profit that is ready to be available for shareholders. A part of the net profits belonging to equity shareholders is retained in the business and the balance is paid them as dividends. The dividend paid to the shareholders on a per share basis is the DPS. In other words, DPS is the net distributed profit belonging to the shareholders dividend by the number of ordinary shares outstanding.

**Table 5**

*Dividend Per Share of Sampled Banks*

Fiscal Year	EBL	LBL	NABIL	NBL	SCB
2012/13	60	15	65	0	50
2013/14	62	21.05	65	0	51.5
2014/15	35	0	36.84	0	44.21
2015/16	70	38	45	0	35.09
2016/17	33	10	48	0	105.26
2017/18	20	8.5	34	0	17.5
2018/19	25	15	34	25	22.5
2019/20	10.53	11.5	35.26	16	11.84
2020/21	10.32	11.5	38	17	13.06
2021/22	20.68	0	30	0	16.51
Average	34.65	13.06	43.11	5.80	36.75
$\sigma$	21.91	10.90	12.70	9.62	28.50
CV	63.22	83.50	29.45	165.93	77.56

Note: DPS in Percentage

Source: Financial Reports of sampled banks

Table 5 shows the variation of dividend per share (DPS) of selected banks over the period of study. NABIL has the highest average DPS of 43.11% and NBL has lowest average DPS of 5.80%. SCB has highest DPS of 105.26% in 2016/17 and NBL & LBL have failed to provide dividend in the multiple years. NABIL is best to invest with reference to DPS. NBL has the highest variations with C.V. of 165.93% while NABIL is more consistent with C.V. of 29.47%.

#### 4.1.4 Market price per share

The share market price holds significant importance for all stakeholders, often serving as the company's public image. A high market price generally creates a positive perception among investors, often overshadowing other factors. Conversely, a decline in market price can negatively impact the company, with a sharp and continuous drop potentially leading to bankruptcy. For investors, the market price of a share is a paramount consideration, often prioritized over other financial indicators.

**Table 6**

*Market Price per Share of Sampled Banks*

Fiscal Year	EBL	LBL	NABIL	NBL	SCB
2012/13	1591	309	1815	171	1820
2013/14	2631	588	2535	459	2799
2014/15	2120	400	1910	305	1943
2015/16	3385	876	2344	470	3600
2016/17	1353	390	1523	364	2295
2017/18	663	258	921	281	755
2018/19	666	226	800	336	682
2019/20	675	209	765	249	645
2020/21	738	395	1359	443	590
2021/22	439	199	881.9	268	396
Average	1426.10	385.00	1485.39	334.60	1552.50
$\sigma$	998.62	209.60	651.21	99.28	1105.67
CV	70.02	54.44	43.84	29.67	71.22

Note: MPS in Rupees

Source: Financial Reports of sampled banks

The Table 6 shows market price per share (MPS) of sample banks during the period under study. SCB has highest average MPS of NRs 1552.5 while NBL has the lowest

MPS of NRs 334.6 during the period under study. Highest MPS of NRs 3600 was observed in 2015/16 of SCB whereas minimum MPS of NRs 171 was observed in 2012/13 of NBL. The SCB has highest variability with C.V. of 71.22% and NABIL has lowest variability with 29.67%.

#### 4.1.5 Book value per share

Book value per share (BVPS) is the ratio of equity available to common shareholders divided by the number of outstanding shares. This figure represents the minimum value of a company's equity and measures the book value of a firm on a per-share basis. BVPS metric can be used by investors to gauge whether a stock price is undervalued by comparing it to the firm's market value per share. If a company's BVPS is higher than its market value per share—its current stock price—then the stock is considered undervalued. If the firm's BVPS increases, the stock should be perceived as more valuable, and the stock price should increase.

