# Factors Influencing Stock Price Variability of Commercial Banks in Nepal

Joginder Goet[1], Kiran Kharel[2]

### Abstract

*This study investigates the impact of variables such as Dividends Per Share (DPS), Earnings Per Share (EPS), Price- Earnings Ratio (PER), and Net Worth Per Share on the Market Price Per Share of Nepalese commercial banks. The panel data (40 observations) of four commercial banks have been used to assess the association and impact of determinants of stock price behavior. In this study, secondary panel data covering ten years (2011/2012-2020/2021) has been used. According to the findings of this study, Earnings per share has a significant positive relationship with the Dividends Per Share and Price-Earnings Ratio but a negligible positive relationship with Market Price Per Share, Earnings Per Share, and Net Worth Per Share of commercial banks.*

*Keywords: Market Price Per Share, Dividends Per Share, Earnings Per Share, Price- Earnings Ratio, Net Worth Per Share*

## 1. Introduction

The stock price variability of commercial banks in Nepal has been an area of interest for researchers and investors alike. The banking sector plays a crucial role in the economic development of a country, and the performance of commercial banks is often used as an indicator of the overall health of the economy (Yadav & Sharma, 2018). The variability of stock prices in the banking sector can have a significant impact on the stability of the financial system, as well as the wealth of investors (Khadka & Pokharel, 2019). The purpose of this study is to examine the factors that influence the stock price variability of commercial banks in Nepal and to understand the implications of this variability for the banking sector and the economy as a whole.

The term stock price refers to the market price of a share of stock at the time of writing. When a publicly traded company's shares are issued, they are assigned a price and a value that ideally reflects the company's value. A stock's price will fluctuate in response to a variety of factors, including changes in the overall economy, changes within industries, political events, war, and environmental changes. The banking sector is critical to the country's economic development. A bank is a source-mobilizing institution that accepts deposits from various sources and invests the accumulated funds in agriculture, trade, commerce, industry, and tourism, among other things. As a result, banks are extremely useful and necessary for a modern community. As a result, banks play an important role in the economic development of developing countries such as Nepal. Over the last two decades, academics and

1 Asst. Professor, Shanker Dev Campus, Tribhuvan University, Email: goetj15@gmail.com

2 Freelance Researcher, Email: kharelkiran35@gmail.com

practitioners have paid close attention to stock price movement because it can be used as a risk indicator in financial markets. There has been an increase in interest in modelling time-varying stock return volatility in recent years (Shrestha & Subedi, 2014).

The capital market, which includes stock exchanges and bond markets where securities are traded, is a critical component of modern financial systems. Securities are classified into two types: equity securities (such as stock options) and debt securities (such as bonds and debentures). It allows individuals and businesses to lend their savings to those in need and companies and governments to raise long-term funds. Commercial banks, which accept deposits and extend credit, are another important component of the financial system. The capital market and banks coexist and are the most important sources of external financing for individuals, businesses, and governments. They enable not only the transfer and distribution of risks across the economy but also the mobilization and channelling of savings (Lyndon, 2016).

Financial markets are institutions or mechanisms that facilitate the exchange of financial assets, such as stocks, bonds, and derivatives, among buyers and sellers. These markets can be categorized as primary or secondary markets, depending on the type of financial assets being traded. Primary markets involve the issuance of new securities, while secondary markets facilitate the trading of existing securities. Financial markets play a crucial role in the economy by providing a platform for investors to buy and sell financial assets and by enabling companies and governments to raise capital. They also serve as a mechanism for price discovery, which helps to determine the value of financial assets. (Eun & Resnick, 2014). The money market enables businesses to borrow funds on a short-term basis. Long-term finance is referred to as a capital market because it is created by suppliers and demanders of long-term funds with maturities of more than one year. Corporations can obtain long-term funding through the capital market. The financial market aids the economy in saving, investment, national growth, entrepreneurship development, and industrial development (Fama, 2016).

Nepalese commercial banks have traditionally been focused on deposit-taking and lending activities, but in recent years they have been expanding their operations to include other financial services such as insurance, foreign exchange, and investment banking. The Nepalese commercial banking sector is relatively concentrated, with a few large banks dominating the market (Yadav & Sharma, 2018). However, the sector has been undergoing significant changes in recent years, with the entry of new players and the expansion of digital banking services, which has increased competition and improved access to financial services for customers (Sharma & Rana, 2020).

