

**FIRM SPECIFIC VARIABLE AND EQUITY RETURN IN CASE OF  
COMMERCIAL BANK IN NEPAL**

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fulfillment of the requirements for the Master of Business Studies (MBS)

By

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## CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Firm Specific Variable and Equity Return in Case of Commercial Bank in Nepal**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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**REPORT OF RESEARCH COMMITTEE**

Ms. Hema Kumari Paudel has defended research proposal entitled “**Firm Specific Variable and Equity Return in Case of Commercial Bank in Nepal**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Asst. Prof. Durga Datt Pathak submit the thesis for evaluation and viva-voce examination.

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## APPROVAL SHEET

We, the undersigned, have examined the thesis entitled “**Firm Specific Variable and Equity Return in Case of Commercial Bank in Nepal**” presented Hema Kumari Paudel 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.

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## **ABBREVIATIONS**

AGM	:	Annual General Meeting
AM	:	Arithmetic Mean
AMEX	:	American Stock Exchange
ANOVA	:	Analysis of Variance
BOD	:	Board of Director
BVPS	:	Book Value per Share
CV	:	Coefficient of Variation
DF	:	Degree of Freedom
DPS	:	Dividend Per Share
DY	:	Dividend Yield
EPS	:	Earning per Share
ETFs	:	Exchange Traded Fund
EY	:	Earning Yield
IPO	:	Initial Public Offering
IR	:	Interest Rate
MPS	:	Market Price per Share
NASDAQ	:	National Association of Security Dealers Automated Quotation
NAV	:	Net Assets Value
NEPSE	:	Nepal Stock Exchange
NYSE	:	New York Stock Exchange
OTC	:	Over- the-Counter
P/E	:	Price Earnings
ROA	:	Return on Assets
SD	:	Standard Deviation
SE	:	Standard Error
SEBON	:	Security Board of Nepal

## ABSTRACT

The purpose of this study is to examine the factors that influence Nepalese commercial banks' stock values. To construct a concise and precise analysis on a few chosen variables and pooled cross-sectional data that were gathered from NEPSE-listed banks at one point in time, the study is carried out utilizing quantitative methods followed by descriptive research. The F/Y 2014–15 to 2023–2024 is when the data was gathered. Ten commercial banks are chosen to be representative of the twenty commercial banks that make up the target population. Book value per share, the PE ratio, dividend yield, return on assets, and earnings yield are the variables under investigation. Multiple regression analysis, correlation, and descriptive statistics are carried out under statistical analysis. While earnings and dividend yield are very variable, descriptive statistics reveal that Nepalese commercial banks' book value per share and price-earnings ratio have been continuously increasing. Nepalese commercial banks' return on equity has a negative association with the PE ratio and no effect on BVPS, but it is positively connected with DY and EY. All the independent variables exhibit statistical significance. The study has policy implications for Nepal's commercial banks as well as the regulatory agency.

*Keywords: Book value per share, dividend yield, earning yield, price earnings ratio, Return on Assets, Return on Equity.*

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

All companies have to evaluate the advantages gained, together with investors seeking to profit from their capital investment in the company. People find a corporation appealing because of its ability to generate profits while maintaining and increasing earnings. This benefit is termed corporate profits. Management is confident that sustained profitability will attract and retain investors, hence enhancing business value. Investors favor companies that generate consistent earnings over those that do not. Rosada and Idayati (2017) assert that business value is essential, since a higher company valuation leads to enhanced shareholder prosperity. Hanafi and Halim (2009) propose that the market ratio can quantify a company's value. The market ratio is the proportion of market price to book value. Tobin's Q is one of the ratios employed to assess a company's market value. Tobin's Q is considered the most accurate assessment of a company's market value. Tobin's Q encompasses the entirety of a company's liabilities and equity, including common stock, equity, and assets.

The stock market functions as the primary platform for institutions to distribute equities and increase capital. Public entities may issue shares in the market to generate supplementary funding for company expansion. Companies that have not participated in the stock market must commence the Initial Public Offering (IPO) process. The market acts as the mediator between stock buyers and sellers, enabling the provision of shares by each listed entity. The stock exchange primarily supports a country's economic growth in industry and commerce. The market is a primary driver of industrial and commercial development, significantly influencing the growth of the country's industrial sector (Sen & Ray, 2013).

Established in 1983 under the business statute and operated under the Securities Exchange statute, the Nepal Stock Exchange (NEPSE) is a stock exchange in Nepal. Trading floor transactions involving members and market intermediaries (e.g., brokers, market makers, etc.) are important to NEPSE's mission of making government and corporate securities freely marketable and liquid. The trading floor of NEPSE was launched on January 13, 1994

One of the most important middlemen in the financial system, commercial banks facilitate the lending of money from savers to consumers. Banks that accept deposits from individuals and

organizations and lend money against assets are known as commercial banks. The trade business and agriculture sectors rely on them for their working capital needs. Businesses, trade groups, and industries can also rely on commercial banks for administrative and technical support. Community savings are pooled and put to beneficial use by commercial banks. Beyond the, the primary objective is to improve the economy's underdeveloped areas (Nisha, 2011).

Timilsena (2016) posits that DPS has a positive and significant relationship with MPS, although EPS and BVPS have no explanatory power for stock price movement in commercial institutions. In the same vein, BVPS lacks the ability to account for the movement of stock prices in development banks, despite the positive correlation between EPS and MPS. There is an inverse relationship between DPS and MPS. In the same vein, DPS is positively correlated with MPS in microfinance and insurance companies, whereas EPS is inversely correlated with MPS. Nevertheless, BVPS lacks the ability to account for stock price fluctuations. DPS, BVPS, and EPS are not predictive of stock price fluctuations in the hydropower sector. The primary discovery of the investigation is that the share price is influenced by DPS and EPS, while MPS is not influenced by BVPS.

Macroeconomic variables heavily influence investment decisions, impacting stock markets differently based on each country's economy and administration. This study analyzes monthly data from May 2000 to August 2016 to determine how macroeconomic variables affect Pakistani stock prices. Since all variables are stable after the initial difference, the ARDL bound testing method is best for examining short-term and long-term macroeconomic indicators and stock prices. The results show that money supply, exchange rate, and interest rate affect Karachi Stock Exchange stock prices over time. All variables seem insignificant in the immediate context, except for the exchange rate, which has a negative co-integration with stock prices. The central bank must be careful while increasing the market money supply to avoid affecting investment and the stock market. The regulatory body ought to maintain interest rates at a modest level to stimulate economic activities, enhance the external economic landscape via a rule-based exchange rate policy, and refrain from employing discretionary measures (Khan, 2018).

The stock market is crucial and significantly impacts the economy of every nation. It also fosters the nation's economic development by facilitating capital generation and enhancing economic growth. Stock price fluctuations arise from the dynamics of supply and demand. However, no infallible or flawless system exists that accurately predicts stock price movements. The elements

that influence stock price variations can be divided into three categories: technical variables, fundamental factors, and market attitudes. Both internal and external causes impact share prices. Internal factors include dividend per share, profits per share, book value, leverage, and scale, among others. External components, often known as macroeconomic variables, include gross domestic product, interest rates, government regulations, and foreign exchange rates, among others. Fundamental analysts use stock valuation methods to calculate a stock's current fair value and forecast its future value. Several studies have revealed major internal features that influence share prices across markets, including dividends, retained earnings, size, earnings per share, dividend yield, leverage, payout ratio, and book value per share (Katuwal, 2021).

The study focuses on the stock price behavior of the commercial bank in Nepal and its NEPSE index. Though the market price is highly influenced by both internal i.e. firm specific factors and external i.e. macroeconomic factors, the study primarily focusses on the internal factors only. On this note, the study primarily focuses on the internal factors affecting the stock price of commercial banks in Nepal. In other words, the influence of D/Y, BVPS, EY, P/E ratio on stock prices i.e. MPS is the major focus of the study.

## **1.2 Problem Statement**

The dividend serves as a significant motivator, as investing in a firm's shares is a crucial component of financial management. The dividend policy specifies the distribution of profits between payments to shareholders and reinvestments in the company to leverage growth possibilities. It affects firm valuation and overall financing decisions, including financial structure, cash flow, corporate liquidity, and investor satisfaction (Richard, 2009). In the context of Nepal, companies listed on NEPSE are not regarded with significant seriousness concerning dividend decisions, as most lack a consistent and clear policy on dividend distribution. In relation to Nepalese public enterprises, dividends are perceived as either a strategic objective or a non-mandatory obligation, particularly at a time when the Nepalese government is unable to require public limited companies to distribute a minimum dividend rate on the equity capital contributed. Various corporations are adopting inconsistent dividend policies. The management of firms increasingly determines dividend decisions rather than relying on shareholder meetings.

1. What is the dividend yield, book value per share, price-earnings ratio, earnings yield, return on equity, and return on assets of the commercial bank among the sample banks under examination?
2. Is there a correlation among dividend yield, book value per share, price-earnings ratio, earnings yield, return on equity, and return on assets of a commercial bank?
3. What is the effect of the sampled bank's dividend yield, book value per share, price-earnings ratio, earnings yield, return on assets, and return on equity?

### **1.3 Objectives of the Study**

The primary objective of this study is to examine the impact of firm specific factors (DY, BVPS, EY, P/E) on profitability (ROA, ROE) moreover the specific objectives are as below:

1. To assess the current position of DY, BVPS, EY, P/E, ROE and ROA of Commercial Bank.
2. To examine the relationship between DY, BVPS, EY, P/E, ROE and ROA of Commercial Bank.
3. To analyze the impact DY, BVPS, EY, P/E, ROE and ROA of Sampled Bank.

### **1.4 Hypothesis**

Wagle (2021) has studied on the topic determinant of stock market share prices in Nepal: A case of commercial bank. In this study he used earning yield, dividend yield, market to book proportion and price earning proportion as independent variables and market stock price as dependent variables. It is found that besides dividend yield all other variables have a positive impact on market share prices.

With regards to the above-mentioned analysis and findings the following hypotheses have been developed to examine the impact of variables on the stock market in this study as follows:

H1: There is a significant relationship between Price Earnings Ratio and ROA.

H2: There is a significant relationship between book value per share and ROA.

H3: There is a significant relationship between Earning yield and ROA.

H4: There is a significant relationship between Price Earnings Ratio and ROA.

H5: There is a significant relationship between book value per share and ROE.

H6: There is a significant relationship between Earning yield and ROE.

H7: There is a significant relationship between Dividend yield and ROE.

H8: There is a significant relationship between Dividend yield and ROE.

### **1.5 Rationale of the Study**

The securities listed in NEPSE have been the subject of a few studies. The majority of research presented on the capital market focuses on risk and return, capital structure analysis, deposit mobilization, dividend policy, and financial performance evaluation. Nevertheless, no study has yet been conducted from the fundamental standpoint of the factors that influence the share price. In order to achieve their individual and organizational goals, investors, planners, researchers, students, and policymakers will find the current study to be extremely important. This study aims to establish the relationship between Nepalese commercial banks' ROA and ROE and key financial metrics such as D/Y, BVPS, earnings yield, and PE ratio, among others. It is believed that the relationship would demonstrate the position of Nepalese commercial banks in regard to the factors that influence share price. Potential investors may find these findings useful in making wiser investing choices. The position of share price in the share business is also covered in this dissertation. Furthermore, it is useful to compare the individual banks with the industry average for various financial variables. It is anticipated that the managers of the individual banks will find this information useful in assessing their operations and understanding the elements influencing bank share prices. Different policymakers, including SEBON, NEPSE, and NRB, among others, will find this research useful in developing better policies pertaining to the share market and prices.

### **1.6 Limitations of the Study**

- The sample institutions' operational aspects will not be the primary focus of this study; rather, it will concentrate solely on their financial aspects. Therefore, this study's conclusion will solely rely on financial factors, excluding operational factors entirely.
- The topic "Specific Factor" (analysis of selected banks) is significantly more dynamic and requires a significant number of resources, including human and financial resources, to address all aspects of the research. However, the research has concentrated solely on the stock price movement as a result of changes in D/Y, BVPS, earning yield, and P/E as independent variables.

- The dependent variable, return on equity, return on assets used in this study is computed on price of stock in a year.
- The fluctuation of seven commercial banks' stock prices was the primary focus of the investigation.
- This study observed a period of 10 years, from FY 2013/14 to 2022/23, involving 7 commercial banks.
- The outcome relies solely on secondary sources, including firm websites, SEBON, NEPSE, and NRB.
- The research does have limitation of tools. The study only incorporates descriptive and limited inferential statistics.

## **CHAPTER II**

### **LITERATURE REVIEW**

Reviewing the literature is a crucial component of any investigation. It is a means to learn what other research into our challenges has discovered. Every study is heavily founded on prior knowledge, study, and experiences. Previous research serves as a foundation for the current investigation. This chapter reviews some of the basic literature available on the issue.