**Table 7**

*Book Value per Share of Sampled Banks*

Fiscal Year	EBL	LBL	NABIL	NBL	SCB
2012/13	274.12	160.6	275	21	249
2013/14	264.56	162.96	251	84.4047	249
2014/15	258	177.36	259	59.2565	265
2015/16	185.45	185.88	244	103.85	267.53
2016/17	229.99	128.35	228	142.388	296.18
2017/18	200.1	135.71	256	285.627	173.82
2018/19	219.58	141.81	257	298.449	186.32
2019/20	219.84	142.42	256	266.166	188.51
2020/21	232.114	157.98	251	262.845	189.24
2021/22	241.368	146.66	232	246.174	192.32
Average	232.51	153.97	250.90	177.02	225.69
$\sigma$	28.06	18.35	13.60	105.40	43.99
CV	12.07	11.92	5.42	59.54	19.49

Note: BVPS in Rupees

Source: Financial Reports of sampled banks

Table 7 shows the Book Value Per Share (BVPS) of sampled bank over the study period. NABIL is found to have highest average BVPS of 250.9 while LBL is found to have lowest BVPS of 153.97. The highest BVPS of 298.449 was recorded in the

year 2019/20 of NBL whereas the lowest BVPS of 21 was recorded in 2012/13 of NBL. NABIL has lowest variability of BVPS with C.V. of 5.42% over the year whereas NBL has highest variability of BVPS with C.V. of 59.54%.

#### 4.1.6 Return on total assets

Here the profitability ratio is measured in terms of the relationship between the net profits and assets. The ROA may also be called profit-to-assets ratio. It measures the overall effectiveness of management in generating profits with its available assets.

The higher the firms return on total assets, the better.

**Table 8**

*Returns on Total Assets of Sampled Banks*

Fiscal Year	EBL	LBL	NABIL	NBL	SCB
2012/13	2.39	1.5	3.25	1.07	2.67
2013/14	2.25	1.47	2.65	0.92	2.51
2014/15	1.84	1.04	2.06	0.55	1.99
2015/16	1.61	1.35	2.32	2.79	1.98
2016/17	1.72	1.52	2.69	2.78	1.84
2017/18	1.97	1.55	2.61	2.41	2.61
2018/19	1.94	1.66	2.11	1.51	2.61
2019/20	1.41	1.2	1.58	1.22	1.71
2020/21	0.89	1.12	1.71	1.33	1.22
2021/22	1.13	0.93	1.27	1.12	1.83
Average	1.72	1.33	2.23	1.57	2.10
$\sigma$	0.47	0.25	0.60	0.80	0.48
CV	27.49	18.48	26.96	50.94	23.07

Note: ROA in Percentage

Source: Financial Reports of sampled banks

Table 8 shows the Returns on Total Assets (ROA) of selected banks over the study period. NABIL has highest average ROA of 2.23 whereas LBL has lowest average ROA of 1.33. The lowest ROA was found to be 0.55 of NBL in the year 2014/15 while the highest ROA was found to be 3.25 of NABIL in the year 2012/13. LBL has the lowest variability in ROA with C.V. of 18.48% whereas NBL has highest variability of ROA with C.V. of 50.94% over the period of study.

#### 4.1.7 Descriptive analysis

This table gives an overview of the central tendency (mean), variability (standard deviation), and range (minimum and maximum) of various financial metrics for the sampled banks. It provides insight into the distribution and characteristics of these metrics within the sample.

**Table 9**

##### *Descriptive analysis*

	N	Minimu m	Maximu m	Mean	Std. Deviation
MPS (Rs)	50	171.00	3600.00	1036.718	899.49166
ROA	50	.55	3.25	1.7882	.62440
EPS (Rs)	50	7.48	198.53	41.4600	31.53205
BVPS(Rs)	50	21.00	298.45	208.0186	63.16596
DPS (Rs)	50	.00	105.26	26.6730	22.83413
Size (Rs)	50	29.81	419.82	128.7167	74.38954

Minimum represents the lowest value observed within the dataset for the respective metric. For instance, the minimum Market Price per Share is 171.00, indicating the lowest trading price for a single share among the companies. Maximum represents the highest value recorded in the dataset for the metric. Notably, the maximum Market Price per Share is 3600.00, signifying the highest trading price for a single share across the companies. Mean (Average) is the average value calculated by summing up all the values of the metric and dividing by the total number of observations. In this context, the mean Market Price per Share is 1036.7180, reflecting the average trading price for a single share among all companies. Standard Deviation measures the dispersion or spread of data points around the mean. For instance, the standard deviation for Return on Assets is 0.62440, suggesting the extent to which the return on assets varies from the mean value.