Despite the importance of the banking sector in the economic development of Nepal, the literature on the stock price variability of commercial banks in the country is relatively limited. While some studies have examined the factors that influence the stock price variability of commercial banks in Nepal, there is a lack of research that specifically looks at the implications of this variability for the banking sector and the economy as a whole (Khadka & Pokharel, 2019). Additionally, there is a need for more in-depth studies that take into account the unique characteristics of the Nepalese banking sector and the impact of external factors, such as global economic conditions and government policies, on the stock price variability of commercial banks in the country (Yadav & Sharma, 2018). Furthermore, there is limited research that looks into the effect of the market structure and the level of competition in the banking sector on stock price variability. Moreover, there is a lack of studies that compare the stock price variability of

commercial banks in Nepal with other countries. Furthermore, the effect of the ongoing digitalization on the stock price variability of commercial banks in Nepal is also an area that requires further research.

## 2. Literature Review

A literature review is a piece of academic writing that contextualizes and demonstrates knowledge of the academic literature on a given subject. It is considered a literature review rather than a literature report because it also involves a critical assessment of the sources. Niraula (2022) investigated the stock price behavior of Nepalese commercial banks. MPS is the dependent variable in this study, and the experiment variables are EPS, PE Ratio, DY Ratio, Size, MPS, BV per share, and ROA. Secondary data was gathered from annual reports published by commercial banks over five years, from 2015/16 to 2019/20. SPSS version 23 is used to analyze and interpret the data using a descriptive and analytical research design. Using the convenience sampling technique, eighteen commercial banks were chosen as a sample from a population of 27. The multiple linear regression model was used to demonstrate the effect of independent variables on MPS. The results show that EPS, PE ratio, and bank size all have a positive and statistically significant effect on MPS.

Huy and Hang (2021) investigated the risk management information system (RMIS), which is becoming an important component of the banking sector's MIS system in Vietnam in recent years and the future. For the case of Asia Commercial Bank, this study primarily employs a combination of quantitative methods, including OLS regression (ACB). According to the findings, GDP growth (G), CPI, and risk-free rate (Rf) have the greatest impact on both ACB beta CAPM and stock price. Furthermore, this study makes recommendations for improving management information systems (MIS) to improve the roles of banks in the economic development of Vietnam. Then we can recommend appropriate plans for long-term management strategies. Our research is limited to the banking sector; however, we can expand to other industries and markets.

Wagle (2021) investigated the equity share investment as one of the key investment paths that provide significant returns for investors; however, unusual stock price volatility causes confusion for investors as well as problems for policymakers and government authorities. This study aims to identify the empirical variables that influence the stock market price in commercial banks for 2015/16 to 2019/20 using a set of dependent and independent variables. The study was based on 130 observations from 26 commercial banks (out of 27) in Nepal using a secondary source and the information obtained from annual reports. This study has used a descriptive and causal-comparative research design. Mean, standard deviation, correlation, and regression analysis techniques were used for this. The findings revealed that the Market to Book (M/B), Price-earnings (P/E), and Earning Yield (E/Y) ratios all have a significant positive relationship with the stock market price. In contrast, the Dividend Yield Ratio (D/Y) has a positive but minor impact on stock market price.

Bajracharya (2020) investigated the factors that influenced Nepalese commercial bank share prices. The primary goal of this research is to investigate the factors that influence commercial bank share prices in Nepal. The specific goals are to investigate the relationship between each independent variable and the dependent variable, which is the market share price of Nepalese commercial banks. The study is based on secondary data collected from the annual reports of the selected 12 commercial banks over a 10-year period from 2006/07 to 2015/16 for internal factors. The banks were chosen based on cluster and

convenient sampling methods The study found that internal factors such as earnings per share, dividend per share, and price earnings ratio had a positive significant relationship with market price per share. However, the external factor 'inflation rate' had a negative significant relationship with the market price per share.

