



# Bank Specific Factors on the Financial Performance of Commercial Banks in Nepal

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## Abstract

*Purpose-* This study examines the bank specific factors and financial performance of commercial banks in Nepal. The study period of Nepalese banks' performance during a period ranging from 2013 to 2023.

*Design/methodology/approach-* Descriptive research design has been used in analyzing the performance of commercial banks. Banks' performance is measured in terms of ROA, ROE and NIM. Profitability has been taken as the proxies of performance of banks in this study. Based on the findings of the study.

*Findings-* Nepali commercial banks are performing moderately. They are not able to increase their performance level significantly. Their performance measured in terms of profitability is not very satisfactory. However, observing the significant decreased in level of non-performing assets, it is concluded that the internal management, credit policy, and business management aspects of the Nepalese commercial banks have been improving. On the other hand, Nepalese commercial banks are well-capitalized and do not have solvency problems. Because of maintaining an adequate capital adequacy ratio, they have the capacity to absorb unexpected losses and safeguard the depositors, investors and creditors.

*Original/Value-* Few studies have addressed the interplay of microfinance on poverty alleviation in Nepali context.

*Paper type-* Research paper

## Introduction

The good performance of commercial banks rewards investors for their investments and has critical implications for the growth of the banks in particular and economic growth of countries in general. On the other hand, the poor performance of commercial banks leads to bank failure, eventual crisis and negative repercussions on economic growth due to contagion effects. This, therefore, suggests that commercial bank performance is a function of a number of factors which could be specific and/or external factors. Mbella and Magloire (2017), the performance of commercial banks has thus been of great interest to academic research since the great depression of 1929. Bank performance refers to how well a bank is doing in providing its products and services to customers. The two main aspects of performance include: financial



performance (liquidity, solvency, efficiency and profitability) and market competition. Profitability, efficiency and risk are the major ones. In the literature, bank performance is usually expressed as a function of internal and external determinants (Athanasoglou et al., 2005).

There are various factors that affect the profitability of banking sector in any economy. Most studies divide the determinants of commercial banks performance into two categories, namely internal and external factors (Khravish, 2011).

Alam et al., (2011) Commercial banks are an essential part of the financial system without the existence of whom the smooth and efficient running of business activities encounter challenges and problems. The commercial banks help in mobilizing savings through a network of branch banking. People in developing countries, like Nepal, have low incomes but the banks induce them to save by introducing a variety of deposit schemes to suit the needs of individual depositors.

Banking system is considered as the heart of an economy because of its contribution toward the mobilization of savings and thus to the utilization of this country's resources. (Masood et al., 2012) The growth of the economy depends upon the financial performance of the commercial bank of the country. Financial performance of a bank depends upon various internal and external factors.

The profitability and overall performance of banks are affected by different factors of the economy. The factors that affect the commercial bank profitability would be those that affect the banks' revenue and the costs. It is important to understand those factors which have effects on banks' profitability. Therefore, the impact of the internal and external determinants of commercial bank profitability is analyzed with a view to show their impact on the banks' revenue and costs (Pradhan and Shrestha, 2016).

Bank performance is of utmost importance to other stakeholders like depositors, bank managers, and investors. Hamid and Azmi (2011) state that in a competitive financial market, bank performance provides signals to depositors and investors alike, on whether to invest or withdraw funds from a bank. The purpose of this study is to analyze the impact of bank specific variables on the performance of commercial banks of Nepal. Specifically, it examines the performance of commercial banks through the bank specific variables of capital adequacy ratio, asset quality, management efficiency, liquidity management, size and credit risk. This study focuses on the impact of bank-specific variables on the financial performance of commercial banks. Following hypotheses have been formulated for the study.

### **Hypothesis:**

H0: There is no significant impact of bank specific variables on financial performance of commercial banks.

H1: There is a significant impact of bank specific variables on financial performance of commercial banks.