#### **2.1 Theoretical Review**

Securities are negotiable financial instruments issued by corporations or governments that provide ownership rights, debt rights, or rights to buy, sell, or trade options. Securities are traded on exchange markets. The term includes all types of financial products; however, its legal definitions differ, mainly classifying equities and fixed income as securities. Securities include stocks, bonds, mutual funds, interest-bearing Treasury bills, notes, derivatives, warrants, and debentures. Additionally, interests in oil-drilling programs are categorized as securities. The legal entity responsible for issuing securities is referred to as the issuer of stocks, warrants, and analogous instruments. A document that functions as evidence of property rights is termed security (Sharpe et al., 1996).

Markowitz (1952) elucidates that modern portfolio theory (MPT) is an effective approach for choosing investments to optimize overall returns while maintaining an acceptable risk level. This mathematical framework is employed to construct an investment portfolio that optimizes projected returns for a certain level of risk. Modern Portfolio Theory (MPT) is a framework employed by risk-averse investors to create diversified portfolios that optimize returns while maintaining acceptable risk levels. Modern portfolio theory is beneficial for investors aiming to create efficient and diversified portfolios utilizing ETFs. Investors prioritizing downside risk may favor post-modern portfolio theory (PMPT) over modern portfolio theory (MPT).

According to Fama (1970), an efficient market is one in which the market price accurately represents all available information. According to the efficient-market hypothesis (EMH), financial markets are "informationally efficient." That is, given the publicly accessible knowledge at the time of investing, it is impossible to continuously earn returns greater than

average market returns on a risk-adjusted basis. It is worth noting, however, that in previous empirical research, the standard technique has been to infer market efficiency from the observed independence of subsequent price adjustments. There has been minimal actual testing of the rate of price adjustment to various types of new information.

Miller and Modigliani (1961) proposed that dividend policies are irrelevant, similar to the idea that capital structure does not matter when there are no taxes or bankruptcy costs. This is referred to as the "dividend irrelevance theory." They say a company's dividend policy is irrelevant because it doesn't affect share price or shareholder wealth. capital market in which all investors act rationally. There is no corporate tax; hence, there is no difference in tax rates for capital gains and dividends. Flotation expenses for securities are neglected. Fixed investment policy. There is no risk of uncertainty. Miller and Modigliani explained the dividend policy's irrelevance using these assumptions and the arbitrage mechanism. Firms have two alternatives for utilizing their after-tax profits: (i) retain the earnings and reinvest them, or (ii) distribute the gains as cash dividends. If the firm chooses the second option and declares a dividend, it will need to raise funds to fund its investment decisions by selling new shares. The arbitrage process will offset the gain in share value owing to cash dividends by issuing extra shares. This makes the investor indifferent to dividend earnings and capital gains because the firm's share value is determined by its future earnings rather than its payout policy. As a result, if two firms have identical risk and return profiles, the market value of their shares will be equivalent despite differing payout percentages.

### **2.1.1 Capital Assets Pricing Model (CAPM)**

According to Fama and Feach (1970), an efficient market is one in which the market price accurately represents all available information. Financial markets, according to the efficient-market hypothesis (EMH), are "informationally efficient." Considering the publicly known information at the time of the investment, investors cannot continuously generate returns that exceed the average market returns on a risk-adjusted basis. It is crucial to remember, nevertheless, that the standard practice in empirical research up to this point has been to deduce market efficiency from the seeming independence of subsequent price movements. Practice has rarely tested the rate at which markets react to specific types of new information. Numerous studies have demonstrated, using cross-sectional stock return analysis, that firm-

specific traits can account for variance in the return on invested capital. Keim (1983), who studied the size effect of the stock return, found that smaller enterprises outperformed larger firms in terms of returns. Stock returns can be explained by book-to-market equity and beta.

This conclusion matches French and Fama (1992). Earnings yield is earnings per share/market. The earnings yield, the ratio of earnings per share to market price per share, explains stock returns (Reinganum, 1981). Similar results were found by La Porta (1996), suggesting that stocks with modest profit growth have lower betas and standard deviations. Current research examines insurance stock time-series features and equity estimation costs (Cummins & Phillips, 2005; Wen et al., 2005). Cummins and Phillips (2005) use the CAPM and Fama and French's three-factor model to study property-liability insurers' equity costs. They observed that Fama and French's (1992) three-factor model has higher cost of capital estimations than the CAPM.

### **2.1.2 Dividend-irrelevance theory**

Franco Modigliani and Merton Miller introduced the concept of dividend-irrelevance policy in their 1961 publication. They enhanced their hypothesis, contradicting the prevalent notion that dividend payments influence share prices. Modigliani and Miller are regarded as pioneers in employing rigorous analytical methods to address financial issues (Modigliani & Miller, 1958). The idea that dividend policy doesn't matter comes from an earlier study showing that, under certain conditions, a company's overall value isn't changed by how it is financed or its mix of debt and equity. In their first study, MM claim that if people in the market can take advantage of price differences, if there is a perfect capital market without fees, taxes, or bankruptcy costs, if there is a constant interest rate for companies and investors to borrow and lend, and if there are unlimited borrowing options, then a company's debt-to-equity ratio does not affect its market value. MM subsequently employed analogous methodologies to examine the dividend policy. Their essential argument is that in ideal capital markets, a company's value is independent of its dividend payment method. They reiterate their key concepts. A perfect capital market is characterized by the inability of buyers or sellers to influence share prices, unrestricted access to price information, the absence of transaction costs or commissions for financial intermediaries, and no tax discrepancies between dividend payments and capital gains. Rational behavior indicates that investors aim to maximize their profits and disregard the distinction between dividends and capital gains. There exists no information asymmetry between a company's

insiders and external shareholders, as investors possess accurate data concerning future cash flows and earnings. Changes in dividend payments don't affect the long-term investment policy of the joint stock business. One of the main ideas of MM's thesis is that a company's best investment policy is set for a long time. This rule lets stocks and bonds be seen as the same kind of money. We sometimes assume that companies only get money from issuing shares and not by taking out loans from outside sources. MM uses these rules to value a company: all shares for sale will have the same return (the sum of dividends and capital gain per unit spent) at any time, if they all have the same risk. In a perfect capital market, this is what arbitration does. It is possible for a group of shares to have the same amount of risk. To make more money, investors will sell shares that don't pay out as much and buy shares that do. The price of the first group of shares will go down, and the price of the second group will go up until there is no longer a difference in profits.

### **2.1.3 Theory of capital structure and profitability/ value of a firm**

As stated by Ross (2003), a business may acquire capital from creditors or equity holders. If it borrows, the lenders supply the capital, and the firm agrees to return the principal along with a specified interest rate. Shareholders that contribute 12% of the capital do not receive a guaranteed return; instead, they hold equity shares, granting them a share of future profits and cash flow. Shareholders are equity investors that supply equity financing. The choice between debt and equity financing is known as the capital structure decision. Capital signifies the firm's sources of long-term funding.

Corporations acquire equity capital using two techniques. They may initially issue supplementary shares of stock. The investors acquiring the additional shares supply capital in exchange for a share of the corporation's future cash flow and profits. Secondly, the company can use the cash flow generated by its existing assets to invest in new ones. The corporation is reallocating resources for the advantage of existing stockholders. No further shares are allocated. What happens when a company does not reinvest all of the cash flow generated by its current assets? It may either retain the capital for further investments or distribute it to its shareholders. Business is inherently risky.

The financial manager must recognize and adeptly mitigate the risks. Debt has numerous advantages; yet, excessive debt might lead to the company's insolvency (Brealey, Myers, & Allen, 2011). Financing arrangements determine the distribution of the firm's value. The corporation can determine its capital structure. The firm may have initially raised cash for asset investment by issuing more debt than equity; it can now consider modifying this structure by issuing additional stock and using the earnings to repurchase some of its debt. Regardless of the initial investment choices, the corporation can make such financing decisions. The decisions to issue debt and equity affect the allocation of resources (Ross, 2003). Various theories have been advanced to clarify the capital structure and profitability or value of enterprises. The prevailing views on capital structures and their influence on profitability and corporate value are outlined as follows.

#### **2.1.4 Review of Variables**

In the past, several scholars have done different studies on what affects share prices. To avoid duplication and fill in the gaps, this study looked at some of them again. There are a number of internal and external factors that affect stock prices. There are a lot of things that affect the price of a share, such as:

##### **Book value per share (BVPS)**

Over time, a business will make money, most of which goes to creditors (as interest) and stockholders (as dividends). Accumulated retained earnings, capital contributions more than par value, and common shares make up the equity book value. All the items under stockholders' equity, including cumulative retained earnings, add up to this total. The book value per share can be calculated by dividing the total book value of the stock by the total number of outstanding shares (Sharpe et al., 1996).

##### **Return on Assets (ROA)**

ROA is a financial statistic that reflects how much money a business makes compared to all its assets. The return on assets ratio can help corporate managers, analysts, and investors figure out how well a company uses its resources to make money (Baniya, 2021).

### **Price Earnings Ratio (P/E)**

The P/E ratio displays the market's price for each reported rupee or dollar of profits per share (EPS). The earning multiplier is another name for it. The ratio of earnings per share to market price per share is what it is. The higher the P/E ratio, the more investors trust the company's future and the higher the market price of a stock given its earnings per share. The market price per share (MPS) is divided by the earnings per share (EPS) to obtain this number (Baniya, 2021).

### **Dividend Yield (DY)**

The amount that a company pays its shareholders each year in return for their investment is known as the dividend yield. This percentage indicates how desirable it is to purchase a company's stock. D/Y is comparable to ROI for those who don't care about long-term profits or capital gains. This figure is calculated by dividing the current market value per share by the current dividend per share. D/Y displays how much money investors make compared to the current market price of a share. DPS is just the amount of money that stockholders get per share. It cannot accurately reflect the real return for shareholders who purchased the share at a market price higher than its book value. Therefore, it is important to think about the Dividend Yield (D/Y). This is the answer you receive when you divide DPS by MVPS (Katuwal, 2021).

## **2.2 Empirical Review**

Joshi (2011) conducted a study on the influence of dividends on stock prices in Nepal. This study sought to examine the predominant effect of dividends relative to retained earnings. The research investigates the reliability of this occurrence in Nepal and its implications for both banking and non-banking sectors. A descriptive and analytical study design has been utilized. Secondary data was utilized to analyze the impact of dividends on stock prices through a multivariate linear regression study of current market stocks. The study revealed that DPS serves as a significant motivator in the Nepalese financial sector, sufficiently potent to elevate the market price per share of both banking and non-banking entities. DPS exerts a greater influence on market price per share than REPS. The historical market price per share serves as a stimulus for future increase in market price per share. The investigation concluded that dividends and retained earnings significantly contribute to the disparity in share price between the banking and non-banking industries.

Khan and Amanullah (2012) employed a linear multiple regression model to examine the determinants of share prices in the Karachi Stock Exchange (KSE) 100 index. The objective of the study is to ascertain various share price indicators and their correlations with KSE share prices. Five indicators were selected to ascertain the direction and magnitude of the association: book-to-market ratio, price-to-earnings ratio, dividend yield, gross domestic product, and interest rate. A random sample of 34 companies was selected from the 34 sectors of the KSE. Data for the sample companies were gathered throughout a decade (2000–2009). The analysis indicates that an increase in GDP, dividends, and the P/E ratio correlates with a rise in share prices, while the B/M ratio and interest rates have an inverse association with share prices.

Jha and Hui (2012) conducted a study entitled *A Comparative Financial Performance Analysis of Public Sector, Joint Venture, and Private Commercial Banks in Nepal*. This study aims to analyze the financial performance of commercial banks in Nepal across different ownership configurations. They utilized the CAMEL framework to assess financial performance. They utilized data from 2005 to 2010. They found that public-sector banks were significantly less efficient than private competitors. Domestic private banks exhibited efficiency comparable to that of joint venture banks. Their estimation results indicated that the capital adequacy ratio (CAR), interest expenses relative to total loans, and net interest margin (NIM) significantly influenced return on assets. The capital adequacy ratio significantly influenced return on equity. Jha (2014) obtained her Doctor of Management degree with a dissertation entitled "Performance Appraisal of Commercial Banks and the Correlation of Financial Indicators with Economic Growth in Nepal." The objective was to assess the present condition of Nepalese commercial banks, specifically evaluating the influence of financial variables, risk management elements based on the CAMEL framework, and efficiency on economic growth, among other aspects. The study revealed that the capital adequacy ratio, interest expenditures relative to total loans, and net interest margin significantly negatively affected ROA, but non-performing loans and the credit-to-deposit ratio exerted no significant influence on return on assets. The enhancement of the capital adequacy ratio positively influenced the return on equity. Moreover, the study revealed that bank-specific attributes affect ROA and ROE performance.