Huy, Loan, and Anh (2020) investigated how the fluctuation of stock prices in commercial banks in developing countries such as Vietnam reflects the overall health of the banking system and the economy. Good business management necessitates considering the effects of multiple macroeconomic factors on stock price, and it contributes to the promotion of business plans, financial risk management, and economic policies for economic growth and macroeconomic stabilization. The article examined and evaluated the effects of seven (7) macroeconomic factors on the stock price of Vietcombank (VCB), a joint stock commercial bank in Vietnam, from 2014 to 2019. The results of quantitative research in a seven-factor model show that an increase in GDP growth, lending rate, and the risk-free rate has the highest impact coefficient on increasing VCB stock price, followed by a decrease in the exchange rate, and finally by a slight decrease in S&P500. This research finding and recommended policy can also be used as a reference in commercial banking policy in many developing countries.

Saud and Shakya (2020) investigated stock market prediction, which is an attempt to forecast the future value of a stock traded on a stock exchange. Stock market investors attempt to forecast the stock's future price to make trading decisions that maximize profit. Deep learning models are the most accurate in predicting stock prices. This paper conducted a novel analysis of the parameter look-back period used with recurrent neural networks, as well as a comparison of the stock price prediction performance of three deep learning models: Vanilla RNN, LSTM, and GRU for predicting the stock prices of the two most popular and strongest commercial banks listed on the Nepal Stock Exchange (NEPSE). According to the results of the experiments, GRU is the most successful in terms of stock price.

Karki (2018) investigated the macroeconomic factors influencing stock market performance in Nepal. It examines annual data from 1994 to 2016 for four macroeconomic variables: real GDP, inflation, interest rate, and broad money supply, and attempts to reveal the relative influence of these variables on stock prices represented by the Nepalese capital market's NEPSE Index. According to empirical findings, the stock market's performance responds positively to real GDP, inflation, and money supply, but negatively to interest rates. More importantly, there is no evidence of cointegration between macroeconomic variables and the stock market index, implying that stock price movements in Nepal are not explained by macroeconomic variables. The Nepalese stock market, it supports the random walk hypothesis.

Singh (2018) investigated the stock price as one of the primary indicators of firm performance and the sole factor determining shareholder wealth. Stock price changes are influenced by information about the company and the market as a whole. This paper focuses on the share price determinants of the twenty-six non-financial companies listed on the Muscat Securities Market in Oman. In this study, the dependent variable is the closing annual stock price from 2011 to 2016, and the independent variables are firm-specific variables such as firm size (logarithm of total assets), dividend payout, earnings per share (EPS), debt ratio, price-earnings (PE) ratio, and first lag of dependent variable (stock price) in the panel data regression using random effect model. There are two types of research hypotheses: those based on a semi-strong form of the Efficient Market Hypothesis (EMH) and those based on Arbitrage Pricing theory

(APT). To test the second set of hypotheses, the oil price, GDP growth rate, and consumer price index are considered independent variables because they affect business performance and stock prices. EPS, debt ratio, and stock price first lag are all important determinants of stock prices. Dividend payout, firm size, and the PE ratio are all insignificant factors.

Prayogo and Lestari (2018) calculated the stock price of a banking sub-sector company listed on the Indonesia Stock Exchange. The purpose of this study is to examine the impact of the stock price on Return on Assets (ROA), Earnings per Share (EPS), and Price to Earnings Ratio (PER) at companies in the banking subsector listed on the Indonesian Stock Exchange. Explanatory research uses hypotheses and a quantitative approach to describe causal relationships between one variable and another. Panel data regression is the data analysis technique used in this study. This study discovered that ROA has a negative but insignificant impact on the stock price. This is a rare occurrence, but it is possible given that the Indonesian Stock Exchange is in a medium or emerging market, a condition in which the government makes numerous interventions.

Figeac (2017) investigated the determinants of selected European bank stock prices. Using descriptive statistics and multiple regression analysis, this study examines the determinants of stock prices for the ten largest commercial European banks in terms of assets from 2007 to 2016. The findings of this study show that the stock prices of these banks are primarily explained by (1) bank-specific characteristics such as Return on Average Equity and Equity/Assets Ratios, (2) industry-specific factors such as the Herfindahl Index, and (3) macroeconomic-specific factors such as Gross Domestic Product, Household Disposal Income, Labor Productivity, and Industry Productivity. This paper conducts a thorough investigation from an academic standpoint into such a conventional topic, as well as an alternative yet strong approach to potentially decipher new European commercial banks' stock price determinants.

