Financial Performance Analysis of Micro Finance Companies in Nepal

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

by

Nirmala Shahi
Campus Roll No.: 210/075
T.U. Regd. No.: 7-3-39-1445-2018
Exam Roll No.: 13654/19
Shanker Dev Campus

June, 2025

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Financial Performance Analysis of Micro Finance Companies in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

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

……

Nirmala Shahi

REPORT OF RESEARCH COMMITTEE

Miss Nirmala Shahi has defended research proposal entitled "**Financial Performance Analysis of Micro Finance Companies in Nepal**", successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Bhoj Raj Ojha and submit the thesis for evaluation and viva voce examination.

…….

Bhoj Raj Ojha
Dissertation Supervisor

Dissertation Proposal Defended Date:

……....

Dissertation Submitted Date:

……..

……

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head of Research Department

Dissertation Viva Voce Date:

……...

.

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Financial Performance Analysis of Micro Finance Companies in Nepal**" presented by Nirmala Shahi a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

……

Bhoj Raj Ojha
Dissertation Supervisor

……..

Internal Examiner

……

Internal Expert

…….
External Expert

…….

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairman, Research Committee

……..
Asso. Prof. Dr. Kapil Khanal
Campus Chief

ACKNOWLEDGEMENTS

This study entitled "**Financial Performance Analysis of Micro Finance Companies in Nepal**" has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the financial performance of microfinance companies in Nepal.

I have great satisfaction and pleasure to express my appreciation and sincerity to my thesis supervisor Bhoj Raj Ojha of Shanker Dev Campus, TU for his excellent and effective guidance and supervision. I will remain thankful for his valuable direction useful suggestion and comments during the course of preparing this thesis without his help this work would not have come in this form. I also would like to extend my debt of gratitude Asso. Prof. Dr. Sajeeb Kumar Shrestha, Head of Research Department and I owe a deep debt of gratitude to Asso. Prof. Dr. Kapil Khanal, Campus Chief of Shanker Dev Campus who provided me an opportunity to undertake this research work. Similarly, I would like to express my sincere to my friends for their support, encouragement and help for this study work.

I highly appreciate to all the staffs of respective banks, NRB Library, Shanker Dev Campus Library and TU Central Library for their valuable advices and support in collecting and presenting the necessary data. I would also like to express my thankfulness to my friends, my family members as well as all known people who supported as well as inspired me directly or indirectly to complete this thesis. With help and support, I have been able to complete this work. I would like to take the responsibility of any possible mistakes that may have occurred in the report. I would be delighted to welcome readers for their suggestion and recommendation to improve the report.

Nirmala Shahi
June, 2025

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

ABBREBIATIONS

BOD	:	Board of Directors
C.V.	:	Coefficient of Variation
D/Y	:	Dividend Yield
DPR	:	Dividend Payout Ratio
DPS	:	Dividend Per Share
EPS	:	Earnings Per Share
FIRST	:	First Microfinance Laghubitta Bittiya Sanstha Limited
FNCCI	:	Federation of Nepalese Chamber Of Commerce And Industries
GDP	:	Gross Domestic Product
IPO	:	Initial Public Offering
LC	:	Letter Of Credit
MVPS	:	Market Value Per Share
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
NWPS	:	Net Worth Per Share
P/E	:	Price Earnings
RMDC	:	Rural Microfinance Development Limited
ROC	:	Registrar of Companies
RSDC	:	RSDC Laghubitta Bittiya Sanstha Limited
S.D	:	Standard Deviation
SEB	:	Securities Exchange Board
SEC	:	Securities Exchange Centre
SKBL	:	Sana Kishan Bikas Lagubitta Bitiya Limited

ABSTRACT

The purpose of this study is to investigate how financial parameters affect the profitability of microfinance firms in Nepal. The financial institution's liquidity management must follow a framework for making decisions about controlling liquidity risk, along with appropriate funding plans, exposure restrictions, and protocols for allocating liquidities in an emergency. Aspects of liquidity include both the public stake and the day-to-day operations of firms. Individuals and business organizations receive a negative message about the depth of the financial crisis and other problems within the financial institution when there is insufficient cash or inadequate liquidity.

The structure of the words price earnings ratio (PER), cash reserve ratio (CRR), total assets (TA), return on assets (ROA) of microfinance firms, dividend payout ratio (DPR), and price earnings ratio (PER) is also provided. The price-earnings ratio, cash reserve ratio, dividend payout ratio, total assets, and the dependent variables ROA and ROE are among the experiment variables in this study. The secondary data was obtained from the annual reports of approved companies throughout a nine-year period, from 2070/71 to 2078/79. The data are analyzed and evaluated using SPSS version 23, and a descriptive, exploratory, and explanatory research approach is used. A sample of four microfinance companies was selected from a population of sixty-three using the convenience sampling technique. The companies are First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance Development Center Limited, and RSDC Laghubitta Bittiya Sanstha Limited. For this inquiry, secondary data have been used. Ordinary least square regression is a crucial analytical method in panel data analysis (OLS). Total assets and ROE have a significant positive correlation, whereas CRR and ROA also have a high positive relationship. The cash reserve ratio, dividend payout ratio, and price earnings ratio have minimal relationship with return on equity (ROE). The study's conclusions might make it easier for lawmakers and bankers to put effective policies into place that will boost the financial industry's profitability.

Key Words: Profitability, Microfinance Companies, ROE, ROA Liquidity, Creditability

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

A metric for a financial indicator that measures how much cash flow there is over a given period of time in relation to loans' principal and interest payments. To show that the venture is bringing in sufficient cash to take care of its obligation, the proportion ought to, in any event, be equivalent to or bigger than 1. The profitability of the business can be seen in its financial performance. Profit is a fundamental sign of strong financial performance. Monetary execution uncovers an organization's assets and shortcomings. A company's balance sheet and profit and loss statement show how well it is doing financially. The study of these financial documents makes it easier to measure the organization's overall financial performance. Through the analysis of financial performance, a strategic link between the items on the balance sheet and income statement as well as other operational data can be established in order to comprehend their significance and relevance. Therefore, financial performance analysis is required for management and financial decision-making (Bist, 2004).

Fiscal summaries incorporate insights regarding the organization's income, spending, resources, and liabilities. They likewise show the organization's monetary exhibition over a time of years and at a specific moment. On the other hand, they also draw attention to important financial aspects like profitability, liquidity, the value of the market capitalization, and activity capital structure. The yearly report conveyed to investors at the yearly regular gathering fills in as the essential source material for monetary examination, conversation, and understanding. Shareholders point to unpredictability, operational inefficiency, and deficiencies in internal management as contributing factors to a company's poor performance. The fiscal summaries that Nepal Stock Trade Restricted has gained, consolidated, and surveyed give more careful subtleties on the business' exhibition (Bhatta, 2004).

One technique for assessing the adequacy of cash that has been raised for the economy is execution investigation. Analyzing or evaluating how well a particular scenario performed in relation to the intended outcome is this process. Performance analysis is essential for improving decision-making and increasing productivity in banks and other

financial institutions. According to Greuning and Bratonovic (2004), it entails methodical observation.

A company's ability to generate revenue and utilize resources from its primary business activity is a subjective indicator of its financial success." This term is likewise utilized as a wide check of a business' generally speaking monetary prosperity over a given span. It can be used to compare businesses that are similar to one another in the same industry or industries as a whole. In order to determine an organization's profitability, revenue generation, and cash flow, it involves carefully observing and evaluating the financial accounts. The fiscal report incorporates the benefit and misfortune account, monetary record, and pay proclamation. The operational results for a specific time period are shown in the profit and loss account, whereas the balance sheet shows the organization's financial situation in terms of assets, total payables, and capital. Internal control, improved financial standing, and improved organizational performance all depend on analysis of financial performance (Malik & Rafique, 2013).

In contrast to the term "profit," "profitability" refers to an organization's capacity to generate a profit as its primary performance indicator. It only describes each company's fundamental test performance. Benefit is the abundance of deals income over costs, yet the expression "benefit" is exceptionally challenged and has a few implications (Horngren, 1992).

Financial performance analysis is the process of examining a company's financial operations with the intention of maximizing value. It is a crucial part of making financial decisions. An organization's expansion and development are directly influenced by its financial success. Making money is the goal of business organizations. Profit is one of the most important indicators of a company's strong financial success (Neupane, 2020).

1.2 Problem Statement

Financial indicators are essential for assessing a company's profitability and overall financial health. It demonstrates how effectively a company manages manufacturing costs. EPS is used to determine how much profit is allocated to each outstanding share of common stock. Investors value it because it indicates a company's per-share profit. A

company's debt-to-equity ratio shows how much equity and debt it uses to fund its assets. Because of interest installments, high obligation levels can unfavorably affect productivity, while low obligation might propose restricted influence for development.

In Nepal, a number of financial institutions, cooperative societies, rural microfinance organizations, and financial enterprises have been established as a result of the government's open and free economic approach to the microfinance industry. Because of their fast turn of events, monetary organizations are as of now participated in extreme contest with each other. Despite this, banks have quickly outperformed other local microfinance institutions in terms of performance. Compared to other commercial or governmental microfinance organizations, microfinance firms are more effective. However, they face a number of challenges as a result of the market's increased competitiveness and the introduction of new technology, such as computerization. Progress is tracked and efforts are made to achieve financial efficiency.

The microfinance company's financial success is influenced by both internal and external factors. Internal variables may be considered a specific aspect of microfinance profitability (income statement and balance sheet) due to their connection to indicators derived from financial accounts (Wahdan & Leithy, 2017). According to Tobias and Themba (2011), the economic and legal contexts that have an indirect impact on the operation and portability of microfinances are known as external factors, or variables that are unrelated to the administration of the microfinance.

To maintain the integrity of the micro banking system, it is necessary to have a robust microfinance sector. According to Yenesew (2014), MFIs' solvency is impacted by their lower resilience to adverse shocks as a result of poor financial performance. The establishment of institutions that are able to sustain themselves for a significant amount of time without requiring continuous funding from the government or donors is made possible by improved financial performance, which enables lenders to either recover their entire investment or make a profit. According to Adhikari (2014), MFIs' financial success is significantly influenced by the extent to which service recipients assume full responsibility for the costs associated with providing services. Accordingly, a portion of the significant elements influencing the monetary presentation of microfinance

associations incorporate size, capital levels, functional productivity, credit chance, and liquidity risk.

Adhikary (2014) suggested that, operational efficiency is the capacity of a microfinance program to provide a particular service at the lowest possible cost. Ongore and Gemechu (2013) stated that MFIs use operational efficiency as a performance metric to determine how effectively they simplify their operations while taking into account input and/or output pricing. Effective cost control should guarantee a more profitable use of MFIs' loanable resources, which could boost MFI profitability. One of the main threats to sustainable microfinance is inefficiency because many institutions still lack the scale or efficiency to pay costs. Operating efficiency ratios, or OERs, are typically used to measure operational efficiency. Since they show that functional costs are lower than working incomes, lower OERs are liked over greater OERs (Dufera, 2010).

The amount of internal funds a bank has available to support operations and act as a safety net in the event of adverse circumstances is known as capital. Capital provides a financial institution with liquidity because deposits are effectively other people's money that can be retrieved at any time. Adhikary (2014) revealed that the higher capital levels in relation to assets guarantee that, in the event of an asset loss, the institution would have sufficient cash on hand to cover the loss or sufficient capital to absorb potential losses while maintaining financial sustainability. Likewise, a very much promoted bank could demonstrate to the market that a better than expected execution is sensible in case of deviated data (Kahiga, 2014). Dividing MFI equity by total assets is one of the standard approaches to determining the level and adequacy of capital.

The capacity of financial institutions to meet demand for money is known as liquidity. Idama (2014) studied a microfinance bank faces liquidity risk if it is unable to meet its financial obligations or payment obligations in a timely and effective manner. Fernando (2021) showed a MFI with insufficient liquidity may be more vulnerable to future unpredictability, delays in timely refinancing, issues with growth objectives, and elevated portfolio risk. To diminish liquidity risk, every microfinance bank office should foster a day to day reserve plan that indicates how to adjust day to day cash inflows from investment accounts and credit reimbursement with day to day branch cash withdrawals

(Idama, 2014). MFIs' liquidity is typically assessed using the loan to total assets ratio (LAR), which depicts the proportion of total assets used to provide the loan.

Credit risk is when a lender might lose money if a borrower doesn't pay back a loan or doesn't stick to a credit agreement. At the point when credit risk is appropriately overseen through skilled administration, benefits rise and bankruptcy falls (Sule, 2012). Notwithstanding its advance portfolio, a microfinance bank's different resources and exercises likewise convey some credit risk. One of the main obstacles to the continued existence of microfinance banks is credit risk, which has an impact on the overall performance and profitability of any financial institution. Idama (2014) understand that lowering credit risk is an essential component of the operation of microfinance banks and necessitates a significant amount of operational work.

The size of an organization has a significant impact not only on the relationships it has within and outside of the workplace but also on its profitability. The cutting edge intermediation hypothesis expects proficiency benefits associated with a monetary organization's size because of economies of scale (Kahiga, 2014). MFIs, particularly smaller ones, are disadvantageous because it is difficult for them to compete with larger microfinance providers by diversifying their product offerings and covering the high sector operating costs (Mwangi, 2022). Addisalem (2015) stated that large businesses also possess a stronger market position, exhibit greater diversification, and may have more organizational leeway during prosperous times than small businesses. The natural logarithm of an institution's total assets is typically utilized in MFIs to approximate its size (Cull, 2007).

Therefore, this study aims to answer the following questions;

- What are the major financial indicators of microfinance companies?
- Is there any relationship between financial indicator and profitability of micro finance companies in Nepal?
- Do DPR, Total Assets, CRR and P/E ratio affect the ROA and ROE of MFIs?

1.3 Objectives of the Study

The primary goals of this study are to investigate the effect of financial indicator analysis on the profitability of microfinance businesses. The specific goals are as follows:

- To assess the major financial indicators of microfinance companies.
- To examine the relationship between financial indicator and profitability of microfinance companies.
- To analyze the impact of DPR, Total Assets, CRR and P/E ratio on ROA and ROE of microfinance companies.

1.4 Rationale of the Study

This exploration features the worries of financial backers, researchers, entrepreneurs, and other closely involved individuals. This study will be helpful to financial managers in gaining an understanding of the various factors that have an effect on the stock price, the process by which the price changes, and the connection between the price and the financial situation of the company. Forthcoming financial backers who are interested in the impact of flagging elements in the NEPSE list, value pattern, and volume of stocks exchanged can likewise profit from this review. This study will unquestionably be important to many different groups of people, but it is particularly focused on the following groups:

Importance to shareholders

For instance, assuming investors feel that the offered cost is excessively low, they can really foil takeover endeavors. Subsequently, investors have a major say in how well a firm performs by and large and brings in cash since they control the greater part of its tasks.