#### 4.2 Correlation analysis

Correlation serves as a statistical instrument that assesses the relationship among two or more variables within either a population or a sample. Essentially, it quantifies how one variable linearly correlates with another. The correlation coefficient is the metric used to gauge the intensity of the relationship between two data sets. Within this study, Karl Pearson's method has been employed to calculate the correlation

coefficient. The value of the correlation coefficient, represented as 'r', ranges from +1 to -1. An 'r' value of +1 indicates a perfect positive correlation between the variables, meaning they move in unison. Conversely, an 'r' value of -1 denotes a perfect negative correlation, where an increase in one variable corresponds to a decrease in the other. An 'r' value of 0 signifies that there is no linear correlation between the variables.

#### 4.2.1 Relationship between the financial indicators

Correlation analysis helps explore the relationship between the financial indicators. Multiple correlation analysis is use to explore the relationship between the financial indicators i.e. MPS, ROA, EPS, BVPS, DPS, and Size per Share. The following results are worth highlighting:

**Table 10**

*Correlation Analysis*

	MPS	ROA	EPS	BVPS	DPS	Size_per_share
MPS	1					
ROA	.446**	1				
EPS	.420**	.380**	1			
BVPS	.487**	.375**	.037	1		
DPS	.802**	.470**	.372**	.603**	1	
Size_per_share	.010	-.202	.526**	-.391**	-.095	1

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

The Table 10 shows the Pearson correlations between different variable which defines study. In this study, the focus is on the depended variable of MPS and independent variables of different financial indicators such as ROA, EPS, BVPS, DPS, and Size. There is positively high degree of correlation between MPS and DPS which is 0.802. There is moderately high degree of correlation between MPS and ROA, EPS, and BVPS i.e. 0.446, 0.420, and 0.487 respectively. There is low degree of positive correlation between MPS and size per share i.e. 0.010. The correlation between MPS and ROA, EPS, BVPS, and DPS is statistically significant at 1% confidence interval. The relationship between MPS and Size is statistically insignificant.

### 4.3 Regression analysis

Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. This study here tries to analyze whether market price per share is affected or not by book value per share, earnings per share, dividend per share, return on assets and size of the firm. In other words, this study tries to examine if market price per share increases or decreases with the increase or decrease in book value per share, earning per share, dividend per share, return on assets and size of the firm. This relationship can be measured through various statistical tools like regression analysis and correlation analysis. For regression analysis we use, linear regression model with stepwise method of determination of coefficient. For correlation analysis, we use Karl Pearson's coefficient of correlation for analysis. We have the model,

$$MPS = \alpha_0 + \alpha_1 EPS + \alpha_2 DPS + \alpha_3 BVS + \alpha_4 ROA + \alpha_5 S + \varepsilon$$

Where, the market price per share is used as a dependent variable and measured in term of MPS.

Firm specific variables

DPS= Dividend per share

EPS = Earning per share

BVPS= Book value per share

ROA= Return on assets

S= Firm size

It can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them. In this study, MPS is considered as dependent variable while ROA, BVPS, EPS, DPS, and Size are considered as independent variables.

Here,  $R^2$  represent the percentage of the variability of MPS that can be explained by ROA, BVPS, EPS, DPS, and Size. The adjusted  $R^2$  is more reliable statistics because it accounts for number of independent variables in the regression equation. Adjusted R-squared is used to determine how reliable the correlation is and how much it is determined by the addition of independent variables. If more and more useless

variables added as a model, adjusted R-squared will decrease but if more useful variables added as a model adjusted R-squared will increase.

