

**A COMPREHENSIVE STUDY OF FINANCIAL PERFORMANCE
OF COMMERCIAL BANKS**
**(With references to Everest Bank Ltd, Himalayan Bank Ltd and Nabil
Bank Ltd)**

A THESIS

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RECOMMENDATION

This is to certify that the thesis.

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Entitled:

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BANKS**

(With References To Himalayan Bank Ltd, Nabil Bank Ltd And Everest Bank Ltd)

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**A COMPREHENSIVE STUDY OF FINANCIAL PERFORMANCE OF
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(With References To Himalayan Bank Ltd, Nabil Bank Ltd And Kumari Bank Ltd)

*And found the thesis to be the original work of the student and written
According to the prescribed format. We recommend the thesis to be
Accepted as partial fulfillment of the requirement for the degree of*

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DECLARATION

I affirm that the research I have completed to partially fulfill the requirements for the Master of Business Studies (MBS) degree is original to me and is presented in this thesis, "A Comprehensive Study of Financial Performance of Commercial Banks (With References to Himalayan Bank Ltd, Nabil Bank limited, and Everest Bank Ltd)," which I have turned in to the Office of the Dean, Faculty of Management, Tribhuvan University. Associate Professor Kapil Khanal oversaw this study's execution at T.U.'s Shanker Dev Campus.

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ABBREVIATIONS

NRB	:	Nepal Rastra Bank
HBL	:	Himalayan Bank Limited
EBL	:	Everest Bank Limited
NAB	:	Nabil Bank Limited
LTD	:	Limited
BS	:	Bikram Sambat
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
F/Y	:	Fiscal year
QA	:	Quick Assets
Std	:	Standard
SD	:	Standard Deviation
CV	:	Coefficient of variation
r	:	Coefficient of Correlation
WC	:	Working Capital
NWC	:	Net Working Capital
WCM	:	Working Capital Management
%	:	Percentage
&	:	And

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CHAPTER – I

INTRODUCTION

1.1 Background of study

Nepal, an agriculture-dominated country, is in its developmental phase. Several factors, including being landlocked, poor resource mobilization, a limited domestic market, fragile and erratic government policies, and political instability, contribute to its slow development. The banking sector is a crucial component of the economy and plays a significant role in its well-being. A weak banking sector not only threatens the long-term sustainability of an economy but can also serve as a catalyst for financial crises, leading to broader economic turmoil. The importance of banks in an economy has been recognized since the 18th century, with the banking system playing a vital role in the modern economic world.

Banks gather individuals' savings and lend them to businesses and manufacturers, thereby facilitating commerce. This lending enables manufacturers to purchase raw materials and meet other financial needs, such as working capital. Additionally, banks provide a secure means of storing money, with the added benefit of earning interest. This encourages saving and boosts the volume of savings, which can then be used to create new capital assets. Overall, banks play a crucial role in capital formation, aiding in a country's growth process. They are pivotal to the economic development of a nation and form the core of the money market in advanced countries.

Commercial banks primarily focus on reforming banking practices, optimizing resource utilization, and increasing non-cash reserve transactions to narrow the gap between interest rates on deposits and credit. They allocate funds from various sources into diverse assets with the primary goal of profit generation. Additionally, commercial banks play a crucial

role in economic development and poverty alleviation by providing credit facilities and quality banking services to both businesses and individuals. To achieve desired economic growth, collaborative efforts among all types of banks and financial institutions, supported by dynamic central bank policies, are essential.

The inception of modern banking institutions in Nepal dates back to 1937 A.D. when the first commercial bank, Nepal Bank Limited (NBL), established under the Nepal Bank Act. As a commercial bank, NBL naturally prioritized profit-generating activities and strategically opened branches in urban areas. Until the establishment of the Nepal Rastra Bank (NRB) in 1956 A.D., NBL remained the sole financial institution in the country.

Due to the absence of a central bank, NBL had to assume the role of a central bank and perform its functions. Consequently, the Nepal Rastra Bank Act of 1955 was formulated and approved by the Nepalese government, leading to the establishment of the NRB as Nepal's central bank in 1956 A.D. The NRB plays a crucial role by issuing guidelines for the banking sector and contributing to the overall growth of the financial industry.

Subsequently, the government established the Rastriya Banijya Bank (RBB) in 1966 A.D. as a fully government-owned commercial bank. Despite the name suggesting that commercial banks should focus solely on commercial transactions, RBB had to perform functions similar to those of other financial institutions.

To address specific development needs, additional institutions were set up as industrial Development Center (IDC) in 1957 A.D. to promote industrial development. Nepal Industrial Development Corporation (NIDC), which evolved from IDC in 1959 A.D. Agricultural Development Bank (ADB) in 1968 A.D., aimed at providing finance for agricultural production and enhancing productivity through modern agricultural techniques. Over time, Nepal witnessed the gradual establishment of several commercial banks due to the liberal and market-friendly economic policies of the government. These

banks play a dynamic and complex role in the ever-evolving banking landscape, contributing significantly to the nation's economic growth.

The operational efficiency of commercial banks can be influenced by both internal and external factors, which can be categorized as bank-specific (internal) and macroeconomic variables. Internal factors refer to the unique characteristics of individual banks that impact their performance, often influenced by management and board decisions. On the other hand, external factors are broader, sector- or country-wide influences that are outside the direct control of the bank but can significantly affect its profitability.

1.2 Statement of the Problem

In the current scenario in Nepal, many banks and financial institutions are primarily concentrated in urban areas and major cities such as Kathmandu, Pokhara, Birgunj, and Biratnagar. This limited focus hampers their ability to contribute effectively to the country's economic development. It's essential for the financial and banking sector to expand their operations into remote and rural areas to have a more significant impact on the overall economic growth of the nation. The primary objective of banks is to gather deposits from potential customers and channel them into the most profitable sectors. This study focuses on the financial performance of NABIL Bank, KumariBank, and Himalayan Bank. Nepal has seen a rapid increase in the number of banks and financial companies in recent years. However, this growth has not been matched by a proportional increase in depositor base or diversification of investment portfolios. As a result, intense competition has emerged among these institutions to attract depositors (institutional, government, and individual) and borrowers.

With the rise in remittances, depositors have incentivized to deposit cash at high interest rates rather than seeking alternative investment opportunities, which are limited due to political instability and other non-economic factors. The Nepal Rastra Bank (NRB),

leading to an overabundance of institutions BFI (Bank and Financial Institution) bubble, did not properly manage the proliferation of banks and financial institutions.

This oversaturation has resulted in unhealthy competition, not only among banks of similar categories but also among BFIs in different categories. This has led to an informal war in offering high deposit rates and lending without proper market differentiation, product analysis, or assessment of borrowers' creditworthiness. These practices reflect poor corporate governance and a lack of innovation and research and development in the sector.

The excessive lending, particularly in the real estate and housing markets, has artificially inflated prices, contributing to a real estate and housing bubble. The private sector banks in recent years have shown significant evolution and success, evidenced by their high profits, dividend distributions, and attractive interest rates on investments. Therefore, it is crucial to analyze the profitability positions of Nabil Bank Ltd, KumariBank Ltd, and Himalayan Bank Ltd to compare various aspects such as profit, investments, dividend distribution, and more. This study aims to explore the efficiency and comparative financial performance of these banks. In Nepal, the profitability rate, operating expenses, and dividend distribution rate among shareholders have varied in the financial performance of banks over different periods. The objective of the study is to identify the reasons for these differences in financial performance. A comparative analysis of financial indicators and performance of the banks would be beneficial for identifying their strengths and weaknesses. Currently, there are twenty commercial banks in Nepal. Despite rapid growth, certain financial indicators suggest that performance is not satisfactory. In this context, the study aims to analyze the current performance of banks, which will address the following questions.

- How are commercial banks doing in terms of profitability, liquidity, credit risk, asset quality, management effectiveness, and operational efficiency?

- Is there a connection between operational efficiency (OE), credit risk (CR), liquidity (LQ), managerial efficiency (ME), return on assets (ROE), and assets quality (AQ)?
- What is the impact on net profit of managerial efficiency (ME), liquidity (LQ), credit risk (CR), assets quality (AQ), and operational efficiency (OE)?

1.3 Objectives of the Study

The primary goals of the study are to evaluate and examine the banks' financial performance and to provide appropriate improvement suggestions.

- Study and analyze the financial performance of sample banks.
- Analyze the determinants of banks performance of commercial banks.
- Find the relationship between operational efficiency (OE), credit risk (CR), liquidity (LQ), managerial efficiency (ME), return on assets (ROA), and assets quality (AQ).

1.4 Significance of the Study

This study focuses entirely on comparing the financial performance of Nabil Bank Ltd, Everest Bank and Himalayan Bank Ltd. By analyzing their financial performance, it provides insights into the relative financial positions and conditions of these banks, shedding light on their performance levels. The study aims to offer recommendations for enhancing performance to achieve the banks' overall goals and objectives. Additionally, it helps banks identify weaknesses in their financial operations.

The study also informs shareholders about the financial performance of their respective banks and assists the management in assessing performance to date. It provides guidelines

and recommendations for future programs and activities. The significance of ratio analysis among the banks is highlighted in this study.

1.5 Limitation of the Study

The results of this study should be interpreted with consideration for the limitations that apply to this particular investigation. The analysis's first limitation is that it only looks at the financial standing of three particular commercial banks: Himalayan Bank Ltd., Everest Bank Ltd., and Nabil Bank Ltd. The findings' limited applicability to other banks or financial organizations may result from their specific emphasis. The accuracy and dependability of the results are dependent on the completeness and quality of the available data because the study only uses secondary data. The ten years of data that were reviewed, from 2069/70 to 2078/79, are quite complete; nonetheless, they might not fully represent longer-term trends or more recent developments. Additionally, the study only uses a small number of statistical and financial tools and procedures, which might not include all approaches to financial performance analysis. Only the financial and operational components are included, leaving out other potentially important elements including macroeconomic variables, market situations, and regulatory changes. Finally, because this research is being done in part toward a master's degree in business studies, there may be restrictions on the scope and depth of the analysis because of time limits and resource constraints. Notwithstanding these drawbacks, the study attempts to offer insightful information about the chosen institutions' financial performance over the given period.