Srinivasan (2012) asserts that share prices across various markets are influenced by intrinsic factors like dividends, retained earnings, size, earnings per share, dividend yield, leverage, payout ratio, and book value. Comprehending the influence of various basic factors on share price is advantageous for investors, as it enables them to make lucrative investment choices.

Malhotra and Tandon (2013) endeavored to ascertain the determinants affecting stock prices of 100 companies on the National Stock Exchange (NSE). A sample of 95 organizations was selected for the period from 2007 to 2012, and a linear regression model was employed. The findings indicated that firms' book value, earnings per share, and price-earnings ratio had a significant positive correlation with their stock price, whereas dividend yield demonstrated a considerable negative correlation with the firm's market price.

Almumani (2014) employed a linear multiple regression model to analyze the quantitative factors affecting share prices of banks listed on the Amman Stock Exchange from 2005 to 2011. There exists a significant positive correlation between EPS and MPS among the banks listed in Jordan. Moreover, a robust correlation exists between banks' Book Value Per Share (BVPS) and Market Price Per Share (MPS). Another empirical result from the regression analysis demonstrates a positive correlation between P/E and MPS. Empirical findings from the regression analysis indicate a negative correlation between SIZE and MPS. Ultimately, other variables exert an inconsequential influence on MPS. A review of the literature on share price determinants indicates that most studies employed either time-series or cross-sectional data. Efforts have also been made to ascertain share price determinants utilizing panel data.

Bhattarai (2014) examined the determinants affecting the share prices of Nepalese commercial banks, utilizing a sample of nine institutions. Data were collected from the annual reports of the sampled banks and analyzed using regression models. The study suggests that shares of commercial banks offer investment opportunities for Nepalese investors, as they are traded more often in the market compared to other shares within the Nepalese environment. The study's findings from 2006 to 2014 indicated that earnings per share and the price-earnings ratio exhibit a significant positive correlation with share price, while dividend yield shows a considerable negative correlation with bank share price. The research indicates that dividend yield, earnings per share, and price-earnings ratio are the primary determinants affecting the share price of Nepalese commercial banks.

Shrestha and Subedi (2014) discovered a positive correlation between inflation, the expansion of the money supply, and changes in stock prices. The study indicates that the Nepalese stock market has positively reacted to macroeconomic enhancements, especially within the monetary sector. Likewise, financial institutions prevail in the stock market, and an accommodating monetary policy may result in an asset price bubble. The primary findings of the study demonstrated that the NRB's policy on lending secured by share collateral significantly impacted the share market. The findings indicated that the stock market is affected by investor speculation, news, and rumors; thus, transparency should be enhanced by ensuring that information about listed companies is readily available. The relevant authorities must enhance transparency and communication to dispel market speculation and misinformation.

Taimur et al. (2015) analyzed panel data from 41 firms listed on the Bahrain stock exchange between 2006 and 2010 to examine the determinants of stock prices. The research examined the correlation between share price and several variables. The estimation technique utilizes pooled OLS regression with robust standard errors, fixed effects, and random effects models. Eight business-specific variables, including return on equity, book value per share, dividend yield, dividend per share, price-to-earnings ratio, debt-to-assets ratio, and firm size, have been examined to assess their influence on market price per share in the pertinent market. The results indicate that return on equity, book value per share, dividend per share, dividend yield, price-to-earnings ratio, and firm size are significant predictors of share prices in the Bahrain market. The regression results indicate a positive and statistically significant correlation among return on equity, book value per share, dividend per share, price-earnings ratio, and firm size. Conversely, dividend yield was found to have a significant negative correlation with stock prices.

Pradhan and Dahal (2016) determined that the market price per share of Nepalese commercial banks is predominantly affected by dividend per share, firm size, and money supply. Analysis of data from 14 commercial banks between 2002 and 2014 revealed that metrics such as earnings per share, book value per share, and return on assets exert a relatively negligible influence on market price per share. They suggested that a rational investor ought to assess dividend per share, firm scale, and money availability prior to making an investment decision, together with signaling and asymmetric information in an imperfect stock market such as

Nepal.

Giang and Tuan (2016) examined the relationship between dividend distributions and the market valuation of publicly traded food and beverage firms in Vietnam from 2010 to 2014. The research delineates empirically significant elements in corporate finance and the administration of stock market listings. The study experimentally analyzes significant components in the management of stock exchange listings and company finance. The paper develops an experimental model that represents the market value of companies in the food and beverage sector on the Vietnamese stock exchange, correlating it with their financial performance and dividend distributions. The research reveals that in Vietnam's food and beverage sector, companies will be more attractive on the stock exchange if they distribute cash dividends, achieve substantial gross margins, and maintain a low debt ratio with minimal mobilization costs.

Warrad (2017) examined the influence of market variables on the stock prices of Jordanian banks from 2008 to 2014. The research employed correlation and multiple regression methodologies to assess its hypotheses. The independent variables of the study are earnings per share (EPS), dividends per share (DPS), book value per share (BPS), price/earnings ratio (P/E ratio), and market stock price. The results indicated that market price metrics significantly influenced bank stock valuations. Dividends per share (DPS), book value per share, and dividend yield significantly influence stock price, although earnings per share (EPS) and price-to-earnings (P/E) ratio do not.

Bhattarai (2018) examined return on assets (ROA) as a performance metric using annual data from 2011 to 2016. Default risk, capital adequacy ratio, and asset cost are distinct characteristics particular to banks. The macroeconomic independent variables are the annual GDP growth rate, the exchange rate, and the inflation rate. He utilized regression models to examine the impact of bank-specific and macroeconomic variables on bank performance. The estimated regression models in his analysis revealed a significant negative correlation between cost per loan asset and bank profitability. Nonetheless, he discovered that the exchange rate adversely affected profitability greatly. Consequently, he has determined that the cost per loan asset is the paramount element affecting commercial bank profitability in Nepal. No macroeconomic variables were revealed as significant predictors during his research.

Pathak and Gupta (2018) investigated the impact of rights share offerings on share price

movement in the banking sector from 2007/08 to 2016/2017. To determine the share price movement at various stages in time, pre- and post-right issues and price relatives were determined using the price 90 days before the right announcement date as the starting point. The share price fluctuations were observed at five different times, with the announcement date serving as the reference point. Stock price data were gathered from NEPSE's website. The study employs a correlation coefficient to determine whether the overall market movement has any relationship with the change in individual share prices. The coefficient of determination is used to calculate how much of the change in share price is explained by the rights share issue. The findings indicate that the right offering announcements have a signaling effect, but it is negative. Despite the fact that the market index increased in the comparable period, the share price of Nepalese commercial banks fell following the issuance of rights. The results show knowledge asymmetry, which causes a negative shift in share price following rights announcements. The implication of the findings is that investors can forecast the pattern of share price changes following rights issue announcements and devise strategic measures to increase trading activity.

Aiali et al. (2019) examined the impact of dividend policy on the market value of common stocks of insurance firms listed on the Kuwait Stock Exchange from 2009 to 2017. The ambiguous issue of dividend policy in financial management literature necessitated the investigation. The study's dependent variable was share prices, while the independent variables included dividend yield, dividend payout ratio, earnings per share, book value per share, and market price to book value ratio. The regression model indicated that dividend yield and dividend payout ratio exerted a statistically significant negative impact on share prices, whereas earnings per share, book value per share, and market price to book value ratio demonstrated a statistically significant positive effect. This investigation's findings corroborated Miller and Modigliani's (1961) dividend irrelevance theory.

Triani and Tarmidi (2019) investigated the influence of funding decisions and dividend policies on corporate value. Investment decisions are not significantly correlated. Liquidity significantly influences the firm. The results have significantly impacted liquidity. This study has examined the impact of all independent variables on a singular dependent variable. The study's findings indicate that dividend policy adversely and significantly impacts firm value, while liquidity and firm size exert a positive and substantial influence on firm value;

profitability is neither relevant nor significant to firm worth. Consequently, dividend policy adversely affects firm value significantly, although firm size exerts a somewhat positive and noteworthy influence.

Shrestha (2019) examined the bank-specific and macroeconomic factors influencing the profitability of the Nepalese banking system from 2004 to 2013. Shrestha used return on assets (ROA), return on equity (ROE), and net interest margin (NIM) to measure how profitable the banks were, along with total assets and different ratios: the ratio of equity capital to total assets, the ratio of total loans to total assets, the ratio of total deposits to total assets, and the ratio of total liquid assets to total assets. It was determined that asset size and deposit-to-asset ratio significantly enhance bank profitability, whereas the loan portfolio adversely affects it considerably

In a similar vein, Gwachha (2019) analyzed the bank-specific and macroeconomic determinants of profitability within Nepal's banking sector from 2004 to 2013. Gwachha looked at how well banks make money by using return on assets (ROA), return on equity (ROE), and net interest margin (NIM), along with bank-specific factors like total assets, the ratio of equity capital to total assets, the ratio of total loans to total assets, the ratio of total deposits to total assets, and the ratio of total liquid assets to total assets, as well as economic factors like GDP, consumer price index, real interest rate, and stock market capitalization. Gwachha determined that asset size and deposit-to-asset ratio exert a substantial positive impact, but the loan portfolio has a marked adverse effect on bank profitability. Moreover, Gwachha found that actual interest rates and stock market capitalization positively influence bank performance.

Gbalam and Uzochukwu (2020) analyzed price responses to dividend announcements by companies listed on the Nigerian Stock Exchange. The study categorized the factors as share, dividend payout ratio, and price per share. Ordinary Least Squares (OLS) Regression analysis was used to find the relationship, and the results show a small positive link between dividend payments and share price announcements by Nigerian companies.

Katuwal (2021) examined the determinants affecting the share prices of Nepalese commercial banks, utilizing a sample of six institutions. The research utilizes descriptive, correlational, and regression analysis methodologies. The descriptive statistics encompass the mean,

standard deviation, and coefficient of variation, which are employed to characterize the sample firms. Descriptive statistics, correlation and regression analysis, and the ANOVA test were used to explore the relationship between the market price of Nepalese commercial banks and factors like earnings per share, book value per share, price-earnings ratio, return on assets, and bank size. The study demonstrated that book value per share, earnings per share, and price-earnings ratio exhibit a significant positive correlation, whereas return on assets has a positive but little effect on market price. The size has a negative and statistically insignificant correlation with the stock prices of Nepalese commercial banks.

Raza et al. (2021) assert that stock market performance is the paramount focus of financial research for investors, managers, financial professionals, and government entities. The stock market is essential for supporting economic growth, as it enables the transfer of capital among the government, investors, and other stakeholders. This study aims to evaluate the influence of dividend per share, earnings per share, price-earnings ratio, return on assets, inflation, and GDP on the market price per share in Nepalese commercial banks.

Wagle (2021) examined the factors influencing stock prices in Nepal, focusing on a commercial bank as a case study. The analysis utilizes 130 observations from 26 of Nepal's 27 commercial banks, obtained from secondary sources and annual reports. A descriptive and informal comparative study design was employed. Techniques including mean, standard deviation, correlation, and regression analysis were employed. The analysis indicates that the market-to-book ratio, price-earnings ratio, and earnings yield ratio all have a significant positive correlation with stock prices. Nonetheless, the dividend yield ratio exerts a positive, albeit minimal, influence on stock prices.

Gyawali (2022) examined the impact of several factors on the stock prices of Nepalese commercial banks. The MPS served as the dependent variable, whereas the independent variables included DPS, EPS, P/E ratio, ROA, GDP, and inflation rate. Secondary data was collected from the annual reports of chosen commercial banks over a five-year period from 2017 to 2021. The data was examined and interpreted employing a descriptive and causal-comparative study style utilizing SPSS. A sample of ten commercial banks is picked from a total of twenty-seven banks. A convenience sampling technique is utilized. Multiple linear regression models were utilized to illustrate the impact of independent variables on the

dependent variable. The results demonstrate that DPS, EPS, and the P/E ratio exert a positive and statistically significant influence on stock prices. Return on Assets (ROA) and Gross Domestic Product (GDP) exert a positive yet insignificant influence on stock prices, whereas inflation has a negative and marginal effect.

Lamichhane (2024) found that return on stock is the primary concern of corporate investors. Investors demand higher stock returns, while management prioritizes increasing stock returns for wealth maximization. Internal factors are corporate fundamentals, and external factors are macroeconomic issues that influence stock returns. This article employs descriptive and causality research techniques to investigate the impact of firm fundamentals on stock returns in Nepal during the fiscal years 2007/08-2021/22. In this research, the dependent variable is stock return, and explanatory factors are earnings per share (EPS), book-to-market equity (BME), market value of equity (ln ME), cash flow yields (CFY), and earning yield (EY). The correlation results demonstrate that EPS, BME, and EY are positively related to stock returns, but ln ME and CFY are negatively related. The regression results show that EPS, BME, and EY have a positive impact on stock returns in Nepalese enterprises. Higher EPS, BME, and EY correlate with increased firm stock returns. Furthermore, the results show that ln ME and CFY have an inverse influence on returns. Finally, the study shows that earnings per share, book-to-market equity, market value equity size, and cash flow yields are all high, but earnings yield has a minimal impact on Nepalese firm stock returns. Policymakers, investors, and academics can use the study's conclusions to better formulate and apply policies, maximize stock returns, and conduct research.

