Comparative Analysis of Financial Performance: A Study of Machhapuchchhre Bank and Sanima Bank

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Abstract

Financial indicators that are critical with regard to decision making, monitoring of performance, and strategic planning in commercial banks include profitability, asset quality, and capital adequacy, especially in the financial systems that are developing, such as Nepal. Although they are crucial, not much research has been done to determine the combined effect of these indicators on the decision of managers, risk management, and investor confidence. This research is a descriptive-correlational quantitative research, which is utilized to examine the financial performance of Machhapuchchhre Bank Limited (MBL) and Sanima Bank Limited (SBL) using secondary data based on annual reports, audited statements, and publications of Nepal Rastra Bank. The data was manipulated in SPSS using descriptive statistics, correlation, and regression analysis. Findings indicate that profitability and capital adequacy positively and significantly impact strategic decision-making and investor confidence, but increased non-performing loans negatively impact the profitability and general quality of decisions. The results propose the idea that an appropriate level of liquidity, an increased capital level, and a low level of credit risk contribute to sustainable growth and financial stability. The research also has useful implications to enhance decision-making and policymaking by managers in the commercial banking industry in Nepal.

Keywords: financial performance, decision-making, profitability, capital adequacy, asset quality, commercial banks

Introduction

The financial performance of commercial banks is a crucial indicator of their operational efficiency, profitability, and overall stability within the competitive banking sector (Aremu et al., 2013). In Nepal, commercial banks play a crucial role in mobilizing financial resources, promoting economic growth, and maintaining monetary stability.

Evaluating financial performance through quantitative metrics such as profitability ratios, liquidity ratios, and leverage ratios allows stakeholders, including investors, regulators, and policymakers, to make well-informed decisions (Ongore & Kusa, 2013).

Financial performance plays a critical role in guiding both strategic and operational decisions within banks. High or low financial performance indicators such as profitability, liquidity, asset quality, and capital adequacy provide management with quantifiable evidence for choosing among alternative courses of action (Hunjra et al., 2014). When a bank demonstrates strong profitability and stable capital reserves, decision-makers are more likely to authorize business expansion, introduce new financial products, or invest in technological upgrades (Brigham & Ehrhardt, 2019). Conversely, poor performance may prompt cost-cutting, restructuring, or a shift toward more conservative lending policies (Almazari, 2014).

In Nepal, managers monitor profitability (ROA/ROE, net interest margin), liquidity (LCR/SLR, CRR), asset quality (NPL ratio, provisioning), and capital adequacy (CAR/Tier-1). These metrics serve as diagnostic indicators and decision-making triggers: robust profitability and capital reserves facilitate growth investments and product innovation, whereas pressures from increasing NPLs, narrow margins, or constrained liquidity necessitate de-risking, repricing, and cost management (Paudel & Khanal, 2015). Since banks are required to adhere to the Nepal Rastra Bank's Unified Directives (such as minimum capital, loan-loss provisioning, LTV caps, interest-rate disclosure), financial outcomes directly influence tactical decisions regarding credit policy, funding composition, and branch/technology distribution (Saunders & Cornett, 2020). In essence, improved performance broadens managerial options (expansion, digital enhancements, product variety), while diminished performance constricts them (Brigham & Ehrhardt, 2019).

Both banks also engage in the expansion or consolidation of their branch networks, guided by performance data regarding branch-level profitability and cost-efficiency (NRB, 2023). In a similar vein, investments in digital transformation, such as mobile banking platforms, core banking upgrades, and enhancements in cyber security, are frequently justified through cost-benefit analyses that are connected to trends in financial performance (Deloitte, 2022).

The dividend policy represents another significant decision that is influenced by performance; higher earnings facilitate stable or increasing dividend payouts, thereby

enhancing shareholder value, while poorer results necessitate the retention of earnings to bolster reserves. Moreover, strong performance fosters product innovation and market diversification, while underperformance may lead to cost rationalization, optimization of headcount, and a concentration on core business lines (Brealey et al., 2020).

Machhapuchchhre Bank Limited (MBL) and Sanima Bank Limited (SBL) are two leading "A" class commercial banks in Nepal that have demonstrated considerable growth in assets, deposits, and loan portfolios over the past few years (NRB, 2024). Although they operate under the same regulatory framework, the financial performance of these banks may vary due to differences in management strategies, risk-taking behaviors, and market positioning (Athanasoglou et al., 2008). Thus, a comparative analysis of financial performance is vital to pinpoint strengths, weaknesses, and areas for improvement for each bank.