1.6 Organization of the Study

In Chapter I, the financial performance backdrop is presented, along with a synopsis of Nepal's commercial banking industry and banking sector. Additionally, it provides a broad overview of the three study banks Kumar Bank Ltd., Himalayan Bank Ltd., and Nabil Bank Ltd. This chapter presents the research question, describes the goals, highlights the

importance of the study, and lists its constraints. The conceptual and theoretical underpinnings of commercial banks and financial performance are covered in detail in Chapter II. It identifies holes in the body of knowledge that this study attempts to fill by reviewing relevant publications, books, and earlier theses. The research methodology is covered in Chapter III, along with an introduction, research design, sources and processes for data collecting, population and sample, instruments and techniques employed, and research variables. In order to achieve the goals of the study, Chapter IV provides and analyzes the data that has been gathered using a variety of financial mathematics and statistical techniques. The study's findings are outlined in Chapter V, along with suggestions for enhancing the financial standing and performance of particular commercial banks. The financial performance background and an overview of Nepal's banking sector and commercial banking industry are provided in Chapter I. It also gives a general summary of the three study banks, which are Nabil Bank Ltd., Himalayan Bank Ltd., and Kumar Bank Ltd.

This chapter outlines the objectives, poses the research issue, emphasizes the significance of the work, and enumerates its limitations. Chapter II goes into great detail about the theoretical and conceptual foundations of commercial banks and financial performance. It points out gaps in the body of knowledge, which this study aims to address by reading pertinent books, articles, and previous theses.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Literature review involves surveying existing literature in the research field. It entails identifying relevant facts from available literature in one's field of research. Reviewing literature involves studying materials relevant to the research topic. It not only provides valuable information but also guides future research directions. The constraints of existing literature help researchers focus their research area to explore relevant and accurate facts for reporting purposes. The main goal of a literature survey is to understand the studies conducted in one's chosen field and identify areas for further research. It lays the groundwork for developing a theoretical framework from which hypotheses can be formulated, minimizing the risk of pursuing dead ends in research on related topics and providing a clear understanding of the problem. Researchers can also gain knowledge from existing literature on their topics. Another important purpose of reviewing literature is to develop expertise in one's area of study, identifying opportunities for new contributions and gaining ideas for developing a research design.

The banking sector has become a pivotal force propelling Nepal's economic advancement. With the government's adoption of liberal economic policies in recent years, there has been a surge in the establishment of private banks. In particular, foreign joint venture banks have gained prominence, leveraging competitive advantages such as access to highly skilled personnel, cutting-edge banking technology, customer-centric services, managerial proficiency, and extensive global banking networks. These factors have positioned them favorably in the market, allowing them to offer innovative and efficient banking solutions while contributing to the overall growth and development of Nepal's economy.

In the current financial landscape, there is a constant process of updating and evolution. The role and significance of financial performance have been significantly impacted by these changes. Finance is now recognized as dynamic, with new ideas and techniques continuously emerging. A bank that does not maintain sufficient equity capital becomes riskier. In such cases, the bank may resort to using more debt, which carries high fixed costs. Therefore, it is crucial for any firm to have adequate equity capital in its capital structure.

The primary objectives of banks and other financial institutions are to gather deposits from various sectors and invest them in the most profitable sectors. The management of resource mobilization in banks includes activities such as resource collection, investment portfolio management, loans and advances, working capital management, and fixed assets management. This management measures the bank's success in utilizing its resources effectively. To evaluate a bank's performance in various aspects, its financial indicators should be analyzed using financial statements. Financial analysis involves identifying the strengths and weaknesses of the bank based on the information provided in its financial statements. This analysis helps determine the organization's liquidity, solvency, efficiency, and profitability positions.

The function or performance of finance can be divided into three major decisions: the investment decision, the financing decision, and the dividend decision. An optimal combination of these decisions will maximize the firm's value.

2.2 Concept of Financial Performance

According to the Business Dictionary, performance is defined as the completion of a work as measured against predetermined, established standards of accuracy, completeness, cost, and speed.

The term 'performance' implies the execution of an activity, considering the achievements made. In the context of banks, it signifies their progress. Financial performance analysis involves studying the relationship among various financial factors in a business as revealed by a single set of statements, and examining the trend of these factors across a series of statements. (Nirmal, 2004).

Through the strategic correlation of balance sheet items, income statements, and other operational data, financial analysis reveals the meanings and significance of these items. Furthermore, financial performance analysis is the process of evaluating the relationship between the component parts of a financial statement to gain a better understanding of a firm's position and performance. It involves measuring the results of an organization's policies and operations in terms of monetary value, reflecting the firm's profitability, liquidity, or leverage. Evaluating the financial performance of a business enables decision-makers to assess the outcomes of business strategies and activities in objective monetary terms. Typically, ratios are used to determine an organization's financial performance. A well-designed and implemented financial management system is expected to contribute positively to creating firm value. Financial analysis involves reviewing financial statements to determine if the results align with the firm's objectives, identifying past, present, or potential future problems, and providing recommendations to address these issues (Pradhan R., 1998).

While there are various ideas and definitions of performance among researchers and writers, the term is generally used to measure transactional efficiency in terms of input and output efficiency. Therefore, financial performance can be seen as the process of measuring an organization's results from its policies and operations in monetary terms.

Financial performance analysis involves studying the relationship among various financial factors to identify the strengths and weaknesses of the firm. This is done by establishing relationships between items in financial statements and examining trends across these

statements. By strategically linking items from the balance sheet, income statement, and other operational data, financial analysis reveals the meanings and significance of these items, providing a better understanding of the firm's position and performance. Analysis of financial performance includes assessing liquidity, profitability, and other ratios, which requires using financial statements such as the balance sheet (which summarizes assets, liabilities, and owner's equity), and the income statement (which summarizes revenue and expenses for a given period). Investors and financial analysts rely on financial data to analyze a company's performance and make predictions about its future stock price direction. Financial performance refers to the level of performance of a firm over a specific period, expressed in terms of overall profits or losses incurred during that period. (Bodie, Kane, and Marcus (2005),

Financial statements, such as the balance sheet, income statement, and statement of cash flows, are crucial for evaluating a company's financial health and earnings potential. These statements provide valuable information for assessing the financial performance of a firm. Ratio analysis is one of the most effective tools for financial analysis, helping to identify operational and financial problems by examining the behavior of these ratios.

2.3 Objectives of Financial Performance Analysis

The concept of financial performance analysis has made it clear that it is possible to investigate different aspects of a company's historical performance and forecast its future prospects for attaining desired outcomes. The business involves multiple partners, either directly or indirectly. As a result, each party's aim for the analysis is unique.

The Major objectives of the analysis in broad sense to assess of past performance and current position, and to assessment of potential and related risks, Evaluating the firm's performance and drawing conclusions about its financial health, profitability, and operational efficiency.

Past performance is often a reliable indicator of future performance, making it important for investors and creditors to examine historical data such as sales, expenses, net income, cash flow, and return on investment. Additionally, analyzing the current financial position reveals the assets owned by the business and its liabilities. This analysis provides crucial insights into various aspects of the business, including its earning capacity or profitability, overall operational efficiency and that of its individual departments, and its long-term and short-term solvency, which is particularly relevant for debenture holders and trade creditors. Understanding these factors helps in interpreting the true meaning and significance of financial data.

Past and present information are valuable only to the extent that they influence future decisions. Investors assess a company's potential earning capacity because it affects the value of their investment and the amount of dividends the company will pay. Creditors evaluate the company's potential debt-paying ability. Predicting the potentials of an established company is easier than that of a new one, implying lower associated risks. The investment or loan risk depends on how accurately future profitability and liquidity can be forecasted. Additionally, business managers gain insights into several key aspects, such as the possibility of future development through forecasts and budget allocations, the financial stability of the business, and necessary reforms in current policies and procedures to reduce weaknesses and enhance performance.

Banking is a financial institution that provides various financial services. It accepts deposits from the public and invests them in highly profitable sectors. Banking plays a crucial role in commercial, financial, and economic development and contributes significantly to the development of a prosperous economy. Banking is the commercial practice of receiving and protecting funds belonging to individuals and organizations, and subsequently using these funds for economic purposes, such as generating profit or meeting operational costs.

In Nepal, the banking sector plays a crucial role. It invests in various sectors of the economy and provides various loans. It also conveys a message that shareholders can't make economic improvements in the economy through financial means. Ultimately, banking contributes significantly to prosperity and operates various economic programs. It has a significant impact on Nepal's economy and plays a crucial role in national development.

2.4 Review of related studies

2.4.1 Review of Journals and Article

Finance is a broad term that encompasses activities related to banking, debt leverage, credit, capital markets, money, and investments. It essentially involves the management of money and the process of acquiring necessary funds. Finance also includes the oversight, creation, and study of money, banking, credit, investments, assets, and liabilities that constitute financial systems. Various authors have defined finance, financial analysis, and financial management in their own terms.

Pandey (2010) in his book “Financial Management” defines financial management as the managerial activity concerned with planning and controlling a firm’s financial resources. He considers decisions related to finance among the most crucial for a firm and believes that understanding the theory of financial management provides the necessary insights to make these decisions effectively.

Finance encompasses financial tools and services and can be defined as the art and science of managing money. It also involves providing money when it is needed. The finance function involves procuring funds and effectively utilizing them in business operations. The concept of finance encompasses capital, funds, money, and amounts, with each term having a distinct meaning. Therefore, studying and understanding the concept of finance is essential for any business concern (Paramasivan & Subramanian, 2014).