The study by Chhetri (2023) indicates that investors ought to evaluate BVPS, P/E ratio, ROA, and inflation when making investment decisions regarding commercial bank stocks. This study presents new evidence from a Nepalese perspective, which is beneficial for market participants. The findings of this study are particularly pertinent for equity investors and fund managers, who should consider these critical characteristics when evaluating stock returns and predicting share prices.

The study by Dahal (2024) indicates that the capital adequacy ratio positively influences return on assets. An increase in capital adequacy results in a higher return on assets. The debt-to-equity ratio adversely affects both asset and equity returns. Increasing the debt-to-equity ratio

results in a decrease in both the return on assets and the return on equity. This study found that asset tangibility enhances return on assets and return on equity. Increasing asset tangibility leads to enhanced returns on assets and equity. Additionally, the size of a business has a positive impact on return on equity. The data indicate that an increase in a firm's size correlates with a rise in its return on equity. The debt-to-asset ratio enhances return on equity. An increase in the debt-to-asset ratio results in a higher return on equity. Finally, the empirical review is also summarized in table 1.

Table 1

*Review Matrix*

Authors	Variables (Independent/Dependent)	Methodology	Major Findings
Srinivasan (2012)	Capital Structure (Independent), Firm Value (Dependent)	Quantitative, Regression Analysis	Capital structure significantly affects firm value; higher leverage increases risk but can lead to higher returns.
Al Karim & T (2013)	Financial Performance (Independent), Bank Profitability (Dependent)	Ratio Analysis	Financial ratios, including liquidity and profitability, are key determinants of bank performance.
Dahal (2024)	Gross Development Product (GDP), Return on Assets (ROA), Total Assets Growth (Independent), Bank Profitability (Dependent)	Panel Data, Regression Analysis	Bank-specific factors like capital adequacy and liquidity significantly impact profitability.
Benyamin & Endri (2019)	Stock Returns (Dependent), Firm-ROE, EPS, DPR, MS (Independent)	Regression Analysis, Panel Data	Profitability, firm size, and growth opportunities have a significant effect on stock returns.
Bhattarai (2018)	Bank specific factors are bank size (LnTA), Return on Assets (ROA) liquidity (LTD), Capital Adequacy Ratio (CAR), whereas macroeconomic factors are real gross domestic growth rate (RGDP) and inflation rate (INF) (Independent), Bank Performance (Dependent)	Regression, Time Series Analysis	Profitability and liquidity ratios are positively correlated with performance in Nepalese banks.

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French (1970)	Dividend Yield (Independent), Stock Return (Dependent)	Analytical Model, Empirical Testing	Higher dividend yields increase stock returns, supporting the bird-in-hand theory.
Cummins, J. D., & Phillips, R. D. (2005)	Dividend Policy (Independent), Stock Return (Dependent)	Survey, Empirical Analysis	Payout policies in the 21st century are influenced by corporate governance, impacting stock returns.
Dewi & Wirajaya (2013)	Capital Structure, Profitability, Firm Size (Independent), Firm Value (Dependent)	Regression, Structural Equation Modeling	Profitability and capital structure directly influence firm value; firm size moderates this relationship.
Ebenezer (2019)	Loan Growth, Bank Solvency (Independent), Firm Value (Dependent)	Comparative Study, Regression	Loan growth and solvency positively affect firm value in both Nigerian and Malaysian banks.
Jha & Hui (2012)	ROA, CAR, NPL, CD, NIM (Independent), Bank Performance (Dependent)	Comparative Analysis, Regression	Banks with better financial performance show superior stock returns in the Nepalese market.
Pradhan, R.S., & Dahal. S. (2016)	Capital Adequacy, Cost-Income Ratio (Independent), Bank Performance (Dependent)	Regression, Ratio Analysis	Capital adequacy and cost-income ratios have a significant effect on the financial performance of Nepalese banks.
Gurung et al. (2018)	Profitability, NPA (Independent), Bank Returns (Dependent)	Regression, Cross-sectional Analysis	Non-performing assets (NPAs) have a negative impact on profitability and stock returns of Nepalese commercial banks.

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### 2.3 Research Gap

Research on firm-specific factors and how they affect stock returns and price volatility in Nepalese commercial banks is currently dispersed and inconsistent in both methodology and scope. Previous research has mostly focused on comparing financial performance using financial ratios like ROA and ROE within frameworks like CAMEL, or it has highlighted stock price volatility associated with firm-specific variables i.e. leverage, market capitalization, and book-to-market ratio (e.g., Jha & Hui, 2012; Gautam, 2017).

Most of these studies, however, only concentrate on profitability metrics (ROA and ROE) without incorporating a direct relationship with stock price determinants like dividend yield (DY), BVPS, earnings yield (EY), and P/E ratios as joint explanatory variables. depend on out-of-date or condensed time series data, frequently spanning only five to six years, even though market dynamics and legal frameworks have changed, particularly since 2016. Do not use a structural model that can test direct and indirect effects on stock price volatility and profitability to adequately account for the simultaneous effects of multiple firm-specific variables. Their main research goal is not to examine Nepalese commercial banks solely in relation to factors that influence stock prices. Most combine commercial banks with other financial firms or industries, like microfinance or insurance.

Specifically, although Gautam (2017) offers insightful information on stock price volatility, his research does not specifically connect ROA and ROE to stock price factors in a framework that reflects both firm profitability and investor returns.

Thus, this study fills the following research gap: It looks at more recent data from FY 2013/14 to 2022/23 to carefully study how specific factors related to banks connect with profitability measures just for banks in Nepal. It uses a structured model approach that combines multiple regression, correlation, and descriptive analysis to investigate how financial indicators affect stock returns directly as well as how they relate to bank profitability. It bridges the knowledge gap between academic research and practical financial decision-making in the Nepalese banking industry by emphasizing findings that are pertinent to both market practitioners and policymakers.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter deals with the methodology of the study. It basically deals with the research design employed in the study. Likewise, the population, sample and sampling techniques are also dealt with in this section. The nature and sources of data along with the data analysis tools are also included in this chapter. The model employed in the study along with the research framework is also demonstrated.

#### **3.1 Research Design**

The research design adopted both descriptive and causal research design. Under descriptive research design dividend yield, earning yield, book value per share, and price earnings ratio are assessed. Descriptive research design has been employed in the study to show the results as they depict. Casual research design has been employed to examine the impact of some firm specific variables on market price per share.

#### **3.2 Population, Sample, and Sampling Design**

All 20 commercial banks listed in the stock exchange were considered as the total population. The bank was categorized investment into only 3 groups (Government Banks, Joint venture Banks and Non-Joint venture banks as done by the NRB. Out of them, the companies that were in existence and doing share transactions in NEPSE Ltd. Among them, there are 20 commercial banks listed and doing share transactions are the population of the study (NRB, 2024). The sample size is 7 commercial banks selected as per simple Stratified and purposive sampling method proportionately. First, the strata were derived as a joint venture, a non-joint venture & Government bank. After that, 7 commercial banks were selected based on Stratified and purposive sampling methods.

*Table 2* Number of Commercial Banks Selected for the Study

	Name of Banks	Year
1	Agriculture Development Bank (ADBL)	2014/15-2023/24
2	Nabil Bank Ltd. (NABIL)	2014/15-2023/24
3	Global IME bank Ltd. (GLOBAL)	2014/15-2023/24
4	Sanima Bank Ltd. (Sanima)	2014/15-2023/24
5	Everest Bank Ltd. (EVEREST)	2014/15-2023/24
6	Prime Commercial Bank Ltd. (PRIME)	2014/15-2023/24
7	NMB Bank Ltd (NMB)	2014/15-2023/24

### **3.3 Nature and Sources of Data**

The data is quantitative and comes from secondary sources that were collected from ten commercial banks, specifically focusing on market capitalization during the study period from 2014 to 2024. The primary data sources are banking and financial statistics released by NRB, NEPSE, and the annual reports of several sample banks.

### **3.4 Methods of Analysis**

The data collected from a variety of sources was recorded in a systematic manner as required. However, only relevant and useful data were categorized according to the study's requirements. The data is provided in the appropriate format of tables and figures. Descriptive and inferential statistics were implemented in the investigation. The data in this research is analyzed using a variety of financial and statistical tools, which are detailed below.

### **3.5 Instrument / Measurement of Variable**

The finest technique for doing a proper financial analysis of data is ratio analysis. Ratio analysis is a fairly basic approach for expressing the relationship between two or more facts. We can determine how the data and study relate to one another by using ratio analysis. Ratio analysis examines the following bank-specific ratios.

Table 3 Instrument and Measurement of Variable

Variable	Measurement	Source	Expected Return
Dividend Yield (D/Y)	$\frac{\text{Dividend per share}}{\text{Market Per share}}$	Bista ,2024	Negative relation between DY and ROE.
BVPS	$\frac{\text{Equity Shareholders fund}}{\text{No. of equity shares}}$	Chhetri 2023	Positive relation between BVPS and MPS.
P/E Ratio	$\frac{\text{Share Price}}{\text{Earing Per share}}$	Chhetri, 2023	Positive relation between P/E ratio and MPS.
Return on Assets (ROA)	$\frac{\text{Net Income}}{\text{Total Assets}}$	Bista ,2024	The relationship between ROA and ROE is positive but influenced by leverage (Use of debt).
Return on Equity (ROE)	$\frac{\text{Net income}}{\text{Share Holders Equity}}$	Bista ,2024	

### 3.5.1 Statistical tools

The research employed both descriptive and inferential statistics. Descriptive statistics has been utilized to ascertain the condition of the market price per share. The primary descriptive statistics utilized in the study are mean, standard deviation, minimum, and maximum. Likewise, inferential statistics have been utilized in the research to assess the interrelationship among the variables and to evaluate the influence of D/Y, BVPS, EY, and P/E ratio. Correlation and regression analysis have been employed for this aim. The model of the study is demonstrated below:

#### Model

$$\text{ROE/ROA} = a + \beta_1 D/Y + \beta_2 BVPS + \beta_3 EY + \beta_4 P/E + \varepsilon \text{-----}(i)$$

Were,

ROA and ROE are dependent variables and D/Y, BVPS, EY, P/E ratio, is independent variables.

Here, D/Y = Dividend Yield

BVPS = Book Value per Share

ROE = Return on Equity

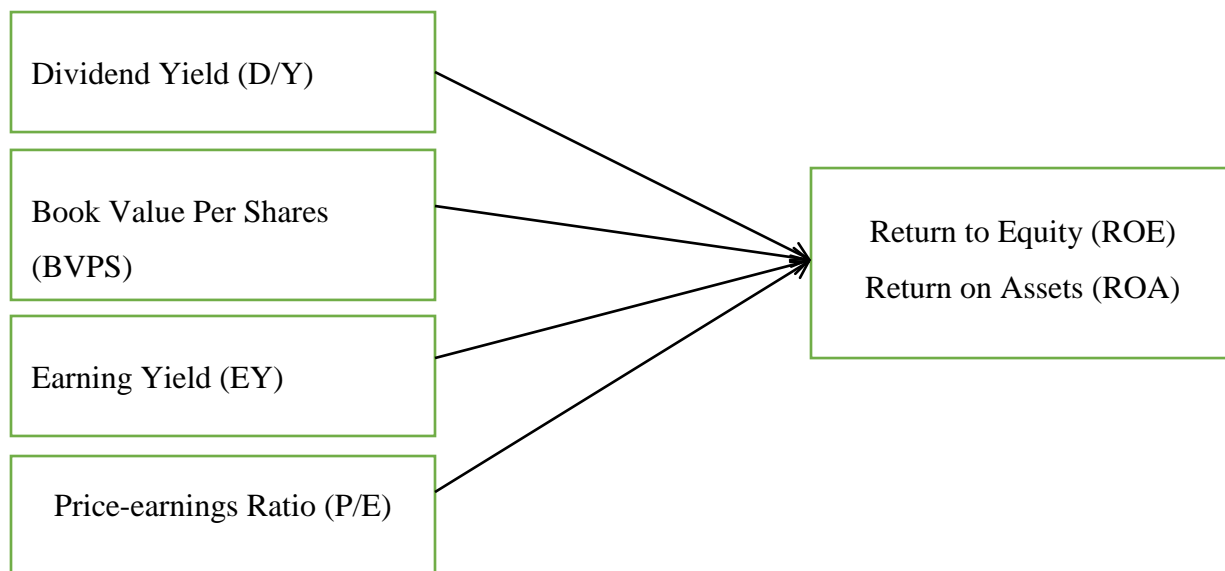
P/E = Price Earning

E/Y Earning Yield

$\varepsilon$  = error term

### 3.6 Research Framework and Definition of Variables

This research has established the subsequent theoretical framework through an extensive examination of the current literature. The valuation of commercial banks' shares in the market is expected to be influenced by various determinants, including dividend yield, earnings yield, book value per share, and the price-earnings ratio of the institution. This research investigates the impact of diverse elements on the stock valuations of commercial banking institutions in Nepal. The independent variables are expected to exert an influence on the dependent variable, namely, the share price of commercial banks. The choice of independent variables is grounded in well-established theoretical and empirical principles. The framework devised to analyze the influence of these variables on the market price per share of publicly listed commercial banks in Nepal is depicted in the figure.