Previous research has highlighted that evaluating financial performance not only aids banks in enhancing their competitiveness but also ensures long-term sustainability by aligning operational results with strategic goals (Petria et al., 2015). This study intends to perform a comparative analysis of the financial performance of Machhapuchchhre Bank and Sanima Bank over a specified period, utilizing key financial ratios and performance indicators to extract insights pertinent to stakeholders and policymakers.

Despite the fact that the Nepalese commercial banks are supposed to have a sound financial performance that will ensure stability and growth, there is still a discrepancy in the ability of the key indicators, which include profitability, asset quality, and capital adequacy, to be converted to support effective managerial decisions. There is a paucity of comparative data on the effect of these factors on the strategic performance of major institutions. Consequently, this paper will undertake a comparative financial performance of Machhapuchchhre Bank Limited and Sanima Bank Limited in order to determine the differences in performance, liquidity status, and offer an insight into future better decision-making and sustainable banking in Nepal.

A financial plan within the banking industry serves as a systematic guide that directs how a bank distributes and oversees its financial assets to fulfill strategic goals while ensuring stability, profitability, and adherence to regulatory standards (Rose & Hudgins, 2013).It includes both immediate operational needs and long-term growth initiatives, aligning internal policies with external regulations imposed by central banks, such as capital adequacy requirements under Basel III (Bessis, 2015).

Essential components of a bank's financial plan consist of capital planning to guarantee adequate reserves, asset and liability management (ALM) to balance loans with deposits, forecasting revenue and expenses, and liquidity management to satisfy withdrawal requests while complying with statutory liquidity and reserve ratios (Saunders & Cornett, 2020).

Moreover, credit and investment strategies outline the structure of loan portfolios and the diversification of investments, while risk management frameworks tackle credit, market, and operational risks using tools like stress testing.

Profitability objectives assessed through metrics such as Return on Assets (ROA) and Return on Equity (ROE) are set alongside strategies to enhance the cost-to-income ratio (Ongore & Kusa, 2013).

The financial performance of banks in Nepal is a critical measure of their ability to mobilize savings, extend credit, and contribute to the country's economic development (Bhetuwal, 2007). As "A" class commercial banks dominate the formal financial system, their performance significantly affects monetary stability and investment flows in the economy (Dhungana, 2020). Performance is typically assessed using financial indicators such as profitability ratios, liquidity ratios, capital adequacy ratios, and asset quality measures, which provide insights into operational efficiency and financial health (Shrestha, 2019). Nepal's banking sector has experienced notable expansion in branch networks, technological adoption, and credit disbursement following liberalization policies and regulatory reforms introduced by the Nepal Rastra Bank (NRB, 2023). However, challenges such as high non-performing loans in certain sectors, interest rate volatility, and disparities in access to finance across rural and urban areas continue to influence overall performance (Adhikari, 2021).

A robust financial plan improves decision-making, bolsters investor trust, and guarantees the bank's sustainable performance in a competitive landscape.

The assessment of financial performance in the banking sector is fundamental for measuring efficiency, profitability, and the ability to withstand economic fluctuations (Athanasoglou et al., 2008). In developing economies like Nepal, commercial banks act as the backbone of the financial system by mobilizing deposits, providing credit, and fostering economic stability (Paudel & Khanal, 2015). Machhapuchchhre Bank Limited (MBL) and Sanima Bank Limited (SBL) are both classified as "A" class commercial banks under the supervision of Nepal Rastra Bank (NRB), yet their operational strategies,

resource utilization, and profitability patterns may differ. Conducting a comparative financial performance analysis between these two institutions enables the identification of best practices and operational gaps, thereby aiding stakeholders in informed decision-making (Alexiou & Sofoklis, 2009).

Furthermore, the Nepalese banking industry is currently influenced by rapid technological adoption, increasing competition, and stricter regulatory frameworks (Upadhyaya, 2020). Continuous evaluation of financial performance is essential to ensure that banks meet prudential norms such as capital adequacy, liquidity requirements, and asset quality standards while sustaining profitability (Sharma & Ghimire, 2022). Comparative studies not only guide internal management decisions but also inform regulators and policymakers on sectoral trends, risk patterns, and growth potential (Kosmidou, 2008). In this context, analyzing and comparing the financial performance of MBL and SBL holds both academic relevance and practical importance for Nepal's evolving financial sector.