Jha & Hui (2012) conducted a study titled "A comparative financial performance analysis of public sector, , and private sector commercial banks in Nepal" to compare the financial performance of commercial banks in Nepal with different ownership structures. The study analyzed and compared the financial performance of 18 commercial banks selected as a sample. They used the CAMEL framework as a financial tool to measure performance and examined data from 2005 to 2010. The study found that public sector banks were significantly less efficient than their counter parts, while domestic private banks showed similar efficiency to foreign-owned banks. The results indicated that factors such as capital adequacy ratio (CAR), interest expenses to total loans, and net interest margin (NIM) significantly influenced return on assets. Moreover, the capital adequacy ratio had a considerable impact on return on equity.

Haule (2017) conducted a study titled "Comparative Analysis of Financial Performance of Domestic and Foreign Banks in Tanzania," which examined the financial performance of these banks over a 10-year period from 2007 to 2016. The research employed financial ratio analysis to assess performance and ANOVA to identify significant mean differences in profitability between domestic and foreign banks. The results indicated that domestic banks were more profitable than the average profitability of foreign banks. Furthermore, the study utilized quantitative research with ANOVA to explore significant mean differences in profitability between domestic and foreign banks. The findings revealed no significant mean difference in profitability between the two groups in terms of ROA and NIM, although a notable difference was observed among peer banks.

Meher and Getaneh (2019) conducted a study to investigate the impact of financial hardship variables on the financial viability of commercial banks in Ethiopia. The research utilized balanced panel data spanning from 2011 to 2017, collected from 12 Ethiopian commercial banks. An Ordinary Least Square (OLS) Regression Model was employed for analysis, utilizing both internal bank data and macroeconomic variables as indicators of

financial hardship. Key indicators for financial sustainability included the Financial Stability Index, Return on Equity, Return on Assets, and Bank Soundness.

The findings of the study revealed several significant relationships between financial hardship variables and indicators of financial sustainability. Absolute Liquidity Risk and Net Income Growth were found to exhibit significant and positive relationships, while Solvency Risk showed a notable negative correlation with Return on Assets. In comparison, Net Income Risk and Asset Quality demonstrated considerable and positive associations with the Financial Stability Index, whereas Solvency Risk remained significant but negative.

Furthermore, Absolute Liquidity Risk and Liquidity Risk showed considerable and positive relationships, while Credit Risk exhibited a significant and negative association with bank soundness. The study highlighted the importance of free cash flow and net income growth in enhancing Return on Assets and bank soundness. Managing equity within prudential guidelines was identified as a potential strategy for achieving short-term financial sustainability for commercial banks.

Moreover, reducing provisioning for loan losses, fostering growth in net interest income, and effectively managing solvency risks were identified as key measures for providing commercial banks with the financial stability needed for long-term sustainability. The study also emphasized the importance of safeguarding banks' financial stability against exposure to systematic risks stemming from macroeconomic factors, underscoring the significance of prudent risk management practices.

Bhandari (2020) conducted a study on the Impacts of Financial Distress on Profitability of Nepalese Commercial Banks. The research utilized return on assets (ROA) and earnings per share (EPS) as dependent variables, while leverage ratio, non-performing loan (NPL) ratio, liquidity ratio, credit to cash plus deposit (CCD) ratio, and capital adequacy ratio

served as independent variables. Data was collected from secondary sources, covering 20 selected commercial banks over the period from 2013/14 to 2017/18. Regression models were employed for analysis.

The findings of the study revealed several significant relationships between financial distress indicators and bank profitability metrics. Leverage ratio, liquidity ratio, and CCD ratio were positively correlated with ROA, indicating that higher levels of leverage, liquidity, and CCD were associated with increased profitability. Conversely, there was a negative relationship between EPS and non-performing loan ratio, suggesting that higher NPL ratios were linked to reduced earnings per share.

Furthermore, the study identified positive relationships between leverage ratio and CCD ratio with EPS, indicating that higher levels of leverage and CCD were associated with increased earnings per share. In the regression analysis, beta coefficients for non-performing loans were found to be negative with respect to EPS, suggesting that higher NPL ratios negatively impacted earnings per share.

Overall, the study underscores the importance of monitoring financial distress indicators, such as leverage ratio, non-performing loan ratio, liquidity ratio, and CCD ratio, in assessing the profitability and financial health of Nepalese commercial banks. These findings provide valuable insights for bank management and regulators in identifying and addressing potential risks to bank profitability and stability.

Raubaiyath and Lalon (2023) employed four estimation models, namely Fixed Effects, Random Effects, GLS, and Pooled OLS, to ensure the robustness of their analysis. Their study revealed that only Bank Size and Book to Market Value, among the explanatory variables, significantly influence fluctuations in the change in share price of banks. This contribution to the existing literature underscores the significance of bank-specific factors, encompassing all metrics in their assessment.

Similarly, Sarkar and Rakshit (2023) conducted dynamic panel data analysis using GMM and found that external variables exert a significant impact on the performance of commercial banks. Importantly, these findings remained consistent even with the sequential inclusion of all control variables. The implications of this research are substantial, as it offers valuable insights for bankers, planners, and policymakers in shaping appropriate policy decisions for commercial banks.

2.4.2 Review of related thesis

Several researchers have investigated the financial performance of banks and compared their performances. Some relevant studies on financial analysis include:

Shakya (2010) conducted a thesis titled "Financial Performance of Nepal SBI Bank Limited and KumariBank Limited," analyzing different ratios of NSBIBL and EBL from 2004 to 2008. The researcher utilized information and data from the sample banks' websites, as well as the Nepal Rastra Bank website, as secondary data for the study. Various financial tools such as liquidity ratios, leverage ratios, asset quality ratios, and statistical tools such as mean and standard deviation were employed for the comparative analysis of the financial performance of the banks.

The study was designed with several overarching goals in mind. Firstly, it aimed to conduct a comprehensive analysis of various financial ratios pertinent to banks, seeking to provide a thorough evaluation of their financial performance. This involved scrutinizing metrics such as profitability ratios, liquidity ratios, and efficiency ratios to gain insights into how effectively these institutions were managing their resources and generating returns. Secondly, the study sought to assess whether the banks were effectively meeting the needs of their stakeholders. This involved evaluating factors such as customer satisfaction, investor returns, and regulatory compliance to gauge the extent to which the banks were

fulfilling their obligations to various stakeholders, including customers, shareholders, employees, and regulatory authorities.

Upon conducting the study, several noteworthy findings emerged. Firstly, it was found that both banks exhibited a sound liquidity position, meeting the requirements set forth by the Nepal Rastra Bank. However, a deeper analysis revealed that NBBL demonstrated superior resource utilization in income-generating activities compared to EBL, albeit both banks experienced decreasing trends in terms of interest earned to total assets. Moreover, the study uncovered that EBL boasted a superior return on net worth ratio compared to NSBIBL, indicating better profitability performance relative to shareholder equity. Despite this, both banks were found to be highly leveraged, suggesting potential risks associated with their capital structure and debt levels. In summary, the study provided valuable insights into the financial performance and operational dynamics of the banks under examination, shedding light on areas of strength, areas for improvement, and potential risks that may warrant further attention from stakeholders and regulatory authorities

.Maharjan (2015) conducted a study on the "Financial Performance Analysis of Commercial Banks in Nepal with Reference to Nabil Bank Limited and Himalayan Bank Limited." The research utilized annual reports of the selected sample banks, along with related bulletins, circulars, directives, and reports periodically published by various government bodies such as Nepal Rastra Bank and the Central Bureau of Statistics. Different financial tools, including Current Ratio, Liquidity Ratios, and Leverage Ratio, were employed for the analysis.

The study set out with several distinct objectives aimed at providing a comprehensive understanding of the financial landscape of NABIL and HBL. Firstly, it aimed to evaluate the cash reserve ratio maintained by both banks, offering insights into their liquidity management strategies and regulatory compliance. Secondly, the study sought to analyze the total loans and advances as well as total investments provided by NABIL and HBL,

shedding light on their lending practices and investment strategies. Additionally, the study aimed to evaluate the profitability, liquidity, and solvency ratios of the banks, providing a holistic assessment of their financial health and operational efficiency.

Upon conducting the study, several significant findings emerged. Notably, NABIL exhibited a remarkably strong liquidity position, indicating its robust ability to meet short-term obligations with ease, while HBL displayed a commendable capacity to meet similar obligations. Furthermore, the study revealed that HBL had allocated a considerable portion of its deposits to total investments compared to its counterparts. Moreover, a positive trend was observed in the total deposits, investments, and loans and advances of all banks, indicating a healthy growth trajectory in their financial activities. The upward sloping trend line of loans and advances for both banks underscored an increasing trend in loan disbursement, suggesting a growing appetite for credit among borrowers. Additionally, NABIL demonstrated successful asset mobilization, evident in its higher Return on Assets (ROA) compared to HBL. Lastly, the study highlighted that liquidity management practices were still in the developmental phase in Nepal, indicating potential areas for improvement and further refinement in banking operations.

Kharel (2016) conducted a comparative study of Nepal Bank Limited (NBL) and Nabil Bank Limited (NABIL) to examine their strengths, weaknesses, and inefficiencies through a comparative analysis of their financial statements. The study utilized tools such as income and expenses analysis, return on assets and equity, turnover ratios, and liquidity ratios. Data were sourced from the annual reports of the sampled banks and various journals.

The study embarked on several key objectives aimed at thoroughly examining the financial landscape of NBL and NABIL, with a focus on risk, liquidity, financial efficiency, and performance. Firstly, it sought to analyze the risk and return profiles of NBL in comparison to NABIL, providing valuable insights into their respective market positions and investment strategies. Secondly, the study aimed to assess the liquidity positions of the

selected banks, crucial for understanding their ability to meet short-term financial obligations and maintain operational stability. Furthermore, it aimed to evaluate various financial ratios encompassing efficiency, valuation, profitability, and capital structure, offering a comprehensive overview of their financial health and operational efficiency. Finally, the study endeavored to recommend measures for enhancing financial performance and efficiency based on the research findings, providing actionable insights for both banks to optimize their operations and maximize shareholder value.