Importance to customers

Your client is the most essential part of your business, no matter what the area you work in or the sorts of labor and products you offer. There are no deals assuming that there is no client. As a result, when developing your messaging and marketing strategy, you must take them into account.

Importance to financial institution and stock exchange

Financial markets facilitate trade and ensure that capital goes where it is most needed, despite their apparent complexity. Markets provide businesses with the capital they require for expansion, staffing, and investment. They give the public authority cash to help with financing the development of new thruways, schools, and clinics.

Importance to government bodies and policy makers

The defenses for doing things a particular way and that way are tracked down in government strategy. Public issues can arise in a variety of ways, each requiring its own set of policy solutions. Governments set many policies that help businesses.

Importance to the institutes

Institutions also play a significant redistributive role in the economy, ensuring that the poor and those with fewer financial resources are protected and that resources are distributed fairly. They also boost confidence by providing justice and policing systems that adhere to the same set of laws.

Importance to the researchers

Advancement of knowledge in a field of study, evidence-based support for hypotheses, and direction for action are the primary objectives of research. Research improves judgment and comprehension. It is the best tool for understanding the complexities of a problem, rejecting lies, defending the truth, and expanding on information to produce reliable and genuine knowledge. Research enhances one's capacity for decision-making and comprehension.

1.5 Limitations of the Study

There are some boundaries set by each study. They include to concentrate on inside this system. As a result, there are some restrictions as a result of a lack of time and data. These are the main ones:

1. The study is limited to only four micro finance companies of Nepal, namely; First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited,Rural Microfinance Development Centre Limited and RSDC Laghubitta Bittiya Sanstha Limited.
2. Only secondary data is used for analysis which are taken from annual report of respective banks, journals and articles, NRB directives etc.
3. The whole study is limited to the past nine year’s data From 2070/71 to 2078/79 period.
4. The study deals with certain financial tools and statistical tools only.
5. The only financial indicator are used i.e. dividend payout ratio (DPR), cash reserve ratio (CRR), price earnings ratio (PER), return on assets (ROA) and return on equity (ROE)

CHAPTER – II
LITERATURE REVIEW

This chapter's primary focus is a literature review of "Financial indicator analysis of microfinance companies." One can learn more about their field, discover new contributions, and come up with new study design ideas by looking at the existing literature. It is impossible to ignore previous research because it was the foundation for this one. Based on my knowledge, research, and pertinent studies, this chapter provides a summary of the available information on the subject. It additionally incorporates surveys of diaries, distributions, and recently finished propositions. The accompanying subjects are analyzed under this heading.

- Theoretical Review
- Empirical Review

2.1 Theoretical Review

2.1.1 Concept of Financial Performance

Financial performance analysis is the process of examining a company's financial operations with the intention of maximizing value. Powerful, proficient, and compelling navigation are expected for the better monetary exercises, and the great monetary presentation that these better monetary exercises add to eventually prompts the association's development (Yenesew, 2014).

Financial performance analysis is the foundation of financial decision-making. An organization's growth and development are directly influenced by its financial performance, which is accurate when accurate facts and figures are sorted out. Making money is the goal of business organizations. One of the vital signs of an organization's solid monetary presentation is how much benefit procured (Yenesew, 2014).

Benefit procured by the firm is the vitally monetary presentation signs of business undertakings." A company's strengths and weaknesses can be better understood by analyzing its financial performance. As a result, it makes use of numerous financial statements. The balance sheet, which displays the company's current financial situation,

is followed by the income statement, which summarizes the company's profitability over time (Robinson, 1951).

Financial performance analysis, which is a component of financial management, is the primary predictor of a company's success or failure. Because it uses financial records and accounting data to look at the company's efficiency and past performance, its decision is crucial to increasing profitability. A company must turn a profit in order to survive, grow over the long term, and retain sufficient capital through retained earnings. However, profit is not the only determinant of a company's financial success. The company's financial situation ought to be solid from the perspectives of investors, stakeholders, financial institutions, and the nation as a whole. However, the financial aspect of public enterprises in Nepal is one of the most neglected aspects. In the meantime, institutional banks have been keeping an eye on their financial performance in order to take prompt corrective action, but this has been limited within the banks (Chand, 2016).

In the Nepalese setting, microfinance establishments are fundamental for the country's financial turn of events. Using a variety of financial measurement instruments, it would be transparent and simple to evaluate the financial performance of these top Nepali businesses to determine their earnings and how they are utilized to advance the nation's economic growth (Kahiga, 2014).

Financial performance analysis can be viewed as the heart of financial decisions in one way. The financial practices of any business have a significant impact on its capacity to grow and prosper. For a rational evaluation of the financial performance management in public organizations, it is crucial to cultivate relationships with banks and other financial institutions, raise vital funds, and keep accurate records. However, the financial aspect of public businesses in Nepal is frequently overlooked. However, institution banks have examined financial performance in order to take corrective action. However, the bank is the only subject of their research. The company's decisions have an effect on a variety of institutions, and financial performance is a component of financial management (Chand, 2016).

To execute a sound monetary administration framework for inner business control, the organization's administration is keen on all features of monetary examination. Similarly, trade creditors' primary focus is on the company's liquidity holdings. The company's ability to repay debt using cash flow is of greater concern to long-term creditors. The financial performance of the business is of interest to each and every one of the parties involved, either directly or indirectly. A significant perception of the company's exhibition and monetary condition is beyond the realm of possibilities with the outright bookkeeping figures given in the fiscal report, accounting report, benefit and misfortune account, and different records. According to Golesorkhi (2019), the primary qualitative judgment method for determining the firm's financial strengths and weaknesses is financial analysis because it correctly establishes the relationship between the items of the balance sheet and the profit and loss account.

The Nepalese Institution Bank is a successful business. In Nepal, a commercial bank's primary financial performance indicator is therefore its profit. Be that as it may, dependent exclusively upon an investigation of the bank's productivity state, foreseeing the bank's performance can't. Every aspect of the financial analysis needs to be taken into consideration in order to improve the bank's financial performance.

2.1.1.1 Theory of Finance

Finance theory is a broad field that incorporates both speculation and mathematical measures to establish investing strategies and monetary value estimates. Plans for capital age and raising money are additionally evolved utilizing hypotheses of money, just like the administration of monetary gamble.

2.1.1.2 Efficient Market Hypothesis

The efficient market hypothesis (EMH), also known as the efficient market theory, asserts that share prices accurately reflect all available information and that consistent alpha production is impossible. According to the Efficient Market Hypothesis (EMH), stocks on exchanges always trade at their fair value, preventing investors from purchasing inexpensive stocks or selling them at excessive prices. As a result, professional stock selection and market timing should not be able to outperform the market as a whole; the only way for an investor to get more money back is to bet more riskily. The efficient market hypothesis (EMH) or theory states that share prices represent all available

information. The EMH hypothesis states that stocks are said to trade on exchanges at their fair market value. Proponents of the efficient market hypothesis (EMH) argue that passive investing at low costs is advantageous to investors. Detractors of EMH hold the belief that equity prices can deviate from fair market values and that it is possible to outperform the market. Regardless of being a major part of contemporary money hypothesis, the EMH is very hostile and regularly challenged. According to proponents, searching for cheap stocks and applying fundamental or technical analysis to forecast market movements is pointless. According to Downey, Scott, and Velaswuez (2002), only inside information can theoretically produce excessive risk-adjusted returns, and neither fundamental nor technical analysis consistently produces risk-adjusted excess returns (alpha).

2.1.1.3 Fifty Percent Principle

An unpleasant rule that predicts the extent of a specialized rectification is the 50% guideline. The fifty percent rule states that a stock or other asset will lose at least half of its most recent gains before the price begins to rise again after a period of rapid increases. Using the fifty percent method, one can estimate the amount of value a stock will lose during a correction. If an asset declines following a price increase before rising again, it will lose half to two thirds of its recent price gains, according to this. Technical analysts use the fifty percent rule to determine when a stock is a good entry point and whether support levels are in place to prevent further declines. The concept works because, in the event of a market decline, the majority of investors act similarly. According to Smith (2001), the fifty percent strategy is most effective when applied to short-term trading and may be less effective in the event of significant economic shocks.

During a price correction, the fifty percent idea states that a security's price will drop between fifty and sixty-seven percent of its previous gains before rising again. The principle is a technical analysis technique that traders use to predict the best entry point so they can make the most money when the rising trend comes back. The fifty percent idea is one of many technical theories that attempt to identify support levels in market behavior. An understanding of this principle serves as the foundation for a number of charting strategies, including pattern analysis and Fibonacci ratios that are used to follow a stock price as it fluctuates between its support level and new highs. This kind of chart analysis is used most of the time in short-term investing. This is because it is risky to rely

solely on charting for exnineded periods of time due to the unanticipated effects of significant economic events. Markets and the economy as a whole are altered by major events like the 2008 financial crisis (Smith, 2001).

2.1.1.4 Great Fool Theory

In finance, the larger fool theory says that buying overpriced assets that can be resold for a lot more money might pay off in some cases. These resources have a price tag that is fundamentally higher than their characteristic worth. In this situation, a "fool" may buy a costly resource with expectations of bringing in cash by offering it to a "more noteworthy nitwit." This tactic only works as long as there are enough new "greater fools" willing to buy the asset at ever-increasing prices. A sell-off may occur when investors are unable to ignore the fact that the price is out of line with reality. This will cause the price to sharply fall until it reaches its fair value, which may in some cases be zero (Malkiel, 2018).

The Greater Fool Theory states that because there will always be buyers willing to pay a higher price, one can profit from investing in overpriced assets during a market bubble and then selling them for a profit later. The rise in value of a group of stocks, in this case those tied to the excitement of the Internet, is a sign of a bubble. More people buy the stocks because of the updraft, which thus prompts expanded media and print inclusion, which thus urges more individuals to buy, bringing about enormous increases for early Web financial backers. At cocktail parties, successful investors tell you how easy it is to get rich, which boosts stock prices and brings in a growing number of investors. Nevertheless, the entire procedure resembles a Ponzi scheme in that an increasing number of gullible investors must be found in order to purchase the stock from the initial investors. Malkiel (2018) says that one eventually runs out of foolish people.

2.1.1.5 Odd Lot Theory

The odd parcel hypothesis is a specialized examination speculation that holds that odd-part deals are bound to come from individual financial backers and that little individual financial backers are commonly mixed up. Therefore, if odd-lot sales are up and small investors are selling a company, it is probably a good time to buy, and if odd-lot purchases are up, it might be a good time to sell. Odd-lot trades are orders involving shares smaller than a 100-share round lot. It is assumed that lone retail traders, probably less knowledgeable market participants, carry out the majority of these odd-lot trades.

Odd lot theory recommends trading against the actions of these naive traders. The testing of this hypothesis suggests that this observation is not always accurate. The odd lot concept is based on observing individual investor trades in odd lots. This hypothesis also predicts that professional traders and investors typically trade in round lot sizes, which are multiples of 100 shares, in order to increase price efficiency in their orders. This way of thinking was widely accepted from about 1950 until the end of the century (Scott, 2022). However, it has since lost some of its appeal (Scott, 2022).

2.1.1.6 Prospect Theory

Because it is assumed that gains and losses have distinct values, prospect theory states that people make decisions more on the basis of perceived profits than on perceived losses. The "loss-aversion" theory, as it is more commonly known, is based on the idea that people will choose the first option when presented with two equal options, one of which involves potential profits and the other of which involves potential losses. Investors, according to the prospect hypothesis, weigh perceived gains more than perceived losses when evaluating gains and losses. An investor will choose the option with the higher potential reward when presented with two equal options. Prospect theory is also known as the loss-aversion theory. The prospect theory, which is a part of behavioral economics, says that investors chose perceived profits because losses have a stronger emotional impact. People prefer certain outcomes over likely ones, according to the certainty effect, and when making decisions, they tend to ignore similar facts. A subfield of behavioral economics known as prospect theory explains how people make decisions about probabilistic options when there is risk and it is unclear how likely certain outcomes will be. This theory, first proposed in 1979 and developed by Amos Tversky and Daniel Kahneman in 1992, was found to be more psychologically accurate than the expected utility theory in explaining how people make decisions (Chen, 2022).

2.1.1.7 Rational Expectations Theory

People make decisions based on what they know best about the market and trends in the past, according to the economic theory of rational expectations. It is reasonable to assume that people will generally be correct, despite occasionally making mistakes. In 1961, American economist Muth proposed the idea of rational expectations for the first time. However, as part of the new classical revolution, economists Robert Lucas and T made it popular. It was widely used in microeconomics. During the 1970s, Sargent. The theory

makes the following presumptions: People always learn from their mistakes when they have rational expectations.

- People are aware of how the economy works and how government policies affect macroeconomic variables like aggregate output, unemployment, and price level.
- Forecasts are objective, and people make decisions based on all of the data and economic theories that are available.

The rational expectations theory has both weak and strong variations. The "strong" version assumes that actors have access to all relevant data and are able to use it to make decisions that can be supported. The "weak" versions believe that people don't have enough time to gather all relevant information, so they make decisions based on what they don't know. For instance, according to Muth (1961), it is "rational" for them to continue purchasing that brand of cornflakes without worrying about knowing the relative costs of other brands.

2.1.1.8 Short Interest Theory

A bullish sign comes from high levels of short interest, according to the concept of short interest. As a result, proponents of this concept will attempt to acquire highly shorted stocks in order to take advantage of the anticipated price increase. This strategy is opposed by the majority of investors, who interpret short selling as a sign that the shorted stock is likely to decline. As a result, short interest theory could be regarded as an unconventional investment strategy. As per the short interest hypothesis, stocks that are vigorously shorted have a higher possibility ascending from now on. This is a contrarian strategy because the majority of investors interpret short interest as a bearish indicator. The observation that short sellers are occasionally compelled to make aggressive purchases of shares to cover their holdings is the foundation of short interest theory.

Short interest theory is built on the tenets of short selling. Shorting a stock entails borrowing money from a broker and immediately selling it for cash. The financial backer will ultimately need to buy the offers on the open market and return them to the agent when the representative requests installment. Short sellers make money when shares they bought fall in price after they sell them. The short seller might then buy the shares back from the broker at a lower price and keep the profit margin (Fernando, 2021).

2.1.2 Profitability Theory

The efficiency theory, the market power theory, and the bankruptcy cost theory are all examined in this paper.

2.1.2.1 The efficiency theory

The efficiency hypothesis, on the other hand, contends that banks' high profits are due to their superior efficiency. The term "efficiency" refers to two distinct approaches, the Scale-efficiency hypothesis and the X-efficiency hypothesis. The X-effectiveness approach expresses that since additional productive organizations have lower above, they are more beneficial. Although there is no correlation between concentration and profitability, these businesses tend to increase their market shares, which can raise market concentration levels. Athanasoglou and others 2008).