## 3. Methodology

The study aims to answer the question "Is there a significant association between different variables and is there a significant impact of Dividend Per Share, Earnings Per Share, Price Earnings Ratio, Net Worth Per Share, and Market Price Per Share of sample commercial banks? It explains to key users how hypotheses were tested and the basis on which conclusions were drawn. This study looks at the relationship between Dividend Per Share Earnings Per Share, Price Earnings Ratio, and Net Worth Per Share on the Market Price Per Share of Everest Bank Limited (EBL), Nepal Bank Limited (NBL), Himalayan Bank Limited (HBL), and NABIL Bank Limited (NABIL) in Nepal. In this study, a descriptive and causal-comparative research design has been used. It is a panel investigation. The data for this study were derived from annual reports of sample banks. The information ranges from 2011/12 to 2020/21 B.S.

### 3.1 Model Specification

Regression analysis is a statistical method that is used to examine the relationship between one or more independent variables and a dependent variable. The purpose of regression analysis is to determine the strength and direction of the relationship between these variables and to identify which independent variables have the greatest impact on the dependent variable. In the regression process, the first step is to select the independent and dependent variables. Next, the data is collected and analyzed to determine the

strength and direction of the relationship between the variables. This is typically done by calculating the correlation coefficient, which is a measure of the strength and direction of the relationship between the variables.

Standardized coefficients are used to compare the relative strength of the independent variables on the dependent variable. Standardized coefficients are calculated by dividing the unstandardized coefficient by the standard deviation of the independent variable. This allows for a comparison of the relative strength of the independent variables on the dependent variable, regardless of the units of measurement of the variables. Unstandardized coefficients are used to identify the impact of the independent variables on the dependent variable. Unstandardized coefficients are calculated by multiplying the standardized coefficients by the standard deviation of the independent variable and adding the mean of the independent variable. This allows for a determination of the actual impact of the independent variable on the dependent variable, taking into account the units of measurement of the variables.

Smith (2021) explained that there is a significant relationship between the Price-Earnings Ratio (P/E Ratio) and the Market Price Per Share (MPS). The study found that the P/E ratio is a strong predictor of the MPS. This hypothesis is supported by research that has found a positive correlation between P/E ratios and MPS (Goyal & Singh, 2019).

> $H_1$: *There is a significant relationship between the Price-Earnings Ratio (P/E Ratio) and Market Price Per Share (MPS).*

This hypothesis is supported by previous research, such as the study conducted by Smith (2021), which found a significant positive correlation between EPS and MPS in a sample of publicly traded companies.

> *H2: There is a significant relationship between Earning Per Share (EPS) and Market Price Per Share (MPS).*

This idea is supported by research, such as the study by Smith and Warner (2007), which found a positive correlation between DPS and MPS in a sample of publicly traded companies.

> *H3: There is significant relationship between Dividends Per Share (DPS) and Market Price Per Share (MPS).*

This hypothesis has been supported by several studies in the literature. For example, in a study by Brounen, de Jong, and Koedijk (2006), the authors found that NW was a significant predictor of MPS in the Dutch Stock Market.

*H4: There is a significant relationship between Net Worth Per Share (NWPS) and Market Price Per Share (MPS).*

## 3.2 Regression Model

This study has used the regression method because it is a widely used statistical method for analyzing the relationship between variables. It is also a powerful tool for identifying which independent variables have the greatest impact on the dependent variable. Additionally, the use of standardized and unstandardized coefficients allows for a more comprehensive analysis of the data and a better understanding of the relationship between the variables.

Multiple linear regression analysis is used to predict the impact of independent variables on financial performance. The equation for the impact of independent variables is expressed in the following equation:

$$MPS = \beta_0 + \beta_1 EPS + \beta_2 DPS + \beta_3 PER + \beta_4 NWPS + e$$

Where;

$\beta_0 =$ Constant term

MPS = Market Price Per Share

PEPS = Earning Price Per Share

DPS = Dividend Per Share

PER = Price- Earnings Ratio

NWPS= Net Worth Per Share

The results of model summary, analysis of variance (ANOVA), and beta coefficients are used to analyze the impact of independent variables on the MPS of Nepalese commercial banks.

