IMPACT OF NON-PERFORMING ASSETS ON THE FINANCIAL PERFORMANCE OF THE NEPALESE COMMERCIAL BANKS

A Dissertation Submitted to the Office of the Dean, Faculty of Management in Partial Fulfillment of the Requirements for the Master of Business Studies (MBS)

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **Impact of Non-Performing Assets on the Financial Performance of the Nepalese Commercial Banks**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

Ayurisha Maharjan has defended research proposal entitled **Impact of Non-Performing Assets on the Financial Performance of the Nepalese Commercial.** The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Dr. Kapil Khanal and submit the thesis for evaluation and vice-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **Impact of Non-Performing Assets on the Financial Performance of the Nepalese Commercial,** presented by Ayurisha Maharjan candidate for the degree of Master of Business Studies (M.B.S Semester) and conducted the Viva- Voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

C.V.	:	Coefficient of Variance
EBIT	:	Earnings before Interest and Taxes
EBL	:	Everest Bank Limited
IRS	:	Interest Rate Spread
KBL	:	Kumari Bank Limited
Ltd	:	Limited
MVPS	:	Market Value Per Share
NP	:	Net Profit
NPLR	:	Non Performing Loan Ratio
NRB	:	Nepal Rastra Bank
RBB	:	Rastriya Banijya Bank
ROA	:	Return on Assets
ROC	:	Return on Capital
ROE	:	Return on Equity
S.E	:	Standard Error
SEBON	:	Securities Board of Nepal

ABSTRACT

The bank's profitability situation is quite satisfactory. Nonetheless, the risk element of KBL, EBL and RBB and are profoundly than KBL and EBL, which demonstrates the monetary standards of high gamble to exceptional yield. What's more, this should be worked on further with the end goal of legitimate use of the resources of the organization. At long last, the general investigation of test banks RBB and banks have more consistency, positive slanted and Leptokurtic. The presented descriptive statistics indicate that the maximum RBB and weighted average interest spread occurred. From a viewpoint of the coefficient of variation, RBB and are observed to be more uniform than KBL and EBL. RBB and EBL had more random profitability ratios than KBL and EBL. As a result, the company's credit rating suffers and it is unable to attract individuals for productive fund mobilization. This study came to the conclusion that RBB and banks have more earnings than KBL and EBL and fewer non-performing assets. The study reveals that the sample banks' profitability results are superior. The RBB and EBL have had the option to keep up with standard of markers situating than KBL. The KBL and EBL's Non presentation credit higher than RBB, KBL and EBL have been expected to capable keep up with that proportions to develop its piece of the pie to make solid edges in market, adding to areas of strength for the and productivity position of the bank. Likewise, Relapse point of perspectives, The profit from resources and Non performing credit of test banks seen positive patterns to one another while, return on resources and Weighted normal loan cost spread of test banks seen negative patterns. In comparison to RBB and EBL, the KBL and EBL ought to work toward increasing their profitability ratio and earnings per share for future business growth. All example banks needs to do whatever it takes to further develop the non-performing proportion. Both banks' earnings per share have increased significantly, and it is recommended that this trend continue in the coming years. EBL and KBL couldn't keep up with the regular norm of proportion (twice) than RBB and EBL.

Keywords: Non-performing assets, performing asset, financial performance, profitability

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Non-performing assets (NPAs) are a crucial metric in evaluating the financial performance of a bank. They serve as a vital indicator for financial institutions. NPAs reflect the efficiency of a bank's operations. To understand the significance of NPAs, it's essential to first grasp the concept of assets. Assets refer to the possessions of an individual or a company, representing the property accumulated through various sources.

Non-Performing Assets (NPAs) represent the amount of credit extended by commercial banks to customers that remains unpaid past its due date. When borrowers fail to repay their loans promptly, resulting in delays, these loans are classified as NPAs by banks. The repercussions of non-performing assets extend beyond just the financial institution, impacting the entire financial system. Consequently, a specific study was conducted on selected commercial banks in Nepal to assess the influence of NPAs on bank profitability.

Presently, banks evaluate their performance not only based on the standard of assets but also consider factors such as the number of branches and the volume of deposits. NPAs have a detrimental effect on the profitability, liquidity, and solvency of banks. Profitability serves as a primary benchmark for any business endeavor, including the financial sector. However, the proliferation of NPAs directly undermines the profitability of banks. Legally, banks are prohibited from recording income from such accounts, and simultaneously, they are compelled to allocate provisions for such assets.

The NPA ratio stands out as one of the most crucial metrics in the financial sector, offering insights into the quality of a bank's assets. It serves as a fundamental gauge of effectiveness in credit risk management. For banks to enhance the quality of their asset portfolios, minimizing the occurrence of new NPAs is essential. Non-Performing Assets (NPA) serve as a vital prudential indicator for assessing the financial health of the banking sector.

Nonetheless, asset quality alone does not fully capture the essence of NPAs; they also reflect efficient resource allocation and effective credit risk management. There is a near consensus in literature that asset quality serves as a fundamental determinant of the sound functioning of the financial system. NPAs exert significant influence on operational efficiency, subsequently impacting the profitability, liquidity, and solvency position of banks.