(Source: Bista, et al. 2024)

Figure 3.1 Research Framework

### **3.6.1 Operational Definition of the Variables**

The brief description of independent variables for the study is as follows:

#### **Dividend Yield (D/Y)**

The dividend yield is the ratio of dividends per share to market price per share. Based on the share's market value, the dividend is determined. The dividend that investors get as a percentage of the market price per share in the stock market is known as the dividend yield. This ratio has a significant impact on the market price per share because even a slight variation in dividends per share can have a significant impact on share market value. Purchasing the stock with the higher dividend yield is worthwhile. Higher dividend yields consequently come at a steep price in the market. Important advice from Dividend is to allocate funds for the purchase of shares on the secondary market. Divide the dividend per share by the stock's market price to arrive at this ratio (Bista, 2024).

#### **Book value per share (BVPS)**

An equation known as book value per share (BVPS) compares the total equity held by investors to the total number of outstanding shares. Starting differently, BVPS calculates the total assets less than the total liabilities of a corporation on a per share basis. Stock value can be determined in part by looking at book value per share. You would first determine the book's value and then divide it by the total number of common shares to get the book value per share. Additionally, you need to deduct the preferred shareholders' equity because you are dealing with common shares. If not, book value per share would be inaccurate and misleading (Magar,2024).

#### **Price Earnings Ratio (P/E)**

The ratio of a share's price to its earnings is called the price-earnings ratio. The price-to-earnings ratio (P/E) fluctuates in response to changes in market price or the introduction of new information. Earnings sensitivity to market price determination is indicated by the P/E ratio. Should the market price surpass the P/E ratio's indication, equity shareholders might find satisfaction.

#### **Earnings Yield (E/Y)**

Earnings yield is calculated by dividing the most recent 12-month earnings per share by the current market price per share. The earnings yield, the inverse of the price-to-earnings ratio,

illustrates the share-by-share distribution of a company's profits. Many investment managers use earnings yield to find the best way to allocate their clients' assets, while investors use it to assess if certain assets are cheap or expensive.

### **Return on Assets (ROA)**

ROA is a financial metric used to assess a company's efficiency in utilizing its assets to generate profits. This article explores the significance of ROA as a measure of asset productivity, emphasizing its value for both investors and management in evaluating operational performance across different industries. ROA is calculated by dividing net income by total assets, offering insights into how effectively a company leverages its resources. However, the metric should not be viewed in isolation due to the influence of accounting practices, industry-specific benchmarks, and its inability to capture the company's capital structure. Furthermore, this paper highlights the limitations of ROA in assessing financial health and suggests that it be used alongside other financial ratios such as Return on Equity (ROE) and debt-to-equity ratio to provide a more comprehensive understanding of a company's financial performance. Case studies of high-ROA technology companies and lower-ROA manufacturing firms demonstrate how investors use ROA in real-world evaluations, underscoring its importance while encouraging a multi-metric approach for robust financial analysis (Majka, 2023)

### **Return of Equity (ROE)**

Return on Equity, or ROE, is a key metric that affects how a company sets its dividend policy and how its stock price moves. Return on Equity (ROE) is a measure of a business's profitability compared to the equity held by its shareholders. It sheds light on how well the firm uses the investments made by its shareholders to produce earnings. Divide the net income by the shareholders' equity to get the return on equity (ROE). This measure evaluates how well a company makes money off the resources that its investors have invested. A greater ROE indicates that the business is making good use of its equity capital to produce earnings, meaning that shareholders will receive favorable returns. The ROE metric sheds light on the business's capacity to generate value for its stakeholders as well as its financial success. It makes it possible for analysts and

investors to assess how successfully the company's management is using equity capital to increase profitability. A corporation that maintains a high return on equity (ROE) over time may be indicating significant competitive advantages, efficient operations, and healthy financial health.

ROE is significant when considering dividend policy and company price. A strong return on equity (ROE) can have a beneficial impact on a company's ability to produce enough revenue for dividend payments and support expansion plans at the same time. A business that has consistently produced high returns on equity (ROE) may be in a better position to win over investors and possibly see an increase in its stock price (Bista, 2024)

## **CHAPTER-IV**

### **RESULTS AND DISCUSSION**

This chapter primarily analyzes data obtained from various secondary sources. This analysis examines the impact on the return of Nepalese commercial banks, drawing on various readings and literature reviews from the preceding chapters. Results are presented in tables and figures to enhance clarity and comprehension. Data and information were gathered from the annual reports of banks and the Nepal Stock Exchange (NEPSE), as well as various books and articles. This chapter demonstrates the impact of variables such as dividend yield, book value per share, earning yield, return on assets, and price-earnings ratios on the stock market in Nepal from the fiscal year 2014/15 to 2023/24. This chapter is primarily divided into the following sections.

#### **4.1 Results**

This chapter primarily focuses on analyzing data collected from various secondary sources. With reference to various readings and reviews of literature in the preceding chapters, an effort is made to analyze and diagnose the impact of Nepalese commercial banks' return on equity. Data are presented in tables and figures to make results simpler and more understandable. The relevant information and data are collected from annual reports of banks, the Nepal Stock Exchange (NEPSE), and different books and articles. This means that this chapter has shown how variables such as dividend yield, book value per share, earning yield, return on assets, and price-earnings ratios affect the stock market of Nepal from F/Y 2014/15 to 2023/24. This chapter is mainly divided into the following sections.

##### **4.1.1 Variable wise descriptive analysis**

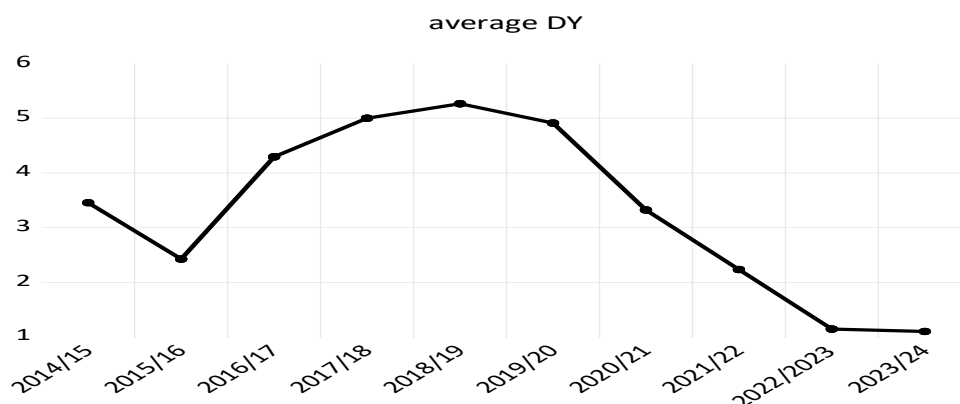
This part shows the descriptive statistics for the study's variables. The goal is to give a summary of the central tendency, dispersion, and distribution of each variable across a sample of commercial banks in Nepal. These variables are Equity Return (ER), Dividend Yield (DY), Book Value Per Share (BVPS), Earnings Yield (EY), Price-to-Earnings Ratio (PE), and Return on Assets (ROA).

#### 4.1.1.1 Descriptive statistics of dividend yield

The dividend yield (DY) figure (4.1.1.1) shows that the yield changes over time during the study. The average DY values are between 1% and 6%, but there is no clear pattern. Some years have relatively high-dividend yields, while others have lower ones. The year 2018/19 shows the highest means of 5.25%. Changes in bank profitability, shareholder payout policies, and stock market prices may be to blame for this irregular pattern.

The dividend yield is the income return on investment for shareholders, and it is often affected by both the company's own financial policies and how the market behaves. There isn't a clear upward or downward trend, which means that DY might not have a direct or stable effect on ROE.

*Figure 2* Pattern of average dividend yield

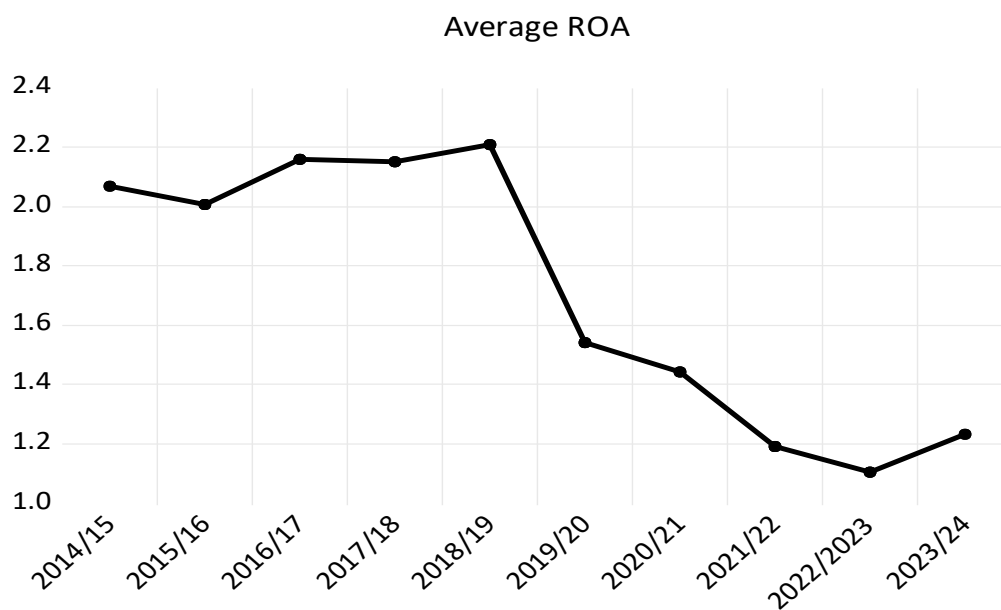


#### 4.1.1.2 Descriptive statistics of return of assets

Figure 4.2 of the ROA shows that the number has been slowly but steadily going down from about 2.07% in 2014/15 to 1.23% in 2023/24. Return on assets shows how well a business uses its assets to make money. The fact that ROA has gone down over time shows that banks are less able to use their assets and run their businesses efficiently.

Since ROA shows how well a company is managed overall, it is expected to have a negative relationship with ROE. A bank that makes effective use of its assets is more likely to give equity holders better returns. Therefore, experts believe this variable to be a strong predictor of ROE.

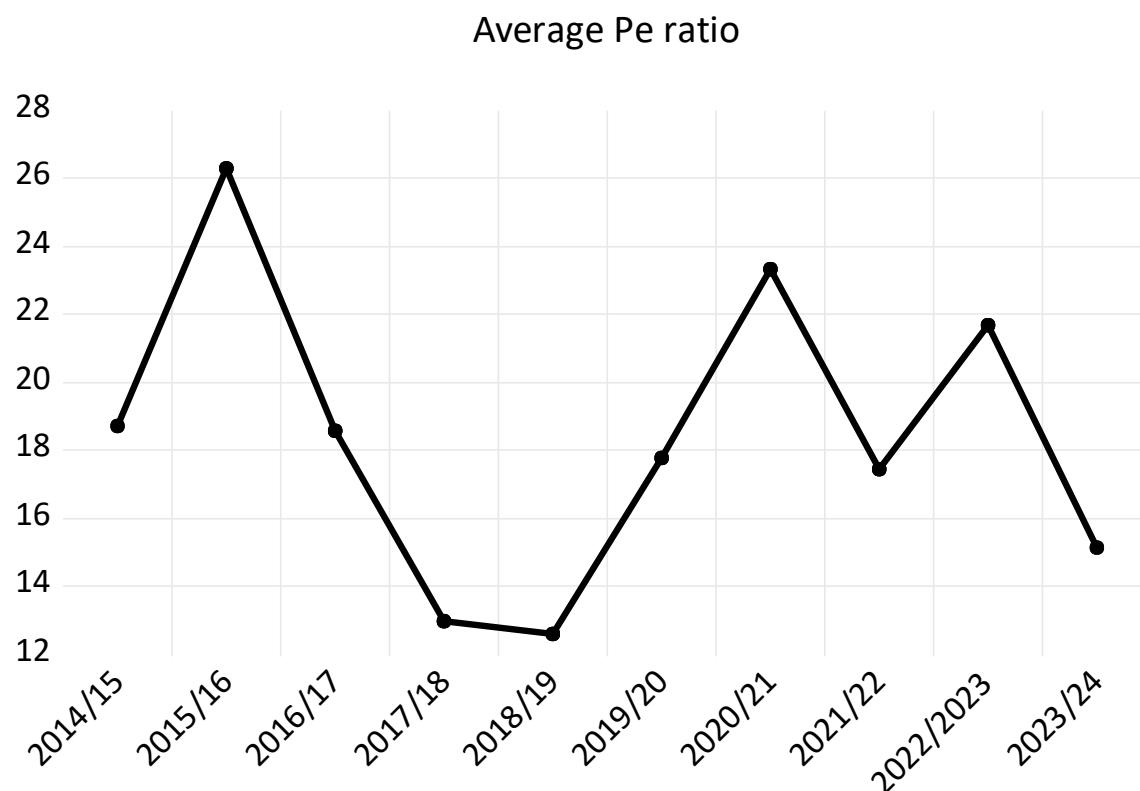
Figure 3 Pattern of average return of assets



#### 4.1.1.3 Descriptive statistics of PE ratio

The volatility of the PE ratio trend is a defining feature. Over the course of ten years, the average PE varies between 15% and 27% without showing any clear trend. This phenomenon suggests that investor confidence, valuation sentiments, and market expectations of earnings have changed over time. While a lower PE ratio can suggest undervaluation or lower earnings, a high PE ratio usually indicates optimism about future growth. The figure's erratic pattern, however, raises the possibility that changes in ROE may not always be explained by the PE ratio. Instead of just reflecting operational performance, it also considers investment behaviors and market dynamics.