### **Literature Review**

Financial performance is the process of measuring the results of an organization's policies and operations in terms of monetary value. These results are reflected in the firm's profitability, liquidity or leverage. Evaluating the financial performance of business allows decision makers to judge the results of business strategies and activities in objective monetary terms. Normally the ratios are used to determine the financial performance of an organization. A well designed and implemented financial management is expected to contribute positively to the creation of a firm's value (Padachi, 2006). Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and/or likely to be in the future, and to provide recommendations to solve the problems (Pradhan, 1986).

Various different researchers and writers have different ideas and definitions about performance. However, the majority of the researchers have used the term performance to express the range of measurements of transactional efficiency on input and output efficiency. Hence, financial performance is the process of measuring the results of an organization's policies and operations in terms of monetary value. In other words, financial performance analysis is a study of relationships among the various financial factors and identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items as disclosed by a single set of

financial statements and a study of the trend of these facts as shown in a series of statements.

Different studies undertaken on the performance of banks suggest that performances of banks are affected by both internal and external factors. Shaher et al., (2011) studied twenty-three factors that affect the performance, out of which they have narrowed down the top five factors that affect the performance of banks, which are: banks characteristic, competition environment, economic indicator, regulation and legal environment and country risk.

The performance of management is also often shown by subjective assessment of management systems, organizational discipline, control systems, and quality of staff among other factors (Ongore and Kusa, 2013). Commercial banks that hold a reduced level of liquid assets face the risk of not having the ability to finance their daily operations. Liquidity is measured using the common financial ratios that show the liquidity position of a bank. The ratios include customer deposit to total asset, total loan to customer deposits and cash to deposit ratio (Nyanga, 2012).

Earning ability can be evaluated using a number of accounting ratios namely return on assets, return on equity, and net interest income margin. The performance of management is also often shown by subjective assessment of management systems, organizational discipline, control systems, and quality of staff among other factors (Ongore and Kusa, 2013). Loans comprise the largest portion of a bank's assets and constitute the greatest amount of risk to their capital (Nyanga, 2012). Ampaire (2019) researched bank-specific factors on the financial performance of commercial banks using monthly data for the period 2000- 2019 of Uganda. The study revealed that higher profitability levels are instigated by higher loans lent to the public at lower interest rates. The more liquidated the bank is in terms of capital, the more profits they reap in return. The study found out that the ratio of non-performing loans and profitability have an inverse relationship, the higher the ratio of non-performing loans, the lower the profitability of the firm's.

## **Research Methodology**

### **Research Design**

Descriptive research design has been employed in describing the status of bank performance in terms of ROA, NIM and ROE.

### **Population and Sample**

There are 20 commercial banks operating in Nepal as of mid-July, 2023 (Nepal Rastra Bank, 2020). These 20 commercial banks are defined as the population of this study. The study has taken nine banks as sample by using stratified random sampling method. Three types of banks such as government owned, domestic private and joint-venture banks have been selected.

**Table 1:** *List of Sample Banks*

<b>S. No.</b>	<b>Name of the sample banks</b>	<b>Ownership structure</b>	<b>Study Period</b>
1	Nabil Bank Limited (NABIL)	Joint venture banks	2013 - 2023
2	Standard Chartered Bank Nepal Limited (SCBN)	Joint venture banks	2013 - 2023
3	Everest Bank Limited (EBL)	Joint venture banks	2013 - 2023
4	Siddhartha Bank Limited (SBL)	Private banks	2013 - 2023
5	Sanima Bank Limited (SANIMA)	Private banks	2013 – 2023
6	NIC Asia Bank Limited (NICA)	Private banks	2013 – 2023
7	Agricultural Development Bank Limited (ADBL)	Public banks	2013 – 2023
8	Nepal Bank Limited (NBL)	Public banks	2013 – 2023
9	Rastriya Banijya Bank Limited (RBBL)	Public banks	2013 – 2023

### **Nature and Source of Data**

This study is based on secondary data. The data has been collected from annual reports of the sample banks. The bank-specific data were extracted from the annual reports of the sample banks. The study has covered the period from 2013 to 2023. This study has based on cross-sectional time-series data.