The study yielded several noteworthy findings that shed light on the comparative performance and strategic positioning of NBL and NABIL. Notably, NABIL demonstrated superior turnover and efficient utilization of deposits for loans and advances, contrasting with NBL's tendency to hold funds rather than invest them, negatively impacting its efficiency and profitability. Moreover, NBL exhibited a higher long-term debt to net worth ratio and total debt to total assets ratio compared to NABIL, indicating a potentially unbalanced and highly leveraged capital structure for both banks. Additionally, both banks' capital adequacy ratios fell below the prescribed adequacy ratio by the Nepal Rastra Bank, with NABIL showing a relatively better position than NBL. NABIL also showcased better profitability indicators such as return on investment and return on shareholders' equity compared to NBL, while valuation ratios favored NABIL, reflecting a more positive market perception of its performance and prospects. Furthermore, NABIL's higher dividend payout ratio, indicative of a greater proportion of earnings distributed as dividends, contrasted with NBL's lack of dividend payments. Notably, the study highlighted how the trend of earnings per share (EPS) and dividend payout ratio influenced the market value per share (MVPS), with NABIL opting for bonus share distribution over cash dividends for wealth maximization, offering valuable insights into their respective dividend policies and shareholder wealth creation strategies.

Bajgain (2017) conducted a thesis on the "Financial Performance Analysis of KumariBank Limited." The study found that the bank maintained liquidity as per Nepal Rastra Bank

(NRB) directives. Secondary data, including financial statements, annual reports, and unpublished official records, were used for the analysis. The bank effectively utilized its funds, managed credits well, and used total deposits for profit generation. Tools such as liquidity ratios, profitability measurement, credit management analysis, and statistical tools were employed for the analysis.

The study was conducted with several clear objectives aimed at providing a comprehensive analysis of KumariBank Ltd.'s financial performance and operational efficiency. Firstly, it sought to assess and compare the liquidity position of KumariBank Ltd., crucial for understanding its ability to meet short-term financial obligations and maintain operational stability. Secondly, the study aimed to analyze the profitability position of KumariBank Ltd., offering insights into its ability to generate returns for shareholders and sustainably grow its business. Additionally, it aimed to evaluate the credit management practices of KumariBank Ltd., essential for mitigating risks associated with loan portfolios and ensuring sound asset quality. Lastly, the study endeavored to examine the relationship between key financial metrics such as total loans and advances, total deposits, non-performing loans, and profitability, providing insights into the interconnectedness of these variables and their impact on the bank's overall performance.

The study yielded several key findings that provided valuable insights into KumariBank Ltd.'s financial performance and operational dynamics. Firstly, it was observed that the bank maintained the cash reserve ratio in accordance with Nepal Rastra Bank standards, indicating its commitment to ensuring adequate liquidity levels to meet regulatory requirements. Additionally, while the return on equity investment for KumariBank Ltd. was lower compared to other banks, the return on assets for both banks was deemed satisfactory, suggesting effective asset utilization and profitability. Furthermore, the study highlighted KumariBank Ltd.'s efficiency in generating net profits from total deposits, as evidenced by its average net profit to total deposit ratio of 2.19%. Similarly, the bank demonstrated satisfactory profitability in generating profits from loans and advances, with

an average net profit to total loan and advances ratio of 2.97%. These findings collectively provided valuable insights into KumariBank Ltd.'s financial health, operational efficiency, and profitability drivers, offering a comprehensive assessment of its performance in the banking sector.

Lamichhane (2020) conducted a Financial Performance Analysis Of Commercial Banks In Nepal (Nepal Investment Bank Ltd. And Everest Bank Ltd), owing to the report; the bank complied with Nepal Rastra Bank's (NRB) guidelines regarding liquidity management. The investigation made use of secondary data, which included unpublished government records, yearly reports, and financial statements. The bank made good use of its resources, handled credits well, and generated profits from all of its deposits. For the analysis, instruments like credit management analysis, profitability measurement, liquidity ratios, and statistical methods were used. The study aimed to achieve specific objectives focused on evaluating various aspects of the financial performance and operational strength of commercial banks, along with recommending corrective measures for enhancing their financial performance. Firstly, it sought to analyze the liquidity, profitability, leverage, efficiency, and capital adequacy position of the banks, providing a comprehensive assessment of their financial health and stability. Additionally, the study aimed to explore the relationship between the financial performance metrics of the banks, offering insights into the interconnectedness of different aspects of their operations. Furthermore, it aimed to assess the overall financial strength of the banks, considering factors such as asset quality, capital structure, and operational efficiency. Lastly, the study endeavored to recommend corrective measures aimed at improving the financial performance of the banks, providing actionable insights for enhancing their operational effectiveness and sustainability.

The key findings of the study provided valuable insights into the operational practices and financial performance of commercial banks in Nepal. Firstly, it was noted that commercial banks are required to adhere to Nepal Rastra Bank's directives for external accounting annually, while internal accounting practices may vary among different banks. Compliance with regulatory requirements was highlighted as crucial for ensuring the soundness of banking operations. Respondents emphasized the importance of transparent financial reporting, with annual balance sheets and profit and loss statements serving as indicators of a bank's stability and performance. Furthermore, the study highlighted the significance of analyzing the composition of capital and liabilities in evaluating a bank's long-term financial strength, with lower percentages of liabilities deemed more efficient for the bank. Moreover, the comparative analysis between banks, such as NIBL and EBL, revealed differences in asset utilization and performance, with recommendations for both banks to focus on reducing expenses and increasing profitability. These findings collectively offered valuable insights into the operational dynamics and financial performance of commercial banks, with implications for enhancing their overall effectiveness and sustainability in the banking sector.

2.5 Research Gap

The research gap pertains to the effort made by a researcher to introduce new insights in comparison to previous studies conducted by different researchers. Changes over time and environmental factors can lead to differences between previous and current studies. Previous research on this topic has not covered recent data or conducted a comprehensive analysis of both balance sheet and profit and loss account. This study aims to bridge this gap by analyzing both aspects and presenting a comparative analysis of two banks. While there have been numerous studies in this area, very few have exclusively focused on this subject. To analyze the financial performance of the sample banks, secondary data from the banks were collected and analyzed. Unlike previous studies, this study focuses on two

specific banks, Nepal Investment Bank and Everest Bank , for its analysis, which sets it apart. Additionally, the financial analysis and statistical tools used in this study for comparing the financial ratios differ from those used in previous research.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this study is to assess, analyze, and compare the financial performance of three banks: Nabil Bank Limited, Kmari Bank Limited, and Himalayan Bank Limited. This chapter outlines the methods and techniques employed to achieve this objective. Research methodology encompasses the strategies and procedures utilized in all aspects of the study. It refers to the systematic steps a researcher takes to investigate a problem with specific objectives in mind, essentially serving as the science behind conducting research in a systematic manner. Research methodology involves a series of steps typically followed by a researcher to address their research problem, with the order of these steps determined by the specific problem being studied. Therefore, this study aims to analyze and interpret the financial performance of these three banks.

3.2 Research Design

A descriptive and causal research design has been employed for this study, each serving distinct purposes. The descriptive research design is utilized to provide a detailed account of the characteristics, facts, and data related to the study. It focuses on observing and describing the nature of the data as it is, without manipulating any variables. This approach allows researchers to accurately capture and present the current state of the phenomena under investigation, providing a comprehensive understanding of what is being studied.

In contrast, the causal research design goes a step further by exploring the relationships and effects between the dependent and independent variables. This type of research is concerned with understanding how one variable influences another. By establishing cause-

and-effect relationships, the causal research design helps in identifying the underlying mechanisms and interactions between variables. This approach often involves manipulating one or more independent variables to observe the changes they produce in the dependent variable, thereby providing insights into the directional influence and the strength of these relationships.

Together, these research designs offer a robust framework for analyzing the data: the descriptive component lays the groundwork by detailing the data's inherent properties, while the causal component builds on this foundation to reveal how different factors are interrelated and the impact they have on the outcomes of interest.

3.3 Population Sample and Sample Design

Everest Bank Limited, Himalayan Bank Limited, and Nabil Bank Limited have been selected as the sample for the present study from among the twenty commercial banks in Nepal as of the end of Ashadh 2080. To ensure the most reliable and representative samples, the purposive sampling technique was employed. This technique involves selecting samples based on specific criteria in this case, the oldest banks established before the implementation of the Financial Sector Reform Program in 2001. The study's population encompasses all the commercial banks in Nepal. However, by focusing on these three banks, the research aims to gain insights from institutions with significant historical presence and stability in the banking sector. These banks are considered representative due to their longevity and experience in the industry.

The study covers data from the fiscal years 2069/70 to 2078/79, providing a comprehensive view of the financial performance of the selected commercial banks over a decade. This period allows for an in-depth analysis of trends, patterns, and changes in key financial indicators, offering a robust foundation for understanding the dynamics of the banking sector in Nepal. By examining this data, the study seeks to identify the strengths and

weaknesses of these banks, contributing to a broader understanding of the overall health and performance of the commercial banking industry in the country.

3.4 Source of Data

The study primarily relies on secondary data, sourced mainly from the published annual reports of the banks. Financial performance data are directly obtained from these reports. Additionally, supplementary data from various sources such as books, magazines, journals, articles, reports, bulletins, data from Nepal Stock Exchange and Nepal Rastra Bank, Central Bureau of Statistics, relevant websites, and internal sources are utilized. Furthermore, various economic surveys and previous studies related to the subject are also considered as valuable sources of information.

3.5 Period Covered

As mentioned earlier, this study covers a ten-year period from FY 2069/070 to 2078/079. The analysis is based on data from these ten years to derive meaningful conclusions and insights.

3.6 Tools used for data analysis

Both statistical and financial tools have been used in this study to assess the information and data that have been gathered. With the use of these tools, the data may be thoroughly evaluated, leading to a deeper comprehension of the variables influencing the sample banks' working capital management.

3.6.1 Descriptive statistics

The primary statistical techniques used in this study are the arithmetic mean, coefficient of correlation, and probable error. When required, other statistical methods are also used.

Mean

The average value of a set of data is represented by the mean, which is a measure of central tendency in statistics. It is sometimes referred to as the arithmetic mean or average. The computation involves summing up every value in the dataset and dividing the result by the total number of values.

