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Exploring Trends in Financial Performance Metrics: An In-Depth Study of Nepalese Banks Over the Past Decade

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Abstract

This study investigates the trends in Return on Assets (ROA) and Return on Equity (ROE) within Nepalese banks over the past decade, while also assessing the growth of banking infrastructure, including branches, ATMs, and card usage. Utilizing a descriptive and correlational research design, secondary data spanning from fiscal years 2070/71 to 2079/80 was analyzed, drawing on monthly records from 20 commercial banks to yield 2,400 observations. Data was collected from annual reports, the Nepal Rastra Bank, the Central Bureau of Statistics, and economic surveys. Results revealed a significant initial rise in both ROA and ROE, indicating robust profitability, followed by notable declines that suggest underlying structural weaknesses in the banking sector. The expansion of banking infrastructure was substantial, with a marked increase in branches and ATMs between 2074 and 2075, positively correlating with financial performance indicators such as total deposits and loans. The study concludes that enhancing banking infrastructure is crucial for improving financial stability and performance in Nepal's banking sector. The findings highlight the interconnectedness of physical banking presence and financial health, emphasizing the need for strategic reforms. The novelty of this research lies in its comprehensive analysis of the relationships between banking metrics and financial outcomes in the Nepalese context, providing valuable insights for policymakers and financial institutions aiming to navigate current challenges and foster sustainable growth.

Keywords: Bank, Finance, ROA, ROE, Nepal

Introduction

The banking sector in Nepal has undergone significant transformations over the past decade, influenced by a combination of regulatory reforms, technological innovations, and broader macroeconomic changes (Pandey, Adhikari, & Shrestha, 2022; Shrestha, Karki, Mahat, &

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Neupane, 2024). These factors have fundamentally reshaped the operational landscape of banks and have necessitated adaptive strategies to ensure long-term sustainability and growth.

Regulatory reforms have been pivotal in strengthening the banking sector's framework (Shrestha, 2021). The Nepal Rastra Bank (NRB), the central regulatory authority, has implemented a series of measures to enhance the stability and integrity of financial institutions. Stricter capital adequacy requirements aligned with international standards, such as those outlined in the Basel Accords, have been enforced (Glantz & Mun, 2011; Karki & Khadka, 2024). This ensures that banks maintain adequate capital buffers to absorb potential losses, which is critical for protecting depositor interests and maintaining public confidence in the financial system. Furthermore, NRB has encouraged mergers and acquisitions among banks to reduce fragmentation and promote financial stability, leading to the emergence of stronger, more competitive institutions (Nepal Rastra Bank, 2014).

Technological advancements have also played a transformative role in the banking sector (Rodrigues, Oliveira, & Rodrigues, 2023). The rise of digital banking, mobile banking applications, and fintech solutions has revolutionized how banks deliver services. Customers now demand faster, more convenient access to financial products, prompting banks to invest heavily in digital infrastructure. This shift towards technology has not only improved customer experience but has also increased financial inclusion by enabling access to banking services in remote and underserved areas (Ozili, 2018; Budhathoki, Bhattarai, & Upadhyaya, 2024). However, this transition also brings challenges, such as the need for enhanced cybersecurity measures and the management of digital risks.

Broader macroeconomic changes have further influenced the banking sector's dynamics (Kunwar & Jnawali, 2023). Factors such as inflation, foreign exchange fluctuations, and shifts in global economic conditions have had a direct impact on banking operations. The COVID-19 pandemic, for example, exposed vulnerabilities within the sector, leading to increased credit risk and liquidity challenges. Banks have had to adapt by refining their risk management strategies, focusing on asset quality, and ensuring compliance with evolving regulatory standards. Additionally, economic recovery initiatives and government policies aimed at stimulating growth have created both opportunities and challenges for banks (Bhattarai, 2019).

As the banking sector navigates these multifaceted changes, conducting a detailed analysis of financial performance becomes essential. Key performance indicators, including the number of branches, ATMs, debit and credit cards issued, withdrawal volumes, total deposits, and loans disbursed, provide valuable insights into how well banks have adapted to the evolving environment (Nazneen, Goyal, Bhalla, & Jeet, 2019). Additionally, profitability ratios, capital adequacy, asset quality, and liquidity measures further elucidate the sector's overall health (Elviani & Sumarna, 2024). This comprehensive analysis not only assesses the current state of the banking sector but also helps identify potential risks and areas for improvement, guiding strategic decisions for future growth and stability.

Understanding these financial trends is crucial for various stakeholders, including policymakers, regulators, and bank management (Karki, Mahat, Neupane, Shrestha, &

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Shrestha, 2024). By evaluating the sector's resilience and adaptability, stakeholders can make informed decisions to enhance regulatory frameworks, improve banking practices, and foster a robust financial environment. Ultimately, this comprehensive analysis will guide the future trajectory of Nepal's banking sector, ensuring it remains equipped to face ongoing challenges while supporting economic development.

Objectives

To examining the trends in Return on Assets (ROA) and Return on Equity (ROE) in Nepalese banks, assessing their overall financial health,

To assess the trends in the number of branches, ATMs, debit cards, and credit cards in Nepalese banks over the past decade and analyze how this growth correlates with financial performance indicators such as total deposits and loans disbursed.