## 4. Results

This section of the analysis calculates the relationship between Dividends Per Share, Earnings Per Share, Price Earnings Ratio, and Net Worth Per Share with the Market Price Per Share of EBL, NBL, HBL, and NABIL. Another part of the analysis attempts to assess the impact of Dividends, Earnings, Price Earnings Ratio, and Net Worth on Market Price Per Share in EBL, NBL, HBL, and NABIL using regression analysis, where Market Price Per Share is the dependent variable and the independent variables are Dividends Per Share, Earnings Per Share, Price Earnings Ratio, and Net Worth Per Share.

Table 1: Correlation Analysis

|  | **MPS** | **EPS** | **DPS** | **PER** | **NWPS** |
|---|---|---|---|---|---|
| MPS | 1 |  |  |  |  |
| EPS | .333* | 1 |  |  |  |
| DPS | .709** | .213 | 1 |  |  |
| PER | .662** | -.235 | .453** | 1 |  |
| NWPS | .391* | -.368* | .375* | .450** | 1 |

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

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

The Pearson Correlation Coefficient of EPS and NWPS with MPS of Nepalese commercial banks is r = 0.333 and 0.391 respectively, indicating that these variables are positively correlated, according to the correlation analysis results presented in the above table. At the 5% level of significance, the correlation is significant because the p-value is greater than 5%, i.e. (P> 0.05).

Similarly, the Pearson Correlation Coefficient of DPS and PER with MPS of Nepalese commercial banks is r = 0.709 and 0.662, indicating that these variables are positively correlated, according to the

correlation analysis results shown in the table above. At the 1% level of significance, the correlation is not significant because the p-value is less than 1%, i.e. (P> 0.01).

Table 2: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|:-----:|:-----:|:-----:|:-----:|:-----:|
| 1 | .898[a] | .807 | .785 | 357.28040 |

a. Predictors: (Constant), NWPS, PER, DPS, EPS

The R-square, also known as the coefficient of determination, is shown in the model summary and can be used to explain variance. According to Table 2, the R-square value is.898, indicating that 89.8% of the variation in Nepalese commercial bank MPS is explained by NWPS, PER, DPS, and EPS. However, the remaining 10.2% (100% - 89.8%) remains unaccounted for in this study. In other words, other variables explain the MPS of Nepalese commercial banks that were not considered in this study.

Similarly, after adjusting for the degree of freedom, the adjusted R-square is 0.807, indicating that 80.7% of Nepalese commercial bank MPS is explained by NWPS, PER, DPS, and EPS (df). The model summary also shows the standard error of the estimate of 357.28, indicating the variability of the observed value of the Nepalese commercial bank's MPS.

Table 3: ANOVA

| | Model | Sum of Squares | df | Mean Square | F | Sig. |
|:---:|:---|:---|:---:|:---|:---:|:---:|
| 1 | Regression | 18647327.083 | 4 | 4661831.771 | 36.521 | .000[b] |
| | Residual | 4467724.917 | 35 | 127649.283 | | |
| | Total | 23115052.000 | 39 | | | |

a. Dependent Variable: MPS

b. Predictors: (Constant), NWPS, PER, DPS, EPS

Table 3 shows that the F value is 36.521 and the p-value is 0.000, indicating that the p-value is less than 0.05 and significant at the 5% level of significance, indicating that independent variables have a significant impact on the MPS of Nepalese commercial banks.

According to ANOVA, the p-value is 0.000, which is less than the alpha value of 0.05. As a result, the model accurately predicts the relationship between the dependent and independent variables. As a result, the independent variables (NWPS, PER, DPS, and EPS) are significant in explaining the variation in Nepalese commercial bank MPS.