2.1.2.2 The market power theories

According to Tregena (2009)'s market power hypothesis, a bank's performance is influenced by the industry's market structure. The market power hypothesis is comprised of two distinct hypotheses: the Relative Market Power (RMP) and Structure Conduct Performance (SCP) hypotheses. According to the SCP method, banks have the potential to gain market power as a result of the level of market concentration in the banking industry. This could lead to an increase in the profitability of banks. Due to their ability to charge higher loan rates and lower deposit rates for monopolistic or collusive reasons, banks operating in more concentrated markets are more likely to make abnormal profits than businesses operating in less concentrated markets (Tregenna, 2009).

2.1.2.3 The balanced portfolio theory

As per Olweny and Shipo (2011), the portfolio hypothesis approach is the most appropriate and huge in bank execution research. The ideal holding of every resource in an abundance holder's portfolio is an element of not set in stone by various variables, including the size of the portfolio, the vector of dangers related with claiming each monetary resource, and the vector of paces of return on all resources held in the portfolio, as per the Portfolio Equilibrium Model of Resource Broadening. It suggests that microfinance organizations' intended portfolio composition and portfolio diversification are the result of decisions made by bank management. Moreover, the administration's

assurance of a serviceable arrangement of resources and liabilities as well as the unit costs caused by the bank in making every resource part influence the possibility to accomplish greatest profit. (Olweny & Shipo, 2011)

2.1.2.4 Bankruptcy Cost Theory

Aremu, Ekpo, and Mustapha (2013) stated that the bankruptcy cost theory provides an explanation for the positive relationship that exists between capital adequacy and profitability. If environmental changes cause the costs of bankruptcy to be unexpectedly high, banks will need to hold more equity and increase their capital ratio in order to lower the estimated value of those costs and avoid financial distress.

2.1.2.5 Risk return Hypothesis

The risk-return hypothesis was used to explain the negative correlation between capital adequacy and profitability (Olweny & Shipho, 2011). When a bank decides to take on more risk in order to obtain higher expected returns, it will increase debt or leverage in order to boost profitability. This suggests that a bank would need to bring down its value to-resource proportion (capital) to raise influence. This theory consequently delineated how a bank's inclination for utilizing influence over value can inconveniently affect capital adequacy and bank benefit.

2.1.3 Financial Indicators

The performance, viability, and overall health of a company's finances can all be evaluated using financial indicators, which are numerical measurements. These indicators can be used by managers, analysts, and investors to make well-informed decisions. The list of typical financial indicators that follows:

Current Ratio: A company's ability to pay off short-term debt or bills that are due in a year is evaluated by a liquidity ratio known as the current ratio. Analysts and investors can learn from this how a company can optimize its current assets on the balance sheet to reduce its current debt and other payables (Hamal, 2020).

Quick Ratio: The liquidity test performed by the quick ratio is more stringent than the current ratio. The fact that current assets serve as the numerator and current liabilities serve as the denominator makes them comparable. However, only a small number of

current assets are taken into account by the quick ratio. It takes into account accounts receivable as well as more liquid assets like cash and marketable securities.

Turnover Ratios: Profitability ratios are a class of financial metrics that are used to evaluate a company's capacity to generate profits in relation to its revenue, operating costs, balance sheet assets, or shareholders' equity over time. They use data from a single point in time. These are probably the most frequently involved measurements in the field of monetary examination. An organization's health and financial performance can be gleaned from profitability ratios. Proportions are not helpful as measures all alone; all things considered, they work best as examination apparatuses.

Gross Profit Margin: The gross profit margin is the profit that remains after subtracting the cost of goods sold (COGS). A company's gross profit margin is simply the amount of money left over after operating expenses are deducted. The gross margin ratio, also known as this figure, is usually expressed as a percentage of sales.

Net Profit Margin: The remaining revenue after taking into account all costs. The company's net profit is calculated by deducting all costs from its total revenue. The calculation of the profit margin produces a percentage. The net profit margin ratio is a useful tool for evaluating a business's profitability and analyzing a variety of situations, such as when expenses are ineffectively increased. It is frequently used in financial modeling and business valuation.

Return on Equity (ROE): Return on equity (ROE), which is divided by shareholders' equity, is a metric used to evaluate financial performance. Since shareholders' equity is calculated by subtracting debt from assets, ROE is also known as the return on net assets.

Efficiency Ratios: An organization's internal usage of its assets and liabilities is generally evaluated using the efficiency ratio. The rotation of receivables, the repayment of obligations, the amount and use of equity, and the overall use of inventories and equipment can all be determined using an efficiency ratio.

The asset turnover ratio calculates the effectiveness with which a business generates sales from its assets.

Inventory Turnover: Shows the recurrence of deals and substitutions of stock throughout a given time span.

Debt-to-Equity Ratio: This number shows how much of a company's equity is owned by shareholders and how much is owned by its creditors, or people from whom it has borrowed money. It is one of three calculations used to determine debt capacity, along with the debt-to-total assets ratio and the debt servicing ratio.

Price-to-Earnings (P/E) Ratio: The multiple of a stock is calculated by dividing its share price by its earnings per share (EPS). The PE ratio is one of the most widely used metrics for evaluating a company's value. It tells you if a stock is cheap or expensive at the moment's market price.

Cash Flow Ratios: The money proportion adds significantly more detail to the liquidity test. Only a company's cash and marketable securities, or its most liquid assets, are taken into account in this ratio. An organization can utilize these assets to pay its prompt liabilities the speediest. The current ratio, quick ratio, and cash ratio can be categorized as easy, medium, or hard based on how stringent the liquidity requirements are.

Book-to-market ratio: By contrasting an organization's book esteem with its reasonable worth, the book-to-showcase proportion is utilized to decide its worth. The verifiable expense, or bookkeeping esteem, of an enterprise is utilized to decide its book esteem. The number of outstanding shares and the share price of a company on the stock market determine its market value.

Operating Cash Flow Ratio: The operating expense ratio, or OER, measures the property's operating expenses in relation to its income. By dividing total operating expenses (less depreciation) by operating income, the operating expenditure ratio (OER) can be calculated.

Market value per share: To figure out how much a share is worth in the market, use its market value per share. Divide a company's assessed market value by the total number of shares held by investors to determine its MVPS. The price at which a company's stock is traded on the stock market is its market value. Understanding a company's MVPS and

total market value is important in many situations. Shares can be transferred as a result of an inheritance or a divorce in this scenario.

These measurements offer savvy data about the monetary soundness of an association. It is necessary to take into account the particular circumstances of the company, the state of the economy, and industry norms for a thorough study. Different indicators may have different weights depending on the business's sector or stage of expansion.

2.2 Empirical Review

2.2.1 Review of International Articles

Serhii et al. (2023) conducted on the impact of financial performance on the profitability of advertising agencies in the Slovak Republic. This study aims to investigate the ways in which the profitability of Slovakian advertising agencies is influenced by financial performance. Using information from the fiscal year 2020's financial statements, a sample of 88 advertising businesses in Slovakia was examined using regression modeling. Research has demonstrated that All out Resources Turnover and Firm Size impact Return on Resources, a reliant variable that describes the monetary progress of promoting organizations; then again, the Obligation to Value Proportion has an adverse impact.

Muliani, Akhyar and Maimunah (2023) investigated the impact of financial performance and profit management on the value of businesses in the building materials construction subsector. The target of the review is to look at the effect of productivity, capital design, liquidity, and profit the board on the organization esteem in building materials is the point of the review. Various straight relapse was the information investigation procedure utilized, and Eviews 12 was utilized. The majority of the findings showed that earnings management and liquidity had no discernible impact on business value, whereas profitability and capital structure had a positive and significant impact.

Yasmin (2022) studied macroeconomic variables and the financial sustainability of microfinance institutions: A South Asian case study. The motivation behind this study is to decide the way in which macroeconomic choices influence micro-level choices in the microfinance business in South Asia by analyzing the monetary manageability of microfinance organizations (MFIs) inside the financial structure. Using a fixed-effect

model (FEM), the empirical investigation looks at the imbalance panel data of microfinance institutions as well as macroeconomic variables. The findings demonstrate that economic indicators such as human development, inflation, interest rates, private lending, and labor force participation have a negative effect on financial sustainability, with the exception of GDP growth. The overall economic results seem to be important from the perspective of MFIs that place a high value on good governance. To guarantee the monetary supportability of MFIs, experts in both people in general and confidential areas of microfinance should likewise cautiously assess macroeconomic arrangements.

Agaba and Eton (2022) studied the loan performance and credit risk management tactics of Ugandan microfinance organizations. The purpose of the study is to investigate the connection between loan performance and strategies for credit risk management. The purpose of this study was to find out how the performance of microfinance institutions is affected by mobile banking. The review, which zeroed in on a couple of specific business banks — Value Bank Kenya Restricted, Co-employable Bank of Kenya Restricted, KCB Bank Kenya Restricted, and Family Bank Kenya Restricted — was done in July 2016.

The researcher used a descriptive research design. The study used purposeful sampling, which means that only those people who were specifically targeted provided the necessary information. The data were analyzed using regression analysis and descriptive statistics (means, percentages, and standard deviation). The study found a strong connection between loan performance and the identification, evaluation, monitoring, and management of credit risk. The overview likewise found that portable banking is productive, safe, practical, and supports the volume of exchanges in business banks. Additionally, it facilitates bank access to the unbanked population. The report recommends that policymakers consider mobile banking when drafting laws due to technological advancements and the anticipated shift from physical branch networks to digitally enabled banking services.

Kori, Muathe, and Maina (2020) examined the role of strategic intelligence in the context of commercial banks in Kenya. The review involved both monetary and non-monetary standards in execution assessment. This paper provides a comprehensive look at how commercial banks use strategic intelligence in Kenya. The primary objective was to use both financial and non-financial performance metrics to evaluate the performance of

commercial banks. Interior cycles, learning and development, and consumer loyalty were non-monetary rules, while return on value (ROE) was one of the monetary measures. The data were analyzed using descriptive statistics and linear multiple regression. The findings of the study indicate that there is a statistically significant connection between the performance of Kenya's commercial banks and strategic intelligence. In addition, financial and non-financial performance indicators help the Kenyan economy grow as well as the banking sector. The study says that Kenyan commercial banks should use a balanced scorecard to make sure their strategy implementation and training priorities are in line with investors' interests.

Ndungu and Bosire (2020) argued on the factors influencing the financial performance of Kenyan commercial banks listed on the NSE. The purpose of this study was to identify the factors that influence the financial performance of Kenyan commercial banks listed on the NSE. In the descriptive study design, eleven listed commercial banks in Kenya were the focus of a census technique. To lay out a relationship between the examinations factors, the review utilized optional information taken from the evaluated monetary records of the previously mentioned banks. Information regarding the financial impact of the listed banks was gathered using a data collection matrix.

With the guide of SPSS, the information was examined, and the outcomes — which included means and standard deviations — were shown in tables. Credit risk, liquidity risk, market risk, and operational risk may account for 31.42 percent of the listed commercial banks' financial performance, according to the report. The listed commercial banks' financial performance is impacted significantly and negatively by market risk, operation risk, and credit risk, respectively.

Nalianya and Miroga (2020) studied on determinants of financial performance of commercial banks in Kenya: case of listed banks on the Nairobi Securities Exchange (NSE). The researchers assert that the recent uptick in merger and acquisition activity is conclusive evidence that Kenya's banking sector is consolidating. As of December 31, 2016, the study's population consisted of 244 bank employees from 11 listed commercial banks with operating licenses in Kenya who worked in the finance and operations divisions. The study used a descriptive research design as its research approach. From the population, a random sample of sixty-three respondents was selected. The information

investigation was finished utilizing relapse examination, relationship examination, and enlighnineing investigation. Liquidity, capital adequacy, operating expense, and leverage all had a significant impact on Kenya's listed commercial banks' financial performance, according to the study. Leverage had the most significant and beneficial effect on commercial banks' financial performance. As a result, the study recommended that public-traded commercial bank managers implement an aggressive credit policy to maximize the utilization of debt for capital expenditures and improve the company's financial performance.

Mwangi (2018) examined the impact of size on the financial performance of Kenyan commercial banks. The hypothesis that commercial banks' financial success is influenced by their size does not currently have any convincing empirical evidence to support it. As a result, the objective of the study was to ascertain the size's influence on the profitability of Kenya's commercial banks. The study used a panel of all Kenyan commercial banks that was unbalanced and covered the nine-year period from 2007 to 2016 (numbers ranged from 39 to 43). Regression analysis was used to investigate the connection between financial performance (return on equity and return on assets) and size (measured as the log of total assets). It was discovered that the size of Kenyan commercial banks had a positive impact on their financial performance. In addition, the impact got worse as the commercial bank got bigger. According to the report, shareholders and managers should also implement expansion plans (internally produced, fund raising, or mergers and acquisitions) that are aimed at increasing the size of commercial banks.

Akanbi and Adewoye (2018) researched on the impact of adopting an accounting information system on the financial performance of commercial banks in Nigeria. It is essential to examine the numerous advancements that have enabled commercial banks' services to perform better financially, given the significant impact they have on everyday life. This study therefore examined the impact of Nigerian commercial banks' adoption of Accounting Information Systems (AIS) on financial performance. The Lekki Promontory Area of Lagos State, Nigeria, filled in as the review's area. Eighty participants were selected at random from each of the sixteen commercial banks in this study area to take part in the examination. In Nigeria, branches of 75% of commercial banks are located here. In order to learn more about AIS adoption and the extent of it at these banks, questionnaires were distributed to the respondents. The selected commercial banks'

financial reports from the nine years prior to the implementation of AIS (2007–2017) provided information on Gross Profit Margin (GPM), Return on Capital Equity (ROCE), Return on Total Asset (ROTA), and Net Operating Profit (NOP). The Cronbach's alpha test and a straightforward linear regression test were used to evaluate the effect of AIS on bank performance as well as the stability of the assessment instrument. The survey found that commercial banks in Nigeria have adopted and are using AIS to provide their customers with services at a relatively high level. Each of the performance metrics—ROCE, ROTA, GPM, and NOP—had a positive, significant correlation with AIS adoption.