Research Methodology

This study employs a descriptive and correlational research design, utilizing secondary data to explore the relationships between independent and dependent variables. The analysis focuses on up to 10 years of data regarding the number of ATMs, bank branches, account holders, and debit card users. The dataset encompasses monthly records from 20 commercial banks, covering the fiscal years 2070/71 to 2079/80, resulting in a total of 2,400 observations.

The necessary data for this research was gathered from the annual reports of the respective commercial banks, as well as the monthly Banking and Financial Statistics reports from the Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), and economic surveys. Key data sources include the NRB's annual reports, its website, yearly economic bulletins, CBS databases, and reports from the Ministry of Finance (MoF). Data analysis was conducted using SPSS and Excel, employing both descriptive and inferential statistical tools to interpret the findings (Mahat & Aithal, 2022).

Literature Review

The performance of banks is essential for understanding the overall stability of financial systems, particularly in emerging markets like Nepal. Key financial metrics such as Return on Assets (ROA) and Return on Equity (ROE) serve as critical indicators of a bank's efficiency and profitability. Athanasoglou et al. (2008) argue that banks with higher ROA and ROE are generally better equipped to withstand economic shocks, enhancing their ability to sustain operations during downturns. This resilience is vital for maintaining confidence in the banking sector and ensuring financial stability.

The growth of banking infrastructure significantly influences financial performance. Numerous studies have established a strong correlation between the number of bank branches and overall financial health. Jha and Hui (2012)found that an increased number of branches enhances customer access to banking services, leading to higher deposits and lending activities. A robust banking network not only improves service delivery but also enhances consumer trust and

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encourages savings, ultimately contributing to financial stability, as noted by Esterik-Plasmeijer & Raaij (2017).

The rise of digital banking and the use of debit and credit cards have further transformed the traditional banking landscape. Research by Biradar (2024)illustrates that increased issuance of debit and credit cards correlates with rising deposit levels and a greater willingness to take on loans. This shift towards cashless transactions boosts operational efficiency and promotes consumer spending and borrowing behaviors, aligning with trends identified, which highlights the growing acceptance of digital payment methods among consumers (Pathak, 2024).

Despite these positive correlations, challenges remain in the banking sector. Naceur and Omran (2011)emphasize that the rapid expansion of banking services, particularly without adequate risk management practices, can lead to increased levels of non-performing loans (NPLs). This underscores the necessity for banks to strike a balance between growth and risk management to maintain financial health. Moreover, regulatory frameworks play a critical role in shaping banking performance. Studies suggest that effective regulation can mitigate risks associated with aggressive expansion and enhance the overall robustness of financial institutions (Yang, Gan, & Li, 2019). Regulatory bodies must establish clear guidelines that encourage responsible lending while fostering growth, ensuring that banks can thrive without compromising financial stability.

In summary, the existing literature underscores the importance of financial metrics and banking infrastructure in determining the performance of banks. By examining these interconnected factors, researchers can better understand the challenges and opportunities present in the Nepalese banking sector and similar contexts. This holistic approach is essential for informing policy decisions and strategic initiatives aimed at enhancing the stability and growth of financial institutions, ensuring their ability to adapt to changing economic landscapes and serve the needs of their communities effectively.

Results

This section presents the trends in Return on Assets (ROA) and Return on Equity (ROE) among Nepalese banks, along with the growth in the number of branches, ATMs, debit cards, and credit cards over the past decade. Additionally, it analyzes how this expansion correlates with key financial performance indicators, such as total deposits and loans disbursed.

Return on Assets (ROA) of Nepalese Bank

The graph reflects a critical trend in the Nepalese banking sector (or a related metric) from 2070 to 2081, highlighting an initial period of growth followed by a significant decline. Between 2070 and 2075, the metric steadily rises from 27.52 to a peak of 40.13, suggesting a phase of economic expansion, likely driven by favorable market conditions, increased lending, and consumer confidence. However, this growth may have masked underlying risks such as over-lending, weak regulatory oversight, or speculative financial activities. The rapid increase raises concerns about whether this growth was sustainable or built on fragile foundations.