The consequences of NPAs are multifaceted, including a reduction in interest income, elevated provisioning levels, pressure on profitability, a gradual decline in the ability to cope with continuous increases in expenses, increased strain on the net interest margin (NIM) leading to diminished competitiveness, steady erosion of capital reserves, and heightened difficulty in augmenting capital resources.

NPAs have a profound impact on the profitability, liquidity, and solvency of a bank. That should profitability continue to decline due to a rise in NPAs, the long-term viability of the bank would be compromised. Increasing NPAs diminish the interest spread of the bank. The inclusion of NPAs in the bank's financial statements erodes the usual earnings from credit assets and total assets. The absence of income from NPAs not only reduces the level of earnings for banks but also hinders their ability to offer competitive Prime Lending Rates (PLR).

1.1.1 Introduction to Selected Banks

Kumari Bank Limited (KBL)

Kumari Bank Limited, established on April 3, 2001, is the fifteenth commercial bank in Nepal, aimed at providing modern financial services in the Nepalese market. With a paid-up capital of NPR 13.87 billion, it operates through 246 points of representation across metropolitan, semi-metropolitan, and rural areas, including 196 branches, 14 extension counters, and 36 Branchless Financial Units. It introduced Internet Banking and Mobile Banking and plans to implement FINACLE (version 10) as its Core Banking Software to enhance banking services nationwide. Offering both domestic and global Visa Debit and Mastercard services, it operates through 177 POS terminals and ATMs. Providing cutting-edge digital banking services such as QR payments, mobile, internet, and Viber banking, the bank prioritizes innovation, rapid expansion, and customer satisfaction.

Through strategic acquisitions, including Kasthamandap Development Bank Ltd., Paschimanchal Finance Co. Ltd., Mahakali Bikash Bank Ltd., and Kankrebihar Bikash Bank Ltd., the bank complied with Nepal Rastra Bank's directive to reach NPR 8 billion in paid-up capital. Subsequently, it acquired Deva Bikas Bank Limited, expanding its network to 203 branches and 138 ATMs, with a loan investment of NPR 112 billion and a deposit base of NPR 124 billion.

Everest Bank Limited (EBL)

Everest Bank Limited (EBL), established in 1994, has become a prominent bank in Nepal, serving over 10 million customers with professional and efficient banking services. As a trusted source, EBL has contributed to the development of various sectors of society, including corporate, agricultural, and economic sectors. With Punjab National Bank (PNB) as its joint venture partner holding 20% equity, EBL has garnered numerous accolades for its service and performance, including the IDRBT Banking Technology Excellence Award and the Golden Peacock Business Excellence Award in 2013. Operating 8,500 ATMs and over 7,000 branches across India, EBL benefits from top management support from PNB under a Technical Support Agreement. With 105 branches, 138 ATM counters, 31 Income Collection Counters, and 3 Extension Counters nationwide, EBL provides convenient and accessible banking services to its customers through its extensive network connected to the ABBS system, enabling operational transactions from any branch.

Rastriya Banijya Bank Limited

Rastriya Banijya Bank Limited (RBBL) has a rich history of serving customers nationwide for over five decades. Initially established on January 23, 1966, under the "Rastriya Banijya Bank Act, 2021," and later re-registered as a public limited company on May 19, 2006, RBBL currently operates as an "A" class financial institution under the license of Nepal Rastra Bank. Despite facing challenging periods in its history, RBBL successfully implemented a restructuring plan, emerging as one of the most preferred banks with a large customer base across all 77 districts and 7 regions of Nepal. By efficiently allocating resources across various sectors of the economy, RBBL has contributed to economic development and job creation within the country. The continued

support from customers, government, well-wishers, and the public has solidified RBBL's position as the most trusted bank in Nepal.

1.2 Focus of the Study

Non-Performing Assets (NPAs) are loans extended by individual commercial banks that remain unpaid past their maturity date. When borrowers fail to repay their loans on time, resulting in overdue payments, these loans are categorized as Non-Performing Assets by the bank. The presence of nonperforming assets significantly affects the profitability of commercial banks, leading to financial losses. The objective of this study is to examine the impact of NPAs on commercial bank profitability and explore effective management strategies for handling nonperforming assets. Furthermore, the investigation will analyze the trends in non-performing assets over the past decade across three selected companies.

1.3 Problem Statement

The commercial banking sector in Nepal is still in its developmental phase, governed by regulations set forth by the national central bank, Rastra Bank of Nepal. Its primary function revolves around deposit mobilization and industrial lending, with lending being pivotal for channeling funds into productive avenues and fostering economic growth. However, lending activities entail credit risk, stemming from borrowers failing to meet contractual obligations, posing challenges for banks and financial institutions. Nepal's banking sector grapples with the issue of non-performing assets (NPAs), a problem exacerbated over time.

According to the Nepal Rastra Bank's Annual Report for 2012/13, the total NPA of the banking system amounted to 4.07 percent of the total loans in 2009 A.D., declining from 6.63 percent in 2008 A.D. Major commercial banks like Nepal Bangladesh Bank and Rastriya Banijya Bank experienced high NPA ratios, reaching 31.7 and 21.63 percent, respectively, in 2011/12, which decreased to 19.3 and 15.7 percent in 2012/13.