**Table 11**

*Model Summary of Model 1*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.815 <sup>a</sup>	.665	.627	549.65789

a. Predictors: (Constant), Size\_per\_share, DPS, ROA, BVPS, EPS

**Table 12**

*Regression coefficient of Model 1*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-208.155	404.667		-.514	.610
ROA	99.932	163.487	.069	.611	.544
EPS	2.763	3.804	.097	2.134	0.035
BVPS	.801	1.721	.056	.465	.644
DPS	27.766	4.887	.705	5.682	.000
Size_per_share	.016	.032	.062	.514	0.045

a. Dependent Variable: MPS

The size of the coefficient for independent variables gives the size of its effect on dependent. The sign on the coefficient (positive or negative) gives the direction of the effect. Std. error represents the average distance that the coefficient falls from the regression line. It measures dispersion.

The coefficient of determination  $R^2$  indicating the percent of how much of the MPS is explained by the independent variable is 0.665 i.e. 66.5%. The multiple regression is applied to study and the decision to be taken depends on the p-values obtained. The regression coefficient of ROA, EPS, BVPS, DPS, and Size per Share is positive with values 99.932, 2.763, 0.801, 27.766, and 0.016 respectively.

It is concluded that the DPS, EPS, and Size per share as independent variables is statistically significant at 5% significance level because their p-value is equal to 0.000, 0.035, and 0.045 respectively which is less than significance level 5%. On the other hand, ROA and BVPS are not statistically significant because their p-values is equal to 0.544 and 0.644 which is more than significance level 5%.

**Table 13**

*ANOVA Analysis of Model 1*

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	26351729.894	5	5270345.979	17.444	.000b
Residual	13293447.140	44	302123.799		
Total	39645177.034	49			

a. Dependent Variable: MPS

b. Predictors: (Constant), Size\_per\_share, DPS, ROA, BVPS, EPS

Above ANOVA Tables explains the overall summary and significance of the relationship between the MPS and ROA, BVPS, EPS, DPS, and Size per share of sampled banks. The ANOVA table indicates that the relationship between MPS and the independent variables is statistically insignificant at 5% significance level for the sampled banks. It indicates that there is strong evidence in conjunction with the null hypothesis, as there more than 5% chance the null hypothesis is correct. Thus, p-value obtained must be less than 5% to conclude significant relationship between MPS and ROA, BVPS, EPS, DPS, and Size per share.

#### **4.4 Discussions**

Based on the data analysis presented above, this study offers the following discussion. Over the 10-year period examined, it is evident that the collected data exhibit significant volatility, reflecting the overall financial performance of the bank and its market price at specific points in time. To assess financial performance, we examined various indicators, including MPS, ROA, BVPS, EPS, DPS, and Size per Share.

This detailed analysis scrutinizes the performance of commercial banks in Nepal, emphasizing metrics pivotal for investment decisions. Among the banks analyzed, NABIL emerges as a standout performer, showcasing the highest annual growth in total assets, which positions it as a market leader in both size and stability.

Furthermore, NABIL leads in average Earnings Per Share (EPS) and Dividends Per Share (DPS), indicators of robust profitability and rewarding shareholder returns. Conversely, SCB and LBL lag in these performance metrics.

The study meticulously tracks the fluctuations in key indicators over various years, revealing NBL's significant volatility in EPS and DPS, which signals instability. LBL, in contrast, demonstrates minimal variation, indicating consistent performance. While SCB leads in Market Price per Share (MPS), its high variability contrasts with NABIL's stability in the same metric.

A nuanced examination of the interplay between financial metrics uncovers a low but positive correlation between company size and MPS. A more pronounced finding is the strong positive correlation between MPS and DPS, suggesting that higher stock prices are associated with higher dividends. Moderate yet statistically significant correlations (at a 1% confidence level) exist between MPS and other metrics like Return on Assets (ROA), EPS, and Book Value Per Share (BVPS), hinting at reliable relationships. However, the influence of company size on MPS appears statistically insignificant, indicating that other factors may play a more critical role in determining stock prices.