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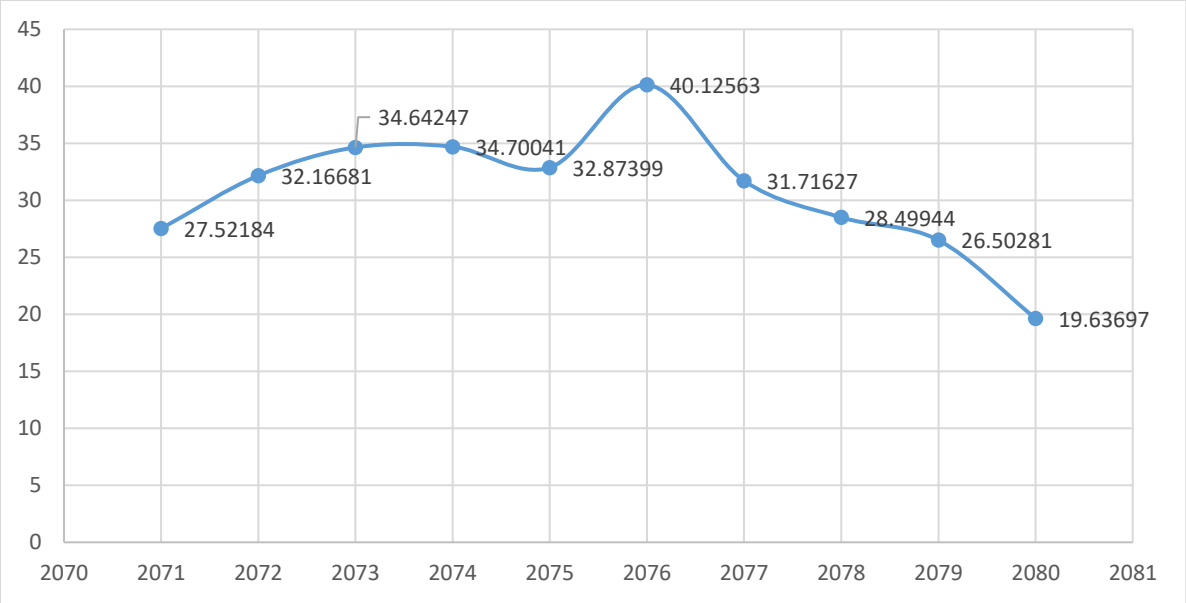

Figure 1: Return on Assets (ROA)

Source: NRB, CBS, MoF

Post-2075, the trend shifts sharply, with a consistent decline, reaching a low of 19.64 by 2080. This downturn signals potential structural issues in the banking sector. Factors like economic downturns, regulatory tightening, rising non-performing assets (NPAs), or external shocks such as reduced remittances or global market volatility could have contributed to this sustained drop. The sharp decline suggests that the sector may not have been resilient enough to handle these challenges, indicating weaknesses in risk management, loan quality, and profitability.

The long-term implications of this trend are concerning. A significant drop from 40.13 in 2075 to 19.64 by 2080 indicates that the sector might face serious challenges if corrective measures are not taken. The sharp contrast between the growth phase and the following decline suggests that the growth may have been unsustainable, requiring reforms to stabilize the sector. Without appropriate interventions, the sector's ability to recover may be compromised, posing risks to the broader economy.

Return on Equity (ROE) of Nepalese Bank

The graph presents the Return on Equity (ROE) trend for a Nepalese entity, likely in the banking sector, from 2070 to 2081. The ROE starts at 552.63 in 2070 and climbs steadily, reaching its peak at 653.20 in 2073, indicating strong profitability during this period. This rise suggests that the entity was effectively utilizing its equity base, possibly benefiting from favorable economic conditions or efficient capital allocation. However, after peaking in 2073, the ROE begins to decline, dropping to 548.16 by 2074 and continuing to decrease until it bottoms out at 445.03 in 2075. This suggests that the entity faced challenges, potentially from increased costs, regulatory pressures, or a decrease in profitability.

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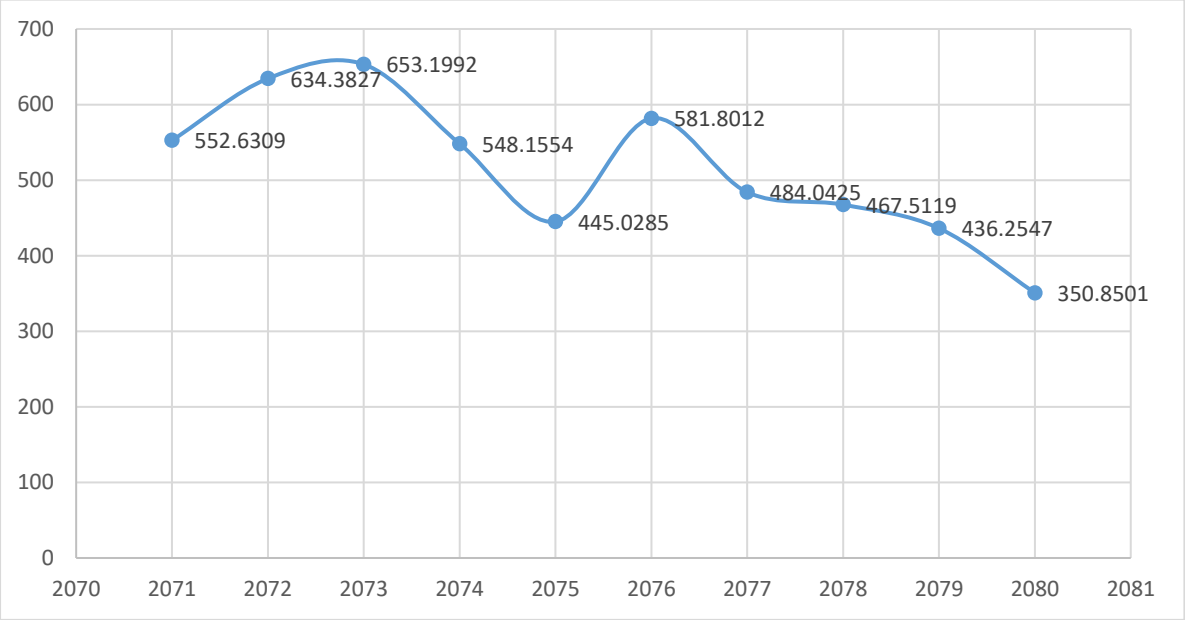

Figure 2: Return on Equity (ROE)

Source: NRB, CBS, MoF

Interestingly, there is a brief recovery in 2076, where the ROE climbs back to 581.80, showing resilience and improved performance. Despite this short-term improvement, the ROE resumes its downward trend, gradually falling to 350.85 by 2080. This sustained decline highlights ongoing struggles, likely due to economic factors, competitive pressures, or inefficiencies in capital use. The sharp drop in ROE by the end of the period points to long-term profitability issues, raising concerns about the entity's ability to generate returns for its shareholders if corrective actions are not taken.