While some commercial banks saw a reduction in NPA loans in the 2011/12 fiscal year, others, like Kumari Bank Limited and Siddharth Bank Ltd., witnessed an increase compared to previous years. The unaudited NRB Annual Report for 2065/2066 has not been compared with 2011/12 data.

This study aims to delve into the repercussions of NPAs on the banking sector in Nepal, particularly focusing on the prevalence of non-performing assets and their impact on commercial banks' operations and profitability. The followings issues are raised on the study:

- What is the profitability position of the sample commercial banks?
- What is the relationship between Net Profit and Non-Performing assets and Performing assets?
- What is the impact of performing assets and non-performing assets on the net profit of Kumari Bank Limited, Everest Bank Limited and Rastriya Banijya Bank Limited?

1.4 Objectives of the Study

The primary aim of this study is to analyze the effect of non-performing assets (NPAs) on the profitability of commercial banks in Nepal. Specific objectives include:

- To evaluate the profitability position of sample commercial banks.
- To assess the relationship between net profit and non-performing assets and performing assets of Kumari Bank Limited, Everest Bank Limited and Rastriya Banijya Bank Limited.
- To examine the impact of non-performing loan ratio and interest spread rate on the ROA and ROE of sample commercial banks in Nepal.

1.5 Rationale of the Study

The success and prosperity of a bank hinge on the effective utilization of collected resources, contributing to the overall economic development of the country. Sound lending practices by banks positively impact economic growth, while increasing non-performing loans pose a significant challenge to commercial banks. Mobilizing and deploying domestic resources are crucial for sustainable economic development, with commercial banks playing a pivotal role in aggregating dispersed savings and channeling them into productive investments.

The primary objective of this study is to investigate the strategies and techniques employed by commercial banks in Nepal to address the conversion of performing assets

into non-performing assets (NPAs). Additionally, the study aims to analyze international best practices that Nepalese banks can adopt to mitigate this issue.

Loans and advances constitute the most profitable assets for banks, generating significant income through interest earnings. However, banks must exercise caution to ensure the safety of these assets, as failures in loan management have historically led to bank collapses. Credit risk, or the risk of non-repayment of loans, poses a significant challenge to banks.

Performing loans/assets offer numerous benefits, while non-performing loans/assets erode existing capital, highlighting the importance of maintaining asset quality. The Nepalese banking sector faces challenges with swelling non-performing assets, with total NPAs amounting to approximately 35 billion rupees, particularly affecting major banks like Nepal Bank Limited and Rastriya Banijya Bank Limited.

Addressing the issue of non-performing assets is critical for the sustainability and success of commercial banks in Nepal. By implementing effective risk management practices and learning from international experiences, Nepalese banks can enhance asset quality and contribute to the country's economic development.

1.6 Limitation of the Study

This study represents a partial fulfillment of the requirements for the M.B.S. degree and is subject to several limitations that may impact its reliability and validity.

- The study focuses solely on factors directly influenced by non-performing assets of commercial banks, overlooking the multitude of other factors that may contribute to organizational profitability.
- It relies entirely on secondary data provided by the respective banks, thereby limiting the reliability of the findings to the available data.
- The study's timeframe spans only ten years, from the fiscal years 2012/013 to 2021/022, potentially overlooking longer-term trends or variations.
- The research is confined to three commercial banks, namely Everest Bank Limited, Kumari Bank Limited, and Rastriya Banijya Bank Limited, which may not fully represent the diversity of the banking sector in Nepal.

- Acknowledging these limitations is crucial for interpreting the findings and understanding the scope of the study's conclusions within its constraints.

CHAPTER-II

LITERATURE REVIEW

2.1 Conceptual Review

In essence, a bank is an institution that handles money, currency, and precious metals. It collects deposits in the form of currency and gold from savers and lends money to those in need, imposing various terms and conditions such as interest rates and repayment terms. Banks pay interest to depositors as compensation for the funds received and charge fees, commissions, and interest from borrowers. Additionally, banks provide services such as bill discounting, guarantees, letter of credit issuance, investment in securities, and underwriting securities. The term "bank" originates from the Italian word "Banco," which means a bench. Historically, individuals conducting financial transactions often sat on benches, leading to the term "Banco" being associated with financial activities, eventually evolving into "bank."

In contemporary times, the functions of banks are evolving, prompting their primary competitors, including other financial institutions such as security dealers, brokerage firms, and insurance companies, to adapt and offer similar services. Various definitions of banks have been proposed by scholars throughout history, Sayers described a bank as involved in the ordinary banking business of exchanging cash for deposits and vice versa, transferring deposits between individuals or corporations, and exchanging deposits for bills of exchange, government bonds, or promises of repayment. Walter Leaf defined a bank as an institution or individual always ready to lend money against deposits, to be repaid upon presentation of the depositor's cheque. Horace White characterized a bank as a manufacturer of credit and a facilitator of exchanges. Crowther portrayed a banker as a dealer in debt, exchanging the debt of others for his own and facilitating credit. Hart identified a banker as someone who, in the ordinary course of business, receives money and repays it by honoring the cheques of depositors. The first renowned bank, the "Bank of Venice," was established in Venice, Italy, in 1157 A.D., followed by the Bank of Barcelona in 1401 A.D. and the Bank of Geneva in 1407 A.D. In England, banking began with English Goldsmiths after 1640 A.D. The Bank of Amsterdam emerged as a prominent bank during the 17th Century.