*Models and Variables*

The following models have been used to study the impact of bank-specific variables on the financial performance of commercial banks. According to this model, financial performance is a function of capital adequacy ratio, management efficiency, asset quality, liquidity ratio, credit risk,

Model 1  
 $ROA = \beta_0 + \beta_1 CAR + \beta_2 AQ + \beta_3 ME + \beta_4 LM + \beta_5 SIZE + \beta_6 CR + e \dots \dots \dots (1)$

Model 2  
 $ROE = \beta_0 + \beta_1 CAR + \beta_2 AQ + \beta_3 ME + \beta_4 LM + \beta_5 SIZE + \beta_6 CR + e \dots \dots \dots (2)$

Model 3  
 $NIM = \beta_0 + \beta_1 CAR + \beta_2 AQ + \beta_3 ME + \beta_4 LM + \beta_5 SIZE + \beta_6 CR + e \dots \dots \dots (3)$

- Where,  
ROA = return on assets  
ROE = return on equity  
NIM = net interest margin  
CAR = the capital adequacy ratio  
AQ = asset quality  
ME = management efficiency  
LM = liquidity management  
SIZ = bank size  
CR = credit risk measured.  
 $\beta_0$  = constant  
e = error  
 $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5,$  and  $\beta_6$  are parameters of the independent variables

**Variables used in the study**

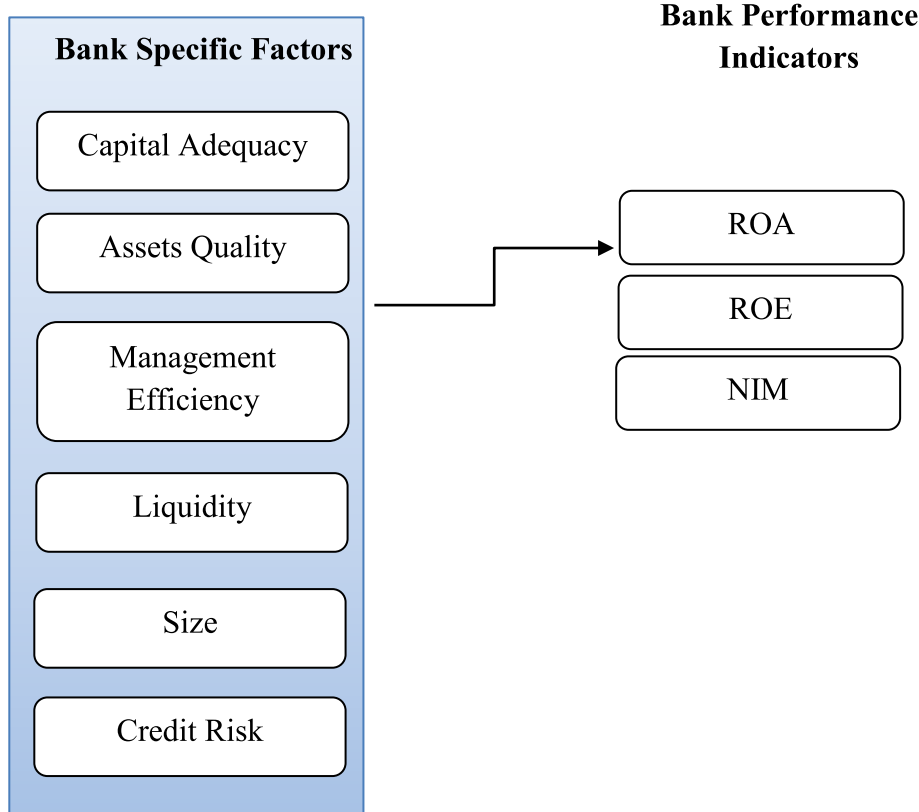
*Dependent Variables*

Performance of banks can be evaluated through profitability of the banks. The major indicator of profitability are ROA and ROE. However, under this study, the ROA, ROE and NIM will be taken as dependent variables to measure the performance of commercial banks in Nepal. ROA is measured as the percentage of a year's net profit to the total assets of the same year. Similarly, ROE is calculated as the percentage of a year's net profit to the total equity of the same year. Further, NIM is measured by net interest income divided by total interest earning assets (Rani & Zergaw, 2017).