Number of Branches

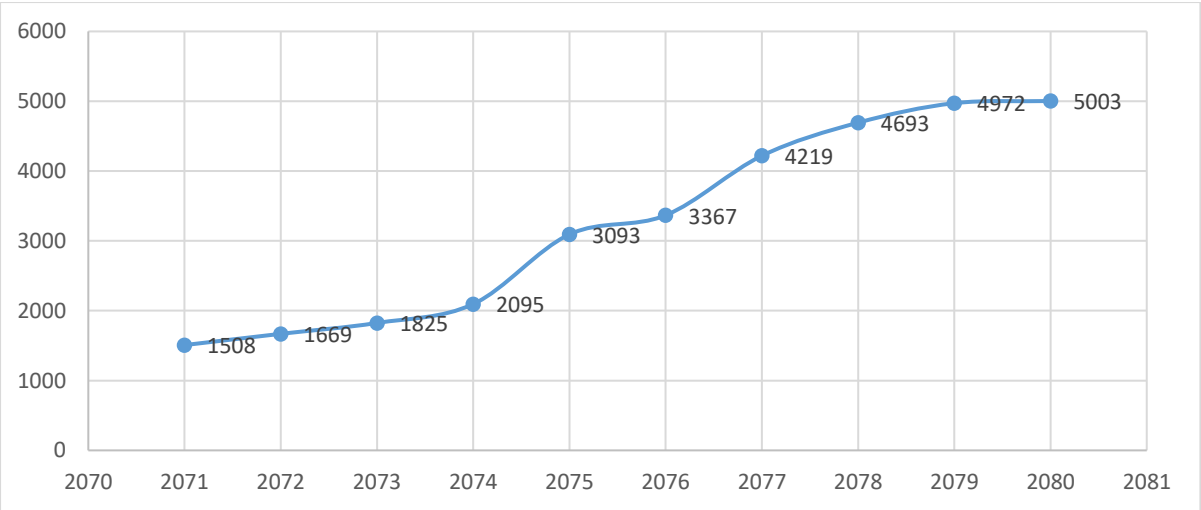

Figure 3: Number of Branches

Source: NRB, CBS, MoF

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The graph depicts the expansion of branches in a Nepalese entity, likely in the banking sector, from 2070 to 2081. It starts with 1,508 branches in 2070 and shows a gradual increase over the next few years. By 2073, the number of branches reaches 1,825, reflecting a steady but modest growth.

A significant acceleration in branch expansion occurs between 2074 and 2075, where the number of branches jumps from 2,095 to 3,093, marking a substantial rise. This spike suggests a period of aggressive expansion, possibly driven by increasing market demand, strategic investments, or regulatory changes promoting branch networks.

Following this rapid growth, the number of branches continues to rise steadily, reaching 4,219 in 2077 and 4,972 by 2079. By 2080, the number of branches reaches 5,003, indicating the entity has maintained its expansion strategy, though the growth rate slows down slightly in the later years.

This steady increase in branches over the entire period points to a consistent long-term expansion strategy, signaling strong confidence in the market, an attempt to capture new customer bases, and deeper penetration into various regions. The sharp rise between 2074 and 2075, followed by sustained growth, likely reflects a response to market opportunities or changes in consumer demand for banking services across the country.

Number of ATM

The chart represents the progression of a metric labeled "ATM" over a ten-year period, from 2071 to 2080. The vertical axis indicates the values of ATM, ranging from 0 to 5000, while the horizontal axis shows the corresponding years. Starting in 2071, the value of ATM is 1316 and remains relatively steady, with modest increases to 1467 in 2072 and 1573 in 2073. A significant increase is observed in 2074 when the value rises to 1817, suggesting a pivotal shift or event that contributed to the growth.