Regression analyses reveal positive coefficients for ROA, EPS, BVPS, and DPS in relation to MPS, suggesting that improvements in these financial metrics likely correlate with an increase in stock prices. DPS, EPS, and company size significantly impact MPS at a 5% significance level, while ROA and BVPS do not, suggesting sector-specific dynamics may influence these relationships.

Over a decade-long observation, the study notes significant volatility in stock prices, reflecting the banks' financial performance and market price fluctuations. Echoing Sharma and Singh (2006), this research reaffirms the pivotal role of EPS and BVPS in stock price determination and suggests that liberal dividend policies could enhance market vitality. This aligns with theories that view dividend policies as mirrors of a company's growth potential and market valuation.

Building on Kheradyar and Ibrahim (2011), this study supports the predictive value of the Book-to-Market (B/M) ratio over Dividend Yield (DY) and Earnings Yield (EY) for stock returns. The incorporation of these ratios into a multiple regression model, as advocated by Ohlson (1995), substantiates their predictability of stock returns with a high R-squared value.

Contrary to Naveed and Ramzan (2013), this analysis finds a significant correlation between size and share prices but not with Dividend Yield, Asset Growth, or ROA, suggesting unique sector-specific dynamics. It corroborates Tandon and Malhotra (2013) by affirming positive correlations between a firm's Book Value, EPS, and Price-Earnings Ratio with its stock price, while Dividend Yield inversely relates, consistent with Bhattacharya's (1979) dividend signaling theory.

In summary, this study reinforces the critical role of EPS, BVPS, and DPS as determinants of share prices, aligning with and extending previous research. It highlights the intricate and multifaceted nature of the relationship between financial indicators and stock prices, influenced by broader market dynamics and sector-specific factors, enriching the academic discourse on financial analysis and investment decision-making in the banking sector.

## **CHAPTER V**

### **SUMMARY AND CONCLUSION**

In this last chapter, the findings of this study's summarized. This chapter summarizes the main points, talk about what the findings mean, and suggest how they might be useful for others.

#### **5.1 Summary**

The final chapter of this research study encapsulates the essence of investigative journey, offering a succinct synthesis of key findings, and the potential implications for the broader research community and banking industry stakeholders. This study was embarked upon with the objective of demystifying the dynamics of stock price behavior among the banks listed on the Nepal Stock Exchange. The methodological framework was grounded in a hybrid of descriptive and exploratory research designs, enabling a thorough analysis that leverages a rich array of secondary data extracted from the annual reports of leading national banks. Such a design was instrumental in dissecting the complex interplay of financial indicators over a significant period—spanning a full decade. The chosen banks stand out due to their prominence within the commercial and foreign-owned bank categories, and importantly, due to the ready availability of extensive financial data.

In pursuit of the objectives, the data was meticulously organized in concordance with the stringent standards set forth by the APA 6th edition. This not only bolstered the credibility of the analysis but also facilitated a coherent presentation of data through detailed tables and illustrative bar diagrams, which mirrored the methodologies of preceding studies for continuity and comparison. The crux of this analysis was the regression model that brought into focus the relationship between the market price per share (MPS) as the dependent variable, and a suite of independent variables including Return on Assets (ROA), Earnings Per Share (EPS), Book Value Per Share (BVPS), Size per Share, and Dividend Per Share (DPS)—some of which marked their inaugural appearance in such a study. The introduction of these new variables is intended to cast a wider net to capture any latent influences on stock prices not previously accounted for. This finding unearthed a multifaceted relationship between these variables, with the degree and nature of their influence fluctuating markedly

across different banking institutions. This variability underscores the intricate fabric that constitutes stock price behavior, defying the notion of a one-size-fits-all explanation and instead advocating for a more individualized, context-specific analysis.