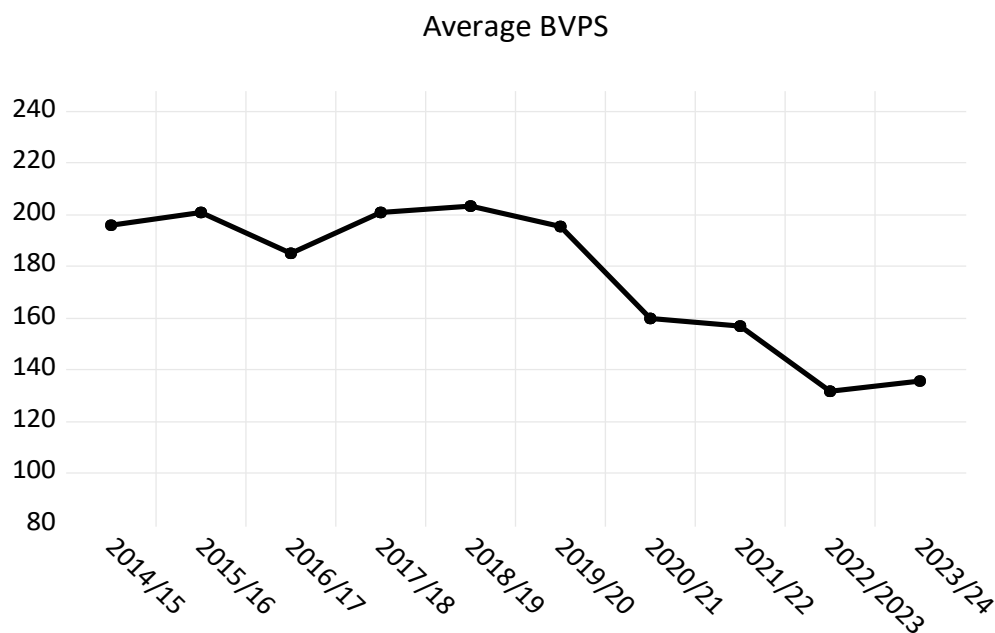
Figure 4 Pattern of average PE ratio



#### 4.1.1.4 Descriptive statistics of book value per share

For BVPS, figure 4 illustrates a decrease over a ten-year period. The average book value per share started at approximately NPR 195 in 2014–15 and rose steadily to over NPR 220 by 2015–16. However, following this period, there was a decline, with the BVPS reaching NPR 135 in 2024–25. This downward trend reflects a decrease in shareholders' equity. A declining BVPS over time suggests a deterioration in financial strength and asset accumulation, which may have a detrimental effect on prospective and existing investors' confidence. Given that a strong equity base supports long-term profit generation, the declining trend in BVPS may be associated with lower ROE.

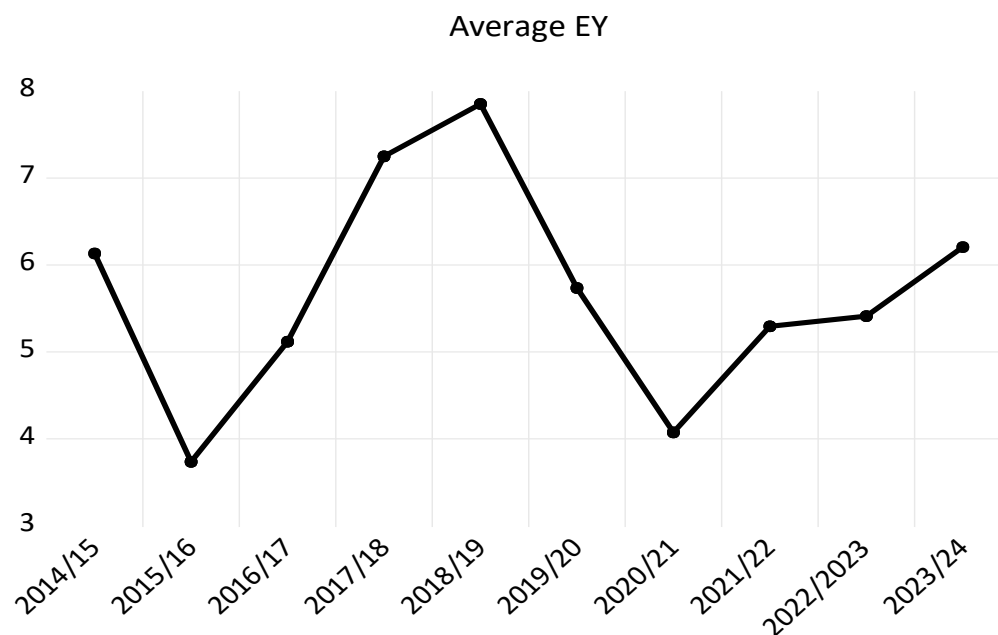
Figure 5 Pattern of average BVPS



#### 4.1.1.5 Descriptive statistics of EY

The market value per share is used to express both earnings yield and dividend yield. From the perspective of common shareholders, two crucial profitability statistics are earnings yield and dividend yield. Earnings per share divided by the market value of one ordinary share is one definition of the earnings yield. The E/Y of selected commercial bank is tabulated below:

Figure 6 Pattern of average EY

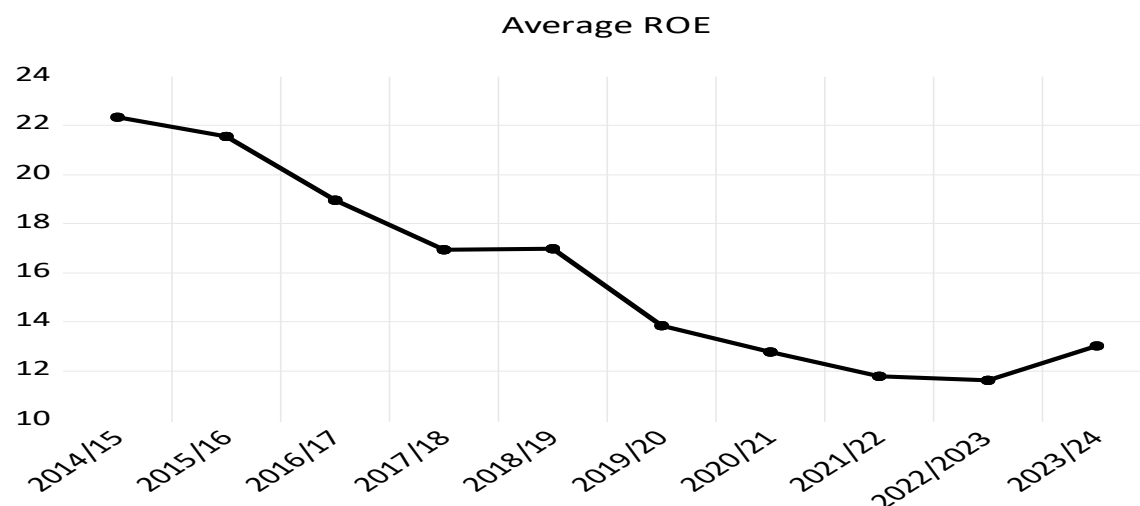


The average earnings yield, or EY, is a significant financial metric. Starting at approximately 6% in 2014–15, it experienced a decline in 2015 and 2016 before peaking at 8% in 2018–19 and then reverting to 6% by 2023–2024. This trend indicates that Nepal's commercial banks initially experienced growth, followed by a decrease in profitability relative to their market valuations. Earnings yield measures the return generated on the price paid for a share and is the inverse of the price-to-earnings (P/E) ratio. An increase in EY often signifies enhanced earnings efficiency, which can lead to a rise in return on equity (ROE) and, consequently, shareholder value. The upward trend in EY reflects the banks' increasing ability to generate profits for each unit of share price.

#### 4.1.1.6 Descriptive statistics of ROE

A company's profitability can be measured by its Return on Equity (ROE), which reveals the amount of profit generated from shareholders' equity. Divide Net Income by Shareholder's Equity to get it. More effective use of equity to produce profits is indicated by a higher ROE. In the table below, you can see the return on equity (ROE) of a few different commercial banks:

Figure 7 Pattern of average ROE



During the observed period, the dependent variable, ROE, displays a clear and significant downward trend. ROE gradually decreases from approximately 22% in 2014–15 to just over 13% by 2023–2024. This decline in ROE indicates low profitability and minimal returns for shareholders. The trend supports the study's main hypothesis, which posits that firm-specific factors such as BVPS, EY, and ROA positively influence equity returns. Additionally, this graphical representation reinforces the assertion that Nepal's commercial banks have become more financially stable and have improved management practices over the past decade.

#### 4.1.1.7 Overall descriptive statistics

This study employs descriptive statistics, including mean, standard deviation, minimum, skewness, kurtosis, Jarque-Bera test, and associated probabilities for the variables analyzed. Table 4.1 presents the descriptive statistics of the variables utilized in this study for the period from 2014/15 to 2023/24, related to ROE.

Table 4 Overall Descriptive Statistics

Variables	Mean	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability
BVPS	176.52	335.60	0.00	74.13	-0.19	3.18	0.53	0.77
DY	3.31	9.16	0.00	2.04	0.33	2.97	1.28	0.53
EY	5.67	18.25	1.89	2.73	1.69	8.05	107.47	0.00
PE_RATIO	18.44	51.31	5.48	8.15	1.34	5.61	40.85	0.00
Variables	1.71	3.80	0.48	0.57	0.60	4.50	10.81	0.00
ROE	15.98	34.92	3.54	5.54	0.52	3.98	5.98	0.05

Table 4 reveals that BVPS, DY, EY, P/E Ratio, and ROE. The BVPS and DY variables show relatively normal distributions. Their skewness values are close to zero, and the Jarque-Bera test probabilities are high (0.77 and 0.53), suggesting no significant departure from normality. In contrast, EY and PE\_RATIO exhibit high positive skewness and kurtosis, meaning they are not normally distributed and have long right tails and more extreme values than normal distribution. This is confirmed by their Jarque-Bera test results, both with a probability of 0.00, strongly rejecting normality. These variables are likely influenced by outliers or asymmetric data patterns. ROE shows mild skewness and moderate kurtosis. With a Jarque-Bera probability of 0.05, it's on the edge of statistical significance. This means ROE may be considered borderline normal, though further tests or visual checks (like a histogram) could help decide. Overall, this analysis suggests that some variables like BVPS and DY are normally distributed, while others such as EY and PE\_RATIO deviate significantly from normality. This insight is important when selecting statistical tools or models, as non-normal variables may require transformation or robust methods for reliable results.

#### 4.1.2 Correlation analysis

This study additionally utilizes correlation analysis. This design has been implemented to ascertain the direction and magnitude of the relationships among various pairs of variables. To achieve this objective, correlation analysis has been employed. The result illustrates the relationship between two variables and indicates the extent of their correlation. The relationship has been analyzed through the application of the Pearson correlation coefficient. The correlation

coefficient can take on values between -1 and +1. When the correlation coefficient is precisely -1, it indicates that two variables exhibit perfect negative correlation, meaning they move in opposite directions in a consistent manner. Conversely, when the correlation coefficient equals +1, it indicates that the two variables are perfectly positively related. Table 4.7 presents the Pearson correlation analysis, with ROE/ROA as the dependent variable and DY, BVPS, EY, and P/E ratio serving as the independent variables.