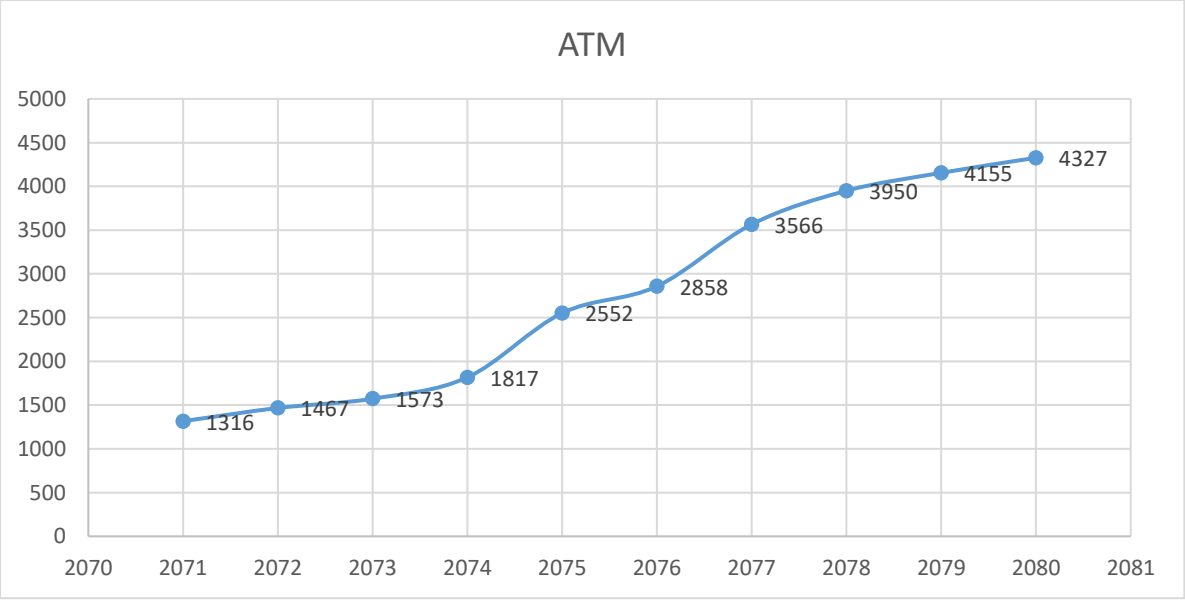

Figure 4: Number of Branches

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Source: NRB, CBS, MoF

This upward momentum continues as the ATM value climbs sharply to 2552 in 2075, indicating a rapid expansion or improvement. The trend remains positive through the following years, with ATM reaching 2858 in 2076 and 3566 by 2077. The increase, though still steady, becomes less sharp between 2078 and 2080, with the values rising to 3950, 4155, and 4327 respectively. In total, the data suggests a consistent growth trajectory for ATM over the decade, with periods of rapid increase interspersed with steadier growth, especially in the later years. This could reflect a maturing process or a slowing down after an initial surge in earlier years.

Number of Debit Card Issued

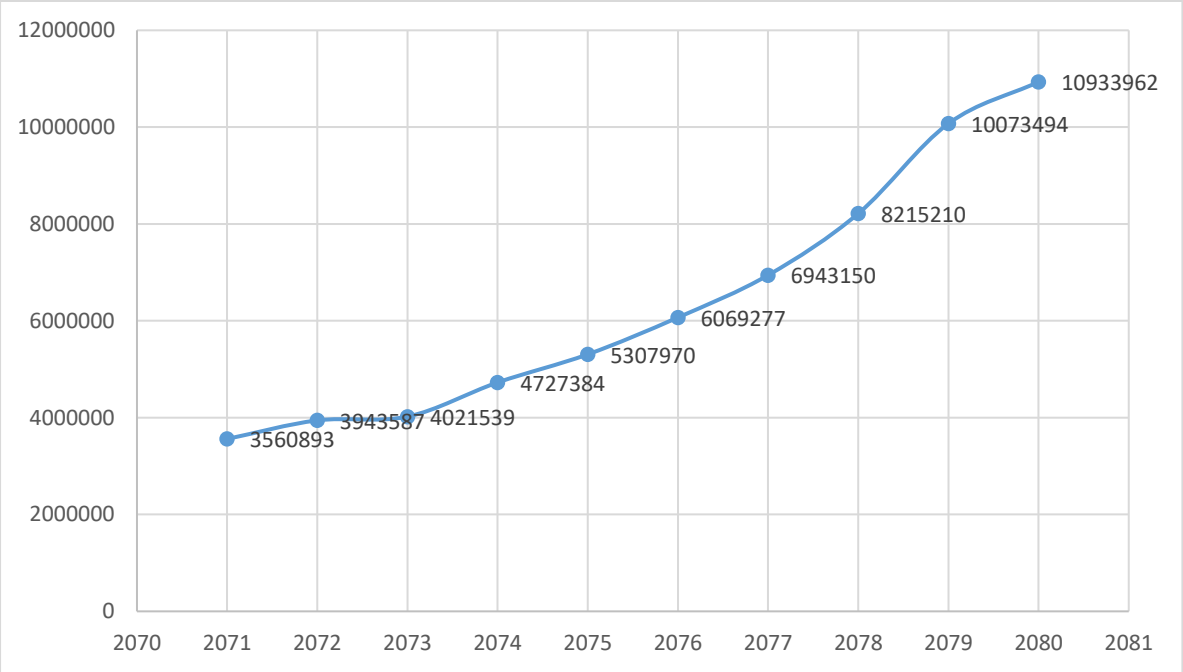

Figure 5: Number of Debit Card Issued

Source: NRB, CBS, MoF

The chart illustrates the number of debit cards in circulation over a ten-year span, from 2071 to 2080. The vertical axis represents the number of debit cards, with values ranging from 0 to 12 million, while the horizontal axis tracks the years.

In 2071, the number of debit cards stands at 3,560,893. Over the next few years, the growth is relatively slow, increasing to 3,945,867 in 2072 and to 4,021,539 in 2073. This gradual rise continues into 2074, where the number of debit cards reaches 4,727,384, showing some acceleration in growth.