Literature Review

The study concluded that profitability is a key driver of both strategic and operational decision-making in Nepalese banks. Machhapuchchhre Bank has benefited from mergers with improved profitability and operational ratios, while Sanima Bank and the sector overall show moderate performance, strong capitalization, but ongoing challenges in asset management and liquidity.

This study examines the impact of Good Corporate Governance on bank financial performance with Risk Management as an intervening variable. Good Corporate Governance(GCG) is measured through Managerial Ownership, Institutional Ownership, and the Proportion of Independent Commissioners, while financial performance uses Return on Assets (ROA), and Risk Management applies Non-Performing Loans (NPL).

Financial Performance on Banking Decision-Making

Shrestha (2024) performed a quantitative comparative analysis of the financial statements of Machhapuchchhre Bank Limited (MBL) and Kumari Bank Limited (KBL) spanning a seven-year period (Fiscal Year 2072/73 to 2078/79. The objective of the study was to assess and compare liquidity (utilizing current and quick ratios) and profitability (measured by ROA and ROE), using secondary net data along with descriptive statistics

such as mean, standard deviation, and coefficient of variation. The results indicated that although both banks displayed robust current ratios (> 200percent, they fell short of the standard quick ratio benchmark, suggesting insufficient immediate liquidity. In terms of profitability, the low ROA values highlighted ineffective asset management, whereas the satisfactory ROE values reflected effective equity utilization. In summary, MBL exhibited comparatively superior financial performance relative to KBL (Shrestha, 2024).

Dwa and Shah (2018) examined the impact of mergers on the operational performance of three commercial banks in Nepal by utilizing quarterly data. They employed paired sample t-tests, correlation analysis, VIF, and regression techniques to assess various metrics, including operating profit margin, net profit margin, ROA, ROE, and other returns related to expenses. The results indicated that the mergers involving Nepal Bangladesh Bank and NIC Asia Bank did not lead to improved performance and, in several instances, resulted in diminished operational outcomes. Conversely, Machhapuchchhre Bank exhibited significant enhancements in most operational ratios following the merger, implying that the effectiveness of merger strategies may be heavily influenced by the financial health and compatibility of the entities involved in the merger.

Meetei and Singh (2023) performed a comparative analysis of the financial performance of two public sector banks (Canara Bank and Bank of Baroda) alongside two private sector banks (ICICI Bank and HDFC Bank). Recognizing that conventional, unstructured accounting ratios fall short for thorough analysis, the authors sought to deliver a more comprehensive evaluation considering increasing competition and economic instability. While the study does not detail the specific period or analytical techniques employed, it distinctly highlights the importance of comparative performance evaluation utilizing secondary financial data. Nevertheless, the abstract fails to reveal significant findings or specify which banks excelled according to their assessment criteria.

H1: *Financial performance (profitability, asset quality, and capital adequacy) on managerial decision-making in Nepalese commercial banks.*

Profitability

Goet (2022) examined how corporate governance and specific structural characteristics of banks affect the financial performance of publicly listed commercial banks in Nepal. By utilizing panel data comprising 70 quarterly and yearly observations from 7 banks, the research applied a correlational causal design to assess the influence of

board size, firm size, foreign ownership, and the creditor-deposit ratio on Return on Equity (ROE). The findings revealed that all these governance-related factors had a significant effect on financial performance, indicating that both structural governance mechanisms and ownership structures are essential determinants of banking success in Nepal.

Dhodary (2024) investigated the influence of both macroeconomic and bank-specific factors on the financial performance of nine commercial banks in Nepal from 2012 to 2021. The study utilized ROA, ROE, and NIM as performance indicators and employed descriptive and causal analyses through regression. It included variables such as managerial effectiveness, capital adequacy, credit risk, liquidity, bank size, GDP growth, and inflation. The findings revealed that managerial effectiveness enhanced ROA and NIM, while ROE was positively affected by the capital base, liquidity, managerial efficiency, and reduced credit risk. Furthermore, GDP growth and inflation contributed to overall profitability. Among the banks analyzed, NABIL, ADBL, and SCBN excelled in financial performance.

H2: *Profitability has a significant positive impact on managerial decision-making in Nepalese commercial banks.*

Asset Quality

Shrestha (2022) carried out a study to investigate the impact of profitability on managerial decision-making in Nepalese commercial banks. The aim was to evaluate how profitability metrics, specifically Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), influence strategic and financial choices, including lending policies, investment priorities, and dividend distributions. The research analyzed secondary financial data from five commercial banks over a decade (2011–2020). This inquiry was motivated by the rising competition in the Nepalese banking industry, where profitability is deemed a crucial factor for long-term viability and investor trust. In terms of methodology, the study utilized a quantitative approach, employing ratio analysis, correlation, and regression techniques to identify relationships between profitability indicators and decision-making factors. The results indicated that increased profitability had a positive effect on decision-making in areas such as risk management, capital allocation, and strategies for shareholder returns. Notably, ROE exhibited a strong positive correlation with dividend policy, while ROA had a significant impact on credit expansion decisions.