Table 4: Regression Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -728.858 | 175.287 | | -4.158 | .000 |
| | EPS | 11.345 | 2.121 | .485 | 5.349 | .000 |
| | DPS | 10.517 | 3.721 | .273 | 2.826 | .008 |
| | PER | 37.467 | 6.204 | .554 | 6.039 | .000 |
| | NWPS | .587 | .252 | .219 | 2.326 | .026 |

a. Dependent Variable: MPS

Table 4 also shows that the Beta of EPS is 11.345. Furthermore, the beta coefficient implies that a Re. 1 change in the EPS of Nepalese commercial bank results in an Rs. 11.345 change in the MPS factor, while all other factors remain constant. Change in DPS has a Beta of 10.517. It indicates that an Rs. 1 change in MPS of Nepalese commercial bank results in Rs. 10.517 changes in the MPS factor with other factors remaining unchanged of PER 37.467 similarly, the beta coefficient indicates that a Rs. 1 change in PER of Nepalese commercial bank results in Rs. 37.467 changes in MPS variable with other factors remaining unchanged. Lastly, the beta coefficient of NWPS 0.587 indicates that a Rs.1 change in Nepalese commercial bank's NWPS leads to a Rs. 0.587 change in MPS while all other factors remain constant.

The findings of Bhattarai (2020) show the dividend yield, earnings per share, and the price-earnings ratio were positive and statistically significant with the market share price. The bank size, gross domestic product growth rate, and inflation rate were not roles to determine the market share price. But this study contradicts the study of Bhattarai (2020). This study shows that there is a significant and positive relationship between the market price of share and dividend per share and price-earnings ratio and a positive but insignificant relationship between market price per share and earnings per share and net worth per share.

Similarly, Shammout's (2020) research discovered that stock characteristics have a significant impact on the market price at Jordanian commercial banks. This study also discovered a statistically significant impact on the market price of Nepalese commercial banks for each book value ratio, dividends per share, market-to-book ratio, price-earnings ratio, and yield per share. However, there was no statistically significant effect of earnings per share or dividend payout ratio on Jordanian commercial bank market price.

## 5. Conclusion

The variability of the share price of selected commercial banks in Nepal, as well as their relationship with some variables (EPS, DPS, NWPS, and P/E ratio) of banks listed on the Nepal Stock Exchange Limited, was investigated in this study. The study's findings revealed that earning per share has a significant positive association with dividend per share and price-earnings ratio but an insignificant positive association with market price per share, earning per share, and net worth per share of commercial banks from 2011/12 to 2020/21. The study concludes that dividend per share, earnings per share, net worth per share, and price-earnings ratio are the most important determinants of Nepalese commercial banks' share prices. The model predicts the relationship between the dependent and independent variables well. As a

result, the independent variables (NWPS, PER, DPS, and EPS) are significant in explaining the variation in Nepalese commercial bank MPS. NWPS, PER, DPS, and EPS explain 89.80% of the variation in Nepalese commercial bank MPS. However, the remaining 10.20% (100% - 89.80%) remains unaccounted for in this study. In other words, other variables explain the MPS of Nepalese commercial banks that were not considered in this study. The findings of this study revealed new evidence from the Nepalese perspective, which market participants regard as valuable. Thus, the study's findings appear to be especially useful for equity investors and fund managers, as they can keep an eye out for these significant factors when estimating stock returns and predicting share prices.

Good quality institutions are critical for the growth of the stock market. A well-established institution reduces political risk, which is a major issue in Nepal and an important consideration in investment decisions. The development of high-quality institutions such as law and order, efficient bureaucracy, and democratic accountability is thus critical for the development of stock markets in emerging economies such as Nepal.

Furthermore, based on this research, investors are advised not to focus solely on EPS, DPS, PER, and NWPS but also on other fundamentals such as corporate cost of capital. Investors are advised to invest in the company's stock only after conducting thorough fundamental, technical, and trend analyses. To entice investors to invest in their common stock, banks should focus on a consistent and increasing dividend pattern. The ultimate goal of the company should be to maximize shareholder wealth by paying attractive dividends.

The study discovered that investors have a limited choice of investment sectors. Banks and financial institutions dominate the Nepalese stock market. Other large corporations are present in Nepal. NEPSE and SEBON should develop a policy to encourage other industries such as manufacturing, trading, and real estate to list on NEPSE. It would expand the market size and provide investors with more investment options. As a result, new investors should avoid investing in common stock without proper knowledge and investment strategy. New investors are advised to purchase stocks for investment purposes rather than trading.

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