By 2075, the figure climbs to 5,307,970, indicating steady growth. The upward trend becomes more pronounced starting in 2076, with the number of debit cards reaching 6,069,277. From 2077 onwards, the expansion accelerates rapidly, with a sharp increase to 6,943,150. This surge continues in 2078, when the number of debit cards soars to 8,215,210.

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In the final two years of the period, the growth becomes even more substantial, hitting 10,073,494 in 2079 and finally reaching 10,933,962 by 2080. The trend over the decade shows steady growth in the earlier years, followed by a sharp surge in the latter half, suggesting a significant adoption or issuance of debit cards towards the end of the period. This sharp increase may indicate a combination of increased demand, technological advancements, or policy changes driving the expansion of debit card usage.

Number of Credit Card issued

The chart provides a visualization of the number of credit cards in circulation over a decade, from 2071 to 2080. The vertical axis represents the number of credit cards, which ranges from 0 to 300,000, while the horizontal axis covers the years.

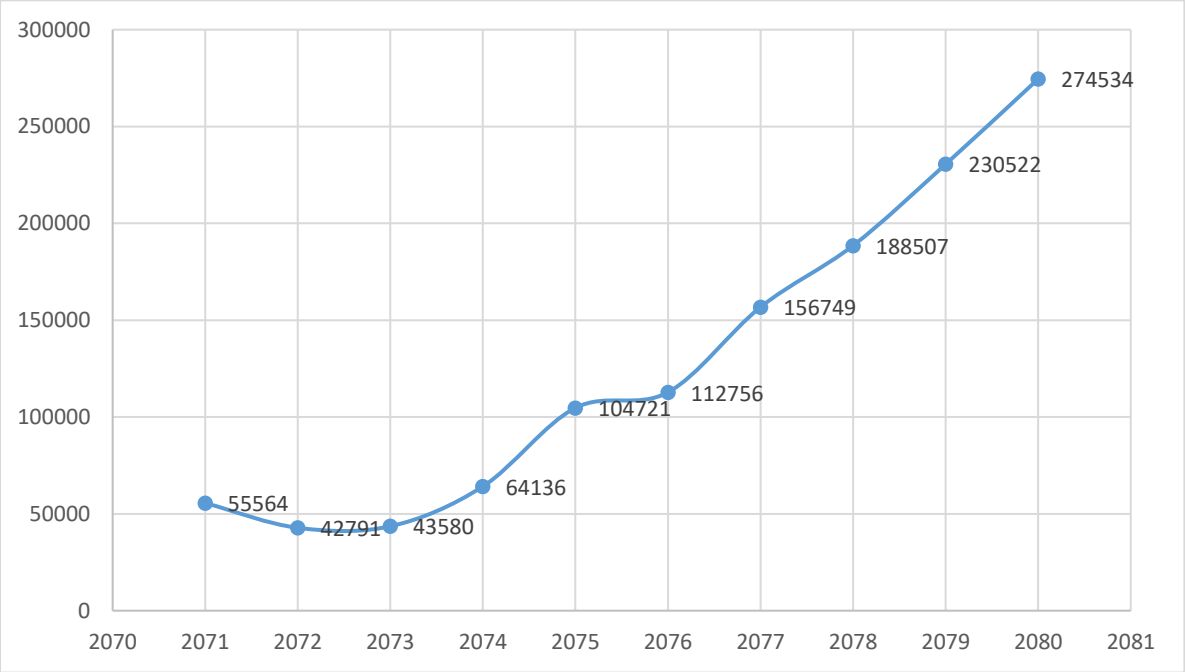

Figure 6: Number of Credit Card issued

Source: NRB, CBS, MoF

In 2071, the number of credit cards is 55,564. However, in the following years, the number declines, dropping to 42,791 in 2072 and further down to 43,580 in 2073. This initial decline suggests a potential decrease in credit card issuance or usage during this period.

By 2074, the trend begins to reverse, with a slight rise to 64,136. The increase becomes more substantial in 2075, when the number of credit cards jumps to 104,721, suggesting a renewed interest or growth in credit card usage. This growth continues steadily over the following years, reaching 112,756 in 2076 and 156,749 in 2077, indicating a phase of rapid expansion.

In 2078, the upward trend continues as the number of credit cards grows to 188,507. By 2079, the figure reaches 230,522, marking a substantial increase. The highest number of credit cards is seen in 2080, with a total of 274,534, reflecting strong growth over the decade.

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In total, the data shows an initial dip followed by significant and steady growth in credit card usage, especially from 2074 onward. This likely reflects changing consumer behaviors, possibly influenced by economic factors or shifts in banking policies that encouraged credit card adoption. The sharp increase toward the end of the period suggests a growing reliance on credit cards or an expanded credit market.

Total number of Deposit Accounts

The provided graph represents the growth of deposits in Nepalese banking from the fiscal year 2070 to 2080. The data shows a consistent upward trend, indicating a significant increase in deposits over the decade. Starting from 9,305,157 in 2070, the deposit amount steadily climbs, reaching 10,880,622 in 2072 and 12,375,072 in 2074. This upward momentum accelerates in the subsequent years, with deposits hitting 14,929,948 by 2075 and surpassing the 20 million mark at 21,987,354 by 2077. The deposit growth continues, reaching 26,568,299 in 2078 and further escalating to 37,909,528 in 2080. Finally, the projected deposit value for 2081 is a substantial 43,109,676.