*Independent Variables*

Under this study, the independent variables are bank-specific variables such as capital adequacy, assets quality, management efficiency, liquidity management, bank size and credit risk.

**Research Framework and Definition of Variables**



**Figure 3.2.** Schematic diagram of theoretical framework.

**Operational Definition of Variable**

*Capital Adequacy Ratio (CAR)*

The capital adequacy ratio (CAR) is a measure of a bank’s capital. It is expressed as a percentage of a bank’s risk weighted credit exposures. Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own funds available to support the bank’s business and act as a buffer in case of adverse situations. Capital adequacy ratio is calculated dividing the capital fund by risk weighted assets. As per the NRB guideline, commercial banks in Nepal must maintain the capital adequacy ratio above 10 percent.

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100$$

*Assets Quality (AQ)*

Assets Quality represents the degree of financial strength and risks in a bank’s assets, mainly loans and investments. The non-performing asset to loan and advances ratio has been used in this study as a proxy of asset quality.

*Management Efficiency (ME)*

Management efficiency means compliance with set norms, ability to plan and respond to changing environment, leadership and administrative capability of the bank. Such efficiency is reflected in the income-generating capacity of bank management. Therefore, the efficiency of the management has been measured with the help of operating income to total assets ratio.

*Liquidity Management (LM)*

It is of utmost importance for a bank to maintain the correct level of liquidity, which will otherwise lead to declined earnings. The liquid assets to total assets ratio is used in this study to measure the liquidity of the bank.

This ratio is arrived at by dividing liquid assets by total assets. The proportion of liquid assets to total assets indicates the overall liquidity position of the bank.

*Size of banks*

There are different aspects to measure the size of banks. In this study, size has been measured by taking the natural logarithm of total assets of banks. The authors point out that, the bigger the bank size, the more difficult it is to manage it. In contrast, Masood and Ashraf (2012) had found a positive impact of bank size on performance

*Credit Risk*

Credit risk is the probability that credit capital becomes bad debt. It is the potential that a bank borrower will fail to meet its obligations under the agreed terms. The credit risk situation of a bank can be exacerbated by inadequate institutional capacity, inefficient credit guidelines, inefficient board of directors, low capital adequacy ratios and liquidity, compulsory quota lending because of government interference and lack of proper supervision by the central bank. Loan loss provisions to total loans ratio is used as a proxy of credit risk in this study.

**Results and Discussion**

**Table 2: Descriptive Statistics**

*This table shows the results of descriptive statistics of dependent variables and independent variables. Return on asset, Return on Equity, Net interest margin are dependent variables and Capital adequacy ratio; AQ: Asset quality; ME: Management efficiency; LQ: Liquidity ratio; SZ: Size, measured in terms of natural logarithm of total assets; CR: Credit risk are independent variables.*

<b>Variables</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Median</b>	<b>S.D.</b>
Panel A: Performance measurements (dependent variables)					
ROA (%)	0.30	3.46	1.78	1.63	0.63
ROE (%)	5.72	42.94	17.81	16.05	6.72
NIM	2.10	8.06	3.60	4.00	1.19
Panel B: Bank specific variables (independent variables)					
CAR (%)	2.94	22.99	13.48	13.00	3.44
AQ (%)	0.01	8.98	1.99	1.12	1.95
ME (%)	1.98	6.96	4.47	4.27	1.01
LQ (%)	4.39	39.02	14.92	12.61	6.75
SZ (log)	23.34	26.57	25.33	25.39	0.63
CR (%)	0.45	14.11	2.91	1.93	2.37