2.1.1 Concepts of Commercial Banks and Banking Activities

Commercial banks serve as the cornerstone of the financial system, pooling together community savings and facilitating their productive allocation. Intermediating between savers and borrowers, commercial banks channel funds from various sources into different assets, primarily aiming for profit generation and administrative support. Governed by the Commercial Bank Act of 2031, these banks are mandated to perform commercial functions, essentially mobilizing savings and directing them towards productive uses.

Commercial banks are indeed the cornerstone of the financial system, serving as vital intermediaries between savers and borrowers. These banks collect savings from the community and allocate them to productive uses, in accordance with the Commercial Bank Act 2031, which establishes their mandate to perform commercial functions.

By mobilizing funds from various sources, commercial banks allocate capital to different assets, aiming to generate profits and provide administrative support. They hold deposits from individuals, government entities, and businesses, meeting the financial needs of modern businesses. Through lending and investment activities, commercial banks make funds available to borrowers, including individuals, businesses, and government units, thus facilitating the flow of goods and services from producers to consumers.

Moreover, commercial banks play a significant role in the economy by acting as a conduit for monetary policy. They serve as a major channel through which monetary authorities influence economic conditions. This underscores their crucial role in ensuring the smooth functioning of the economy.

Commercial banks play a crucial role in economic development by serving as a vital resource and maintaining economic confidence across various segments of society. Established with the aim of enhancing people's economic welfare and providing banking services, commercial banks contribute significantly to the economic progress of both individuals and the nation.

These banks act as a source of internal resources for the economic development of developing countries, collecting diversified capital from different regions through their

branch networks. Operating as corporations, commercial banks accept demand deposits subject to check and provide short-term loans to business enterprises, irrespective of their other service offerings.

In the modern economic organization, commercial banks are pivotal, primarily engaged in receiving deposits, extending loans, and facilitating trade within a country. They specialize in providing short-term credit, lending money for brief periods to meet the immediate financial needs of businesses and individuals.

According to the American Institute of Banking, a commercial bank is defined as a corporation that accepts demand deposits subject to check and provides short-term loans to business enterprises, regardless of its other services. Similarly, in the Nepalese context, the Nepal Commercial Bank Act of 2031 B.S. (1974 A.D.) defines a commercial bank as an institution that exchanges money, accepts deposits, grants loans, and performs various commercial banking functions.

Indeed, various authors and experts have offered diverse definitions of banks due to the multifaceted nature of their functions. Given the wide array of services provided by modern banks, it has become challenging to provide a singular and precise definition of a commercial bank.

The evolution of banking services and the expansion of their roles in the financial system have led to differing perspectives on what constitutes a bank. While some definitions may emphasize the traditional functions of deposit-taking and lending, others may encompass a broader range of activities such as investment banking, wealth management, and financial advisory services.

Therefore, defining a commercial bank in contemporary times requires consideration of its dynamic and evolving nature, encompassing its various functions and roles within the financial ecosystem. As such, a comprehensive understanding of commercial banks necessitates recognizing their diverse operations and contributions to the economy.

2.1.2 Evolution of Banking System in Nepal

There are various types of banks, but commercial banks hold significant importance in the financial system of a country. They serve as intermediaries, pooling together

community savings and directing them towards productive uses, primarily meeting the financial needs of modern businesses. Commercial banks accept deposits from the public, typically repayable on demand or short notice, and focus on financing short-term and medium-term needs of trade and industry, such as working capital financing.

In Nepal, the Commercial Bank Act of 2031 B.S. (1974 A.D.) defines commercial banks as organizations engaged in exchanging money, accepting and granting loans, and performing commercial banking functions. These banks are distinct from cooperative banks, agricultural banks, or industry-specific banks, as specified in the Bank and Financial Institution Ordinance of 2005.

Prior to the establishment of a formal banking system in Nepal, financial transactions were conducted by moneylenders such as sahu-mahajans, jamindars, relatives, and friends, as well as through informal organizations like guthis. Borrowing from these sources was limited and often based on personal relationships. Individuals would deposit valuables like gold, silver, and other goods as security. Consequently, private moneylenders can be considered precursors to the concept of formal financial institutions.

Private moneylenders did contribute to the economic development of countries, but their transactions were based solely on personal agreements, leading to monopolies and exploitation. This highlighted the necessity for formal financial intermediaries to support economic growth.

In Nepal's history, various rulers, including the Kiratis, Lichchhavis, and Mallas, were more focused on cultural and religious constructions rather than economic development. However, during the Jayasthiti Malla era, some groups like the Tankadhari class engaged in money-related activities, possibly serving as traditional bankers.