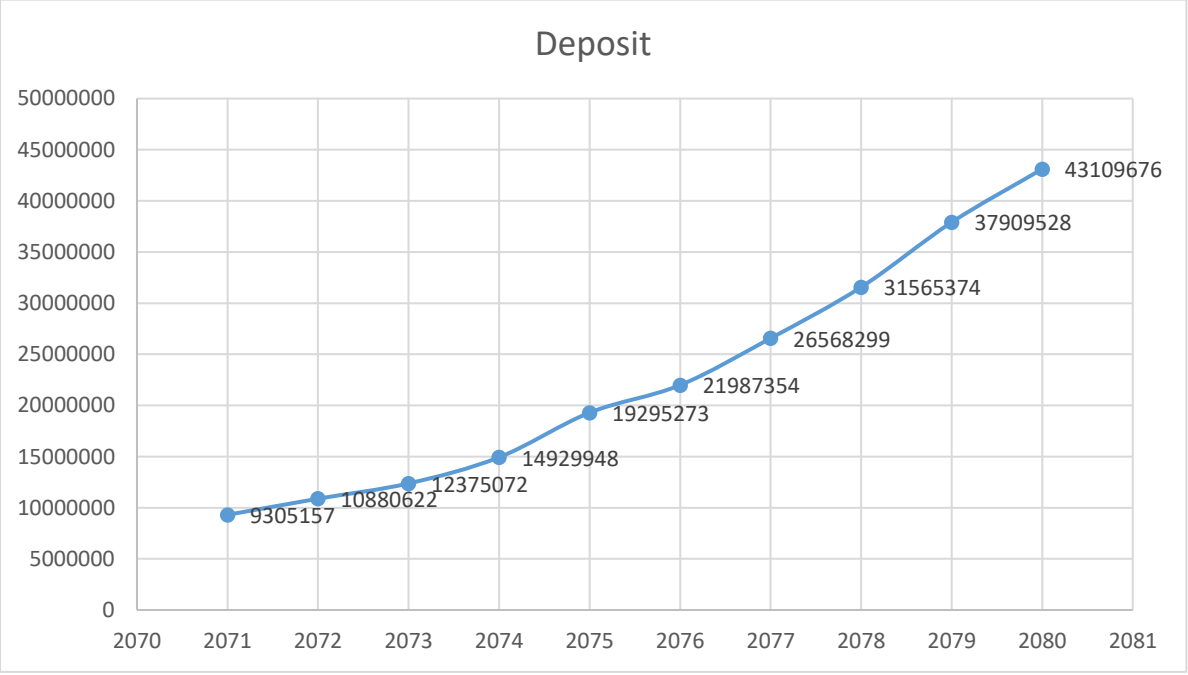

Figure 7: Total number of Deposit Accounts

Source: NRB, CBS, MoF

This pattern suggests strong growth in banking activity, likely influenced by factors such as increased economic activity, higher savings rates, and possible expansion of banking services across Nepal. The nearly exponential rise in deposits reflects a positive outlook for the financial sector, indicating growing confidence among depositors and possibly a more robust banking infrastructure.

Total Loan Accounts

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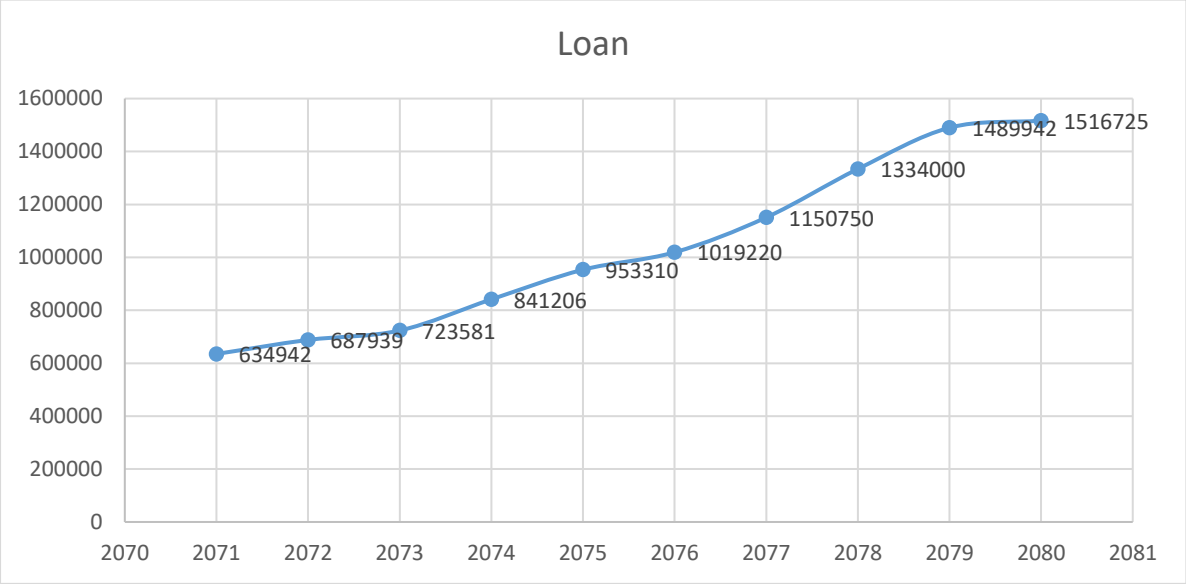

Figure 8: Total loan Accounts

Source: NRB, CBS, MoF

The provided graph illustrates the trend of loans in Nepalese banking from 2070 to 2080. Starting from 634,942 in 2070, the loan amount shows steady growth over the years. By 2072, the loan amount increases to 687,939 and continues to rise, reaching 723,581 in 2073. This upward trajectory continues in the following years, with the loan amount surpassing 800,000 by 2074, recorded at 841,206.