Yusuf and Surjaatmadja (2018) analyzed on the analysis of financial performance on profitability using non-performance financing as variable moderation. Study at an Indonesian Sharia-compliant bank from 2012 to 2016). The aim of this study is to determine the impact of the capital adequacy ratio (CAR) and financing to deposit ratio (FCRR) on profitability (proxied using return on assets [ROA]), using non-performing financing (NPF) as a moderating variable. According to researchers, banks' profitability is defined as their capacity to turn a profit in an efficient and effective manner. The review's populace comprises of 12 sharia business banks working in Indonesia somewhere in the range of 2012 and 2016. The method that was utilized in this study to collect samples from up to 11 banks is called "purposeful sampling," and it involves selecting samples based on predetermined criteria. The data used in this study came from secondary sources. The data were analyzed using the multiple linear regression method. Meanwhile, investigate the moderating variable's impact on the relationship between the independent and dependent variables with moderated regression analysis. BOPO had a significant negative effect on profitability, while CAR and FCRR had a significant positive effect, according to the findings. The NPF has no significant impact on the relationship between CAR and profitability or FCRR and profitability, but it has a significant negative impact on the relationship between BOPO and profitability. However, as a moderating variable, NPF has a significant negative influence on the FCRR's relationship to ROA and a significant negative influence on the CAR's relationship to ROA (unable to moderate). From 2012 to 2016, BOPO had a connection to a government bank in Indonesia that offered sharia.

Robin, Salim, and Bloch (2018) examined on financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh. Before, during, and after Bangladesh's financial liberalization, the profitability metrics of commercial banks are examined in this study. The review utilizes bank-level yearly information from critical business banks in Bangladesh for the years 1983-2012 and a board information relapse system. The banks' net interest margin (NIM) has increased despite the fact that financial reform has not had a significant impact on their return on equity (ROE) or return on asset (ROA). Additionally, the findings demonstrate that asset quality and capital strength are the primary determinants of profitability. Therefore, a suitable banking strategy that aims to increase asset quality and capital base is necessary to ensure that Bangladesh's banking industry remains sustainable.

International articles so far reviewed are presented in Table 1.

Table 1

Review of International Articles

Date	Writer	Title	Objectives	Methodology	Findings
2023	Serhii	The impact of financial performance on the profitability of advertising agencies in the Slovak Republic	To analyze the impact of financial performance on the profitability of advertising agencies in Slovakia	Regression analysis	While Total Assets Turnover and Firm Size have a significant positive impact, the Debt to Equity Ratio has a negative impact.
2023	Muliani	The influence of profit management and financial performance on company value in building materials construction sub-sector companies	To examine the effect of earnings management, profitability, capital structure, and liquidity on the firm value in building materials	multiple linear regression using E-views 12	The majority of the findings showed that earnings management and liquidity had no discernible impact on business value, whereas profitability and capital structure had a positive and significant impact.
2022	Yeasin	Impact of Credit management on	To analyze the impact of credit	Applied a deductive	Non-performing loans (NPL) and the capital adequacy ratio (CAR)

		financial performance	risk management on financial performance	research design and regression analysis of panel data.	had a statistically significant negative impact on commercial banks' financial performance. In contrast, the commercial banks' financial performance was positively and statistically significantly influenced by the Loan to Deposit Ratio (LCRR).
2022	Agaba & Eton	Credit risk management practices and loan performance of commercial banks in Uganda	To examine the relationship between Credit Risk Management Practices and Loan Performance	Correlation and regression tests to analyze the relationships	The study found a significant correlation between the performance of loans and the identification, evaluation, monitoring, and control of credit risk.
2020	Kori, Muathe, and Maina,	Financial and Non-Financial Measures in Evaluating Performance: The Role of Strategic Intelligence in the Context of Commercial Banks in Kenya	To provides comprehensive discussion on role of strategic intelligence in commercial banks, in Kenyan context	Descriptive statistics and linear multiple regression analysis	A balanced scorecard should be used by Kenyan commercial banks to ensure that their strategy implementation and training goals are in line with the interests of their investors.
2020	Ndungu and Bosire	Determinants of financial performance of commercial banks listed at nse in Kenya.	To establish the determinants of financial performance of NSE listed commercial banks in Kenya	Descriptive study design	With 85.7% of the banks' financial performance attributed to this factor, the findings revealed a significant positive correlation (r=0.926) between the financial success of commercial banks and the allocation of funds to various assets. should be done on additional factors like currency rates, inflation, and changes in interest rates.
2020	Naliany a, and	Determinants of financial	To examine the determinants	Descriptive research	In order to improve the company's financial performance, managers

	Miroga,	performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange (NSE)	affecting financial performance of listed commercial banks in Kenya with specific objectives on the effect of liquidity, capital adequacy, operational expense and leverage on performance of banks in Kenya	design, Descriptive analysis, correlation analysis and regression analysis were used to perform the data analysis	of listed commercial banks should implement an aggressive credit policy to maximize the utilization of debt in capital spending. The financial performance of Kenya's listed commercial banks was significantly influenced by each of the independent variables—liquidity, capital adequacy, operational expense, and leverage.
2018	Mwangi	The Effect of Size on Financial Performance of Commercial Banks in Kenya	To establish the effect size has on the profitability of commercial banks in Kenya.	Regression analysis is used	that measures to increase the size of commercial banks be taken into account, and that managers and shareholders may also decide to use expansion strategies (internally produced, fund raising, or mergers and acquisitions).
2018	Akanbi and Adewoye	Effects of Accounting Information System Adoption on the Financial Performance of Commercial Bank in Nigeria	To examine various innovations to which their services are been performance effectively with financial improvement.	Cronbach's alpha test	The adoption of AIS and its use in the provision of services to customers by Nigerian commercial banks are quite high. All performance metrics (ROCE, ROTA, GPM, and NOP) have a positive, significant correlation with the use of AIS with and.
2018	Yusuf and Surjaatmadja	Analysis of Financial Performance on Profitability with Non Performance Financing as	To determine the effect of capital adequacy ratio (CAR) and financing to deposit ratio	Multiple linear regression analysis	While CAR and FCRR have a significant positive impact on profitability, BOPO has a significant negative impact. The NPF has no significant impact on the relationship between CAR and profitability or FCRR and

		Variable Moderation (Study at Sharia Commercial Bank in Indonesia Period 2012–2016)	(FCRR) on profitability (proxies with return on assets [ROA]) with non performing financing (NPF) as a moderation variable		profitability, but it has a significant negative impact on the relationship between BOPO and profitability.
2018	Robin, Salim and Bloch	Financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh	To Examine the financial performance of the commercial banks in Bangladesh in terms of profitability measures before, during and after a period of financial liberalization	regression analysis	Banks' return on equity (ROE) and return on asset (ROA) haven't changed much as a result of financial reform. However, the net interest margin (NIM) has increased, indicating that capital strength and asset quality are the main factors that affect profitability. Therefore, a suitable banking strategy that aims to increase asset quality and capital base is necessary to ensure that Bangladesh's banking industry remains sustainable.

2.2.2 Review of National Articles

Shrestha (2023) conducted a research on Impact of firm-specific factors on the financial performance of Nepalese microfinance institutions. This study aims to determine how microfinance institutions (MFIs) in Nepal's financial performance is affected by certain firm-specific characteristics. In this work, descriptive and causal comparative study designs were utilized. From 2010/11 to 2020/21, the study used annual panel data from 29 Nepalese stock exchange-registered microfinance organizations. An appropriate multivariate regression model is selected based on the results of the Hausman test and the Breusch and Pagan Lagrangian multiplier test in order to ascertain the impact of firm-specific characteristics on the financial performance of Nepalese MFIs. Using the fixed effect regression model, this study found that firm-specific characteristics had a significant impact on the financial performance of Nepalese MFIs. This study also found that asset quality had a significant positive impact on the deposit ratio, managerial

effectiveness, and weighted average interest rate spread, but a significant negative impact on the financial performance of Nepalese MFIs. The study concluded that increasing the weighted average interest rate spread, managerial effectiveness, and deposit ratio will all contribute to the financial success of Nepalese MFIs.

Dhungana and Ranabhat (2022) examine the Impact of microcredit on microenterprise development: A case study of the Gandaki province of Nepal. This study takes a gander at how microcredit influences the development of microenterprises in Nepal's Gandaki Region. Clients who have been enrolled in microfinance institutions for at least five years are surveyed using a standard questionnaire. An explanatory study design is used to find out how a microfinance intervention affects the growth of microenterprises. The study asserts that the expansion of microbusinesses and enterprises has been significantly influenced by microcredit-based microfinance interventions. The regression results show that microcredit has helped microbusinesses grow and create jobs while also increasing investment, income, and profits. The feasibility and life span of microcredit organizations rely upon the successful utilization of microcredit.

Kunwar (2022) researched on the financial sustainability of Nepali microfinance institutions. The monetary maintainability of microfinance associations is unquestionably the main part of microfinance supportability. 250 respondents finished the survey, which is utilized in the review. According to Thapa et al. (1992), it describes an MFI's capacity to cover all of its operating expenses on its own (Thapa et al., 1992). Financial sustainability, as defined by Dunford (2003), is the capacity to carry out microfinance initiatives without the continuous support of donors. The ability to work independently is the primary focus of these definitions. In addition, the definitions suggest that the activities of microfinance might bring in money.

Jha and Hui (2022) looked at a case study of Nepal in their comparison of the financial performance of microfinance institutions. Based on the CAMEL Model, this study sought to identify the performance factors revealed by financial ratios and examine the financial performance of various ownership-structured microfinance organizations in Nepal based on their financial characteristics. A monetary examination of eighteen microfinance establishments was led somewhere in the range of 2005 and 2010. An econometric model (multivariate regression analysis) and two regression models were used to estimate the

impact of these banks' capital adequacy ratio, non-performing loan ratio, interest expenses to total loan, net interest margin ratio, and credit to deposit ratio on their financial profitability, or return on assets and return on equity. According to the findings, public sector banks are significantly less efficient than their counterparts, despite the fact that local private banks are just as efficient as foreign-owned (joint venture) banks. Furthermore, the assessment discoveries show that the capital sufficiency proportion to a great extent affected return on value, however it significantly affected return on resources. Interest costs to the complete credit and net interest edge likewise had a huge effect.

BK (2021) investigated on microfinance institutions: instrumental for promoting financial inclusion. An outline of microfinance microcredit, which is viewed as a critical drive to lessen neediness, enable ladies, and make a general public that is financially comprehensive, is offered in this perspective piece. Despite the fact that there are numerous examples of both success and failure, the majority originate from Asia, Africa, and Latin America, microfinance is now a global priority in the modern world. Based on secondary sources and personal experience, the presentation provides a general overview of microcredit, its success, and the challenges of microfinance. It also highlights extremely brief cases from Bangladesh and Nepal. The study concludes with clear recommendations for the success of microcredit, particularly in developing nations.

Shrestha (2020) analyzed how Covid-19 affected Nepal's microfinance institutions. Using information that Nepali microfinance institutions have disclosed in accordance with regulatory requirements, this study attempts to evaluate the effects of the COVID-19 epidemic on those institutions. After the government imposed lockdown measures to stop the coronavirus from spreading, the assessment looks at changes in a number of important financial indicators like profitability, savings, loans, non-performing loans, and the number of employees and borrowers. The lockdown measures have had a significant negative impact on microfinance organizations, according to data from mid-March 2020 to mid-July 2020. However, despite the fact that the Covid-19 pandemic has not yet ended, they were able to get through the review period with the help of NRB policy measures and a small amount of survival. To get through these trying times, we need to come up with creative, cooperative, and practical solutions.

Gautam (2020) researched on effect of accounting information system on financial performance of firms: A Review of Literature. Accounting information systems are a vital tool for managers in the modern world who are trying to maintain a competitive edge in the face of quickening technical advancements, rising awareness, and demanding demands from clients and business owners. This study aims to evaluate the impact of accounting information systems on firms' financial performance through an empirical literature review. The study, which employs an exploratory research methodology, concludes that the ability of businesses to develop and implement computerized systems for tracking and recording financial transactions has had the greatest impact on accounting, enhancing internal controls, management decision-making, and financial reporting quality. As a result, the findings of the study suggest that every business should continue to place a high value on the use of accounting information systems in order to foster productive performance that can last.

Shrestha (2020) examined on changing dimensions of financial inclusion in Nepal: A comparative analysis. Financial inclusion is a prerequisite for inclusive growth, which is essential for reducing poverty and inequality in the economy. This study tries to look at how Nepal's financial inclusion has changed over time and compare it to other South Asian countries using secondary data that is currently available. Nepal's financial inclusion has significantly improved over time as a result of a number of previous policy measures. Nonetheless, in numerous areas of monetary consideration, Nepal has falled behind numerous South Asian countries, like Sri Lanka and India. Nepal has extremely low use, particularly of credit, and deficient and inconsistent access, showing a drawn out, difficult experience ahead to make the monetary framework more comprehensive. By utilizing cutting-edge technologies and enacting inclusive regulations, it is necessary to broaden access to finance in a manner that is inclusive. In addition, raising awareness and highlighting the benefits of formal financial services should increase their use in order to achieve true financial inclusion.

Oli (2018) conducted study on how Nepal's economic growth is impacted by microfinance organizations. This study examines the impact of microfinance organizations on Nepal's economic expansion. The gross domestic product and the per capita income are the dependent variables. The independent variables are the total number of employees, members, credit to microenterprises, assets, loan, deposit, inflation, and

broad money supply. Secondary sources provided the study with the data it needed. The data, which were collected from 24 microfinance organizations between 2012–2013 and 2016–17, were used to make a total of 120 observations. The Bank Supervision Report, Nepal Rastra Bank's Quarterly Economic Bulletin, and the Ministry of Finance's Economic Survey for 2016–17 all served as sources for the data. To assess the significance and impact of microfinance foundations on Nepal's financial development, a few relapse models are assessed.

The study found that there is a positive correlation between economic growth and the total number of employees, the total number of members, the percentage of loans to microenterprises, the total assets, the total loan, and the total deposit, as well as the expansion of the overall money supply. It suggests that the more members and employees microfinance institutions had, the faster the economy would grow. Additionally, the findings demonstrate that rising economic growth is aided by rising total assets and loans. In a similar vein, the analysis demonstrates that the overall quantity of deposits would increase economic growth. The study also demonstrates a positive correlation between economic growth and money supply. Regardless, the information demonstrates that expansion and financial development in Nepal are adversely related. This recommends that financial development would be more slow in a climate of rising expansion.

Simkhada (2017) studied the indicators used in Nepal to gauge the performance of financial cooperatives. In order to evaluate an organization's performance and implement the most effective methods for enhancing it, a comprehensive institutional assessment tool is helpful. When evaluating an individual's performance, distinct metrics and benchmarks are required by various organizations. For evaluating the performance of financial institutions, a number of instruments, such as PEARLS and CAMEL, have been suggested. These tools, which were developed in other contexts, are not utilized by the cooperative sector in Nepal.