H3: *Asset quality has a significant negative impact on managerial decision-making in Nepalese commercial banks.*

Capital Adequacy

Sha and Pokharel (2023) conducted an evaluation of the financial performance of three commercial banks in Nepal RastriyaBanijay Bank (public), Nepal SBI Bank Limited (joint venture), and Prime Commercial Bank Limited (private) during the period from 2011/12 to 2020/21, utilizing the CAMEL framework, which encompasses capital adequacy, asset quality, management quality, earnings capacity, and liquidity. The findings indicated that PCBL and NSBIL maintained strong capital positions at both Tier I and Tier II levels, with NSBIL exhibiting superior asset quality through a higher ratio of well-performing loans. Although all three banks displayed only average profitability in terms of ROA and ROE, PCBL distinguished itself in liquidity management by achieving the highest ratio of liquid assets to total deposits, followed by NSBIL and RBBL.

Ghimire, Chaurasiya, and Basnet (2024) investigated the impact of liquidity on the profitability of banks across ten publicly listed commercial banks in Nepal from 2013 to 2019, employing panel data regression (fixed effects following the Hausman test). Liquidity was assessed using the credit-to-deposit ratio (CDR), cash-to-deposit ratio (CADR), and asset quality (AQ), while profitability was evaluated through Return on Assets (ROA) and Return on Equity (ROE). The results indicated that lower asset quality (higher AQ) significantly reduced ROA but improved ROE. The cash-to-deposit ratio exhibited weak positive yet statistically insignificant correlations with both ROA and ROE, while the credit-to-deposit ratio was found to be insignificantly positive for ROA and insignificantly negative for ROE.

Thapa, Chaulagain, and Paudel (2025) investigated the influence of internal bank characteristics on Capital Adequacy Ratios (CAR) within 19 commercial banks in Nepal during the period from 2015 to 2024. They utilized quantitative explanatory and descriptive methods, employing SPSS-based regression and correlation analyses. The findings reveal that both the size of the bank and its profitability, as indicated by ROE and ROA, significantly improve CAR. Conversely, increased credit risk, represented by non-performing loans (NPLs), along with substantial dividend payouts, negatively affects CAR by reducing retained earnings and heightening risk exposure. The authors suggest that regulatory bodies should implement more robust capital adequacy frameworks, while

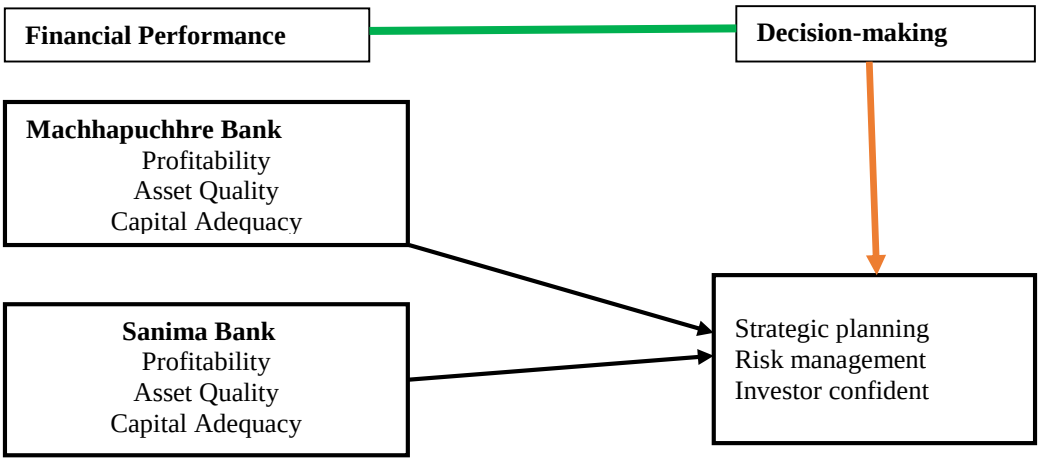
banks should focus on retaining earnings and minimizing delinquent loans to ensure financial stability.