In the subsequent years, the growth accelerates as loans rise to 953,310 in 2075 and exceed 1 million by 2076, reaching 1,019,220. By 2078, the loan amount grows substantially to 1,150,750, and by 2079, it climbs to 1,489,942. The upward trend reaches a peak in 2080 at 1,516,725.

This increasing loan activity suggests a growing demand for credit in Nepal, which may reflect expanding business activities, consumer spending, and infrastructure investments. The continuous rise in loan amounts indicates greater financial inclusion and a robust banking system, showing confidence in credit growth among consumers and businesses alike.

Correlation between banking infrastructure metrics and financial performance (total deposits and loans)

Table 1: Correlation between Banking Infrastructure metric and Financial Performance

Correlations						
	Branches	ATM	Debit_c	Credit_c	Deposit_A	Loan
Branches	1					
	10					
ATM	.999**	1				

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	.000					
	10	10				
Debit_c	.953**	.960**	1			
	.000	.000				
	10	10	10			
Credit_c	.960**	.967**	.991**	1		
	.000	.000	.000			
	10	10	10	10		
Deposit_A	.969**	.975**	.997**	.993**	1	
	.000	.000	.000	.000		
	10	10	10	10	10	
Loan	.983**	.986**	.988**	.982**	.993**	1
	.000	.000	.000	.000	.000	
	10	10	10	10	10	10
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: NRB, CBS, MoF

The correlation analysis between banking infrastructure metrics—branches, ATMs, debit cards, and credit cards—and financial performance indicators such as total deposits and loans reveals noteworthy findings.

The number of **branches** shows a robust positive correlation with total deposits (r=0.969 r = 0.969r=0.969, $p < 0.001$) and loans (r=0.983 r = 0.983r=0.983, $p < 0.001$). This suggests that as banks expand their physical presence, they not only attract more deposits but also enhance their lending capabilities, likely improving customer access and trust.

The analysis indicates an almost perfect correlation between the number of **ATMs** and total deposits (r=0.975 r = 0.975r=0.975, $p < 0.001$), as well as loans (r=0.986 r = 0.986r=0.986, $p < 0.001$). A larger ATM network facilitates greater customer convenience, encouraging more deposits and promoting lending activities by providing easier access to funds.

The correlation between **debit cards** and total deposits is particularly strong (r=0.997 r = 0.997r=0.997, $p < 0.001$), highlighting that increased debit card issuance is closely associated with higher deposit levels. This trend reflects a shift toward cashless transactions, which can lead to increased savings in bank accounts. Additionally, the correlation with loans (r=0.988 r = 0.988r=0.988, $p < 0.001$) suggests that higher debit card usage corresponds with a greater willingness to take on loans.

The analysis shows a strong correlation between **credit cards** and total deposits (r=0.993 r = 0.993r=0.993, $p < 0.001$) and loans (r=0.982 r = 0.982r=0.982, $p < 0.001$). This indicates that banks expanding their credit card offerings tend to see a corresponding rise in both deposits and lending, reflecting increased consumer confidence and borrowing activity.

In summary, the findings illustrate a clear trend: the expansion of banking infrastructure—through branches, ATMs, and card issuance—positively correlates with improved financial performance indicators, particularly total deposits and loans. This interconnectedness

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emphasizes the importance of investing in banking services to enhance financial stability and growth in the Nepalese banking sector.

Conclusion

This study examined the trends in Return on Assets (ROA) and Return on Equity (ROE) in Nepalese banks alongside the growth of banking infrastructure over the past decade. The analysis revealed an initial increase in ROA from 2070 to 2075, followed by a sharp decline, indicating potential structural weaknesses and risks within the banking sector. Similarly, ROE showed growth until 2073, after which it fell, suggesting profitability challenges influenced by rising costs and regulatory pressures. The expansion of banking infrastructure—particularly the number of branches, ATMs, and card usage—was evident, especially between 2074 and 2075. This growth reflects strategic efforts by banks to enhance service accessibility and respond to market demands. Correlation analysis highlighted strong positive relationships between banking infrastructure metrics and financial performance indicators. Notably, the number of branches and ATMs significantly correlated with total deposits and loans, suggesting that increased physical presence and customer convenience are vital for financial performance. Additionally, strong correlations with debit and credit card usage indicate that technological adoption plays a critical role in driving financial growth. The findings underscore the need for continuous investment in banking infrastructure to improve financial stability. For the Nepalese banking sector to effectively address current challenges and enhance its performance, strategic reforms and ongoing adaptation to evolving market conditions are essential.

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