The purpose of this paper is to identify and provide a variety of metrics for evaluating the efficiency of Nepali financial cooperatives. Expert interviews and focus groups were used to investigate the performance assessment indicators. 210 randomly selected cooperatives were used to test the new indicators. According to the findings, a total of twenty-five self-governance-related indicators and thirty-two financial ratios under eight performance

evaluation aspects are required to evaluate the performance of financial cooperatives worldwide and in Nepal. The limitations of the study are emphasized, and the repercussions of the findings are investigated.

2.3 Research Gap

In this study of the financial success of sample microfinance, survey data are analyzed using a variety of ratios, trend analysis, statistical methods, and financial tools. All of the data are accurate and current, despite the fact that the researcher only used data from nine fiscal years. The issues with Nepalese microfinance that the previous researchers were unable to discover are without a doubt these. This research aims to define financial. The foundational knowledge and skills needed to give this study significance and direction have been enhanced by examining relevant literature previously mentioned. Lending practices, credit policies, financial performance, credit management, and microfinance liquidity mobilization are the subjects of numerous academic studies.

In order to carry out those analyses, researchers have utilized a variety of ratio analyses. The primary focus of the researcher's previous study on financial performance was the limit ratios, which cannot address the issues. Different proportions are deliberately analyzed and summed up in this review. Analyses of the impact on profitability, fund mobilization, and investment in previous studies have been inadequate. There is no order of the proportions in light of their tendency. In this study, all ratios are sorted by type and region.

Since previous researchers only used data from one year and nine fiscal years, all of the data they used were accurate and current. The issues with Nepalese microfinance that the previous researchers were unable to discover are without a doubt these. By utilizing and assessing various monetary and factual apparatuses, including pattern investigation and coefficient of connection, as well as resource the executives, movement, productivity, credit chance, and liquidity proportions, this study endeavors to characterize monetary execution. In the field of financial institution performance, this will probably be the relevant research.

CHAPTER - III
RESEARCH METHODOLOGY

This chapter provides a description of the investigation's methods. Research methodology is the systematic process of resolving a problem by collecting, recording, analyzing, interpreting, and reporting on the various aspects of a phenomenon under study. The research methodology of this work provides a description of the procedures and methods utilized throughout the investigation. The population and sample, data sources, the method of data analysis, and research design are all covered in this chapter.

3.1 Research Design

The cycle and techniques for social occasion the necessary information are determined in the exploration plan. The characteristics of the independent variables—the bank's dependent variables—that influence profitability are measured, compared, and categorized in this study's descriptive and casual research design. Similar to this, casual comparative study design aims to find correlations between independent and dependent variables after an event or task is completed.

3.2 Population and Sample

As of July 2023, all 55 microfinance institutions operating in Nepal (www.nrb.org.np) constitute the study's population. First Microfinance Laghubitta Bittiya Sanstha Restricted, Sana Kisan Bikas Laghubitta Bittiya Sanstha Restricted, Country Microfinance Improvement Center Restricted, and RSDC Laghubitta Bittiya Sanstha Restricted are the four microfinance organizations picked as an example for the concentrate out of all the microfinance organizations. Because the data are easily accessible, the purposive sampling method is used to select the sample. The current investigation was carried out over a nine-year period in the fiscal years 2070–71 and 2079–80.

3.3 Nature and Sources of Data

Adequate information from different sources are required for the examination. The researcher's primary responsibility is to collect data and information from a variety of

sources. Consequently, the information sources are essential for accomplishing the expected objectives. Information may be essential or auxiliary commonly, contingent upon where they came from. The essential wellspring of information for this exploration study is optional information, which is assembled from significant distributions from different distributers. The relevant website provides access to the financial information for the nine years preceding the selection of the microfinance organizations. Books from the library, newspapers, business magazines, and periodicals will also be used as needed. It goes without saying that all of the calculations are made with secondary data because this study is about quick phenomena.

3.4 Data Procedures

In order to accomplish the objective of the study, a great deal of information has been gathered from the microfinance sector, including annual reports, newspapers, and bulletins. Information from NRB publications, including dissertations, unpublished periodicals, magazines, and websites, has also been used in this study. The majority of the data used in this investigation came from secondary sources. When data are gathered from a variety of sources, it is impossible to analyze them in their original form. As a result, they have been rewritten, reevaluated, edited, and tabulated to fit the study's requirements.

3.5 Method of Data Analysis

The general qualities and shortcomings of the presentation of First Microfinance Laghubitta Bittiya Sanstha Restricted, Sana Kisan Bikas Laghubitta Bittiya Sanstha Restricted, Provincial Microfinance Advancement Center Restricted, and RSDC Laghubitta Bittiya Sanstha still up in the air and broke down utilizing different monetary and factual devices and procedures. This investigation made use of the following statistical tools:

3.5.1 Financial Tool

Dividend payout ratio (DPR)

The D/P ratio is the proportion of profit allocated to dividends. This ratio shows how much of the profit is distributed as dividends and how much is retained as excess and

reversed for the growth of the business. In order to arrive at this number, DPR is divided by Total Assets.

$$\text{DPR Ratio} = \frac{\text{Dividend per share}}{\text{Earning per shares}}$$

Total Assets (TA)

A bank's size is influenced by the sum of its assets. Assets are a bank's resources. The assets of microfinance institutions include cash balances, bank balances and money on hand, investments, shares, loans and advances, paid bills, fixed assets, and other assets. As a result, a bank's total assets consist of all of its current and future holdings. If an asset can be sold in less than a year, it is considered current, and if it takes longer to sell, it is considered long-term. It ought to be recalled that a bank's entire commitments incorporate the client stores it holds.

Cash Reserve Ratio (CRR)

All microfinance organizations are supervised by Nepal Rastra Bank (NRB), the country's central bank. The National Reinvestment Board (NRB) has mandated that microfinance institutions keep a specific amount of their total deposit as a reserve to ensure their smooth operation. This is done specifically to maintain the liquidity position of microfinance organizations. This ratio is calculated using the following formula:

$$\text{Cash Reserve Ratios} = \frac{\text{Balance with NRB}}{\text{Total Deposit}}$$

Price earnings ratio (P/E Ratio)

The market's current willingness to pay for each rupee of reported total assets (TA) can be seen in this ratio. It will also be very helpful to potential investors. By partitioning the market esteem share (MVPS) by the absolute resources, it is registered.

$$\text{Price earnings Ratio} = \frac{\text{MVPS}}{\text{EPS}}$$

Return on Assets (ROA)

This ratio is probably the most important when evaluating the effectiveness and operational performance of banks because it shows the returns generated by the bank's assets (Getahun, 2015). ROA can be calculated in one way:

Return on Assets=Net Income/Total assets

Return on Equity (ROE)

Return on equity (ROE) is a financial metric that measures a company's performance in relation to its shareholders' equity. According to Getahun (2015), ROE is thought to be a very important metric because it shows how productive the bank's ownership (or risk) capital is. ROE can be calculated in one way:

ROE= Net Income /Total Equity

3.5.2 Statistical Tools

A few measurable methods have been utilized in this work to look at the Figures and determine a solitary, critical outcome. The statistical instruments are described in detail here.

Mean

The number-crunching mean is the most frequently utilized and popular measurement for summing up every one of the information in one variable. It is calculated by dividing the total number of items by their sum. The typical worth during the review time frame is addressed by the method for the different factors.

$$\text{Mean } (\bar{X}) = \frac{\Sigma x}{n}$$

Where,

$\bar{X}$= Sum of the variables 'x'

N = No. of Observation

Standard deviation

Dispersion is the degree to which individual items depart from a core value. The outright scattering is estimated by the standard deviation. The more dispersion there is, the higher the standard deviation gets. Minimal standard deviations are a sign of series homogeneity and observational regularity at high levels, and vice versa. In this study, the market value per share, retained earnings, dividend yield ratio, price earnings ratio, total assets, and dividend payout ratio were all used to calculate the standard deviation.

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Correlation analysis

Correlation analysis is one statistical technique for describing how closely one variable is related to another. Correlation has been used in this investigation. The correlation coefficients of the following financial variables have been calculated, presented in the form of a matrix, and then carefully evaluated.

The correlation coefficient between the variables X and Y can be determined using the formula below.

$$\text{Correlation Coefficient (r)} = \frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{n\Sigma x^2 - (\Sigma x)^2}\sqrt{n\Sigma y^2 - (\Sigma y)^2}}$$

The correlation between the variables is between -1 and +1 if r is zero. r = -1 indicates a perfect negative correlation between the variables. When r = +1, there is an implied perfect positive correlation between the variables.

Coefficient of determination (r^2)

The coefficient of determination is a measure of the degree of linear relationship or correlation between two variables, one of which is dependent and the other independent. The overall percentage variance in the dependent variables is referred to as r. The coefficient of determination can have values anywhere from 0 to 1. A value of one can only occur when the unexpected variation is zero or when every data point in the scatterplot is exactly on the regression line.

Regression analysis

Relapse examination shows development course however not relative development in that frame of mind being scrutinized. Regression analysis enables us to determine the relative movement of the variables. For the given variable, regression analysis has been computed and analyzed. A factual procedure called numerous relapse examination makes it more straightforward to gauge or conjecture the worth of the reliant variable in light of the worth of the free factor. In this review, the free factors are DPR, TA, CRR, and P/E proportion, while the reliant factors are ROA and ROE. In multiple regression analysis, standard error of estimate computations, least squares methods, and multiple coefficient of determination are typically utilized. The multiple regression formula is

Model 1: $ROA = \alpha + \beta_1 DPR + \beta_2 CRR + \beta_3 TA + \beta_4 P/E$

Model 2: $ROE = \alpha + \beta_1 DPR + \beta_2 CRR + \beta_3 TA + \beta_4 P/E$

α represents the value of ROA when DPR, CRR, TA and P/E ratio are zero.

DPR=dividend payout ratio

CRR = Cash reserve ratio

P/E = Price Earnings ratio

TA = Total Assets

β_1, β_2, β_3 and β_4 represent the regression coefficients of DPR, CRR, TA and P/E ratio respectively.

3.6 Research Framework

The connections between the various elements that have been determined to be significant to the issue at hand are illustrated by a conceptual model known as a research framework. Following the writing audit, it is made by illustrating the issues and leading a meeting with the applicable party. It rationally links to earlier study findings and establishes a scientific foundation for the hypotheses and theories. It helps test the hypotheses by logically controlling the variables. The researcher should demonstrate the connection between the study questions' independent and dependent variables. This relationship is delivered in light of the writing. Utilizing the research framework, identify the variables, describe the connection between two or more variables, and provide evidence to support the expectation of that relationship. Before beginning any investigation, it is necessary to establish a research framework.

Independent Variables

Dependent Variables

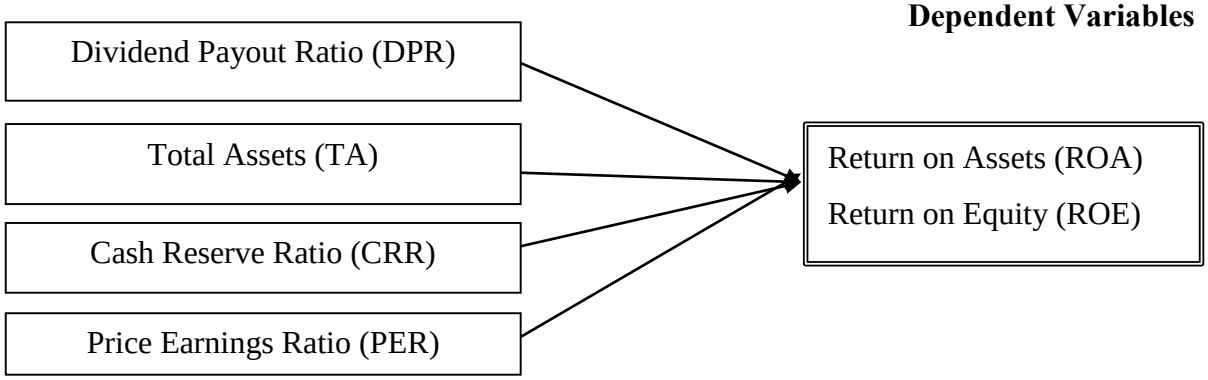

Figure 1

Research framework

Source: Neupane (2020) and Burja (2011)

3.7 Definition of Variables

Dividend payout ratio (DPR Ratio)

The D/P ratio is the proportion of profit allocated to dividends. This ratio shows how much of the profit is distributed as dividends and how much is retained as excess and reversed for the growth of the business. DPR is separated by the all-out resources for process it.

Total Assets

A bank's size is influenced by the sum of its assets. Assets are a bank's resources. The assets of microfinance institutions include cash balances, bank balances, money on hand, investments, shares, loans and advances, paid bills, fixed assets, and other assets. As a result, a bank's total assets consist of all of its current and future holdings. If an asset can be sold in less than a year, it is considered current, and if it takes longer to sell, it is considered long-term. It ought to be recalled that a bank's entire commitments incorporate the client stores it holds.

Cash Reserve Ratio (CRR)

All microfinance organizations are supervised by Nepal Rastra Bank (NRB), the country's central bank. The National Reinvestment Board (NRB) has mandated that microfinance institutions keep a specific amount of their total deposit as a reserve to ensure their smooth operation. This is done specifically to maintain the liquidity position of microfinance organizations.

Price earnings ratio (P/E Ratio)

The ratio of a company's share price to its earnings per share is known as the price-to-earnings (P/E) ratio. If a company's P/E ratio is high, it could indicate that the stock is overpriced or that investors anticipate high growth rates.

Return on Assets

This ratio, which depicts the returns generated by the assets that the bank owns, is arguably the most significant when evaluating the effectiveness and operational performance of banks.

Return on Equity

Return on equity (ROE) is a financial metric that measures a company's performance in relation to its shareholders' equity. ROE is thought to be a very important metric because it shows how productive the bank's ownership (or risk) capital is.

CHAPTER – IV

RESULTS AND DISCUSSIONS

The data are meticulously presented and analyzed in this chapter. Only annual reports revealed these additional details. In accordance with the study methodology discussed in the third chapter, the collected data are presented, evaluated, and interpreted in this chapter. On the dividend policies of microfinance companies, pertinent data and information are provided and contrasted.

4.1 Results of Financial Tools

Dividend payout ratio (DPR Ratio)

The D/P ratio is the proportion of profit allocated to dividends. This ratio shows how much of the profit is distributed as dividends and how much is retained as excess and reversed for the growth of the business. DPR is separated by the all out resources for process it.

Table 2

Dividend Payout Ratio (DPR)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0	0.61	0.96	0.32
2014/15	0	1.01	0.75	0.39
2015/16	0.63	0.77	0.73	0.60
2016/17	0.92	0.78	0.66	0.50
2017/18	1.01	0.85	0.56	0.53
2018/19	1.58	0.91	0.61	0.00
2019/20	1.07	0.78	0.63	0.03
2020/21	0.85	0.57	1.13	0.03
2021/22	0.84	0.71	0.00	0.03
Mean	0.77	0.78	0.67	0.27
S.D	0.51	0.14	0.31	0.25
C.V	0.66	0.18	0.46	0.92

Source Appendix I

The typical worth of each and every variable is indicated by the expression "Mean". For instance, the average DPRs for RSDC, First, RMDC, and SKBBL are 0.77, 0.78, 0.67, and 0.27, respectively.