Table 4.1 reveals the descriptive statistics for the variables used in this study. It provides details in the form of maximum, minimum, mean, median and the standard deviation for the dependent variable and its explanatory variables. Similarly, the results show the descriptive statistics for bank-specific and macroeconomic variables for the same period. The results reveal that ROA, ROE, and NIM each range between minimum values of 0.30, 5.72, and 2.10, and maximum values of 3.46, 42.94 and 8.06 respectively. It also shows that the mean value of ROA, ROE, and NIM are 1.78, 17.81 and 4.24 respectively. Mean value tells the central location of observations and standard deviation describes the variability. The mean value of ROA is 1.78 percentage with a range from 0.30 percentage to 3.46 percentage, indicating that the majority banks have higher performance. The mean value of ROE is 17.81 percentage with a range from 5.27 percentage to 42.94 percentage, indicating that the majority banks have higher performance. Likewise, the mean value of NIM is 4.24 percentage with a range from 2.10 percentage to 8.06 percentage, indicating that the majority of firms have average performance in term of NIM.

The results in Table 4.1 also indicate that there is a high variation between the mean values and standard deviation of both bank-specific and macroeconomic variables for the same period. Bank specific variables have a mean value of 13.48 percentage for CAR, the ratio of AQ, ME, LQ, SZ, and CR are 1.99 percentage, 4.47 percentage, 14.92 percentage, 25.33 percentage, and 2.91 percentage with standard deviation of 3.44 percentage,



1.95 percentage, 1.01 percentage, 6.75 percentage, 0.63 percentage, and 2.37 percentage respectively.

### Correlation Analysis

This table shows the results of descriptive statistics of dependent variables and independent variables. Return on asset, Return on Equity, Net interest margin are dependent variables and Capital adequacy ratio; AQ: Asset quality; ME: Management efficiency; LQ: Liquidity ratio; SZ: Size, measured in terms of natural logarithm of total assets; CR: Credit risk are independent variables.

**Table 3:** Correlation Matrix and Multicollinearity Diagnostics

	CAR	AQ	ME	LQ	SZ	CR
CAR	1					
AQ	-.138	1				
ME	.279**	.337**	1			
LQ	.214*	-.143	.032	1		
SZ	.034	.088	-.131	-.091	1	
CR	-.046	.113**	.333**	-.112	.015	1

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

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

As exhibited in Table 4.13, low correlation among explanatory variables, except the correlation between AQ and CR, indicates no dependency among them, thus indicating a low likelihood of multicollinearity in the regressions model used in this study.

### Results of Model Estimation

To examine the impact of bank-specific and macroeconomic variables on bank performance, the following three specifications are estimated under Pooled OLS Regression Model.

$$BP_{it} = \alpha_0 + \beta_i X_{it} + \epsilon_{it}$$

$$BP_{it} = \alpha_0 + \beta_i X_{it} + \lambda_i MACRO_t + \epsilon_{it}$$

$$BP_{it} = \alpha_0 + \lambda_i MACRO_t + \epsilon_{it}$$

Where, BP denotes bank performance;  $X_{it}$  and  $MACRO_{it}$  are the vectors of bank-specific and macroeconomic variables, respectively. The bank-specific variables include the capital adequacy ratio (CAR), asset quality (AQ), management efficiency (ME), liquidity (LQ), size (SZ) and credit risk (CR).

Above mentioned models are used to estimate three different scenarios. First, only the bank-specific factors are included as the explanatory variables. Second, to examine the combined effect of macroeconomic and bank-specific factors, both bank-specific and macroeconomic variables are included in the model, and finally, only macroeconomic variables are used in the model. These three scenarios are used for each of three dependent variables - ROA, ROE and NIM, resulting in nine models.