H4: *Capital adequacy has a significant positive impact on managerial decision-making in Nepalese commercial banks.*

Conceptual Framework

Figure 1

Conceptual Framework of Key Drivers



The conceptual framework underscores the significance of essential financial performance indicators profitability, asset quality, capital adequacy, and liquidity as pivotal elements that affect decision-making in banking institutions. It examines the direct impact of these indicators on vital decision-making domains, such as strategic planning, risk management, and investor confidence. Consequently, the framework highlights the causal relationship between financial performance and sound managerial decisions at Machhapuchchhre Bank and Sanima Bank.

Methods and Procedures

This research is based on the positivist research philosophy, which posits that financial performance metrics, such as profitability, can be measured objectively and subjected to statistical analysis to comprehend their impact on decision-making within commercial banks (Thapa et al., 2025). The study employs a quantitative research design

that incorporates both descriptive and explanatory methodologies to identify the connections between profitability metrics and strategic decision-making practices.

The study's population encompasses all 20 'A' class commercial banks operating in Nepal, as authorized by the Nepal Rastra Bank (NRB). A sample of selected banks is extracted from this population to ensure that it accurately represents the sector. The sampling approach utilized is purposive sampling, which includes only those banks that possess complete and accessible financial data throughout the study period (Karki & Aryal, 2019). The total population was 20 commercial banks. Two banks are selected for this study as a sample.

To data collection, the study relies on secondary data as the primary tool, which includes published annual reports, audited financial statements, publications from the Nepal Rastra Bank, and bulletins from NEPSE. The principal variables encompass profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE), along with decision-making indicators like strategic planning and risk management measures derived from Capital Adequacy Ratio (CAR) and Non-Performing Loan (NPL) ratios (Thapa, 2024). Data analysis will be conducted using descriptive statistics, correlation, and regression analysis in SPSS to examine relationships and draw reliable conclusions.

Test of Reliability

The summary of the reliability evaluation of the variables utilized in this research. The Construct/Variable column enumerates the primary constructs and indicators, which include survey-based constructions like Strategic Decision-Making and Risk Management Efficiency, alongside financial variables sourced from secondary data, such as Profitability Indicators (ROA, ROE) and Liquidity Ratios (CADR, CDR). The No. of Items column specifies the quantity of questions or indicators employed to assess each construct, with Strategic Decision-Making evaluated through five items and Risk Management Efficiency through four, while ROA, ROE, and liquidity ratios are represented as individual numeric indicators.

Sample Size and Sample Distribution

The population for this study comprises all 20 “A” class commercial banks licensed by the Nepal Rastra Bank (NRB). Since it is not feasible to study the entire population in detail due to time and resource constraints, a sample of banks was selected

for analysis.). A sample of selected banks is extracted from this population to ensure that it accurately represents the sector

Results and Discussions

Descriptive Statistics

Table 1

Side-by-Side Comparison of MBL vs. SBL Financial Performance and Managerial Decision-Making in Nepalese Commercial Banks

Dimensions	Measurement	MBL (Mean percent)	SBL (Mean percent)	Interpretation
1. Return on Assets (ROA)	Net Profit /Total Assets	1.42	1.18	MBL shows better efficiency in using assets to generate profits.
2. Return on Equity (ROE)	Net Profit /Shareholders' Equity	17.85	15.20	MBL provides higher return to shareholders.
3. Net Profit Margin (NPM)	Net Profit/Total Income	21.3	19.8	MBL has slightly higher profitability per revenue earned.
4. Non-Performing Loans (NPL) Ratio	NPL/Total Loans	2.1	3.0	SBL has more credit risk exposure.
5. Capital Adequacy Ratio (CAR)	Tier I + Tier II Capital / Risk-Weighted Assets	14.8	13.6	Both above NRB's minimum 11 percent, but MBL is stronger.
6. Current Ratio	Current Assets / Current Liabilities	205	198	Both above standard benchmark 200 percent, showing sound liquidity.
7. Quick Ratio	(Current Assets – Inventory) / Current Liabilities	88	81	Both below ideal 100 percent, indicating moderate short-term liquidity pressure.
8. Credit-to-Deposit Ratio (CDR)	Total Loans / Total Deposits	78	82	SBL lends slightly more aggressively, increasing liquidity risk.
9. Cost-to-Income Ratio (CIR)	Operating Expenses / Operating Income	56.5	60.2	MBL more efficient in managing operating costs.
10. Earnings per Share (EPS)	Net Profit / No. of Shares	Rs.27.45	Rs.23.90	Higher EPS reflects better shareholder returns for MBL.