Through this rigorous exploration, the study not only contributes novel insights into the financial underpinnings of stock price volatility but also charts a course for future research endeavors to delve deeper into the idiosyncrasies of banking sector stocks. The implications of the findings beckon further inquiry and dialogue among academics, financial analysts, and policymakers, who seek to harness this knowledge for forecasting, investment decision-making, and regulatory frameworks. The study indicates EPS and DPS have significant impacts on stock prices. Market authorities should manage these variables to minimize random fluctuations and stabilize the market.

## **5.2 Conclusions**

The study aimed to observe the determinants of stock market price of commercial banks in Nepal. The main objective of the study is to find the impact of bank specific variables in the price of commercial banks in NEPSE.

The first objective of this study is to examine the status and trend of market price per share and bank specific factors affecting the stock market price of Nepalese Commercial Banks. The annual increase in total assets for all banks is evident, with NABIL being the market leader in terms of total assets while SCB has the lowest average assets. Considering the firm's total assets, NABIL appears to be the most promising stock for investment. NABIL also stands out as the leader in terms of average EPS, while LBL has the lowest average EPS. When it comes to the variation in EPS over different years, NBL demonstrates the highest coefficient of variation (C.V.), indicating greater fluctuations, while LBL displays the lowest variation. NABIL is considered the best option for investment based on its average DPS, boasting the highest average DPS, while NBL has the lowest average DPS. NBL exhibits the highest variation in DPS with a higher C.V., while NABIL shows more consistency. In terms of the average MPS, SCB holds the top position, while NBL has the lowest MPS during the studied period. SCB shows the highest variability, while

NABIL exhibits the lowest variability. NABIL holds the highest average BVPS, while LBL has the lowest. NABIL also demonstrates the lowest variability in BVPS over the years, whereas NBL shows the highest variability. With respect to average ROA, NABIL comes out on top, while LBL has the lowest average ROA. LBL exhibits the lowest variability in ROA, while NBL shows the highest variability throughout the study period.

The second objective of the study is to examine the relationship between MPS, EPS, DPS, ROA, BVPS, and Size. There is a low degree of positive correlation between MPS and Size, indicating that as the size of a company increases, its MPS tends to increase. Similarly, there is a strong positive correlation between MPS and DPS, suggesting that companies with higher MPS also tend to have higher DPS. Additionally, there is a moderately strong positive correlation between MPS and ROA, EPS, and BVPS, indicating that companies with higher MPS generally exhibit higher values in terms of their ROA, EPS, and BVPS. Furthermore, the correlations between MPS and ROA, EPS, BVPS, and DPS are statistically significant at a 1% confidence level, indicating a robust relationship between these variables. However, the relationship between MPS and Size does not hold statistical significance, suggesting that the size of a company does not have a significant impact on its MPS.

The third objective of the study is to examine the impact of different financial indicators such as EPS, DPS, ROA, BVPS, and Size on MPS of commercial banks in Nepal. The regression analysis reveals that the coefficients for ROA, EPS, BVPS, and DPS are positive, suggesting a positive relationship between these variables and MPS. Similarly, the coefficient for Size is also positive, indicating an increasing relationship between Size and MPS. After conducting hypothesis testing, we have determined that the variables DPS, EPS, and Size are statistically significant at a 5% significance level, meaning that they have a significant impact on MPS. On the other hand, the variables ROA and BVPS are not statistically significant, indicating that their relationship with MPS is not supported by the data. The ANOVA analysis further confirms that the relationships between MPS and ROA, BVPS, EPS, DPS, and Size are statistically insignificant at a 5% significance level for the sampled banks. This suggests that there is strong evidence in favor of the null hypothesis, implying that there is more than a 5% chance that the null hypothesis is correct.

### 5.3 Implications

After analyzing the price behaviors of stock market with the help of various literatures, relevant data, financial tools and techniques following implication can be outlined.