The mean is defined mathematically as:

$$\text{MEAN } (\bar{X}) = \frac{\sum X}{N},$$

Where,

- $\sum X$ denoted the sum of all number

- N denoted the number of data

Standard Deviation

Standard deviation is a measure of the amount of variation or dispersion in a set of values. It quantifies how much the values in a dataset deviate from the mean (average) of the dataset. A low standard deviation indicates that the values tend to be close to the mean, whereas a high standard deviation indicates that the values are spread out over a wider range.

The standard deviation is calculated by

Standard Deviation $((\sigma) = \sqrt{\sum(X - \bar{x}) / (n - 1)}$

Where,

- \sum represents the sum of all the terms data

- X is each individual data in the sample.

- \bar{X} is the sample mean

- n is the number of data

3.6.2 Correlation Analysis

Correlation analysis is a statistical technique used to measure the strength and direction of a relationship between two variables. It helps us understand how changes in one variable may be associated with changes in another variable. The correlation coefficient, usually denoted as "r," ranges from -1 to 1.

- A positive correlation (ranging from 0 to 1) indicates that as one variable increases, the other variable also tends to increase.

- A negative correlation (ranging from 0 to -1) indicates that as one variable increases, the other variable tends to decrease.

- A correlation value of 0 suggests that there is no linear relationship between the two variables.

Correlation analysis is useful in various fields such as psychology, economics, biology, and social sciences to understand relationships between different variables. It does not imply causation but helps identify potential associations that can further be studied. Let me know if you need help with any specific aspect of correlation analysis.

Using a sample of data, the following formula can be used to determine the coefficient of correlation (r) between two variables, X and Y :

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum(X - \bar{X})^2 \cdot \sum(Y - \bar{Y})^2}}$$

3.6.3 Regression Analysis

Regression is a statistical method used to establish a connection between a dependent variable and one or more independent (explanatory) variables. Its main objective is to comprehend and quantify the impact of the independent variables on the dependent variable. By creating a regression model, one can analyze the degree to which changes in the dependent variable coincide with variations in the independent variables. This involves determining the best-fitting line (or curve for non-linear regression) that passes through the data points and assessing how the data points are distributed around this line.

In practical applications, regression analysis holds great significance for economists and financial analysts. It empowers them to conduct activities such as asset valuation, demand prediction, risk evaluation, and making informed projections regarding future patterns. For instance, an economist may utilize regression to examine how elements like interest rates, employment rates, and consumer spending influence GDP growth. Similarly, a financial analyst might employ regression to ascertain how diverse financial indicators impact a company's stock price.

However, for the insights derived from regression analysis to be valid and dependable, several crucial assumptions must remain valid. These assumptions encompass linearity (a linear relationship between dependent and independent variables), independence (observations are not interdependent), homoscedasticity (constant error variance), normality (normal distribution of errors), and the absence of multicollinearity (low correlation among independent variables). Deviations from these assumptions can result in biased, inconsistent, or inefficient estimations, potentially misleading analysts and decision-makers. Therefore, it is essential to validate these assumptions during regression analysis to ensure the accuracy and robustness of the outcomes.

3.7 Research Framework and Definition of Variable

3.7.1 Research Framework

At its core, a conceptual framework acts as a blueprint. It's built from abstract concepts that represent how we observe, experience, and analyze a hypothesized process or system. By weaving these concepts together, the framework establishes a foundation for predicting potential outcomes. In research, this framework becomes a tool to explore different avenues of inquiry or to propose a preferred approach to understanding a concept. It visually depicts the study's variables, highlighting the relationships between factors that influence the outcome (dependent variables) and those that cause the change (independent variables). This study has used following dependent and independent variable to analysis of financial performance of sampled commercial banks.

Table1

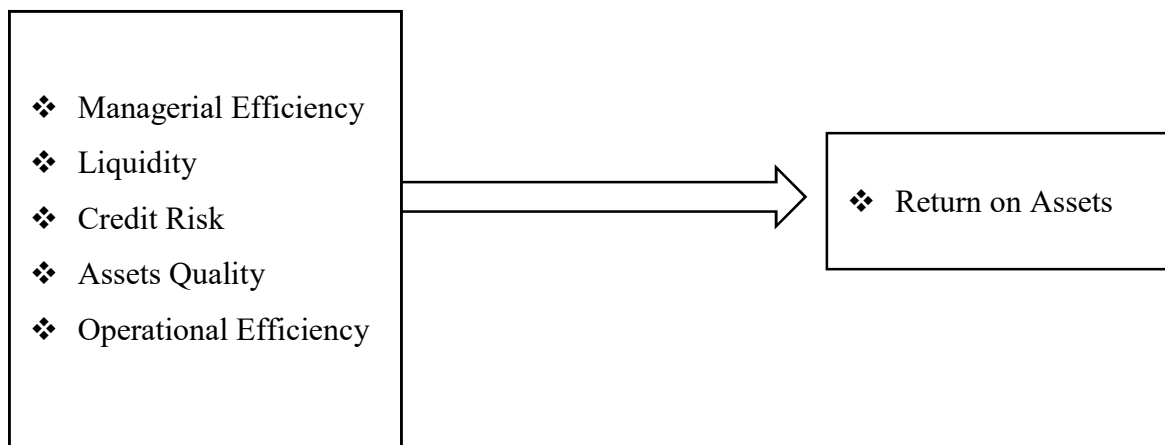
Research Framework

Variables	Measures	Notation
Return on Assets	Net Profit/Total Assets	ROA
Managerial Efficiency	Net Profit/Total Interest Income	ME
Liquidity	Total Loan/Total Deposit	LIQ
Credit Risk	Loan loss Provision/Total Loan	CR
Assets Quality	Non-Performing loan/Total Loan	AQ
Operational Efficiency	Total interest Income/Total Operating Expenses	OE

(Source: Determinants of Financial Performance of Nepalese Commercial Banks: Evidence from Panel Data Approach-Purna Man Shrestha)

Independent Variable

Dependent Variable



Independent Variable

1. Managerial Efficiency

Management efficiency (ME) is the ratio of an organization's production to its capital and assets as determined by the management team. It is among the key elements influencing the bank's financial performance. The management system, organizational discipline, cost control system, staff quality, etc. are typically used to observe it. The effectiveness of the organization's management can also be assessed using a variety of metrics, including growth in assets, earnings, profit, etc., despite the fact that this is a very complicated and qualitative phenomenon. The ratio of net income to total interest income is employed in this study to assess managerial effectiveness. It can be calculated as:

$$\text{Managerial Efficiency} = \frac{\text{Total Profit}}{\text{Total Interest Income}}$$

2. Liquidity

Liquidity (LIQ) ratio is another significant bank-specific factor that influences the bank's financial performance. The loan to deposit ratio is typically used to gauge a bank's liquidity. Banks grant loans using the deposits they receive from clients. If the bank uses a large quantity of deposits to create loans, this will result in a high liquidity ratio, which may not be sufficient to support customers' unforeseen future withdrawals. Therefore, a bank with significant liquidity also has a high credit risk, which raises the bank's profitability. The following ratio, which represents the bank's liquidity in this study, measures total loans to total deposits:

$$\text{Liquidity} = \frac{\text{Total Loan}}{\text{Total Deposit}}$$

3. Credit Risk

The bank keeps reserves on hand to cover losses from non-performing loans. Credit risk (CR) is invariably linked to the loan that the bank has approved. Therefore, the bank keeps what is known as a loan loss provision in order to mitigate this kind of credit risk. The ratio of loan loss provision to total loan is employed as a stand-in for credit risk in this study. It can be acquired in this way:

$$\text{Credit Risk} = \frac{\text{Loan Loss Provision}}{\text{Total Loan}}$$

4. Assets Quality

Asset quality (AQ) is a crucial factor that significantly affects the bank's financial performance. The bank's portfolio of loans, investments, current assets, and fixed assets made up its assets. The portfolio of loans is the primary source of income for the bank among these assets. As a result, the bank's asset quality is defined as its earning asset quality, or loan portfolio quality. A loan with poor quality has a greater chance of being non-performing.

As a result, the ratio of non-performing loans to total loans is the most accurate indicator of the bank's asset quality.

$$\text{Assets Quality} = \frac{\text{Non-Performing Loan}}{\text{Total Loan}}$$

5. Operational Efficiency

Operational efficiency (OE) is another bank-specific indicator that is utilized in this study to assess the financial performance of Nepalese commercial banks. All it is is the entire interest income divided by the operating expenses. An operationally efficient bank is one

that can produce higher interest income while consuming fewer resources for operations. Therefore, the best indicator of a bank's operational efficiency is the ratio of total interest income to operating expenses. The following is a gauge of a bank's operational efficiency:

$$\text{Operational Efficiency} = \frac{\text{Interest Income}}{\text{Operating Expenses}}$$

Dependent Variable

1. Return on Assets

Return on assets (ROA) has been employed in this study as a stand-in for the financial performance of Nepali commercial banks. ROA is a commonly utilized metric to assess the financial performance of businesses since it serves as an indicator of profitability. It merely contrasts the company's profit with its total assets. Return on assets, then, demonstrates how well a company uses its resources to produce revenue. Put another way, it demonstrates how well management uses organizational assets to generate revenue. The asset return is calculated as follows:

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

CHAPTER – IV

PRESENTATION AND DATA ANALYSIS

4.1 Introduction

This section provides a systematic presentation, interpretation, and analysis of secondary data to address various issues related to the determinants of profitability of Nepalese commercial banks. The purpose of this chapter is to analyze and interpret the data collected during the study, making the results clearer and more understandable. By presenting and analyzing the data in an organized manner, this chapter sheds light on the impact of factors such as Managerial Efficiency, Liquidity, Credit Risk, Assets Quality, Operational Efficiency and Return on Assets. On the performance of Nepalese commercial banks. Various statistical models, described in chapter three, are utilized to extract and interpret the information.