During the Rana regime, efforts towards economic development began with the establishment of institutions like the "Tejarath Adda" in 1936 A.D. This institution provided loans secured against gold and silver to government employees and the public, marking a significant step in the evolution of modern banking in Nepal. Additionally, regulations were introduced to curb exorbitant interest rates charged by moneylenders.

The establishment of Nepal Bank Limited in 1937 A.D. marked the formal initiation of banking activities in Nepal. Nepal Bank Ltd. mobilized scattered capital for productive sectors, laying the groundwork for modern banking practices in the country. Nepal Rastra Bank, established in 1956 A.D., further contributed to economic development by regulating financial institutions and providing timely directives.

Subsequently, Rastriya Banijya Bank (RBB) was established in 1965 A.D., followed by the enactment of the Commercial Bank Act in 1976 A.D., facilitating the emergence of various commercial banks. Economic liberalization in 1982 A.D. opened doors for foreign banks to operate in Nepal, introducing joint venture banks (JVBs) and further diversifying the banking sector.

In recent times, domestic investment has flourished, with several commercial banks operating solely under Nepalese ownership. This has led to intense competition among commercial banks, ultimately benefiting customers and driving economic growth.

2.1.3 Function of Commercial Banks

Banks are institutions primarily driven by profit maximization, engaging in functions essential for economic activity. Traditionally, they accepted deposits and provided loans, but modern commercial banks extend their roles to foster development across various sectors like trade, commerce, industry, and agriculture, including support for priority and deprived sectors. The dynamic nature of customer needs, coupled with competitive pressures in a globalized market, makes the banking sector indispensable. Licensed to accept deposits and manage payments, commercial banks create money and offer short-term loans to individuals, companies, and organizations. While profit maximization remains a key objective, commercial banks operate within regulatory frameworks such as the Commercial Bank Act of 1974, ensuring compliance with directives from regulatory bodies like the Nepal Rastra Bank (NRB).

Primary Functions

Accepting Deposits

Accepting deposits stands as the cornerstone function of commercial banks. These institutions gather funds from individuals seeking to deposit money into various account types, including:

- Fixed Deposit Account
- Current Deposit Account
- Saving Account

Advancing of Loans

Commercial banks play a vital role in providing the necessary credit to different sectors of the economy, including industry, trade, agriculture, and underserved segments. Through various mechanisms, banks create credit facilities, offering loans through different procedures and forms such as overdraft, cash credit, direct loans with collateral and discounting of bills of exchange. These mechanisms enable commercial banks to extend financial support to diverse sectors, fostering economic growth and development.

General Utility Functions

Commercial banks offer a range of utility functions beyond traditional banking services. These include issuing letters of credit, bank drafts, and traveler’s checks for facilitating fund transfers. Additionally, they engage in foreign exchange services, such as financing foreign trade through accepting or collecting foreign bills of exchange. They also assess the financial standing and creditworthiness of customers, underwrite loans for public bodies and corporations, and provide safety vaults or lockers for securing valuables and securities.

Agency Function

In addition to the previously mentioned functions, commercial banks also engage in agency functions where they act on behalf of their clients and earn commissions for certain services. These services include collecting customers' funds from other banks, handling receipt and payment of dividends, interest, and providing security brokerage

services. They also offer financial advisory services and underwrite both government and private securities.

2.1.4 Concept of Loan and advances

A loan is typically defined as something lent, especially a sum of money, while debt refers to a sum of money owed to someone. However, in financial terms, a loan or debt refers to the principal or interest provided to a borrower against security. Debt can also denote the money that a bank owes or will lend to an individual or entity.

Similarly, the term loan is defined as a lending arrangement where one party delivers a sum of money to another party, with an agreement, expressed or implied, to repay it with or without interest. It can also involve providing something for temporary use to a person with the condition of its return, with or without compensation for its use.

The concept of loan encompasses various scenarios, including:

- The creation of debt by the lender's payment of money to the debtor or a third party on behalf of the debtor.
- The creation of debt by crediting an account with the lender from which the debtor can immediately draw.
- The creation of debt through lender credit cards or similar arrangements.
- The forbearance of debt resulting from a loan.

The Supreme Court of India, in the case of United Bank of India vs. DRT, defined debt broadly. According to the court, the term 'debt' should be interpreted extensively to include any liability alleged as dues from any person by a bank during its business activities, whether in cash or otherwise, whether secured or unsecured, whether payable under a court decree or otherwise, and legally recoverable on the date of the application.

2.1.5 Concepts of Non-Performing Assets

Non-Performing Assets (NPAs) refer to loans provided by commercial banks to individuals or entities that have not been repaid within the specified time frame. When a loan remains unpaid past its maturity date, it becomes overdue and is classified as an NPA for the bank. Managing and reducing NPAs is a significant challenge for

commercial banks as they impact profitability and can lead to severe consequences for financial institutions.

NPAs are often broadly defined as bad debts, but in the banking sector, they specifically include loans and advances that are not performing well and are at risk of becoming bad debts. Current directives from regulatory bodies such as the Nepal Rastra Bank categorize NPAs as classified loans and advances.