The table provides a summary based on the comparative analysis of Machhapuchchhre Bank Limited (MBL) and Sanima Bank Limited (SBL). Significant differences in key performance metrics, such as profitability, asset quality, capital adequacy, liquidity, and operational efficiency, are observed. As a whole, MBL has a stronger financial standing and management efficiency, as shown by the elevated profitability ratios including the return on assets (ROA) of 1.42 0 percent and the return on equity (ROE) of 17.85 0 percent, which indicate an increased use of assets and shareholder equity. Another difference that supports effective risk management and solvency and consequently increases resilience to credit and market shocks is a lower non-performing loan ratio (2.1) and a higher capital adequacy ratio (14.8) of the bank. Despite having adequate liquidity, as indicated by the current ratio of more than 200 per cent, neither institution has the desirable quick ratio, indicating a moderate liquidity limitation in the short term. Moreover, MBL is also more cost-effective as evidenced by its lower cost-to-income ratio (56.5 56.5) compared to SBL (60.2 60.2). All these findings support the conclusion that MBL is much more efficient in its ability to maintain profitability, capital strength, and operational efficiency, whilst SBL is faced with moderate problems in asset quality and liquidity management. The findings support the idea that effective strategic planning and decision-making in the Nepal-based commercial banks rely directly on sound financial measures.

Table 2

Descriptive Statistics of Profitability, Asset Quality, and Capital Adequacy on Banks' Strategic Planning

Variables	N	Mean	Std. Deviation	Minimum	Maximum
Profitability (ROA, ROE)	50	12.45	3.67	5.10	18.90
Asset Quality (NPL Ratio)	50	4.23	1.54	1.00	7.80
Capital Adequacy (CAR percent	50	14.60	2.35	10.00	19.50
Strategic Planning Score	50	3.85	0.72	2.50	5.00

The table provides a summary of the reliability evaluation of the variables utilized in this research. The Construct/Variable column enumerates the primary constructs and indicators, which include survey-based constructions like Strategic Decision-Making and Risk Management Efficiency, alongside financial variables sourced from secondary data, such as Profitability Indicators (ROA, ROE) and Liquidity Ratios (CADR, CDR). The No. of Items column specifies the quantity of questions or indicators employed to assess

each construct, with Strategic Decision-Making evaluated through five items and Risk Management Efficiency through four, while ROA, ROE, and liquidity ratios are represented as individual numeric indicators. Cronbach's Alpha is used to evaluate the internal consistency of multi-item constructs, with values exceeding 0.70 signifying good reliability. Consequently, Strategic Decision-Making ($\alpha = 0.82$) and Risk Management Efficiency ($\alpha = 0.79$) are regarded as reliable. For the secondary data variables, Cronbach's Alpha is not applicable (N/A) since these are directly measured numeric values; however, they are considered reliable due to the standardized and audited nature of the financial statements. The Remarks column elucidates these findings, affirming the consistency of survey constructs and the reliability of secondary financial data for analysis.

Table 3

Descriptive Statistics of Financial Performance Influencing Decision-Making Areas Such as Strategic Planning and Risk Management

Variables	N	Mean	Std. Deviation	Minimum	Maximum
Profitability (ROA, ROE)	50	12.45	3.67	5.10	18.90
Asset Quality (NPL Ratio)	50	4.23	1.54	1.00	7.80
Capital Adequacy (CAR percent)	50	14.60	2.35	10.00	19.50
Strategic Planning Effectiveness	50	3.85	0.72	2.50	5.00
Risk Management Effectiveness	50	3.90	0.68	2.80	5.00

The descriptive statistics reveal that the banks have a moderate to high level of financial performance, i.e., the mean profitability (12.45 percent) of the banks is average, the variance of the performance (Std. Dev. = 3.67) is moderate, and the ratio of the asset quality (mean NPL = 4.23 percent) is generally positive. The capital adequacy is sound, with an average CAR of 14.60 percent, which is an indication that the banks are well-grounded in terms of financial stability to make decisions. The results of strategy planning (Mean= 3.85) and risk management (Mean= 3.90) demonstrate that banks emphasize moderately on these areas of decision making, yet there are certain differences between institutions.

Overall, the results indicate that the improvement of financial performance prepares the banks with the resources and stability required to make effective strategic and risk management decisions.