- i. **Investment Strategy Focus on NABIL:** Given NABIL's strong performance across multiple indicators such as total assets, average Earnings Per Share (EPS), Dividend Per Share (DPS), Book Value Per Share (BVPS), and Return on Assets (ROA), investors and policy makers should consider focusing investment strategies around NABIL. Its consistent performance and low variability in key financial indicators suggest it is a stable and promising investment option.
- ii. **Diversification Based on Stability and Growth:** Banks like SCB, despite having lower average assets, lead in terms of Market Price per Share (MPS). This indicates the potential for diversifying investment portfolios by including stocks that show different strengths, such as high MPS or asset growth.
- iii. **Monitoring of High Variability Banks:** Banks like NBL, which show high variability in EPS and DPS, require closer monitoring. Investors and regulators should be cautious with such stocks, as their higher fluctuation rates indicate potentially higher risk.
- iv. **Strategic Development for Underperforming Banks:** Banks with lower performance metrics, like LBL, should be the focus of strategic developmental policies. This might include management restructuring, operational efficiency improvements, or other measures to enhance their financial indicators.
- v. **Correlation Consideration in Investment Decisions:** The correlations found between MPS and other financial indicators like DPS, ROA, EPS, and BVPS are critical for investment decisions. Investors should consider these correlations to predict stock performance more accurately.
- vi. **Emphasis on Size as a Non-Significant Factor:** The study suggests that the size of a company does not significantly impact its MPS. This finding should encourage investors and policy makers to not overemphasize company size when evaluating stock performance.

- vii. **Re-evaluation of Financial Indicators in Decision-Making:** The insignificance of the relationship between MPS and some financial indicators (like ROA and BVPS) in regression analysis should prompt a re-evaluation of the weight given to these indicators in investment and policy decision-making processes.
- viii. **Risk Management and Diversification:** Given the varying degrees of variability and fluctuation in financial indicators across different banks, there should be an emphasis on risk management and portfolio diversification to mitigate potential losses.

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## APPENDIX

### Financial Report Summary of EBL

Fiscal							Total	Size per
Year	MPS	ROA	EPS	BVPS	DPS	Size	Shares	share
2012/13	1591	2.39	91.88	274.12	60	66.5457	16011264	4156.182
2013/14	2631	2.25	86.04	264.56	62	71.3234	18012391	3959.683
2014/15	2120	1.84	78	258	35	100.034	20173877	4958.584
2015/16	3385	1.61	65.97	185.45	70	114.841	26226041	4378.91
2016/17	1353	1.72	44.32	229.99	33	117.507	45264269	2596.029
2017/18	663	1.97	32.78	200.1	20	144.811	80268633	1804.081
2018/19	666	1.94	38.05	219.58	25	170.078	80268633	2118.854
2019/20	675	1.41	29.71	219.84	10.53	185.023	84702068	2184.4
2020/21	738	0.89	19.91	232.114	10.32	225.381	88937172	2534.163
2021/22	439	1.13	26.3	241.368	20.68	212.336	94273402	2252.344

Note: MPS, ROE, & BVPS in Rupees; ROA & DPS in Percentage; Size in NRs Billion

Source: Annual Report of EBL from 2012/13 – 2021/2022

Table A2

### Financial Report Summary of LBL

Fiscal							Total	Size per
Year	MPS	ROA	EPS	BVPS	DPS	Size	Shares	share
2012/13	309	1.5	24.78	160.6	15	29.808	16940811	1759.54
2013/14	588	1.47	26.07	162.96	21.05	34.984	19483048	1795.61
2014/15	400	1.04	19.42	177.36	0	45.58	23378686	1949.64
2015/16	876	1.35	27.15	185.88	38	55.194	30392292	1816.05
2016/17	390	1.52	19.15	128.35	10	71.406	74724120	955.60
2017/18	258	1.55	14.37	135.71	8.5	84.836	82216670	1031.86
2018/19	226	1.66	17.82	141.81	15	106.995	89205086	1199.43
2019/20	209	1.2	14.39	142.42	11.5	128.898	98125595	1313.60
2020/21	395	1.12	14.73	157.98	11.5	152.24	106956898	1423.38
2021/22	199	0.93	13.1	146.66	0	173.384	115513450	1500.98