The results reveal that the adjusted R2 for Model 1 is 0.65767, but they are 0.65935 and 0.04782 in the cases of Model 2 and 3 respectively. These indicate that about 66 percent of the variability in ROA is explained by the six bank-specific factors included the Model 1. When macroeconomic variables are also added to the explanatory variables (in Model 2), nearly 66 percent of the variability of the ROA is explained by bank-specific and macroeconomic variables together. Further, only about five percent of the variability in ROA is explained by the two macroeconomic factors included in Model 3. The results also show that the p-values of F-statistic are significant for all the three models indicating the models are fitted well.

#### Model 1

Table 4.14 depicts the beta coefficient of AQ, ME, LQ and SZ are positive which indicates a positive influence on ROA but only the beta coefficient of ME is statistically significant at the one percent level. The beta coefficients

of CAR and CR are negatives indicating a negative impact on ROA however, they are statistically insignificant. The results show that the increase in the independent variables AQ, ME, LQ and SZ would increase the ROA of commercial banks and the decrease in CAR and CR would increase ROA. Except for the beta coefficients of ME, none of the other variables are found to be significant even at a five percent level of significance.

### *Model 2*

In Model 2, macro-economic variables are also added in the explanatory variables. As shown in Table 4.14 the beta coefficients of CAR, AQ, ME, LQ SZ are positive which indicates their positive impact on ROA. But as in Model 1, here in Model 2 also, only the beta coefficient of ME is statistically significant at the one percent level. As in the first model, the beta coefficient is negative and statistically insignificant for CR indicating a negative impact on the dependent variable, ROA. According to the results, with the increase in the independent variables, CAR, AQ, ME, LQ SZ, GDP and INF, the ROA of commercial banks would also increase. Similarly, the ROA would increase if CR of the banks decreased.

### *Model 3*

The beta coefficients of ME and LQ are positive and significant, indicating a strong positive impact on the profitability of banks measured in terms of the ROE. The beta coefficient of AQ is also positive but not significant implying a weak positive influence on the ROE. But, the beta coefficients of CAR and CR are significantly negative, indicating a strong negative impact on the ROE. SZ has a very weak negative impact on ROE as the beta coefficient of SZ is statistically insignificant. Thus, with the increase in the AQ, ME, and LQ of commercial banks, their ROE would also increase. Similarly, the ROE of banks would decrease if their CAR, SZ and CR increased.

## **Discussion**

### *Influence on ROA*

When only the bank-specific factors are included in the explanatory variables (in Model 1), the capital adequacy ratio (CAR) influences the level of ROA negatively but not at statistically significant level. From this result, it is clear that bank performance tends to increase when capital base of a bank is decreased. This finding contrasts with finding of the study by Naceur (2003) who have found profitability tend to be associated with banks that hold relatively high amount of capital. The level of ROA is positively affected by the AQ (measured in terms of a non-performing asset to loan and advances ratio). This result is not supported by the theory. Also, this result is contrast with the result of Bilal, Saeed, Gull and Akram (2013) who found that the nonperforming loans to total advances have a negative significant impact on ROAs. The management efficiency (ME) has the positive and significant influence on ROA, which indicates that the rise in ME increases the bank performance. This result contrasts with the result of [Jha and Hui \(2012\)](#). The liquidity (LQ) and size (SZ) have positive influence on the ROA. However, this influence is statistically not significant. Credit risk (CR) negatively but insignificantly influence ROA of the commercial banks. This outcome is consistent with Riaz, and Mehar (2013) who have reported that credit risk has a negative impact on ROA. The size of the bank has a significant positive influence on ROAs and hence, support the too big to fail theory. And this result is consistent with finding of the study by [Jha and Hui \(2012\)](#), Al-Homaidi et al. (2018) but contrast with the findings of Karim et al. (2010).