The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. For example, the standard deviations for SKBBL, RMDC, First, and RSDC are, individually, 0.25, 0.31, 0.14, and 0.51.

The coefficient of variation, or CV, is the ratio of the standard deviation to the mean. The SD fluctuates in accordance with the expected value of the readings, whereas the CV of log-normally distributed measurements is constant. The coefficients of variation for the RSDC, First, RMDC, and SKBBL, for instance, are 0.96, 0.18, 0.46, and 0.92, respectively.

Total Assets

A bank's size is influenced by the sum of its assets. Assets are a bank's resources. The assets of microfinance institutions include cash balances, bank balances, money on hand, investments, shares, loans and advances, paid bills, fixed assets, and other assets. As a result, a bank's total assets consist of all of its current and future holdings. It ought to be recalled that a bank's entire commitments incorporate the client stores it holds.

Table 3

Total Assets (TA)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	316	1575	5194	6606
2014/15	546	2341	5845	8875
2015/16	765	3076	6686	11931
2016/17	924	3785	7174	14725
2017/18	1763	4769	7863	19225
2018/19	2630	6100	9160	21940
2019/20	3466	6325	9785	24381
2020/21	3983	9804	12250	26127
2021/22	5668	10956	12197	30779
Mean	2229.00	5414.56	8461.56	18287.67
S.D	1842.20	3240.44	2579.66	8268.88
C.V	0.83	0.60	0.30	0.45

Source Appendix I

The typical worth of each and every variable is indicated by the expression "Mean". For instance, the average total assets of RSDC, First, RMDC, SKBBL, and RMDC were 2229, 5414.56, 8461.56, and 18287.67, respectively.

The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. For instance, the standard deviations of the RSDC, First, RMDC, and SKBBL were respectively 1842.20, 3240.44, 2579.66, and 8268.88.

The coefficient of variation, or CV, is the ratio of the standard deviation to the mean. The SD fluctuates in accordance with the expected value of the readings, whereas the CV of log-normally distributed measurements is constant. For example, the RSDC, First, RMDC, and SKBBL have coefficients of variety of 0.83, 0.60, 0.30, and 0.45, individually.

Cash Reserve Ratio (CRR)

All microfinance organizations are supervised by Nepal Rastra Bank (NRB), the country's central bank. The National Reinvestment Board (NRB) has mandated that microfinance institutions keep a specific amount of their total deposit as a reserve to ensure their smooth operation. This is done specifically to maintain the liquidity position of microfinance organizations.

Table 4

Cash Reserve Ratio (CRR)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0	0.61	0	0.51
2014/15	0	0.49	0	0.52
2015/16	0.79	0.48	0	0.51
2016/17	0.76	0.59	0	0.52
2017/18	0.71	0.56	0	0.5
2018/19	0.51	0.59	0	0.5
2019/20	0.54	0.55	0	0.51
2020/21	0.59	0.51	0	0.51
2021/22	0.56	0.54	0.58	0.52
Mean	0.50	0.55	0.06	0.51
S.D	0.30	0.05	0.19	0.01
C.V	0.60	0.08	3.00	0.02

Source Appendix I

The typical worth of each and every variable is indicated by the expression "Mean". For instance, RSDC, First, RMDC, and SKBBL have normal CRRs of 0.50, 0.55, 0.06, and 0.51, separately.

The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. For instance, the SKBBL, RMDC, First, and RSDC standard deviations are, respectively, 0.01, 0.05, 0.19, and 0.30.

The coefficient of variation, or CV, is the ratio of the standard deviation to the mean. The SD fluctuates in accordance with the expected value of the readings, whereas the CV of log-normally distributed measurements is constant. The coefficients of variation for the RSDC, First, RMDC, and SKBBL, for instance, are 0.60, 0.08, 3.00, and 0.02, respectively.

Price earnings ratio (P/E Ratio)

The current market price for each rupee of reported Total Assets (TA) is reflected in this ratio. Potential investors will also find it extremely helpful. It is calculated by dividing the total assets by the market value share (MVPS).

Table 5

Price earnings ratio (PER)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0	31.57	0	27.58
2014/15	0	41.27	25.66	23.09
2015/16	0	97.04	18.75	56.74
2016/17	198.38	50.32	50.49	28.56
2017/18	53.31	68.81	25.39	23.2
2018/19	33.97	19.37	16.76	24.17
2019/20	45.52	31.81	16.05	21.32
2020/21	69.66	35.41	22.04	22.31
2021/22	42.3	37.88	63.1	37.05
Mean	49.24	45.94	26.47	29.34
S.D	61.49	23.62	19.05	11.35
C.V	1.25	0.51	0.72	0.39

Source Appendix I

The typical worth of each and every variable is indicated by the expression "Mean". For instance, RSDC, First, RMDC, and SKBBL have normal PERs of 49.24, 45.94, 26.47, and 29.34, individually.

The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. For instance, the standard deviations of the RSDC, First, RMDC, and SKBBL were 61.49, 23.62, 19.05, and 11.35, respectively.

The coefficient of variation, or CV, is the ratio of the standard deviation to the mean. The SD fluctuates in accordance with the expected value of the readings, whereas the CV of log-normally distributed measurements is constant. The coefficients of variation for the RSDC, First, RMDC, and SKBBL, for instance, are 1.25, 0.51, 0.72, and 0.39, respectively.

Return on Assets

While evaluating the adequacy and functional execution of banks, this proportion which shows the profits created by the resources the bank possesses — is apparently the main one.

Table 6

Return on Assets (ROA)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0.27	1.65	0.035	1.73
2014/15	1.55	1.54	0.036	1.74
2015/16	1.17	1.77	0.028	1.86
2016/17	1.85	2.12	0.03	2.25
2017/18	2.13	2.13	0.034	2.04
2018/19	2.43	2.17	0.039	1.11
2019/20	2.29	2.21	0.03	2.28
2020/21	2.29	1.76	0.021	2.27
2021/22	1.86	2.4	4.3	2.34
Mean	1.76	1.97	0.51	1.96
S.D	0.69	0.30	1.42	0.40
C.V	0.39	0.15	2.81	0.20

Source Appendix I

The typical worth of each and every variable is indicated by the expression "Mean". For instance, the average ROAs of RSDC, First, RMDC, and SKBBL are 1.76, 1.97, 0.51, and 1.96, respectively.

The typical worth of each and every variable is indicated by the expression "Mean". For instance, the average ROAs of RSDC, First, RMDC, and SKBBL are 1.76, 1.97, 0.51, and 1.96, respectively.

The coefficient of variation, or CV, is the ratio of the standard deviation to the mean. The SD fluctuates in accordance with the expected value of the readings, whereas the CV of log-normally distributed measurements is constant. For example, the RSDC, First, RMDC, and SKBBL have coefficients of variety of 0.39, 0.15, 2.81, and 0.20, individually.

Return on Equity

Return on equity (ROE) is a financial metric that measures a company's performance in relation to its shareholders' equity. ROE is thought to be a very important metric because it shows how productive the bank's ownership (or risk) capital is.

Table 7

Return on Equity (ROE)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0.004	22.034	10.893	13.459
2014/15	0.017	14.173	11.869	15.603
2015/16	0.022	17.647	25.000	17.141
2016/17	0.022	15.534	29.023	20.585
2017/18	0.031	12.916	12.332	23.533
2018/19	0.034	14.521	14.224	20.231
2019/20	0.030	13.793	11.194	18.899
2020/21	0.103	15.710	8.346	17.126
2021/22	0.107	19.130	16.580	16.980
Mean	0.04	16.16	15.50	18.17
S.D	0.04	2.93	6.98	2.99
C.V	0.91	0.18	0.45	0.16

Source Appendix I

The typical worth of each and every variable is indicated by the expression "Mean". For instance, RSDC, First, RMDC, and SKBBL have an average ROE of 0.04, 16.16, 15.50, and 18.17, respectively.

The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. Standard deviations of 0.04, 2.93, 6.98, and 2.99, for instance, are found in the RSDC, First, RMDC, and SKBBL, respectively.

The coefficient of variation, or CV, is the ratio of the standard deviation to the mean. The SD fluctuates in accordance with the expected value of the readings, whereas the CV of log-normally distributed measurements is constant. The coefficients of variation for the RSDC, First, RMDC, and SKBBL, for instance, are 0.91, 0.18, 0.45, and 0.16, respectively.

4.2 Descriptive Statistics of Variables

The descriptive statistics for the variables used in the investigation are presented in Table 8. According to the findings, Nepali microfinance institutions exhibit a variety of profitability performance measures, including ROE and ROA, in addition to other independent factors like the dividend payout ratio, total assets, CD ratio, cash reserve ratio, and price earnings ratio.

Table 8

Descriptive Statistics of Variable of Microfinance companies

Variables	N	Minimum	Maximum	Mean	Std. Deviation	C.V
Dependent Variables						
ROA	36	0.02	4.3	1.549	1.00358	0.65
ROE	36	0	29.02	12.4671	8.31278	0.67
Independent Variables						
DPR	36	0	1.58	0.6208	0.37792	0.61
Total Assets	36	5.76	10.33	8.6147	1.0873	0.13
CRR	36	0	0.79	0.4044	0.26323	0.65
PER	36	0	198.38	38.8251	34.6203	0.89

Source Appendix II & Annual Report of Sample Companies

The factors' depiction table is shown in Table 8. Six factors are recorded in the table: ROA, ROE, DPR, All out Resources, CRR, and PER.

The typical worth of each and every variable is indicated by the expression "Mean". The average ROE and ROA, for instance, are 12.4671 and 1.5490, respectively. Similar to that, the averages for DPR, total assets, CRR, PER, and PER are 0.6208, 8.6147, 0.4044, and 38.8251, respectively.

The term "Maximum" denotes the highest value ever recorded for each variable. For instance, the microfinance businesses under investigation have the highest ROA and

ROE, which are 4.30 and 29.02, respectively. The maximum values for DPR, total assets, CRR, PER, and PER are also 1.58, 10.33, 0.79, and 198.38, respectively.

The "Minimum" column displays the lowest previously observed value for each variable. For instance, of the microfinance businesses that were selected, the one with the lowest minimum of 5.76 total assets is the one. The "Standard" method is used to measure the spread or dispersion of data points around the mean. Dev." (Standard Deviation). It provides specifics regarding the variability of the data. The ROA, ROE, DPR, absolute resources, CRR, PER, and 0.37792 standard deviations, for example, are 1.00358, 8.31278, 0.37792, 1.0873, 0.26323, and 34.6203. The coefficient of variation, or CV, is the ratio of the standard deviation to the mean. The SD fluctuates in accordance with the expected value of the readings, whereas the CV of log-normally distributed measurements is constant. For instance, the coefficient of variety of ROA and ROE are 0.65 and 0.67 addressing consistency and consistency of ROA and ROE. Additionally, the DPR, Total Assets, CRR, and PER coefficients of variation are 0.61, 0.13, 0.65, and 0.89, respectively.

4.3 Correlation Analysis

A correlation matrix is a table that shows the correlation coefficients between variables. Each cell of the table shows the correlation between two variables that match. Information can be summed up utilizing a connection network. This provides us with a quick overview of the variables that correlate at various levels of significance and strength. A connection worth of 0 connotes the shortfall of a direct connection between the two factors. From +1, which indicates a perfect positive connection, to -1, which indicates a perfect negative connection, the correlation coefficient between two variables changes. In Table 9, the connection network is shown as follows.

Table 9

Correlation Coefficients of Study Variables

Variables	DPR	TA	CRR	PER	ROA	ROE
Dividend Payout Ratio (DPR)	1					
Total Assets (TA)	-0.234	1				
	0.169					
Cash Reserve Ratio (CRR)	0.082	-0.004	1			
	0.634	0.983				
Price Earnings Ratio (PER)	.384*	-0.145	.350*	1		
	0.023	0.407	0.039			
Return on Assets (ROA)	-0.112	0.131	.802**	0.225	1	
	0.515	0.447	0	0.193		
Return on Equity (ROE)	-0.305	.641**	-0.11	-0.167	-0.045	1
	0.071	0	0.522	0.339	0.795	

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

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

Source SPSS Output

Table 9 displays the correlation test with a correlation coefficient matrix for both the dependent and independent variables. The dividend payout ratio (DPR) and ROA and ROE have a low degree of negative association, with correlation coefficients of -0.112 and -0.305, respectively. DPR has a significant positive relationship with PER (coefficient of 0.384) at the 0.05 level of significance, but a significant negative relationship with TA (coefficient of -0.234). Similar to this, ROE and TA, CRR and ROA, and total assets (TA) and ROE (0.641) and CRR and ROA (0.802) all have a positive correlation. Additionally, the correlations between TA and ROE, CRR, and ROA are significant at the 1% level of significance, with coefficients of 0.641 and 0.802. At the 0.01 degree of importance, all out resources and ROE have a significant positive relationship with a coefficient of 0.641. CRR is also positively significant at the 0.05 level of significance, with a PER of 0.350. In contrast, PER has a strong negative correlation with ROE of -0.167 and a negligible positive correlation with ROA of 0.225.

4.4 Regression Analysis

As autonomous elements, the connection between the reliant factors (ROA and ROE, Absolute Resources, Profit Payout Proportion, and Value Income Proportion) is analyzed. Utilizing four example microfinance organizations detailed in the NEPSE, the relapse discoveries of ROA on four illustrative factors are shown in this table. The observations ranged from 2070/71 to 2078/79, and the sample consisted of 63 NRB-licensed

microfinance institutions. The dependent variable is ROA. The independent variables are DPR, PER, CRR, and total assets. Complete resources (TA), profit payout proportion (DPR), cost profit proportion (PER), cash save proportion (CRR), and return on resources (ROA) are the abbreviations utilized in this specific circumstance. The risk sign and the t-value both indicate that the result is significant. Parenthesis separate these figures. The F-measurement and the Changed R square are indicated by F and Adj. R2, separately.

Regression Analysis of TA, DPR, PER and CRR on ROA

Table 10

Model Summary of ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), total assets, TA, DPR, PER and CRR

b. Dependent Variable: ROA

In this context, R2 refers to the ROA, or proportion of profitability variability that can be explained by independent factors. It demonstrates that 66.70% of the independent variables—TA, DPR, PER, and CRR—provide an explanation for the dependent variable, ROA. It is more reliable to use the adjusted r2 because it takes into account the sample size. The size of the coefficient for independent variables demonstrates the magnitude of the impact on dependent variables. The standard error is a representation of the average distance the coefficient deviates from the regression line. It figures out dispersion.