Note: MPS, ROE, & BVPS in Rupees; ROA & DPS in Percentage; Size in NRs Billion

Source: Annual Report of LBL from 2012/13 – 2021/2022

Table A3

Fiscal							Total	Size per
Year	MPS	ROA	EPS	BVPS	DPS	Size	Shares	share
2012/13	1815	3.25	91.05	275	65	73.241	24368414	3005.57
2013/14	2535	2.65	76.12	251	65	87.275	30471684	2864.13
2014/15	1910	2.06	57.24	259	36.84	115.986	36576540	3171.05
2015/16	2344	2.32	59.27	244	45	131.347	47565696	2761.38
2016/17	1523	2.69	59.86	228	48	144.018	61855070	2328.31
2017/18	921	2.61	51.84	256	34	169.076	80432210	2102.09
2018/19	800	2.11	50.57	257	34	201.139	90118454	2231.94
2019/20	765	1.58	36.16	256	35.26	237.68	100974974	2353.85
2020/21	1359	1.71	33.57	251	38	291.07	138444512	2102.43
2021/22	881.9	1.27	22.86	232	30	419.82	228329086	1838.66

Note: MPS, ROE, & BVPS in Rupees; ROA & DPS in Percentage; Size in NRs Billion  
Financial Report Summary of NABIL

Source: Annual Report of NABIL from 2012/13 – 2021/2022

Table A4

Financial Report Summary of NBL

Fiscal							Total	Size per
Year	MPS	ROA	EPS	BVPS	DPS	Size	Share	Share
2012/13	171	1.07	198.53	21	0	70.77698	3803826	18606.8
2013/14	459	0.92	18.08	84.4047	0	77.98053	3803826	20500.6
2014/15	305	0.55	7.48	59.2565	0	88.21101	39655236	2224.4
2015/16	470	2.79	44.59	103.85	0	103.47954	64650018	1600.6
2016/17	364	2.78	38.77	142.388	0	112.05715	64650018	1733.3
2017/18	281	2.41	39.98	285.627	0	136.81136	80426622	1701.1
2018/19	336	1.51	26.99	298.449	25	171.51565	98111480	1748.2
2019/20	249	1.22	20.68	266.166	16	191.16282	112828202	1694.3
2020/21	443	1.33	23.43	262.845	17	222.64548	126367586	1761.9
2021/22	268	1.12	20.29	246.174	0	260.07788	144059048	1805.4

Note: MPS, ROE, & BVPS in Rupees; ROA & DPS in Percentage; Size in NRs Billion

Source: Annual Report of NBL from 2012/13 – 2021/2022

Table A5

Financial Report Summary of SCB

Fiscal Year	MPS	ROA	EPS	BVPS	DPS	Size	Total Shares	Size per share
2012/13	1820	2.67	65.7	249	50	45.6311	18539000	2461.357
2013/14	2799	2.51	65.47	249	51.5	53.3241	20416720	2611.786
2014/15	1943	1.99	57.38	265	44.21	64.9268	22481612	2887.996
2015/16	3600	1.98	45.96	267.53	35.09	65.1857	28124260	2317.776
2016/17	2295	1.84	35.49	296.18	105.26	78.356	40057153	1956.105
2017/18	755	2.61	27.33	173.82	17.5	84.0316	80114307	1048.896
2018/19	682	2.61	30.81	186.32	22.5	93.2642	80114307	1164.139
2019/20	645	1.71	24.81	188.51	11.84	116.438	80114307	1453.402
2020/21	590	1.22	14.83	189.24	13.06	114.74	85722308	1338.508
2021/22	396	1.83	23.92	192.32	16.51	123.36	94294539	1308.241

Note: MPS, ROE, & BVPS in Rupees; ROA & DPS in Percentage; Size in NRs Billion

Source: Annual Report of SCB from 2012/13 – 2021/2022