4.2 Descriptive Analysis

This section presents an explanation of the descriptive statistics of the data, providing summaries of the variables used in the study. Below table presents summary statistics of the variables used in this study for the period 2069/70 to 2078/79. The independent variables, including Managerial Efficiency, Liquidity, Credit Risk, Assets Quality, and Operational Efficiency, as well as the dependent variable (Return on Assets), are included in this section.

Table 2*Descriptive Analysis*

Variable	Mean	Standard Deviation	Minimum	Maximum
ROA	1.58	0.53	0.76	3.03
ME	24.96	11.94	10.96	63.44
LIQ	83.45	7.88	64.55	95.69
CR	2.44	1.31	0.05	7.09
AQ	1.41	0.71	0.15	3.24
OE	4.74	1.47	0.93	7.19

Table 2 summaries provided offer a detailed glimpse into various crucial aspects of financial performance and risk management within a dataset. Each metric serves as a vital indicator, contributing to a comprehensive understanding of the financial landscape and business operations.

Return on Assets (ROA) serves as a fundamental measure of profitability, indicating how efficiently a company utilizes its assets to generate earnings. The mean ROA of 1.58 suggests that, on average, companies are generating a return of 1.58 units of profit for every unit of asset invested. However, the standard deviation of 0.53 implies considerable variability, signifying that some companies are significantly outperforming or underperforming the average. The range, spanning from 0.76 to 3.03, underscores the diversity in asset utilization efficiency among the entities in the dataset.

Managerial Efficiency (ME) sheds light on the effectiveness of managerial decision-making and operational execution within organizations. The mean ME of 24.96 indicates the average level of managerial efficiency across the sampled entities, but the wide

standard deviation of 11.94 suggests significant disparities in managerial prowess. The range, extending from 10.96 to 63.44, highlights the substantial variation in managerial effectiveness observed within the dataset.

Liquidity (LIQ) is a critical measure of a company's ability to meet short-term financial obligations without causing significant disruption to its operations. The mean liquidity score of 83.45 indicates a generally healthy liquidity position across the dataset. However, the standard deviation of 7.88 suggests variations in liquidity levels among companies. The range, from 64.55 to 95.69, illustrates the range of liquidity positions observed, with some companies having more readily accessible cash reserves than others. Credit Risk (CR) quantifies the likelihood of default on debt obligations, providing insights into the creditworthiness and risk exposure of companies. The mean credit risk score of 2.44 suggests a moderate level of credit risk within the dataset. However, the standard deviation of 1.31 indicates variability in credit risk levels among entities. The range, from 0.05 to 7.09, showcases the spectrum of creditworthiness observed, with some companies posing higher default risks than others.

Assets Quality (AQ) evaluates the quality and valuation of a company's assets, influencing its overall financial health and stability. The mean assets quality score of 1.41 suggests a generally sound asset base across the dataset. Nonetheless, the standard deviation of 0.71 implies variations in asset quality among companies. The range, from 0.15 to 3.24, underscores discrepancies in asset quality and valuation methodologies utilized by different entities.

Operational Efficiency (OE) gauges the effectiveness of a company's operational processes and resource utilization. The mean operational efficiency score of 4.74 reflects the average level of operational effectiveness within the dataset. However, the standard deviation of 1.47 suggests variances in operational efficiency among companies. The range, from 0.93

to 7.19, displays differences in operational effectiveness, with some companies operating more efficiently than others.

A comprehensive analysis of financial performance and Key metrics include Return on Assets (ROA), managerial efficiency (ME), liquidity (LIQ), credit risk (CR), assets quality (AQ), and operational efficiency (OE). ROA indicates profitability, while ME indicates managerial decision-making effectiveness. LIQ indicates a healthy liquidity position, while CR quantifies credit risk. AQ evaluates asset quality and valuation, while OE measures operational processes and resource utilization. The range of ROA, ME, LIQ, CR, AQ, and OE indicates variability in these metrics. Assets quality indicates a generally sound asset base, while OE measures the effectiveness of operational processes and resource utilization. Overall, these metrics provide valuable insights into a company's financial health and risk management.

4.3 Correlation Analysis

Following the computation of Pearson correlation coefficients, the findings are shown in Table 3. A statistical method used to assess the degree of relationship between two or more variables is correlation. Correlation analysis is used in this study to look at the link between independent and dependent variables. Bivariate Pearson correlation coefficients between several pairs of variables from 2069–2070 to 2078–2079 are shown in Table 3. The findings are based on panel data from three commercial banks with thirty observations from 2069–2070 to 2078–2079 years. ROA is the dependent variable. Managerial effectiveness, liquidity, credit risk, asset quality, and operational effectiveness are the independent factors.

Table 3*Correlation Analysis*

VARIABLE	ROA	ME	LIQ	CR	AQ	OE
ROA	1.000					
ME	0.863	1.000				
LIQ	0.018*	0.036*	1.000			
CR	-0.135	-0.126	-0.543	1.000		
AQ	-0.010*	0.072	-0.315	-0.038*	1.000	
OE	-0.285	-0.423	0.118	-0.034*	-0.331	1.000

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

The above table provides a detailed glimpse into the relationships among various financial variables, particularly focusing on their interactions with Return on Assets (ROA) within a dataset spanning multiple years.

The high positive correlation coefficient of 0.863 between ROA and Managerial Efficiency (ME) suggests a robust association between effective management practices and higher returns on assets. This indicates that companies with more efficient managerial processes tend to generate greater profitability, underlining the pivotal role of management in driving financial performance.

Conversely, the correlations between ROA and Liquidity (LIQ), as well as Assets Quality (AQ), are relatively weak, with coefficients of 0.018 and -0.010, respectively. Despite their modest numerical values, the statistical significance marked by asterisks (*) at the 0.05 level implies that even these subtle associations with ROA may hold practical importance.

While liquidity and asset quality may not strongly dictate ROA individually, they could still influence overall financial health and risk management strategies.

Credit Risk (CR) exhibits a moderate negative correlation (-0.135) with ROA, indicating that higher levels of credit risk are associated with diminished returns on assets. This underscores the critical importance of managing credit risk effectively to safeguard financial stability and optimize profitability.

Operational Efficiency (OE) similarly displays a moderate negative correlation (-0.285) with ROA, suggesting that companies with streamlined operational processes tend to achieve higher returns on assets. This emphasizes the significance of operational excellence in enhancing overall financial performance and competitiveness.

The note indicating statistical significance at the 0.05 level provides confidence in the observed correlations, reinforcing the reliability of the relationships identified. Overall, this correlation table offers valuable insights into the complex interplay between different financial metrics and their collective impact on return on assets, guiding strategic decision-making and risk management endeavors within the analyzed dataset.

4.4 Regression Analysis

This study also uses secondary data analysis based on the regression model described in chapter 3 to test the results' statistical significance and robustness. A series of statistical procedures known as regression analysis are used to describe, forecast, and estimate the relationship between the associated dependent and independent variables. More than correlation analysis, regression analysis explains the range of variables. The linear regression model determines the influence of independent variables. It describes the extent to which independent variables will affect dependent variables. Multiple regression models

in Microsoft -Excel are used to do the regression analysis. Additionally, a statistical test has been attempted in this part to verify the model's validity.

4.4.1 Regression Analysis for ROA

Table 4

Regression Model Summary (ROA)

Model	R	R Square	Adjusted R Square	Standard Error
1	0.872	0.760	0.709	0.283

- a) Dependent Variable: ROA
- b) Independent Variable (Predictor/Constant): Managerial effectiveness, liquidity, credit risk, asset quality, and operational effectiveness

The model summary provided presents the outcomes of a regression analysis aiming to elucidate the factors influencing Return on Assets (ROA), a crucial metric for evaluating financial performance. The model incorporates several independent variables: Managerial Effectiveness, Liquidity, Credit Risk, Asset Quality, and Operational Effectiveness, each potentially contributing to variations in ROA. The coefficient of determination (R) stands at a commendable 0.872, suggesting that approximately 87.2% of the variability in ROA is explicable by the independent variables integrated into the model. This high R value indicates a robust relationship between the predictors and ROA, signifying the model's effectiveness in capturing the underlying dynamics of financial performance. The R Square value, which quantifies the proportion of variance in ROA accounted for by the independent variables, is notably high at 0.760. This implies that 76% of the variability in

ROA can be elucidated by the specified predictors, highlighting the model's substantial explanatory power.

Additionally, the Adjusted R Square value, which adjusts the R Square for the number of predictors, remains strong at 0.709, reinforcing the model's reliability even after considering the complexity of the predictor variables. Furthermore, the relatively low Standard Error of 0.283 indicates that the model's predictions closely align with the observed data, underscoring its accuracy in estimating ROA. In essence, this regression analysis provides valuable insights into the determinants of ROA, facilitating informed decision-making in financial management by identifying key factors driving profitability and performance.

ANOVA Analysis

When there are dependable results, an ANOVA is used to determine whether regression is acceptable. A more accurate model is produced when the confidence level is 95% or above.

Table 5

ANOVA Table (ROA)

Model	df	SS	MS	F	Significance F
Regression	5.0000	6.0887	1.2177	15.1638	0.000001
Residual	24.0000	1.9273	0.0803		
Total	29.0000	8.0160			

- a) Dependent Variable: ROA
- b) Independent Variable (Predictor/Constant): Managerial effectiveness, liquidity, credit risk, asset quality, and operational effectiveness

The model summary provides a comprehensive overview of the regression analysis, shedding light on the relationships between the dependent variable, Return on Assets (ROA), and its independent predictors: Managerial Effectiveness, Liquidity, Credit Risk, Asset Quality, and Operational Effectiveness. With 5 degrees of freedom associated with the independent variables and 24 degrees of freedom for the residual, the model effectively captures the variability in ROA. The sum of squares (SS) metric illustrates that the regression model explains a significant portion (6.0887) of the total variability (8.0160) in ROA, leaving only a residual sum of squares (1.9273) unexplained. The F-value of 15.1638, coupled with a remarkably low significance F value ($p < 0.000001$), indicates that the regression model is statistically significant. This implies that at least one of the independent variables makes a significant contribution to predicting ROA. Overall, the analysis underscores the importance of considering Managerial Effectiveness, Liquidity, Credit Risk, Asset Quality, and Operational Effectiveness collectively in understanding and optimizing Return on Assets, thereby informing strategic decision-making processes in financial management.