The existence of NPAs has severe impacts on financial institutions. Not only do they render investments worthless by hindering the realization of expected returns, but they also directly affect profitability due to the provisions required for risk mitigation. This situation can even raise questions about the bank's sustainability.

In the banking industry, profitability is a benchmark for success. However, increasing NPAs directly impact a bank's profitability, as banks are legally prohibited from booking income on such assets. Loans and advances constitute a significant portion of a bank's assets and income. However, bank failures worldwide often stem from the depreciation in the value of loans and advances, highlighting the inherent risk associated with lending.

Performing assets are loans that generate cash flow to repay both principal and interest to the bank. While loans are essential for banks to generate income, they also represent risky assets. If a bank's NPAs reach around 10%, it can signal significant trouble for the institution. Therefore, banks implement loan policies to maintain financial health, safeguard depositors' funds, and enhance returns for shareholders. These policies aim to balance risk-taking with potential returns, ensuring that banks do not expose themselves to excessive risk despite the profit potential of loans.

2.1.6 Effects of NPA on Profitability of Banks

In the given circumstances, assets that fail to generate income for the bank have several adverse effects on profits, as outlined below (Koirala, 2006):

2.1.6.1 Profitability Impact

- The resources tied up in NPAs are borrowed at a cost and must generate a minimum return to cover this cost.

- NPAs not only fail to generate income but also reduce profits earned by performing assets due to provisioning requirements.
- Since NPAs do not earn interest, they decrease the yield on advances and the net interest margin or spread.
- NPAs directly impact assets and returns on equity, the primary parameters for measuring commercial bank profitability.
- Return on assets is affected because although NPAs are included in total assets, they do not contribute to profits, which are the numerator in the ratio.
- Return on equity is also impacted as provisioning consumes an increasing portion of earned profits.
- Maintaining NPAs incurs costs such as administration, legal, and resource procurement expenses.
- NPAs reduce profits, diminish shareholder value, and consequently, undermine investor confidence.

Assessing the overall impact of NPAs reveals several significant consequences:

- Lower Return on Equity (ROE) and Return on Assets (ROA)
- Diminished reputation and ratings for banks
- Reduced investor confidence due to disclosure of NPAs
- Increased challenges and costs associated with raising capital
- Non-income generation from NPAs
- Provisioning requirements for NPAs
- Borrowing costs for resources locked in NPAs
- Opportunity loss stemming from the non-recycling of funds
- 100% risk weight on net NPAs for Cash Reserve Ratio (CRR) compliance
- Blocked capital in NPAs
- Capital utilization without income generation to sustain the locked capital
- Government recapitalization with associated conditions
- Administrative and recovery costs related to NPAs
- Negative effects on employee morale and decision-making

These factors collectively illustrate the extensive and multifaceted impact of NPAs on the financial health and operations of commercial banks.

2.1.6.2 Causes and Measures of NPA

In Reddy's (2005) comparative study of NPAs in India within the global context, he observed notable improvements in the financial health of Indian banks regarding asset quality. However, he noted that comparing pre and post-reform NPA levels in India is challenging due to significant changes in accounting norms.

Reddy highlighted the regulatory measures implemented by the Reserve Bank of India (RBI), requiring banks to build provisions equivalent to at least 50% of their gross NPAs. This regulation aimed to decrease the level of NPAs in Indian banks.

Through country-wise analysis, Reddy identified various causes of NPAs and measures adopted by different countries to address them. The summary of findings provided a deeper understanding of NPA causes and measures taken globally, offering insights into effective strategies for managing NPAs.

In China, several factors contribute to the rise of Non-Performing Assets (NPAs), including moral hazard among State-Owned Enterprises (SOEs), inadequate bankruptcy laws, and reluctance of banks to lend to private enterprises due to non-standard accounting practices. SOEs often take high risks with the belief that the government will bail them out, leading to low profitability and operational inefficiency. Furthermore, bankruptcy laws favor borrowers, and law courts are unreliable in enforcing loan repayments. The political and social implications of restructuring SOEs compel the government to keep them afloat, exacerbating the problem.

To mitigate these risks, China has implemented measures such as strengthening banks, raising disclosure standards, and reforming SOEs by reducing their debt levels. Legislation has been enacted to allow the creation of asset management companies and foreign equity participation in securitization and asset-backed securities. Additionally, the government has facilitated debt/equity swaps to encourage growth opportunities, offering incentives like tax breaks and clear asset evaluation norms to promote restructuring efforts (Pandy, 1966).

In Thailand, the liberalization of capital and current accounts, along with external borrowings, led to an inaccurate assessment of exchange rate risks and capital flight during crises. The legal system made credit recovery time-consuming and difficult. Speculative real estate borrowing, based on inflated growth projections, resulted in a collapse when demand and property prices failed to meet expectations. Steep interest rate hikes further exacerbated the situation, turning many loans into NPAs. Amendments to the Bankruptcy Act and the implementation of the Corporate Debt Restructuring Scheme (1998) focused on recapitalizing banks and creating Asset Management Companies (AMCs). Measures were taken to align NPA exit procedures with international standards and abolish restrictions on foreign ownership of financial institutions.