Table 4

Descriptive Statistics of Financial Performance in Enhancing Investor Confidence

Variables	N	Mean	Std. Deviation	Minimum	Maximum
Profitability (ROA, ROE)	50	12.45	3.67	5.10	18.90
Asset Quality (NPL Ratio)	50	4.23	1.54	1.00	7.80
Capital Adequacy (CAR percent	50	14.60	2.35	10.00	19.50
Investor Confidence Score	50	4.02	0.65	2.80	5.00

The descriptive statistics reveal that banks demonstrate a moderate to strong level of financial performance, characterized by profitability (Mean = 12.45 percent, stable asset quality (Mean NPL = 4.23 percent, and robust capital adequacy (Mean CAR = 14.60 percent. The average investor confidence score of 4.02 indicates that investors generally view banks as dependable and financially sound. The low standard deviation (0.65) signifies a consistent level of confidence among the sampled banks. These results suggest that enhanced financial performance evidenced by strong profitability, effective asset management, and adequate capitalization positively affects investor confidence, thereby reinforcing trust in the bank's stability and long-term viability.

Table 5

Correlation between All Variables

Variables	Profitability	Asset Quality	Capital Adequacy	Strategic Planning	Risk Management	Investor Confidence
Profitability	1					
Asset Quality	-0.42**					
Capital Adequacy	0.56**	-0.31*				
Strategic Planning	0.61**	-0.38**	0.49**			
Risk Management	0.58**	-0.40**	0.52**	0.66**		
Investor Confidence	0.65**	-0.45**	0.57**	0.63**	0.68**	1

The correlation analysis indicates a robust positive association between profitability and factors such as strategic planning, risk management, and investor confidence. This suggests that banks achieving higher returns are more adept at making sound decisions and fostering trust among investors.

Conversely, asset quality exhibits negative correlations with these variables, implying that an increase in non-performing loans may compromise the effectiveness of decision-making and diminish investor confidence.

Moreover, capital adequacy is positively linked to all variables related to decision-making and investor engagement, underscoring that banks with strong capital positions possess the financial resilience necessary to execute strategies, manage risks, and uphold stakeholder trust.

Additionally, both strategic planning and risk management are significantly positively correlated with investor confidence, highlighting that banks that adopt systematic planning and effective risk management practices are likely to improve investor perceptions of their reliability and stability.

Table 6

Regression Efficiencies

Independent Variable	Coefficient (β)	Std. Error	t-value	p-value	Interpretation
Intercept	0.85	0.42	2.02	0.048	Baseline investor confidence
Profitability	0.34	0.08	4.25	0.000	Significant positive effect
Asset Quality	-0.22	0.09	-2.44	0.018	Significant negative effect
Capital Adequacy	0.28	0.07	4.00	0.000	Significant positive effect

The regression analysis reveals that financial performance has a substantial impact on investor confidence within the banking sector. Profitability exhibits a strong positive effect ($\beta=0.34$, $p<0.01$), indicating that increased returns bolster investors' trust in the bank. Conversely, asset quality demonstrates a significant negative effect ($\beta=-0.22$, $p<0.05$), suggesting that a rise in non-performing loans diminishes investor confidence. Additionally, capital adequacy presents a notable positive effect ($\beta=0.28$, $p<0.01$), underscoring that banks with robust capital are viewed as more trustworthy by investors. Collectively, these findings suggest that banks can enhance investor confidence by improving profitability, ensuring sound asset quality, and maintaining sufficient capitalization.

Table 7

Model Summary

R	R^2	Adjusted R^2	F-statistic	p-value
0.78	0.61	0.59	28.45	0.000

The summary of the model reveals that the regression model adequately fits the data. The multiple correlation coefficient (R) of 0.78 indicates a robust positive correlation between the independent variables' profitability, asset quality, and capital adequacy and the dependent variable, investor confidence. The R^2 value of 0.61 implies that 61percent of the variability in investor confidence can be accounted for by these financial performance metrics, whereas the adjusted R^2 of 0.59 considers the number of predictors, thereby affirming the model's dependability. Furthermore, the F-statistic of 28.45, accompanied by a p-value of 0.000, signifies that the overall regression model is statistically significant, indicating that, in aggregate, the independent variables exert a substantial influence on investor confidence within the banking sector.

Table 8

ANOVA

Source	Sum of Squares (SS)	df	X^2	F	p-value
Regression	78.45	3	26.15	28.45	0.000
Residual/Error	50.32	46	1.09		
Total	128.77	49			

The results of the ANOVA demonstrate that the regression model is statistically significant in accounting for the variation in investor confidence. The F-value of 28.45, accompanied by a p-value of 0.000, indicates that the independent variables profitability, asset quality, and capital adequacy collectively exert a significant influence on investor confidence. The regression sums of squares, which are 78.45, signifies the variation that the model explains, whereas the residual sum of squares, at 50.32, denotes the variation that remains unexplained. This evidence substantiates that the model effectively captures the influence of financial performance on investor confidence within the banking sector.