Table 11

ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	31	.379		
	Total	35.251	35			

a. Dependent Variable: ROA

b. Predictors: (Constant), TA, DPR, PER and CRR

The ANOVA table displays the independent and dependent variables' overall significance and summary. The relationship between the independent variables TA, DPR, PER, and CRR and the dependent variable ROA is statistically significant at significance level 0.05

(P-value = 0.000 0.05), as shown in this table. The calculated p-value must be less than the 5% significance level to determine whether these variables have a significant relationship.

Table 12

Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Remarks
1	(Constant)	-.615	.915		-.672	.005	Significant
	DPR	.014	.313	.005	.046	.046	Significant
	TA	.113	.098	.122	1.149	.025	Significant
	CRR	3.169	.421	.831	7.522	.000	Significant
	PER	-.003	.003	-.086	-.726	.047	Significant

a. Dependent Variable: ROA

Regression analysis output: coefficient

The linear equation of this model is,

Y = a + b1x1+b2x2+b3x3+b4x4

ROA = -0.615 + 0.014 DPR + 0.113 TA + 3.169 CRR - 0.003 PER

The table of relapse coefficients demonstrates that the consistent p-esteem is more noteworthy than 0.05, it isn't vital for show that the steady worth. The p-value of 0.000 0.05 for CRR indicates that it has a significant effect on ROA. The related beta coefficient is 3.169, which indicates that the average gain in ROA is 3.169 units for each unit increase in the CRR value.

However, the fact that DPR, TA, and PER all have p-values greater than 0.05 suggests that their effects on ROA are statistically significant.

Regression Analysis of TA, DPR, PER and CRR on ROE

Out of the total population of 63 microfinance companies licensed by the NRB with observations for the years 2070/71 to 2078/79, the results of the regression of ROE on five explanatory variables with four sample microfinance companies listed in the NEPSE are presented in this table. ROE is the dependent variable. The total assets, DPR, PER, and CRR are the independent variables. The terms Total Assets, Dividend Payout Ratio (DPR), Price Earnings Ratio (PER), Cash Reserve Ratio (CRR), and Return on Equity (ROE) are all used interchangeably. The figure in the enclosures are t-esteem and as the

gamble sign demonstrates that the outcome is at critical level. Adj. and F. The terms "Adjusted R square" and "F-statistic" are denoted by "R2."

Table 13

Model Summary of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667a	.445	.373	6.58230

a. Predictors: (Constant), TA, DPR, PER and CRR

b. Dependent Variable: ROE

The proportion of profitability variability that ROE can account for is denoted by R2 in this instance. It is more reliable to use the adjusted r2 because it takes into account the sample size. The size of the coefficient for independent variables demonstrates the magnitude of the impact on dependent variables. The coefficient's sign—positive or negative—denotes the influence's direction. The coefficient's average deviation from the regression line is shown by the standard error. It figures out dispersion.

Table 14

ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.001b
	Residual	1343.129	31	43.327		
	Total	2418.582	35			

a. Dependent Variable: ROE

b. Predictors: (Constant), TA, DPR, PER and CRR

The proportion of profitability variability that ROE can account for is denoted by R2 in this instance. It is more reliable to use the adjusted r2 because it takes into account the sample size. The size of the coefficient for independent variables demonstrates the magnitude of the impact on dependent variables. The coefficient's sign—positive or negative—denotes the influence's direction. The coefficient's average deviation from the regression line is shown by the standard error. It figures out dispersion.

Table 15

Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Remarks
1	(Constant)	-24.377	9.786		-2.491	.008	Significant
	DPR	-3.630	3.350	-.159	-1.083	.048	Significant
	TA	4.670	1.049	.611	4.453	.000	Significant
	CRR	-2.929	4.507	-.093	-.650	.021	Significant
	PER	.003	.037	.014	.090	.029	Significant

a. Dependent Variable: ROE

Regression analysis output: coefficient

The linear equation of this model is,

Y = a + b1x1+b2x2+b3x3+b4x4

ROE = -24.377 – 3.630 DPR + 4.670 TA – 2.929 CRR + 0.003 PER

The constant's p-value is less than 0.05, as shown in Table 9, indicating a significant constant value. The p-value of 0.000, 0.05 indicates that total assets (TA) have a significant impact on ROE. The associated beta coefficient is 4.670, indicating that for every unit increase in total assets' value, the average increase in ROE is 4.670 units. Additionally, the fact that the p-values for DPR, CRR, and PER are lower than 0.05 suggests that these variables have little impact on ROE.

4.5 Discussions

Since the primary objective of the study is to investigate the connections between the sample companies' TA, DPR, PER, CRR, ROA, and ROE, both positive and negative associations are found. TA, DPR, and CRR all have a positive correlation, though. It suggests that these businesses are better at managing their overall situation. A favorable connection between profitability parameters is necessary for efficient profit management. As a result, more objective reasoning supported by analysis demonstrates that ROA and ROE are largely unaffected by total assets, CRR, PER, and DPR.

Total assets, PE ratio, and CRR all have a positive impact on profitability. Despite the fact that ROE has a negative impact on total assets, Muliani et al.'s research and findings contradict each other. CRR and TA have a positive impact on ROA (2023), whereas TA is insignificant. This is steady with the exploration of Tiwari (2022). Both DPR and PER

have minor negative effects. The findings of the study are in line with those of Dhungana and Ranabhat (2022), but they are not in line with those of Kori, Muathe, and Maina (2020). These findings suggest that the dividend payout ratio, price earnings ratio, and CRR all have a positive effect on profitability but only a small one.

This examination all the more inninetly lines up with Serhii's (2023) study, which exhibits varieties in benefit factors. The average profitability of the businesses during the study period demonstrates how effectively they are profiting from their earnings. Profit payout proportion (DPR) has a critical positive relationship with PER 0.05 and 0.01 degree of importance, as per the connection test, supporting the discoveries of Agaba and Eton (2022). ROA and ROE, on the other hand, have insignificant relationships while TA has a negative significant relationship. These results contradict those of Robin, Salim, and Bloch (2018) and Yeasin (2022), but they are comparable to those of Akanbi and Adewoye (2018) and Bochaberi and Job (2021). Furthermore, there is serious areas of strength for a relationship between all out resources and ROE and CDR. Next, DPR has a negligible positive relationship with ROA and ROE, and DPR has a negligible negative relationship with CRR and PER. Similarly, CRR has a positive significant relationship with PER and ROA but a negative insignificance with ROE. In contrast, PER has a strong positive correlation with DPR and a negligible correlation with ROA and ROE. When paired with ROE, TA also demonstrates statistical significance at the 0.01 level of significance, which is consistent with the research done by Mwangi (2018).

ROA decreases by the same amount as DPR increases by one rupee due to DPR's negative coefficient. It infers that as the DPR increments, Nepalese microfinance organizations' profit from resources (ROA) would diminish. In contrast to TA, CRR, and PER, whose beta coefficients are all positive, DPR's is negative. It implies that microfinance businesses would make more money if their TA, CRR, and PER were higher. DPR as an autonomous variable has a backwards relationship with importance, even at the importance level of 0.10. Akanbi and Adewoye's findings are supported by the fact that TA, CRR, and PER are positively unimportant, in contrast to Yeasin (2022) and Bochaberi and Job (2021).

The negative coefficients of PER and DPR show that a one rupee expansion in DPR and PER causes a drop in ROE. It suggests that lower DPR and lower PER would bring about

less fortunate ROE for Nepalese microfinance firms. Both the DPR and the PER beta coefficients are negative. It suggests that the more prominent the DPR and PER, the more productive microfinance organizations would be. Complete resources is a measurably critical free factor since its p-esteem is equivalent to 0.000 at the importance level of 0.05. In contrast to the conclusions of Dhungana and Ranabhat (2022), Kunwar (2022), Agaba and Eton (2022), and Robin, Salim, and Bloch, the findings of DPR, CRR, and PER are statistically significant.

CHAPTER – V
SUMMARY AND CONCLUSION

The purpose of this study is to examine the management of non-performing loans at RMDC, SKBL, FIRST, and RSDC and how they affect the performance of microfinance. The chapter is finished here. It has an outline, an end, and a few ramifications. The study's summary and conclusions are presented in the first section. The second section discusses design for the implications.

5.1 Summary

The primary objective of this research is to examine the dividend payout ratio, price-earnings ratio, total assets, cash reserve ratio, return on equity, and return on assets of microfinance institutions. Examine how the dividend payout ratio, price earnings ratio, total assets, cash reserve ratio, and return on equity affect microfinance businesses' returns on equity and assets. Moreover, explore the connections between these proportions and the profit from value and return on resources of microfinance organizations. To achieve the specific objective of the study, descriptive and causal comparison research has been carried out. A descriptive design is used to examine dividend practices' current state and trend. To quantify the effects of DPR, PER, TA, and CRR on the ROA and ROE of microfinance firms in Nepal, both explicatory and causal research designs are used. This investigation relied on secondary data. The data is gotten from the related office's yearly reports for a time of nine years, explicitly from 2070/71 to 2078/79.

The primary focus of the study is the effect that financial indicators have on the profitability of microfinance businesses in Nepal. The profitability of the business is more than satisfactory. The company's primary responsibilities include collecting dividends on shares and investments. The data come from the selected organizations' annual reports. They are then analyzed using a variety of models to explain how financial indicators change over time. Pearson, correlation, and regression analysis, in addition to the average, standard deviation, and coefficient of variation, are included in these models. The data comes from the annual reports of the associated office for nine years, specifically from 2070/71 to 2078/79. The demographic information used in this study comes from each

and every one of Nepal's 63 listed and operating microfinance institutions. The four microfinance institutions that make up the sample are First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance Development Centre Limited, and RSDC Laghubitta Bittiya Sanstha Limited. These four microfinance foundations rank most noteworthy in the ongoing setting for store the board into credits and advances. This study looks at how the DPR, PER, TA, and CRR affect the microfinance's profit over the study period using a variety of ratios.

5.2 Conclusion

ROE is decidedly and essentially affected by complete resources, and this result is tantamount to Zelalem's (2022) results. DPR's ROE results, on the other hand, are favorable but not statistically significant, and they are comparable to Abebe's (2022). However, prior industry research showed that little progress was being made in this area. Poor loan portfolio management and other issues that could make a financial institution insolvent or illiquid make it difficult for them to meet their obligations to customers and shareholders.

Similar to Shah's (2019) research, the earnings ratio and reserve ratio increase the liquidity of financial institutions, encourage credit expansion, and boost economic growth as a whole, all of which have an immediate impact on the profitability of financial institutions. When paired with ROE, the total assets are statistically significant as an independent variable due to their 0.000 p-value. On the other hand, the p-values for DPR, CRR, and PER are higher because they do not meet the significance level of 0.05.

Even though it is anticipated that it will rise in the future, the proportion of nonperforming loans compared to the total number of loans remains high. Along these lines, the bank's arrangement against nonperforming resources during the exploration time frame was found to be unimaginably high, proposing that future bank productivity can't be adversely affected by conceivable no collectible credits.

5.3 Implications

Some of the implications that result from the above analysis are as follows:

- As private sector businesses, financial firms are required to remain aware of the profit incentive. They should exercise caution when driving up profits in the truest sense in order to maintain the trust of shareholders, depositors, and all customers. RMDC and FIRST have a lower profitability position than RSDC and SKBL. Hence, it is exceptionally prompted that RMDC and FIRST utilize investors' assets and more hazardous resources to augment overall revenues. In a similar vein, it should aim to reduce expenses and raise more money through less costly means. It ought to fortify and enact its promoting capability, as it is a viable instrument of drawing in and holding clients.
- Financial companies suffer financially from price-to-earnings ratios. Due to EPS, benefit is diminished. As a result of this EPS, financial companies' funds for the productive sector will rise. The RSDC's DPS is supposed to ascend from here on out. Therefore, controlling that trend is preferable. Each organization ought to have a formal vital profit strategy. In accordance with the requirements for public companies, it should be approved by the General Meeting or the Supervisory Board and made available to the public.
- The sample banks have very different DPR, PER, and ROE. It's important to control fluctuations and keep the variable consistent. The stakeholders in both banks will be pleased if a key financial indicator indicates a rising market sentiment; otherwise, the long-term effects will be detrimental to the banks.
- RSDC has a lower dividend payment ratio than the other sample companies. As a result, FIRST, RMDC, and SKBL are being outperformed by RSDC in terms of dividend maintenance or performance, indicating that SKBL, FIRST, and RMDC have very low credit risk.
- As a consequence of this, it is suggested that other sample businesses approach loan and advance transactions with greater objectivity and caution. In order to guarantee that the loan is used appropriately, there should be ongoing oversight and follow-up following its advancement.

REFERENCES

Abebe, M. G. (2022). The effect of asset and liability management on the financial performance of microfinance institutions: evidence from sub-Saharan African region. *Future Business Journal*, 8(1), 1-12.

Abebe, Z. B., Ali, A., & Bezabih, W. S. (2022). Corporate governance and financial performance in the emerging economy: The case of Ethiopian insurance companies. *Cogent Economics & Finance*, *10*(1), 2117117.

Addisalem, S. (2015). *Management accounting.* Kathmandu: Buddha academic enterprises.

Adhikari, P. D (2014) *Comparative study of financial performance of NSBIBL and EBL*. Kathmandu: Master Unpublished Thesis submitted in TU.

Agaba, F. & Eton, M (2022). *Credit Risk Management Practices and Loan Performance of Commercial Banks in Uganda. A Case Study of Commercial Banks in Mbarara City* (Doctoral dissertation).

Ahlin, C., Lin, J., & Maio, M. (2021). Where does microfinance flourish? Microfinance institution performance in macroeconomic context. *Journal of Development economics*, *95*(2), 105-120.

Akanbi S. & Adewoye S. (2018). Effects of Accounting Information System Adoption on the Financial Performance of Commercial Bank in Nigeria. *International Journal of Economics, Commerce and Management*, 7(1), 161-171.

Aremu, M. A., Ekpo, I. C., Mustapha, A. M., & Adedoyin, S. I. (2013). Determinants of capital structure in Nigerian banking sector. *International Journal of Academic Research in Economics and Management Sciences*, *2*(4), 27.

Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of international financial Markets, Institutions and Money*, *18*(2), 121-136.

Bahadur, M., & Bhandari, M. (2021). Microfinance Institutions: Instrumental for Promoting Financial Inclusion.

Bhatta, D. (2004). *Banking and insurance* 1st ed., Kathmandu: Aayush Prakashan.

Bista, S. (2004). *Nepal Rastra Bank Samachar*, Nepal Rastra Bank, Kathmandu, 2046

Bochaberi, O. E. S., & Job, O. (2021). Mobile banking and financial performance of selected commercial banks in Kenya. *International Research Journal of Business and Strategic Management*, *2*(1).