Regression Coefficient (ROA)

In this case, X1, X2, X3, X4, and X5 stand for the ME, LIQ, CR, AQ, and OE, respectively, while ROA is the metric used to analyze profitability. The three variables managerial efficacy, liquidity, credit risk, asset quality, and operational effectiveness are found to be statistically significant at the 5% significance level. This suggests that factors such as operational efficacy, asset quality, credit risk, managerial effectiveness, and liquidity have a statistically significant impact on commercial banks' return on assets. The term "t-value" in regression describes the measurement of the population mean difference.

Table 6*Regression Coefficient (ROA)*

Variables	Coefficients	Standard Error	t Stat	P-value
Intercept/Constant	1.101	0.922	1.194	0.244
ME	0.039	0.005	7.969	0.000
LIQ	-0.006	0.009	-0.666	0.512
CR	-0.028	0.050	-0.560	0.581
AQ	-0.059	0.086	-0.689	0.497
OE	0.027	0.042	0.636	0.531

- a) Dependent Variable: ROA
- b) Independent Variable (Predictor/Constant): Managerial effectiveness, liquidity, credit risk, asset quality, and operational effectiveness

Firstly, let us discuss Managerial Efficiency (ME), with a coefficient of 0.039, we observe that for every unit increase in ME, there's an anticipated increase of 0.039 units in ROA. This relationship is statistically significant at a 5% significance level, supported by an impressively low p-value of 0.000 and a high t-statistic of 7.969, indicating a robust effect size. Essentially, higher levels of Managerial Efficiency are strongly linked with increased ROA, underscoring its significant impact on profitability.

Moving on to Liquidity (LIQ), the negative coefficient of -0.006 implies that higher levels of liquidity may correspond with reduced ROA. However, this relationship lacks statistical significance, as evidenced by the higher p-value of 0.512 and the low t-statistic of -0.666, indicating a weak effect size. Therefore, while there's a

suggestion of a negative association, it doesn't reach statistical significance in predicting ROA.

Next, considering Credit Risk (CR), the negative coefficient of -0.028 suggests that elevated levels of credit risk could potentially lead to lower ROA. Nevertheless, similar to Liquidity, this association lacks statistical significance, with a higher p-value of 0.581 and a low t-statistic of -0.560. Consequently, although there's an indication of a negative trend, it doesn't achieve statistical significance in predicting ROA.

Regarding Assets Quality (AQ), the negative coefficient of -0.059 suggests that lower asset quality might be linked with diminished ROA. However, akin to Liquidity and Credit Risk, this relationship is not statistically significant, evidenced by the higher p-value of 0.497 and the low t-statistic of -0.689. Thus, while there's a hint of a negative correlation, it doesn't reach statistical significance in predicting ROA.

Lastly, focusing on Operational Efficiency (OE), the positive coefficient of 0.027 indicates that higher operational efficiency might correlate with increased ROA.

Nonetheless, like the other variables, this association lacks statistical significance, as indicated by the higher p-value of 0.531 and the low t-statistic of 0.636. This implies that although there might be a positive trend, it doesn't achieve statistical significance in predicting ROA.

In summary, while Managerial Efficiency emerges as a significant predictor of ROA, suggesting its substantial influence on profitability, the remaining variables Liquidity, Credit Risk, Assets Quality, and Operational Efficiency do not appear to significantly impact ROA in this model at the 5% significance level.

CHAPTER – V

SUMMARY AND CONCLUSION

The summary and conclusion section encapsulates the entire study, comprising the objectives, methodology, findings, and conclusions. Additionally, it offers implications derived from the findings.

5.1 Summary

The study's main objectives encompass evaluating and scrutinizing the financial performance of banks while offering pertinent suggestions for improvement. These objectives entail examining the financial performance of sampled banks, analyzing the determinants influencing the performance of commercial banks, and investigating the relationships among operational efficiency (OE), credit risk (CR), liquidity (LQ), managerial efficiency (ME), return on assets (ROA), and assets quality (AQ). The research's conclusions are based on descriptive and inferential statistical analysis carried out on secondary data obtained from Nepal Rastra Bank and commercial banks' annual reports. The purposive sampling technique was used in the data collecting. A range of statistical methods was utilized to analyze and interpret the gathered information.

The descriptive analysis of financial performance reveals that Return on Assets (ROA) is a key measure of profitability, indicating how efficiently a company uses its assets to generate earnings. A mean ROA of 1.58, for example, suggests that companies yield an average return of 1.58 units of profit for every unit of asset invested. However, the standard deviation of 0.53 indicates significant variability, indicating that some companies outperform or underperform the average.

Managerial Efficiency (ME) is another important factor in understanding a company's effectiveness in decision-making and operational execution. A mean ME of 24.96 indicates the average level of managerial efficiency across the sampled entities, but a standard deviation of 11.94 implies considerable disparities in managerial prowess. Liquidity (LIQ) is a critical measure of a company's ability to meet short-term financial obligations without disrupting operations significantly. A mean liquidity score of 83.45 indicates generally healthy liquidity levels, but a standard deviation of 7.88 suggests variations among companies.

Credit Risk (CR) quantifies the probability of default on debt obligations, offering insights into a company's creditworthiness and risk exposure. A mean credit risk score of 2.44 suggests a moderate level of credit risk, but a standard deviation of 1.31 indicates variability in credit risk levels among entities.

Assets Quality (AQ) evaluates the quality and valuation of a company's assets, influencing its overall financial health and stability. A mean assets quality score of 1.41 suggests a generally sound asset base, but a standard deviation of 0.71 implies variations in asset quality and valuation methodologies used by different entities.

In conclusion, a comprehensive analysis of financial performance involves examining key metrics like ROA, ME, LIQ, CR, AQ, and OE to provide valuable insights into a company's financial health, risk management, and operational effectiveness.

The correlation table provides a comprehensive analysis of the relationships among financial variables and their correlations with Return on Assets (ROA) over multiple years. A high positive correlation coefficient of 0.863 between ROA and Managerial Efficiency (ME) indicates a strong association between effective management practices and higher returns on assets. This highlights the importance of management in driving financial performance. Conversely, weak correlations between ROA and Liquidity (LIQ) and Assets

Quality (AQ) suggest that these subtle associations may impact overall financial health and risk management strategies. Credit Risk (CR) shows a moderate negative correlation (-0.135) with ROA, indicating that higher levels of credit risk are linked to diminished returns on assets. Operational Efficiency (OE) also shows a moderate negative correlation (-0.285) with ROA, indicating that companies with streamlined operational processes tend to achieve higher returns on assets. The statistical significance at the 0.05 level provides confidence in the observed correlations, reinforcing the reliability of the relationships.

The model summary provides a detailed analysis of the factors influencing Return on Assets (ROA), a crucial metric for financial performance assessment. The model incorporates several independent variables, including Managerial Effectiveness, Liquidity, Credit Risk, Asset Quality, and Operational Effectiveness, each potentially contributing to ROA fluctuations. The coefficient of determination (R) is high at 0.872, indicating that 87.2% of the variability in ROA can be explained by these variables. The R Square value, which quantifies the proportion of variance in ROA accounted for by the independent variables, is impressive at 0.760, indicating that 76% of the variability can be explained by the predictors. The Adjusted R Square value remains strong at 0.709, indicating the model's reliability despite the complexity of the predictor variables. The model's low Standard Error of 0.283 emphasizes its accuracy in estimating ROA. This regression analysis provides valuable insights into ROA determinants, enabling informed decision-making in financial management.

The study examines the relationship between Managerial Efficiency (ME) and Return on Assets (ROA) at a 5% significance level. It shows that for every unit increase in ME, there is an anticipated increase of 0.039 units in ROA. This relationship is statistically significant, with a low p-value of 0.000 and a high t-statistic of 7.969.

Liquidity (LIQ) has a negative coefficient of -0.006, suggesting that higher levels of liquidity may correspond with reduced ROA. However, this relationship lacks statistical

significance, with a higher p-value of 0.512 and a low t-statistic of -0.666. Credit Risk (CR) has a negative coefficient of -0.028, suggesting that elevated levels of credit risk could potentially lead to lower ROA. However, this association lacks statistical significance, with a higher p-value of 0.581 and a low t-statistic of -0.560.

Assessment Quality (AQ) has a negative coefficient of -0.059, suggesting that lower asset quality might be linked with diminished ROA. However, this relationship is not statistically significant, with a higher p-value of 0.497 and a low t-statistic of -0.689.

Lastly, Operational Efficiency (OE) has a positive coefficient of 0.027, suggesting that higher operational efficiency might correlate with increased ROA. However, this association lacks statistical significance, indicating that while there might be a positive trend, it does not achieve statistical significance in predicting ROA.

5.2 Conclusion

The descriptive analysis of financial performance provides insights into key metrics, such as Return on Assets (ROA), Managerial Efficiency (ME), Liquidity (LIQ), Credit Risk (CR), Assets Quality (AQ), and Operational Efficiency (OE). ROA serves as a measure of profitability, with a mean value of 1.58 indicating an average return for every unit of asset invested. ME, reflecting managerial decision-making effectiveness, shows a mean of 24.96, highlighting disparities in managerial prowess. LIQ, indicating a company's ability to meet short-term obligations, has a mean score of 83.45, suggesting healthy liquidity levels, but with variations among companies. CR, measuring default probability, shows a mean score of 2.44, indicating a moderate level of credit risk, while AQ, evaluating asset quality, has a mean score of 1.41, suggesting a generally sound asset base. OE, gauging operational effectiveness, has a mean of 4.74, indicating average operational efficiency across the dataset.