CAR positively but statistically insignificantly influences ROA when macro-economic variables are added in explanatory variables (Model 2). This is because highly capitalized banks would have a higher long-term financing capacity and solvency. Similarly, AQ, LQ and SZ also lead to a rise in ROA, but they are too statistically insignificant. Increase in ME leads to a rise in ROA significantly; on the other hand, decrease in CR leads to increase in ROA but insignificantly.

When macroeconomic determinates (i.e. economic growth and inflation) are regressed separately excluding bank-specific variables, GDP show statistically significant positive effect on ROA while INF also shows positive but insignificant effect on ROA.



### *Influence on ROE*

Concerning the impact of bank-specific factors on their efficiency, measured in terms of ROE, the results reveal that CAR, ME, LQ and CR have statistically significant impact on ROE. Among them, CAR and CR have negative impact and ME and LQ have positive impact. This suggests that maintaining too high capital adequacy affects negatively the performance of banks in terms of ROE. AQ influence positively but statistically insignificantly to the ROE of banks. Similarly, SZ have negative but statistically insignificant impact on ROE.

When macroeconomic factors are also included in the regression model, the increase in bank-specific variables, ME and LQ and macroeconomic variable, INF led to a rise in ROE significantly. On the other hand, decrease in CAR and CR lead to increase in ROE significantly. AQ, SZ and GDP influence ROE positively but not at statistically significant level.

### *Influence on NIM*

Among bank-specific factors, only ME significantly impact on NIM, and it makes positive impact. All the remaining independent variables (CAR, AQ, LQ, SZ, CR) also make positive impact on NIM, but statistically not significant. The finding that SZ does not influence significantly, is consistent with the finding of [Athanasoglou et al. \(2008\)](#) who revealed that bank size does not significantly influence a bank's profitability.

## **Summary and Conclusion**

As the last part of the study report, this chapter presents the summary, conclusions and implications along with some recommendations for corrective measures to be undertaken by the concerned authorities.

### **Summary**

The banking sector of developing economies like Nepal plays a significant role in the economic acceleration process of the countries. Therefore, studying the performance of banking sectors of developing nations is of greater significance. Banks mobilize capital from savers to users. In this process, they perform a wide variety of financial services - from checking accounts and savings plans to loans for corporations, consumers and governments. Globally, the banking sector has been experiencing major changes in its operating environment. Domestic as well as international factors have affected the structure and performance of banks. Banking sector interventions are expanding rapidly to include investment banking, insurance security, financial planning, advisory services for mergers and acquisitions, the selling to corporations and customers of risk management services, and various other creative services. Banks are no longer confined to conventional services; rather they become more and more general providers of financial services. The traditional method of the services of banks have been changing due to the changes in technology.

Nepalese banks are also offering their clients a wide range of services by adopting the latest developments in the international banking sector. Through a joint venture and a strategic alliance with international banks they bring new technologies and innovations in the banking sector of Nepal. Banking software, E-banking, mobile banking, debit card, credit card, prepaid card, ATM, etc. are now become common in the Nepalese banking sector. These technologies have not only increased the efficiency and effectiveness of the banks, but also have saved significant time of customers.

Despite the increased trend toward bank disintermediation observed in many countries, the role of banks remains central in financing economic activity in general and different segments of the market in particular. A sound and profitable banking sector is able to absorb negative shocks and contribute to the stability of the financial system. Therefore, the determinants of bank performance have attracted the interest of academic research as well as of bank management, financial markets and bank supervisors.

Bank performance can be measured from different dimensions. Among them, profitability and efficiency are the major ones. Many studies express bank performance as a function of internal and external determinants. Bank's balance sheets and profit and loss account are the major sources from which internal determinants are derived from. Such determinants of performance are known as bank-specific determinants. External determinants

are the variables that affect the operation and performance of banks but are not in the control of bank management.