Major Findings and Discussion

1. Liquidity ratios, such as the Current Asset-to-Deposit Ratio (CADR) and Cash-to-Deposit Ratio (CDR), exhibit positive yet predominantly insignificant correlations with profitability indicators like ROA and ROE. Descriptive analysis reveals that excessive liquidity can diminish profitability due to idle funds that fail to generate returns, indicating that banks must strike a balance between liquidity and the deployment of productive assets to enhance profitability.
2. The Capital Adequacy Ratio (CAR) demonstrates a positive and significant relationship with profitability, as evidenced by regression results ($\beta = 0.28$, $p <$

0.01) and correlation analysis (r = 0.57) with investor confidence. Banks that are well-capitalized possess adequate financial buffers, which empower them to make strategic decisions, manage risks effectively, and sustain long-term growth.

3. Conversely, higher levels of Non-Performing Loans (NPLs) adversely impact profitability ($\beta = -0.22$, $p < 0.05$) and hinder managerial decision-making. Correlation analysis further indicates a moderate negative association between asset quality and investor confidence (r = -0.45). This underscores the necessity of effective credit risk management for achieving sustainable profitability and sound strategic planning. Larger banks tend to exhibit greater profitability and enhanced decision-making capabilities, likely attributable to economies of scale, while operational efficiency, as measured by the Cost toIncome Ratio, positively influences profitability, thereby facilitating more informed strategic decisions and risk management.
4. These findings suggest that banks should strive to maintain optimal liquidity while productively deploying surplus funds to prevent resource idleness. Enhancing capital adequacy and mitigating credit risk are vital for boosting profitability and fostering investor confidence. Regulatory oversight remains crucial to ensure the enforcement of prudential norms, thereby promoting financial stability and sustainable growth within the banking sector. Regression analysis indicates that profitability, capital adequacy, and asset quality together account for a significant portion of the variation in investor confidence.

The examination of Nepalese commercial banks indicates a distinct correlation between financial performance metrics profitability, liquidity, capital adequacy, and credit risk and the decision-making processes within these institutions. In alignment with previous research, liquidity ratios such as the Cash-to-Deposit Ratio (CADR) and the Credit-to-Deposit Ratio (CDR) show positive yet generally weak associations with profitability (Ghimire et al., 2024; Pokharel, 2019). This suggests that while banks maintain sufficient liquidity, an excess of liquidity does not substantially improve profitability due to the opportunity costs associated with unutilized funds. Capital adequacy, assessed through the Capital Adequacy Ratio (CAR), has a positive effect on profitability and facilitates sound decision-making, reinforcing the conclusions drawn by Thapa et al. (2025) and Thapa (2024). Banks that are better capitalized can undertake strategic investment decisions with reduced risk, thereby ensuring stability and bolstering

shareholder confidence. In contrast, elevated credit risk (as indicated by Non-Performing Loans) adversely affects profitability and constrains strategic alternatives, corroborating the results of Bhattarai (2021) and Karki and Aryal (2019). The significance of bank size is also noteworthy. Larger banks tend to exhibit superior capital buffers, enhanced profitability, and more efficient decision-making processes, likely attributable to economies of scale, diversified investment portfolios, and robust governance structures. Operational efficiency, evaluated through Cost-to-Income Ratios, further influences profitability and shapes managerial decisions. In summary, the research substantiates that financial performance indicators not only reflect historical efficiency but also informs strategic and operational choices in Nepalese commercial banks. Institutions that maintain a balance of liquidity, sufficient capital, minimal credit risk, and operational efficiency are more adept at making informed decisions regarding lending, investment, and dividend strategies.

Conclusion

The research indicates that the profitability of commercial banks in Nepal is affected by a blend of liquidity, capital adequacy, credit risk, and operational efficiency, all of which collectively influence managerial decision-making. While liquidity ensures short-term stability, it is the capital adequacy and management of credit risk that play a more significant role in determining long-term profitability. Larger banks with effective operations consistently surpass their smaller counterparts, underscoring the significance of scale and operational discipline. The results highlight that financial performance serves not only as an indicator of past achievements but also as a strategic instrument for future decision-making, steering banks towards sustainable growth, risk management, and enhanced shareholder value.

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