*Table 5 Relation between ROE/ROA and Banks Specific Variables*

Variables	BVPS	DY	EY	MVPS	PE_RATIO	ROA	ROE
BVPS	1						
DY	0.124	1.000					
EY	0.083	0.093	1.000				
MVPS	0.541*	-0.017	-0.289**	1.000			
PE_RATIO	-0.015	-0.110	-0.534*	0.358*	1.000		
ROA	0.405*	0.355*	0.446*	0.215	-0.430*	1.000	
ROE	0.353*	0.280**	0.194	0.455*	-0.188	0.707*	1.000

*\*Level of Significant at 1%*

*\*\*Level of Significant at 5%*

Table 5 provides important insights into the relationships between six key financial variables: BVPS, DY, EY, PE RATIO, ROA, and ROE. BVPS shows a moderate positive correlation with both ROA (0.405) and ROE (0.353), suggesting that companies with higher book values per share tend to be more profitable. However, its correlation with DY (0.124) and EY (0.083) is weak, indicating little direct relationship between book value and income-based yield measures. The relationship between BVPS and PE\_RATIO is nearly nonexistent (-0.015).

Dividend Yield is weakly correlated with both EY (0.093) and PE\_RATIO (-0.110), but it shows slightly stronger positive correlations with ROA (0.355) and ROE (0.280), implying that more profitable companies are somewhat more likely to pay dividends. The most notable correlation in the matrix is the strong negative relationship between EY and PE\_RATIO (-0.534), which is expected since earnings yield is the inverse of the P/E ratio.

Profitability measures also show meaningful relationships. ROA and ROE are very strongly positively correlated (0.707), reflecting the natural connection between asset and equity returns,

particularly in firms with consistent leverage. Furthermore, both ROA and ROE are negatively correlated with PE\_RATIO (-0.430 and -0.188, respectively), indicating that more profitable firms tend to trade at lower price-to-earnings multiples, possibly due to market efficiency or investor preference for value.

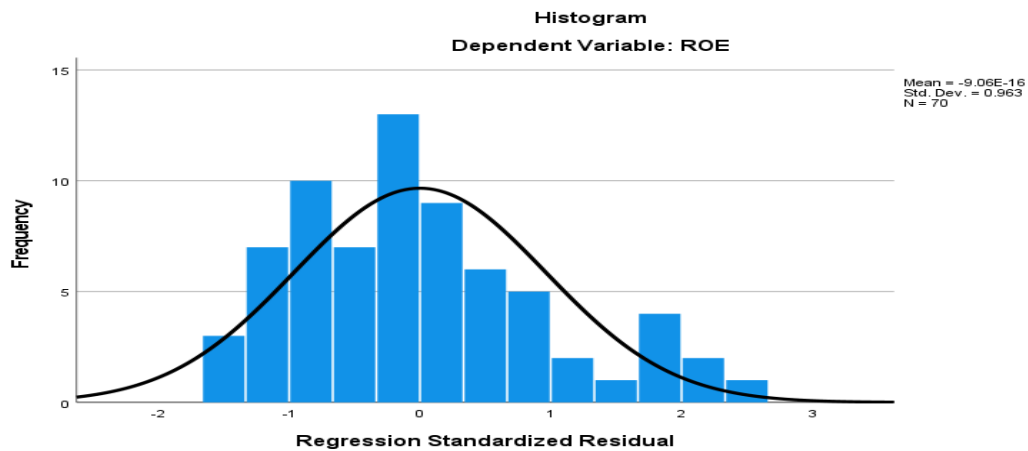
In summary, the matrix highlights logical and expected interrelations among financial metrics. Profitability (ROA and ROE) is positively aligned with book value and dividend yield, while PE ratios exhibit inverse relationships with both profitability and earnings yield, reinforcing the consistency and reliability of these financial indicators in evaluating firm performance.

#### **4.1.3 Regression analysis**

Regression analysis clarifies how the mean value of the dependent variable varies when one independent variable is modified, while the other independent variables are held constant. Regression analysis is acknowledged as a potent instrument for evaluating the strength of the relationship between independent and dependent variables. Regression analysis is a statistical technique employed to discover the correlations among variables in statistical modeling. Multiple regression is a statistical technique used to analyze the connection between a dependent variable and multiple independent variables. In doing multiple regressions in research, it is imperative to examine many assumptions to guarantee the validity and reliability of the findings.

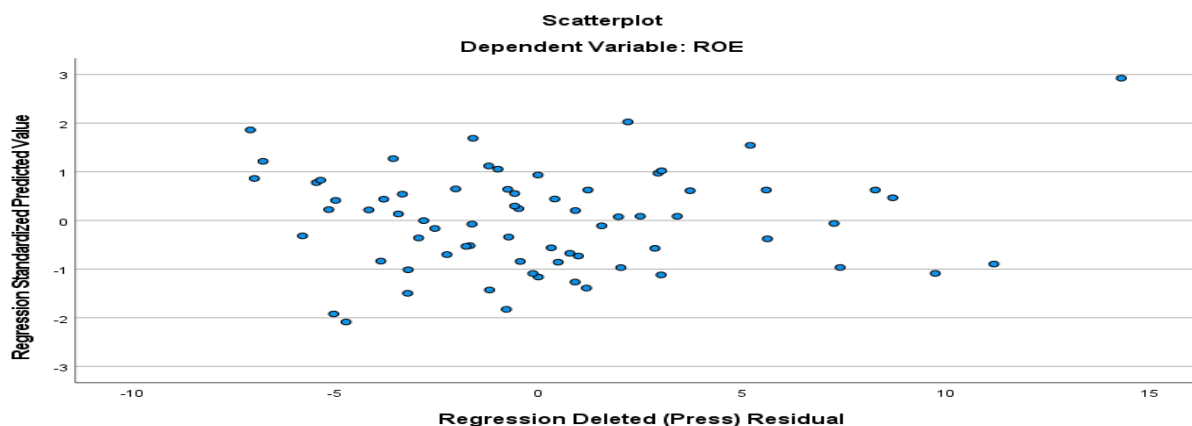
- **Normality of residuals:** The residuals should be normally distributed. Normality assumption allows for accurate estimation of the model parameters and reliable hypothesis testing. Departures from normality can lead to biased estimates and inaccurate p-values. However, the central limit theorem states that the estimates become normally distributed as the sample size increases, so this assumption can be relaxed for large samples. The histogram is bell shaped, so the data are normally distributed.

Figure 8 Assumption of Normality (Histogram)



- **Multicollinearity:** Multicollinearity occurs when there is a high correlation between two or more independent variables. It can lead to instability in the estimates and interpretation of the regression coefficients. It is important to assess multicollinearity and consider potential remedies, such as removing one of the correlated variables or using dimensionality reduction techniques. The VIF of all the variables are less than 5 so there is no multicollinearity.
- **Homoscedasticity:** Homoscedasticity assumes that the variance of the residuals (the differences between the observed values and the predicted values) is constant across all levels of the independent variables. In other words, the spread of residuals should be similar across the range of predicted values. The scatter plot is randomly scattered, or the data are scattered. It fulfills the assumption of homoscedasticity.

Figure 9 Assumption of Homoscedasticity (Scatter plot) of Residuals



This study employs one dependent variable, namely MPS, and four independent variables: DY, BVPS, EY, and PE ratio, spanning the fiscal years 2014/15 to 2023/24. Pearson correlation quantifies the strength and direction of a linear relationship between two variables, represented by numerical scores derived from an interval or ratio scale of measurement. The value of R consistently ranges from +1 to -1. R-squared indicates the degree to which data points conform to a curve or line. Adjusted R-squared also reflects the adequacy of terms in fitting a curve or line while accounting for the number of terms in a model. The adjusted R-squared will always be smaller than or equal to the R-squared. As we incorporate an increasing number of superfluous variables into a model, the adjusted R-squared will diminish. Incorporating additional relevant variables will enhance the adjusted R-squared value. Both R-squared and adjusted R-squared provide insight into the proportion of data points that align with the regression equation. Nonetheless, a primary distinction exists between R-squared and modified R-squared. R-squared posits that each variable accounts for the variance in the dependent variable; however, adjusted R-squared indicates the percentage of variation elucidated solely by the independent factors that influence the dependent variable.

Dependent Variable: ROA

Method: Panel Least Squares

Date: 05/26/25 Time: 08:23

Sample: 2014 2023

Periods included: 10

Cross sections included: 7

Total panel (balanced) observations: 70

*Table 6* Impact of firm specific variable on ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.109140	0.257619	4.305348	0.0001
Book value per share	0.001096	0.000834	1.315375	0.1931
DY	0.076599	0.024292	3.153197	0.0025
EY	0.067687	0.021737	3.113960	0.0028
PE_RATIO	-0.024724	0.007387	-3.346979	0.0014
Root MSE	0.386870	R-squared		0.530608
Mean dependent var	1.710429	Adjusted R-squared		0.493937
S.D. dependent var	0.568750	S.E. of regression		0.404598
Akaike info criterion	1.109972	Sum squared reside		10.47678
Schwarz criterion	1.302700	Log likelihood		-32.84901
Hannan-Quinn criter.	1.186526	F-statistic		14.46931
Durbin-Watson stat	0.835690	Prob(F-statistic)		0.000000

Regression analysis looks at how certain financial indicators relate to a dependent variable, which is probably a performance or valuation metric, as Table 4.3 illustrates. When all independent variables are zero, the model's intercept (C) is statistically significant (coefficient = 1.109,  $p = 0.0001$ ), suggesting a meaningful baseline level. With coefficients of 0.077 and 0.068, respectively, and  $p$ -values significantly below 0.01, Dividend Yield (DY) and Earnings Yield (EY) are the predictors that have the most positive and statistically significant influence on the dependent variable. This implies that better financial performance or valuation results are linked to larger payouts to shareholders (via dividends or earnings).

A strong negative influence is seen by the Price-to-Earnings Ratio (PE\_RATIO) (coefficient = -0.025,  $p = 0.0014$ ), suggesting that companies with greater market valuations in relation to their earnings typically do worse in the dependent variable. This inverse relationship could be a sign of inefficiency or overvaluation.

However, despite being positively signed (coefficient = 0.0011), Book Value per Share (BVPS) is not statistically significant ( $p = 0.1931$ ), suggesting that the firm's capital base has no discernible impact on this situation.

Dependent Variable: ROE

Method: Panel Least Squares

Date: 05/26/25 Time: 08:26

Sample: 2014 2023

Periods included: 10

Cross sections included: 7

Total panel (balanced) observations: 70

*Table 7* Impact of firm specific variable on ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.52140	2.741591	4.202450	0.0001
BVPS	-0.003647	0.008871	-0.411144	0.6823
DY	0.670298	0.258520	2.592828	0.0118
EY	0.433544	0.231321	1.874208	0.0655
PE_RATIO	-0.190184	0.078612	-2.419286	0.0184
Root MSE	4.117082	R-squared		0.440550
Mean dependent var	15.97943	Adjusted R-squared		0.396842
S.D. dependent var	5.544127	S.E. of regression		4.305747
Akaike info criterion	5.839595	Sum squared resid		1186.525
Schwarz criterion	6.032323	Log likelihood		-198.3858
Hannan-Quinn criter.	5.916149	F-statistic		10.07960
Durbin-Watson stat	0.694173	Prob(F-statistic)		0.000000

Table 7 shows that Book Value per Share (BVPS), Dividend Yield (DY), Earnings Yield (EY), and Price-to-Earnings Ratio (PE\_RATIO) on the dependent variable, which appears to be Return on Equity (ROE) given the mean dependent value of 15.98%. The model's intercept (C) is statistically significant (coefficient = 11.52,  $p = 0.0001$ ), establishing a strong baseline value for ROE when all independent variables are held constant.

Dividend Yield (DY) has a positive and statistically significant impact on ROE (coefficient = 0.6703,  $p = 0.0118$ ), indicating that banks or firms offering higher dividend returns also tend to provide higher equity returns. Earnings Yield (EY) also has a positive relationship with ROE (coefficient = 0.4335), but with a marginal level of significance ( $p = 0.0655$ ), suggesting a potentially meaningful, though not definitively strong, effect.

On the other hand, the Price-to-Earnings Ratio (PE\_RATIO) shows a significant negative effect on ROE (coefficient =  $-0.1902$ ,  $p = 0.0184$ ), implying that firms with higher valuations relative to earnings tend to deliver lower returns on equity possibly due to overvaluation or lower profitability. BVPS, however, has an insignificant and negative coefficient ( $-0.0036$ ,  $p = 0.6823$ ), suggesting that a bank's book value per share does not meaningfully influence its return on equity in this model.