The banking sector plays important role in the economic acceleration of a nation by channeling the funds from saver units to user units. In this process, the banks facilitate the growth of business by providing capital in the form of loan. Banks can perform the intermediation function efficiently only when they are financially sound and profitable. Therefore, it is important to assess their financial performance and to examine the influence of different variables – bank-specific and macroeconomic - on their performance. It is important to investigate the determinants associated with success to figure out the actions that can push up the performance of banks. Stakeholders are also interested to know how banks are performing. Hence, this study focuses on examining the bank performance in terms of profitability, and in examining the level of the influence of internal and external factors on the performance of banks.

Bank performance has been measured in terms of return on asset, return on equity and net interest margin. The key influencing factors of bank performance are considered to be capital adequacy, asset quality, management efficiency, liquidity, size, credit risk, economic growth, and inflation.

The study used the financial data extracted from annual reports of sampled banks from the year 2013 to 2023. It covers nine commercial banks that were operating in Nepal during the study period. The study used descriptive and causal research designs. Descriptive research design has been used in analyzing the performance of commercial banks. The study used causal research design to measure the influence of bank-specific and macroeconomic variables on bank performance. Banks' performance is measured in terms of ROA, ROE and NIM. The key internal factors influencing bank performance are considered to be capital adequacy, asset quality, management efficiency, liquidity, size and credit risk. This study has used financial ratios to examine the profitability of the banks. Financial ratio is used to measure the bank-specific variables also. Regression model has been used to find the effect of bank-specific variables and macroeconomic variables on bank performance. In general, the existence of multicollinearity is indicated by a correlation coefficient  $> 0.7$  among two or more predictors. As the correlation coefficients among explanatory variables of this study are found within the acceptable range, it is considered the model is free of multicollinearity.

The findings provide evidence that bank level factors have a significant impact on Nepalese commercial bank profitability over the study period 2013 to 2023. Similarly, macroeconomic factors have also a significant impact on profitability of banks. The findings call for a number of policy measures for improved competitiveness of Nepalese commercial banks in the financial intermediation services to the public.

## **Conclusion**

Profitability has been taken as the proxies of performance of banks in this study. Based on the findings of the study, it is concluded that the Nepalese commercial banks are performing moderately. They are not able to increase their performance level significantly. Their performance measured in terms of profitability is not very satisfactory. However, observing the significant decreased in level of non-performing assets, it is concluded that the internal management, credit policy, and business management aspects of the Nepalese commercial banks have been improving. As a result, the confidence of investors, depositors and lenders will increase, consequently, the profitability and credibility of banks will also increase in the future. On the other hand, Nepalese commercial banks are well-capitalized and do not have solvency problems. Because of maintaining an adequate capital adequacy ratio, they have the capacity to absorb unexpected losses and safeguard the depositors, investors and creditors. By reducing the non-performing assets, banks have reduced their credit risk too. The macroeconomic variable, GDP has been favorable to the banks because on average there had been positive annual growth in GDP. But due to COVID-19 Pandemic, there is an adverse effect of GDP and inflation in the last two years. NABIL, ADBL and SCBN are best banks in term of financial performance.

Based on the regression analysis, it is concluded that management efficiency, capital base, credit risk are the important determinants of the profitability of Nepalese commercial banks. The improvement in management efficiency would increase the performance of commercial banks measured in terms of ROA and NIM. The growth in capital base, management efficiency, liquidity and improvement in credit risk would increase the performance

of commercial banks measured in terms of ROE.

The outcomes of the present study have significant contributions to the existing stock of literature by comprehensively clarifying and critically analyzing the current state of Nepalese commercial banks' performance. More specifically, this study provides evidence of the factors that may affect Nepalese banks' performance during a period ranging from 2012 to 2021. During this period, Nepalese commercial banks have witnessed several challenges such as an earthquake of 2015, an economic blockade imposed by India, liquidity crunches, tremendous increment made in the capital-base of banks within a short period of time, mergers and acquisitions wave, and weak corporate governance cases that might have hit some Nepalese banks. This made the investigation of this topic very important and interesting and provided empirical evidence for bankers and policymakers.

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