In Korea, periods of interest rate control and targeted credit allocation led to inefficient fund allocation. Chaebols' pursuit of market share and diversification without prioritizing profitability strained the economy. The "packaged growth" strategy, successful during periods of economic growth, faltered when demand slowed and input costs rose. Banks, lacking oversight, extended credit based on guarantees rather than revenue generation and cash flow considerations. The financial crisis coincided with structural adjustments and cyclical downturns in Central Korea. Swift operational measures, containment of systemic risks, and recapitalization efforts were undertaken to normalize the financial system. Corporate restructuring vehicles and debt/equity swaps were utilized to resolve bad loans, alongside the establishment of Korea Asset Management Corporation (KAMCO) and the NPA Fund. Securitization and international investor participation facilitated recovery efforts. Additionally, forward-looking credit standards were implemented, and financial supervision was strengthened through the creation of the Financial Supervisory Commission (FSC) in 1998, aligning banking practices with international standards.

In Japan, the boom period saw significant investment in real estate, which collapsed during the recession, leading to a plethora of bad loans. Legal processes for handling bad loans were time-consuming and costly, resulting in NPAs lingering on balance sheets. Fiscal stimulus measures aimed at revitalizing the economy may have inadvertently supported industries like construction and real estate, exacerbating the NPA problem.

Weak corporate management within Keiretsu, coupled with lenient bankruptcy regulations, posed a moral hazard to the Japanese economy.

Inadequate accounting systems and information flow further complicated the assessment of non-bank loans' performance in Japan. To address these issues, amendments were made to the Exchange Control Law in 1997, and legislation was passed threatening to suspend bank operations if solvency requirements were not met, aimed at improving information flow.

Additionally, efforts were made to enhance accounting standards, with large business groups creating private standards in 2001 that align more closely with international standards. Government support, including the establishment of commissions on public finances, aimed to address weaknesses in the banking sector and bolster overall financial stability.

2.2 Legislative Provision on Non-Performing Loan and Interest Rate Spreads

2.2.1 NRB Directives

The Nepal Rastra Bank (NRB) has implemented regulations aimed at managing commercial banks and fostering healthy competition to ensure the sustainability of the entire banking system. The reform of Nepal's financial sector commenced in the mid-1980s, with NRB taking the lead in regulating, supervising, and controlling commercial banks through issued guidelines.

Currently, NRB has issued sixteen orders to commercial banks, which outline provisions related to various aspects such as minimum capital fund requirements, credit ratings, credit loss provisions, credit risk limits for borrowers and economic sectors, accounting principles, risk management, and institutional governance standards.

These regulations also cover the implementation schedule for regulatory directives, inspection and supervision processes, regulations on investment in shares and securities, submission of statistical information to NRB, management procedures for banks, procedures for sale of promoter's shares and transfer of ownership, and strict blacklisting procedures for defaulters in loan repayments.

Moreover, NRB mandates compulsory deposit allocation, allocation for commercial bank branch development, interest allocation, and consortium financing allocation based on these regulations. These measures are designed to ensure the stability, efficiency, and integrity of Nepal's banking sector.

1. NRB directives relating to Loan classification and Loan Loss Provision

A. Classification or provisioning of Loan & Advances

Starting from FY 2058/59 (2001/02), banks are required to classify outstanding principal amounts of loans and advances based on aging. As per the guidelines provided by the Nepal Rastra Bank (NRB), all loans and advances should be categorized into the following four categories:

Table 1

Classification of Loan Loss Provision

Classification of Loan	Minimum Loan Loss Provision
Pass loan	1%
Watch list	5%
Sub- standard loan	25%
Doubtful loan	50%
Bad loan	100%

Source: Nepal Rastra Bank, Directives for commercial banks.

a. Pass Loan

This classification encompasses loans and advances where the principal amount is not overdue and has been overdue for no more than three months. These loans are categorized as performing loans.

b. Sub-Standard Loan

This category comprises all loans and advances that are three to six months past due.

c. Doubtful Loan

This classification encompasses all loans and advances that are past due for a duration of six months to a year.

d. Bad Loan

This category comprises all loans and advances with a payment period exceeding one year, as well as advances with the lowest likelihood of recovery or those deemed unrecoverable, and advances with a minimal chance of even partial recovery.

The auditor is tasked with thoroughly assessing the credit and ensuring that appropriate provisions for bad debts are made. Additionally, the auditor must scrutinize whether the bank has obtained complete documentation to secure its interests. Compliance with established conditions is also monitored closely.

B. Provision for extending Advances & Investment in productive, priority and Deprived sector

- **Productive sector**

As per NRB regulations, the manufacturing sector encompasses advances to both the primary sector and other manufacturing sectors. This includes advances and investments in stocks and bonds of small, medium, and large industries as defined by the Industrial Enterprises Law. It also covers advance loans for various purposes such as the purchase of goods, processing, assembly, packaging, etc. Additionally, financing of export invoices, advance payments for the purchase of public transport vehicles (e.g., trucks, buses, boats, etc.), agricultural/agricultural machinery, investments in government, semi-public, or private sector stocks and bonds, agricultural insurance, and businesses related to banking or similar sectors are considered part of the manufacturing sector.