The correlation table delves into relationships between financial variables and ROA. A high positive correlation (0.863) between ROA and ME underscores the importance of effective management in driving financial performance. Conversely, weak correlations between ROA and LIQ, as well as AQ, suggest subtle associations that may impact financial health and risk management strategies. CR exhibits a moderate negative correlation (-0.135) with ROA, indicating the impact of credit risk on profitability, while OE similarly shows a moderate negative correlation (-0.285), highlighting the influence of operational efficiency on ROA. These correlations are statistically significant, reinforcing their reliability.

The model summary elucidates factors influencing ROA, with an impressive coefficient of determination (R) of 0.872, indicating strong explanatory power of the model. The R Square value of 0.760 and Adjusted R Square value of 0.709 further underscore the model's reliability, despite the complexity of predictor variables. The low Standard Error of 0.283 emphasizes the model's accuracy in estimating ROA, providing valuable insights into profitability determinants for informed decision-making.

Furthermore, examining individual variables' impact on ROA reveals statistically significant associations for ME, indicating a significant rise in ROA for every unit increase in ME. However, LIQ, CR, and AQ do not exhibit statistically significant relationships with ROA, despite suggestive trends. OE also lacks statistical significance in predicting ROA, despite indicating a positive trend. These findings highlight the nuanced dynamics of financial performance and the importance of considering multiple factors in assessing profitability.

5.3 Implications

The study's conclusions have important applications for Nepalese commercial banks and the larger financial industry. For banks looking to maximize their profits, the insights

gained into profitability dynamics and liquidity management offer practical advice. Executives in the banking industry can use this information to fine-tune their approaches and strike a careful balance between capital sufficiency, credit exposure, and liquidity to increase return on equity (ROE) and overall profitability. Furthermore, the study's focus on how important it is to keep adequate cash reserves and manage credit risk well provides useful information for improving risk management procedures in the sector.

Beyond the area of practice, the research has theoretical ramifications that reach into academia, contributing to the body of information already available regarding the complex relationship between profitability and liquidity measurements. The research advances our understanding of how different liquidity ratios affect different aspects of financial performance in Nepalese commercial banks by improving and broadening theoretical frameworks related to financial management. This comprises information on credit risk, asset quality, operational performance, managerial effectiveness, and return on equity (ROA). These contributions offer rich soil on which academics and researchers can expand these theoretical underpinnings, promoting continued discussion and investigation into the complex dynamics present in financial institutions.

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ANNEXURE

1. Financial Data of Sample Banks

Fiscal Year	Bank Name	Total Assets	Total Loan	Total Deposit	Loan Loss Provision	Non-Performing Loan	Total Interest Income	Total Operating Exp	Net Profit
2078/79	Everest Bank Ltd	228,408.77	159,444.00	182,962.00	3,925.36	1,530.66	18,355.16	3,016.38	2,835.23
2077/78		189,782.82	143,772.00	157,178.00	3113.26	1,552.74	12,776.38	2,908.02	1,970.73
2076/77		153,341.63	115,134.00	124,220.00	2,637.98	1,623.39	10,569.83	2,111.67	1,158.51
2075/76		105,311.49	76,186.36	84,403.00	1,994.00	739.01	9,098.57	1,537.10	1,230.38
2074/75		82,557.92	62,375.51	69,651.00	1,420.00	1,228.80	6,804.01	1,110.76	1,041.89
2073/74		61,416.16	44,696.18	52,037.00	1,027.00	831.35	3,736.88	766.78	793.14

2072/73		42,416.51	30,111.00	37,951.00	932.00	388.43	2,692.48	577.00	716.06
2071/72		37,374.51	27,070.00	33,422.00	685.00	877.07	2,433.13	538.00	394.79
2070/71		31,932.43	21,898.00	27,579.00	704.48	251.83	2,410.78	462.00	314.65
2069/70		28,222.57	19,369.00	25,319.00	780.81	244.05	2,464.31	434.00	291.45
2078/79	Himalayan Bank Ltd	216,291.87	110,694.00	171,487.40	7,851.03	166.04	16,686.80	2,386.76	2,482.14
2077/78		178,490.93	132,858.00	141,021.07	6,045.82	637.72	10,370.84	2,730.27	2,998.62
2076/77		155,884.92	107,295.00	125,264.38	2,637.98	1,083.68	12,178.99	2,521.24	2,586.72
2075/76		133,151.14	97,470.07	109,387.06	1,368.10	1,091.66	11,625.42	1,717.82	2,763.85
2074/75		116,462.30	86,160.00	98,988.79	1,139.07	1,068.38	9,724.87	2,016.53	1,875.61

2073/74		108,603.25	77,798.00	92,334.45	1,246.72	676.84	7,106.68	7,619.84	2,281.77
2072/73		99,863.01	68,951.00	87,335.79	1,354.92	848.10	5,015.84	1,715.00	1,935.91
2071/72		82,801.55	53,476.00	73,538.20	1,951.78	1,524.07	4,627.75	1,965.00	1,112.29
2070/71		73,589.85	45,320.00	64,674.85	1,128.97	1,169.26	4,742.98	1,680.00	959.11
2069/70		61,113.50	39,724.00	53,072.32	1,333.60	869.96	4,627.34	1,535.00	943.70
2078/79	Nabil Bank Ltd	416,170.24	309,071.00	329,576.00	154.16	4,759.69	23,782.29	3,682.73	4,972.75
2077/78		292,566.05	213,772.00	223,408.10	2,648.00	1,667.42	17,253.79	4,464.54	4,668.48
2076/77		238,175.19	153,011.00	190,806.47	1,528.00	1,484.21	16,493.15	3,058.68	3,489.73
2075/76		291,066.22	133,558.73	162,953.99	1,314.70	988.33	17,188.72	2,726.81	4,527.55

2074/75	237,680.03	113,625.15	134,810.67	1,117.84	1,261.24	16,462.91	2,290.16	3,463.24
2073/74	140,697.26	92,471.34	99,078.10	1,614.13	730.52	8,065.59	1,958.61	3,613.20
2072/73	127,619.36	78,211.14	91,237.52	1,624.39	891.61	6,155.66	1,380.10	2,819.33
2071/72	118,696.00	65,501.93	89,528.06	1,659.75	1,192.14	5,762.35	1,356.50	2,093.81
2070/71	90,292.96	54,691.65	64,141.18	1,511.43	1,219.62	3,656.58	1,170.73	2,319.56
2069/70	73,343.59	41,605.68	55,157.96	1,275.70	886.20	5,721.11	1,075.36	2,219.18

2. *Depended and Independent Variables*

ROA	ME	LIQ	CR	AQ	OE
1.2413	15.45	87.15	2.46	0.96	6.09
1.0384	15.42	91.47	2.17	1.08	4.39
0.7555	10.96	92.69	2.29	1.41	5.01
1.1683	13.52	90.26	2.62	0.97	5.92

1.2620	15.31	89.55	2.28	1.97	6.13
1.2914	21.22	85.89	2.30	1.86	4.87
1.6882	26.59	79.34	3.10	1.29	4.67
1.0563	16.23	80.99	2.53	3.24	4.52
0.9854	13.05	79.40	3.22	1.15	5.22
1.0327	11.83	76.50	4.03	1.26	5.68
1.1476	14.87	64.55	7.09	0.15	6.99
1.6800	28.91	94.21	4.55	0.48	3.80
1.6594	21.24	85.65	2.46	1.01	4.83
2.0757	23.77	89.11	1.40	1.12	6.77
1.6105	19.29	87.04	1.32	1.24	4.82
2.1010	32.11	84.26	1.60	0.87	0.93
1.9386	38.60	78.95	1.97	1.23	2.92
1.3433	24.04	72.72	3.65	2.85	2.36
1.3033	20.22	70.07	2.49	2.58	2.82
1.5442	20.39	74.85	3.36	2.19	3.01
1.1949	20.91	93.78	0.05	1.54	6.46
1.5957	27.06	95.69	1.24	0.78	3.86
1.4652	21.16	80.19	1.00	0.97	5.39
1.5555	26.34	81.96	0.98	0.74	6.30
1.4571	21.04	84.28	0.98	1.11	7.19
2.5681	44.80	93.33	1.75	0.79	4.12
2.2092	45.80	85.72	2.08	1.14	4.46
1.7640	36.34	73.16	2.53	1.82	4.25
2.5689	63.44	85.27	2.76	2.23	3.12
3.0257	38.79	75.43	3.07	2.13	5.32

3. *Descriptive Statistics (Calculated directly by using Microsoft Excel)*

Variable	Mean	Standard Deviation	Minimum	Maximum
Return on Assets (ROA)	1.58	0.53	0.76	3.03
Managerial Efficiency (ME)	24.96	11.94	10.96	63.44
Liquidity (LIQ)	83.45	7.88	64.55	95.69
Credit Risk (CR)	2.44	1.31	0.05	7.09
Assets Quality (AQ)	1.41	0.71	0.15	3.24
Operational Efficiency (OE)	4.74	1.47	0.93	7.19

4. Correlation Analysis (*Calculated directly by using Microsoft Excel*)

VARIABLE	ROA	ME	LIQ	CR	AQ	OE
ROA	1.000					
ME	0.863	1.000				
LIQ	0.018	0.036	1.000			
CR	-0.135	-0.126	-0.543	1.000		
AQ	-0.010	0.072	-0.315	-0.038	1.000	
OE	-0.285	-0.423	0.118	-0.034	-0.331	1.000

5. Regression statistics (*Calculated directly by using Microsoft Excel*)

Variables	Coefficients	Standard Error	t Stat	P-value
Intercept/Constant	1.101	0.922	1.194	0.244
ME	0.039	0.005	7.969	0.000
LIQ	-0.006	0.009	-0.666	0.512
CR	-0.028	0.050	-0.560	0.581
AQ	-0.059	0.086	-0.689	0.497
OE	0.027	0.042	0.636	0.531

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CHAPTER – I INTRODUCTION 1.1 Background of study Nepal, an agriculture-

dominated country, is in its developmental **phase** . Several **factors** , including **being landlocked, poor resource mobilization** , a **limited domestic market, fragile and erratic government policies, and political instability**

, contribute to its slow development.

The banking sector is a crucial component **of the economy** and **plays a** significant **role in**