The model explains about 44% of the variation in ROE, as shown by the R-squared value of 0.441 and an adjusted R-squared of 0.397. The F-statistics (10.08,  $p < 0.0001$ ) confirm that the model is statistically significant overall. However, the Durbin-Watson statistic of 0.694 indicates potential positive autocorrelation in the residuals, which may affect the reliability of standard errors and significance tests. Thus,

The model is statistically moderate significant at 0.05 level (i.e.  $\alpha = 0.05$ )

The created hypotheses acceptance or rejection status are displayed in table 4.11

Table 8 Results of Hypothesis

Hypothesis	Evidences	Status of Hypothesis	Results
H <sub>1</sub>	( $\beta = -0.024724$ , P = 0.0014)	Not Supported	PE Ratio has been significant negative impact on ROA.
H <sub>2</sub>	( $\beta = -0.001096$ , P = 0.1931)	Not Supported	This means Book value per share doesn't impact significantly ROA.
H <sub>3</sub>	( $\beta = 0.067687$ , P = 0.0028)	Supported	This means Earning Yield positive relationship with ROA.
H <sub>4</sub>	( $\beta = 0.76599$ , P = 0.0025)	Supported	This Means Dividend Yield (DY) has a positive and statistically significant impact on ROA.
H <sub>5</sub>	( $\beta = -0.190184$ , P = 0.0184)	Supported	PE Ratio has been significant negative impact on ROE.
H <sub>6</sub>	( $\beta = -0.670298$ , P = 0.6823)	Not Supported	This means Book value per share doesn't impact significantly ROE.
H <sub>7</sub>	( $\beta = 0.433544$ , P = 0.00655)	Supported	This means Earning Yield positive relationship with ROE.
H <sub>8</sub>	( $\beta = 0.670298$ , P = 0.0118)	Supported	This Means Dividend Yield (DY) has a positive and statistically significant impact on ROE.

## 4.2 Discussion

This study utilized descriptive and multiple regression analyses to examine the factors affecting the return on assets and return on equity of Nepalese commercial banks. A suitable research methodology has been utilized. Secondary data was collected for the annual report of particular commercial banks. Diverse financial and statistical instruments are utilized to attain the study's results.

Specific firm metrics, including BVPS, P/E ratio, E/Y, and D/Y, are utilized as independent variables to analyze their relationship with ROE and ROA, the dependent variables, in order to provide descriptive statistics. Descriptive statistics offer an overview of data and are useful in

analyzing patterns and relationships. This study utilizes a decade of data from selected sample banks to examine patterns and correlations. The mean and standard deviation represent the cumulative results of all variables over the selected years. This indicates the company's progress over the past decade, which can inform future investment decisions. Likewise, the aggregate statistics indicated the forthcoming stock trends in NEPSE.

The findings of the comparison analysis indicate that investors favor investing in government banks over joint and non-joint venture banks. Jha and Hui (2012) conducted a study on the CAMEL framework of a commercial bank in Nepal. He discovered that public sector banks were markedly less efficient than their competitors. Domestic private banks exhibited comparable efficiency to joint venture banks. The outcome varies with the use of different variables and time. This descriptive finding of the research contradicts the findings of Jha and Hui (2012) due to the sample utilized in the study.

The regression model results indicated a robust positive link between the market price of Nepalese commercial banks and their book value per share as well as their price-earnings ratio. Consequently, the market price per share ascends concurrently with augmentations in book value per share and the price-earnings ratio. The correlation between stock prices and dividend and earnings yields is statistically insignificant. The results demonstrate that a primary factor affecting stock prices in Nepal is the price-to-earnings ratio.

The research conducted by Bhattarai (2014) and Pradhan & Dahal (2016) demonstrates that the P/E ratio significantly influences the MPS, corroborating the conclusion that there exists a substantial positive correlation between the P/E ratio and the MPS. The P/E ratio is a significant determinant of stock price fluctuations. This growth may stem from investors perceiving a rising PE ratio as a sign of a promising future. A high PE ratio, in contrast to companies with a lower PE ratio, typically signifies that investors expect greater earnings growth in the future (Bhattarai, 2014). To secure immediate and future rewards, investors are allocating their capital to shares. Consequently, the rise in PE suggests that investors foresee elevated returns. Consequently, they desire an increased quantity of these stocks, which ultimately elevates the stock price. The observation that book value per share (BVPS) exhibits a significantly positive correlation with market price per share (MPS) corroborates the research conducted by Tandon and Malhotra (2013), Taimur et al. (2015), and Almunani (2014), suggesting that BVPS is a paramount

determinant of stock price, subsequent to the price-earnings ratio. This may be attributed to BVPS indicating the company's robust financial performance. A substantial book value generally indicates that the company possesses a robust history of prior performance. The discovery of a negative significant correlation between earning yield and MPS contradicts Wagle's (2021) findings. The sample size may have influenced the outcomes of Wagle's (2021) study. Simultaneously, the discovery of an insignificant correlation between D/Y and MPS contradicts the conclusions of Irfan and Nishat (2002) while aligning with the findings of Taimur et al. (2015), Pradhan and Dahal (2016), and Almumani (2014). The variance in outcomes may be attributed to the prior study being executed over a different timeframe and market context. An inconsistent finding signifies that the researcher employed disparate variables and that the sample years are heterogeneous.

## **CHAPTER-V**

### **SUMMARY AND CONCLUSION**

This chapter presents an overview of the findings, draws conclusions, and discusses the implications of the research conducted. This chapter presents the facts and findings derived from the analysis of secondary data. This chapter not only summarizes and concludes the study but also presents implications for the stakeholders.

#### **5.1 Summary**

The study analyzed the effect of firm-specific financial variables on Return on Equity (ROE) of Nepalese commercial banks using both descriptive and inferential statistical analysis. Findings revealed significant patterns and inferences relating to the financial pattern and performance dynamics of the banking sector.

The descriptive statistics revealed considerable variation for firm-specific variables. ROE and BVPS revealed high mean values, suggesting overall strong profitability and level of equity in the sample banks. High standard deviations of the Price-to-Earnings (P/E) ratio and BVPS, nonetheless, revealed substantial inter-bank heterogeneity in market valuations as well as equity strength.

The one-sample t-tests confirmed that all firm-specific variable mean values differed significantly from zero, demonstrating their importance in the measurement of banking performance. Crucially, the high, significant levels of ROE and Return on Assets (ROA) indicate that Nepalese commercial banks overall are financially sound and good at asset utilizations.

Correlation analysis proved a strong positive correlation between ROA and ROE, a measure of asset effectiveness as a key driver of returns to shareholders. BVPS and Dividend Yield (D/Y) also correlated highly with ROE, a measure of the importance of a strong equity base and good dividend policies. In contrast, lower P/E and Earnings Yield (E/Y) marks with ROE suggest market measures may not necessarily indicate internal financial efficiency within this banking context. Four hypotheses were tested to evaluate the relationship between profitability metrics (ROE and ROA) and firm-specific financial variables (price-earnings (PE) ratio, book value per share (BVPS), earning yield (EY), and dividend yield (DY)) in Nepalese commercial banks.

With a beta coefficient ( $\beta$ ) of -0.1902 and a p-value  $< 0.05$ , the results demonstrated that the PE ratio significantly lowered ROE, suggesting that higher PE values lower equity profitability. By comparison, ROE was significantly and strongly positively impacted by Earning Yield (EY) ( $\beta = 0.6703$  and p-value  $< 0.05$ ) and Dividend Yield (DY) ( $\beta = 0.4335$  and p-value = 0.0118). H1, H3, and H4 were accepted because of these findings. H2 was rejected because BVPS did not significantly correlate with either ROE or ROA (p-value = 0.0036). With an R-squared value of 0.5306, the structural model constructed with EViews-12 and 200 bootstrapped samples shows that the independent variables account for 53.06% of the variation in ROE. Diagnostic tests confirmed the validity of the model: the Breusch-Pagan test for heteroscedasticity produced a p-value of 0.935, confirming homoscedasticity, and the Variance Inflation Factor (VIF) values were all below 5, with the highest at 2.973, ruling out multicollinearity. According to these results, market-based variables like PE and BVPS have little to no predictive value in the context of Nepalese commercial banks, while internal financial indicators like EY and DY are robust and consistent predictors of profitability.

## 5.2 Conclusion

The study analyzed the effect of firm-specific variables on Return on Equity (ROE) and return on assets (ROA) of Nepalese commercial banks. By examining a group of firm-level variables Book Value per Share (BVPS), Dividend Yield (D/Y), Earnings Yield (E/Y), and Price-to-Earnings Ratio (P/E), the study aimed at uncovering which indicators exert the greatest influence on shareholder return in the Nepalese banking sector. The findings of descriptive statistics, inferential tests, correlation, and structural modeling provide some significant results that arrive at this conclusion.

Descriptive statistics revealed both BVPS and ROE with high means, which suggests that, on average, Nepalese commercial banks possess a strong equity base and are generating good profits. However, relatively higher standard deviations of BVPS and P/E revealed high variability in firm performance and valuation within the industry. This depicts the heterogeneity in banks in terms of financial strength and market perception and necessitates a bank-specific approach rather than a one-size-fits-all policy.

The Correlation analysis BVPS doesn't impact the ROA and ROE which is shown in table 4.4 and PE Ratio has a negative significant effect on ROA and ROE. Dividend Yield and Earning

Yield were both positively statistically correlated with ROA and ROE, reflecting that both the wellbeing of an EY and DY value and dividend practice contribute towards shareholder wealth maximization.

The crux of the analysis structural equation modeling hypothesis testing with EViews-12 only confirmed a significant relation: DY and EY had a strong and positive impact on ROE ( $\beta = 0.6703$ ,  $p < 0.05$ ) and ( $\beta = 0.4335$ ,  $p < 0.05$ ). The remaining variables, though, show positive statistically significant impacts in this model. This finding highlights the supremacy of profitability and operational efficiency over market-based metrics to impact shareholder returns for commercial banks operating in Nepal.

With an R-squared value of 0.4405 the model accounts for over half of the variation in ROE, indicating a moderate level of explanatory power. Moreover, diagnostic tests such as the Variance Inflation Factor (VIF) and the Breusch-Pagan test confirmed the absence of multicollinearity and heteroscedasticity, respectively. These results enhance the credibility and reliability of the model and confirm that the data meets the fundamental assumptions of regression analysis.

Finally, the study determines that among all firm-specific financial indicators, dividend yield and earning yield is the most stable and most important determinant for Nepalese commercial banks' ROE. The findings necessitate strategic focus on optimizing asset efficiency and operating profitability to maximize shareholder value. While variables like book value and dividends are secondary, and market-based measures have some information content, they are in the shadow of the underlying measure of asset return. These observations have pragmatic implications for bank managers, investors, and policymakers concerned with enhancing financial performance and stability in Nepalese banks.

### **5.3 Implications**

Based on summary and conclusion the following implication is provided to the policy makers, bankers and further researchers.

#### **Implications for Policy Makers**

The policy implications of this study's findings are beneficial to financial policymakers and regulators, in particular, the Nepal Rastra Bank (NRB). The finding of a significant positive

relationship between dividend yield and earning yield and Return on Equity (ROE) is a pointer that asset efficiency is a major profitability driver in the banking sector. Therefore, policies need to be formulated to enhance banks' asset management. Regulatory regulations that ensure efficient risk management, prudent lending, and efficient deployment of assets can directly contribute to improving DY, EY consequently, ROE.

In addition, the moderate explanatory power of the model ( $R^2 = 0.4405$ ) indicates that macroeconomic or regulation variables beyond those employed in the study have to be influencing bank performance. Policymakers must explore combining firm-level financial measures with aggregate economic and structural shifts to promote sustainability and competitiveness of Nepal's commercial banking industry.

#### Implications for Bankers

For bank managers and senior executives, the study suggests the application of measures based on internal financial performance as opposed to market measures. The statistically significant correlation between EY, DY, PE ratio and ROE suggests that the maximization of operating efficiency and appropriate management of bank assets is the most reliable option for enhancing shareholder returns. Bank managers must ensure that they develop main banking activities such as sound credit management, cost efficiency, and effective utilization of assets.

While metrics like Book Value per Share conformed to some degree with ROE, their lack of statistical relevance within the structural model sets them as inappropriate focal points for financial performance strategies. Instead, bankers ought to be incorporating these variables as lesser measures while making strides towards productive earnings generation from assets.

#### Implications for Further Researchers

This study offers several directions for future academic research. First, the coefficient of  $R^2$  in the model indicates that about half of the ROE variance is not explained by firm-specific variables selected. Researchers in the future can add other factors such as macroeconomic variables (GDP growth, inflation rate, interest rates), corporate governance measures, or technological innovations to construct a stronger model.

Besides, the study was limited to commercial banks of Nepal. Subsequent studies can go beyond commercial banks to include other financial organizations such as development banks, finance

companies, or microfinance institutions to test sectoral differences in determinants of performance. Dynamic panel estimations over a longer time frame and longitudinal research could also provide further insights into causal relationships and paths of performance in banking.

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