Chand, S. (2016). *Financial performance analysis CAMEL TEST of NABIL.NIBL, SCBNL*. Kathmandu: Master Unpublished Thesis submitted in TU.

Chen, T., Huang, Y., Lin, C., & Sheng, Z. (2022). Finance and firm volatility: Evidence from small business lending in China. *Management Science*, *68*(3), 2226-2249.

Cull, R. (2007). Financial performance and outreach: A global analysis of leading microbanks. *The Economic Journal*, *117*(517), F107-F133.

Dhungana, B. R., & Ranabhat, D. (2022). Impact of microcredit on micro-enterprise development: A case of Gandaki province of Nepal. *Journal of Emerging Financial Markets and Policy*, *1*(1), 26-42.

Downey, E. E., Scott, J. T., & Velaswuez, J. B. (2002). Paved with good intentions: Unethical behavior conducted to benefit the organization, coworkers, and customers. In *Managerial Ethics* (pp. 145-170). Routledge.

Dufera, S. (2010) Financial development and poverty reduction in developing countries: New evidence from banks and microfinance institutions. *Review of development finance* 6.1 (2016): 82-90.

Fernando, R. (2021). The global macroeconomic impacts of COVID-19: Seven scenarios. *Asian Economic Papers*, *20*(2), 1-30.

Ganyam A. & Ivungu S. (2019). Effect of Accounting Information System on Financial Performance of Firms: A Review of Literature. *Global Journal of Management and Business Research: An Administration and Management*, 18(7), 13-24.

Gautam, K. R. (2020). Financial performance analysis of Nepalese financial institutions in the framework of CAMEL. *Janapriya Journal of Interdisciplinary Studies*, *9*(1), 56-74.

Gofwan, H. (2022). Effect of accounting information system on financial performance of firms: A review of literature. Department of Accounting (Bingham University)-2nd Departmental Seminar Series with the Theme–History of Accounting Thoughts: *A Methodological Approach*. Vol. 2, No. 1.

Golesorkhi, S., Mersland, R., Piekkari, R., Pishchulov, G., & Randøy, T. (2019). The effect of language use on the financial performance of microfinance banks:

Evidence from cross-border activities in 74 countries. *Journal of World Business*, *54*(3), 213-229.

Greuning, H. V., & Bratonovic, B. S. (2004). Analysis and bank risk management. Evaluation of corporate governance and financial risk.

Hörngren, L. (1992). Swedish Economic Policy under New Conditions. *Sveriges Riksbank*.

Idama, S., Mersland, R., Piekkari, R., Pishchulov, G., & Randøy, T. (2014). The effect of language use on the financial performance of microfinance banks: Evidence from cross-border activities in 74 countries. *Journal of World Business,* 54(3), 213-229. Illions Dryden Press.

Ilham, R. N., Akhyar, C., & Maimunah, S. (2023). The influence of profit management and financial performance on company value in building materials construction sub-sector companies listed on the Indonesia stock exchange for the 2018-2021 period. *Journal of Accounting Research, Utility Finance and Digital Assets,* 1(4), 323-335.

Jha, Y.Z. & Hui, J. L. (2022). A Comparison of Efficiency of Life Insurance Companies in Mainland China and Taiwan Using Bootstrapped Truncated Regression Approach. *Cogent Economics & Finance*, *10*(1), 2043571.

Kahiga, R. (2014). *Research methodology method and technique.* New Delhi: Wiley Eastern Pvt. Ltd.

Kori P., Muathe N. and Maina S. (2020). Financial and Non-Financial Measures in Evaluating Performance: The Role of Strategic Intelligence in the Context of Commercial Banks in Kenya. *Journal of Science: Economics and Business*, 38(1), 108-128.

Kumar, R. (2016). *Financial Management and Policy*, India: Prentice Hall of India Pvt.

Kunwar, S. (2022). *Financial Sustainability of Microfinance Institutions in Nepal* (Doctoral dissertation). Ltd.

Lehenchuk, S., Serpeninova, Y., Zavalii, T., Juhaszova, Z., & Kordošová, A. (2023). The impact of financial performance on the profitability of advertising agencies in the Slovak Republic. *Strategic Management*, 28(1), 41-50.

Malik, M. F., & Rafique, A. (2013). Commercial Banks Liquidity in Pakistan: Firm Specific and Macroeconomic Factors. *Romanian Economic Journal*, *16*(48).

Malkiel, B. G. (2018). Mutual Fund Returns and Their Characteristics: A Simple Approach to Selecting Better Performing Actively-Managed Funds. *The Journal of Investing*, *29*(3), 63-75.

Memon, A., Akram, W., Abbas, G., Chandio, A. A., Adeel, S., & Yasmin, I. (2022). Financial Sustainability of Microfinance Institutions and Macroeconomic Factors: A Case of South Asia. *South Asian Journal of Macroeconomics and Public Finance*, *11*(1), 116-142.

Muliani, R. N., Akhyar, C., & Maimunah, S. (2023). The influence of profit management and financial performance on company value in building materials construction sub-sector companies listed on the indonesia stock exchange for the 2018-2021 period. *Journal of Accounting Research, Utility Finance and Digital Assets*, *1*(4), 323-335.

Muth, J. F. (1961). Rational expectations and the theory of price movements. *Econometrica: Journal of the Econometric Society*, 315-335.

Mwangi, D. M. (2022). *Effect of Firm Size on Financial Performance of Commercial Banks in Kenya* (Doctoral dissertation, University of Nairobi).

Nalianya S. & Miroga M. (2020) Determinants of financial performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange (NSE). *International Journal of Science*, 9(2), 55-72.

Ndungu P. and Bosire A. (2020). Determinants of financial performance of commercial banks listed at NEPSE in Kenya. *Journal of Asian Finance, Economics and Business* 7(4), 133- 143.

Neupane, P. (2020). Policy Framework for Education Development in Nepal. *International Education Studies*, *13*(1), 89-97.

Oli, S. K. (2018). Impact of Microfinance Institutions on Economic Growth of Nepal. *Asian Journal of Economic Modelling*, *6*(2), 98–109.

Olweny, T., & Shipho, T. (2011). Effects of banking sectoral factors on the profitability of commercial banks in Kenya. *Economics and Finance Review*, 1(5), 1-30.

Ongore, J. & Gemechu, C.S (2013). *Dictionary of economic*. 2nd Edition, Anmol Publications Pvt. Ltd.

Robin A., Salim R. & Bloch D. (2018). Financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh. *Global Journal of Management and Business*, 17(34), 45-59.

Robinson, E. (1951). *Commercial Bank Management.* New York: The Dryden Press Private Limited.

Scott, D. (2022). *Banking Institution in Development Markets.* Washington D.C.

Serhii, L., Serpeninova, Y., Zavalii, T., Juhaszova, Z., & Kordošová, A. (2023). The impact of financial performance on the profitability of advertising agencies in the Slovak Republic. *Strategic Management*, *28*(1), 41-50.

Shrestha, P. K. (2020). Impact of covid-19 on microfinance institutions of Nepal. *Research Gate*.

Shrestha, P. K. (2020). *Changing dimension of financial inclusion in Nepal: A comparative analysis* (No. 50). NRB Working Paper.

Shrestha, P. M. (2023). Impact of firm-specific factors on the financial performance of Nepalese microfinance institutions. *The Journal of Business and Management*, *7*(1), 126-137.

Simkhada, N. R. (2017). Indicators for measuring performance of financial cooperatives in Nepal. *Journal of Business and Management Research*, *2*(1-2), 66-86.

Smith, E. A. (2001). The role of tacit and explicit knowledge in the workplace. *Journal of knowledge Management*, *5*(4), 311-321.

Sule, P. (2012). Changing dimension of financial inclusion in Nepal: A comparative analysis (No. 50). *NRB Working Paper*.

Tobias, A & Themba, G.B. (2011). Nepalese Micro financing System can the mess be managed states.

Tregenna, F. (2009). Characterising deindustrialisation: An analysis of changes in manufacturing employment and output internationally. *Cambridge journal of economics*, *33*(3), 433-466.

Wahdan, M & Leithy F. (2017). *Essential of Managerial Finance*

Wolf, Howard K. and Pant, P. R. (2002). *Social Science research and thesis writing*, 3rd edition, Kathmandu: Buddha academic publishers and distributors.

Yasmin, I., Memon, A., Akram, W., Abbas, G., Chandio, A. A. & Adeel, S. (2022). Financial sustainability of microfinance institutions and macroeconomic factors: a case of South Asia. *South Asian Journal of Macroeconomics and Public Finance*, *11*(1), 116-142.

Yeasin H.M. (2022). Impact of credit risk management on financial performance: A study of commercial banks in Bangladesh. *Interdisciplinary Journal of Applied and Basics Subjects*, 2(1), 14-22.

Yenesew, A. (2014). *Fundamentals of Finance,* international student edition, MC. Graw-Hill international book Company.

Yusuf M. and Surjaatmadja A. (2018). Analysis of Financial Performance on Profitability with Non Performance Financing as Variable Moderation (Study at Sharia Commercial Bank in Indonesia Period 2012–2016). *International Journal of Multidisciplinary and Current Research*, 6(5), 1085-1090.

APPENDICES

Appendix I

Essential Information from Respective Microfinance Annual Report

Name	DPR	(Ln)TA	CRR	PER	ROA	ROE
RSDC	0	5.76	0	0	0.27	0.004
	0	6.3	0	0	1.55	0.02
	0.63	6.64	0.79	0	1.17	0.02
	0.92	6.83	0.76	198.38	1.85	0.02
	1.01	7.47	0.71	53.31	2.13	0.03
	1.58	7.87	0.51	33.97	2.43	0.03
	1.07	8.15	0.54	45.52	2.29	0.03
	0.85	8.29	0.59	69.66	2.29	0.1
	0.84	8.64	0.56	42.3	1.86	0.11
	0.94	9.17	0.68	51.72	1.97	0.37
First	0.61	7.36	0.61	31.57	1.65	22.03
	1.01	7.76	0.49	41.27	1.54	14.17
	0.77	8.03	0.48	97.04	1.77	17.65
	0.78	8.24	0.59	50.32	2.12	15.53
	0.85	8.47	0.56	68.81	2.13	12.92
	0.91	8.72	0.59	19.37	2.17	14.52
	0.78	8.75	0.55	31.81	2.21	13.79
	0.57	9.19	0.51	35.41	1.76	15.71
	0.71	9.3	0.54	37.88	2.4	19.13
	0.88	10.14	0.61	38.04	2.68	
20.05RMDC	0.96	8.56	0	25.66	0.035	10.89
	0.75	8.67	0	18.75	0.036	11.87
	0.73	8.81	0	50.49	0.028	25
	0.66	8.88	0	25.39	0.03	29.02
	0.56	8.97	0	16.76	0.034	12.33
	0.61	9.12	0	16.05	0.039	14.22
	0.63	9.19	0	22.04	0.03	11.19
	1.13	9.41	0	63.1	0.021	8.35
	0	9.41	0.58	24.32	4.3	16.58
	0	9.64	0.67	25.13	4.74	16.92
SKBBL	0.32	8.8	0.51	27.58	1.73	13.46
	0.39	9.09	0.52	23.09	1.74	15.6
	0.6	9.39	0.51	56.74	1.86	17.14
	0.5	9.6	0.52	28.56	2.25	20.58
	0.53	9.86	0.5	23.2	2.04	23.53
	0	10	0.5	24.17	1.11	20.23
	0.03	10.1	0.51	21.32	2.28	18.9
	0.03	10.17	0.51	22.31	2.27	17.13
	0.03	10.33	0.52	37.05	2.34	16.98
	0.04	11.14	0.64	41.20	1.59	17.11

Source: Annual Report of FMBL, SKBL, RMDC and RSDC

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPR	36	.00	1.58	.6208	.37792
TA	36	5.76	10.33	8.6147	1.08730
CRR	36	.00	.79	.4044	.26323
PER	35	.00	198.38	38.8251	34.62028
ROA	36	.021	4.300	1.54897	1.003585
ROE	36	.004	29.020	12.46706	8.312783
Valid N (listwise)	35				

Appendix II

Correlation Coefficients of Dependent and Independent Variables

Variables	DPR	TA	CRR	PER	ROA	ROE
DPR	1					
TA	-0.234	1				
	0.169					
CRR	0.082	-0.004	1			
	0.634	0.983				
PER	.384*	-0.145	.350*	1		
	0.023	0.407	0.039			
ROA	-0.112	0.131	.802**	0.225	1	
	0.515	0.447	0	0.193		
ROE	-0.305	.641**	-0.11	-0.167	-0.045	1
	0.071	0	0.522	0.339	0.795	

Source: SPSS Output

Appendix III

Regression Analysis of TA, DPR, PER and CRR on ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), PER, TA, CRR, DPR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	31	.379		
	Total	35.251	35			

a. Dependent Variable: ROA

b. Predictors: (Constant), PER, TA, CRR, DPR

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.615	.915		-.672	.005
	DPR	.014	.313	.005	.046	.046
	TA	.113	.098	.122	1.149	.025
	CRR	3.169	.421	.831	7.522	.000
	PER	-.003	.003	-.086	-.726	.047

a. Dependent Variable: ROA

Source: SPSS Output

Regression Analysis of TA, DPR, PER and CRR on ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.884a	.781	.574	6.58230

a. Predictors: (Constant), PER, TA, CRR, DPR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.000b
	Residual	1343.129	31	43.327		
	Total	2418.582	35			

a. Dependent Variable: ROE

b. Predictors: (Constant), PER, TA, CRR, DPR

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-24.377	9.786		-2.491	.008
	DPR	-3.630	3.350	-.159	-1.083	.048
	TA	4.670	1.049	.611	4.453	.000
	CRR	-2.929	4.507	-.093	-.650	.021
	PER	.003	.037	.014	.090	.029

a. Dependent Variable: ROE

Source: SPSS Output

PAPER NAME

Financial Performance Analysis of Micro Finance Companies in Nepal

AUTHOR

Nirmala Shahi

WORD COUNT

19477 Words

CHARACTER COUNT

104564 Characters

PAGE COUNT

60 Pages

FILE SIZE

727.5KB

SUBMISSION DATE

Jun 6, 2025 2:24 PM GMT+5:30

REPORT DATE

Jun 6, 2025 2:25 PM GMT+5:30

13% Overall Similarity

The combined total of all matches, including overlapping sources, for each database.

- 12% Internet database
- 5% Publications database
- Crossref database
- Crossref Posted Content database
- 0% Submitted Works database

Excluded from Similarity Report

- Bibliographic material
- Quoted material
- Small Matches (Less then 10 words)