Under NRB regulations, commercial banks are required to allocate 40% of all advances to the manufacturing sector. This allocation also includes 12% specifically directed towards disadvantaged sectors within the priority sectors.

- **Priority sector Loan program**

The "primary sector" encompasses micro and small enterprises that contribute to increasing production, employment, and income in alignment with national development plans. These enterprises aim to gradually improve the living standards of the population, particularly those who are poor or marginalized, by addressing issues such as unemployment, poverty, economic inequality, and backwardness. Micro and small

enterprises are typically classified into agricultural enterprises, cottage and small industries, and services. Additionally, other types of businesses defined by the NRB may also be included in micro and small enterprises from time to time.

Any credit extended to the priority sector up to the limit prescribed by the NRB is termed "priority sector credit." The NRB mandates the allocation of a specific portion of loans to the priority sector as follows:

Table 2

NRB Requirement of Priority Sector Investment

Fiscal Year	Minimum percent of Total loan to be invested in priority sector
2015/016	2%
2017/018	2%
2018/019	4%
2019/020	4%
2020/021	6%
2021/022	6%

(Source: NRB Directives 2022)

Starting from the fiscal year 2021/22, priority sector investments are no longer mandatory. However, in fiscal year 2015/16, commercial banks were instructed to allocate 8% of their total lending to the primary sector.

- **Derived sector Lending**

The "derivative sector" comprises socially disadvantaged groups such as poor women, tribal communities, individuals from lower castes, individuals with disabilities (including blindness, hearing impairment, and physical disabilities), and squatter (sukumbasi) families. Loans provided for business-oriented micro-enterprise activities aimed at enhancing the economic and social status of these disadvantaged sectors, up to the limit stipulated by the NRB, are termed "derivative sector loans."

"Excluded sector loans" form an integral part of the primary sector loan, encompassing microcredit programs and projects. The business activities covered under the Primary Sector Loan Program are categorized into four main groups.

Lending to the poor sector is prioritized as part of the compliance test of 12%. Commercial banks provide loans to distressed sectors, with Rs. 50,000 allocated per borrower family for the weak, poor, and needy. This lending is facilitated through various channels, direct investment by commercial banks in income-generating employment programs. Investment by commercial banks in the share capital of rural development banks, established to provide credit to poor sectors. Advances to Rural Development Banks and other development banks engaged in poverty alleviation programs. It was approval by NRB for advances to cooperatives, NGOs, and small farmer cooperatives for banking transactions. Loans provided by commercial banks to development banks involved in microcredit activities, with disbursement to the poor sector up to Rs. 30,000 per family, can be considered part of lending to the poor sector since 2000/2001.

Since 2016, NBL and KBL are mandated to increase advances to the disadvantaged sector by 3% of their total, while new commercial banks must allocate 0.25% of all loans to disadvantaged sectors.

C. Regulation relating to Loan Classification and loan loss provisioning

The objective of minimizing potential credit losses for commercial banks is outlined in Section 23(1) of the Nepal Rastra Bank Act 2012 (as amended), which pertains to the development, regulation, and oversight of the banking system. This regulation concerning the classification and allocation of loans has been issued under the authority vested in the Nepal Rastra Bank under Section 56 of the Banking and Financial Institutions Act 2063.

2.2.2 Basel III - Pillar 3 Disclosures Definition of Non-Performing Assets

The bank adheres to the existing NRB guidelines on revenue recognition, asset classification, and provisions. A loan or advance is deemed a non-performing asset (NPA) if the repayment of interest and/or principal is overdue by more than 90 days. An account is considered insolvent if the outstanding balance consistently exceeds the sanctioned limit/accounting capacity, or if there is no continuous credit for 90 days from the balance sheet date, or if the credit amount is insufficient to cover the required interest during the same period.

Various criteria determine NPAs, including the overdue status of purchased and discounted invoices, deferment of capital or interest payments for short-term and long-term crop seasons, outstanding liquidity credit for securities transactions, unpaid claims related to derivative transactions, and overdue amounts due to the bank under any credit facility.

The bank classifies an account as NPA if the interest due and payable within a quarter is not fully serviced within 90 days of the quarter-end. If a borrower defaults on a specific facility, all facilities to that borrower (wholesale or retail) are classified as NPAs. However, credit facilities guaranteed by the government are treated as NPAs only if the government refuses to honor its guarantee.

Infrastructure project loans are classified as NPAs based on recovery basis (90 days overdue) before the commencement of business, unless restructured as per NRB guidelines. Non-infrastructure project loans are classified as NPAs on a collection basis (90 days overdue) before business commencement, subject to restructuring conditions.

Commercial real estate project loans are classified as NPAs based on recovery calculation (90 days overdue) or if the project does not commence business within one year of the original schedule, unless restructured. Non-operating assets are categorized into three groups.

i. Substandard Assets

A non-performing asset (NPA) refers to an asset that has remained non-performing for duration of up to 12 months. The current assets of the borrower/guarantor or the current market value of the collateral are inadequate to guarantee full payments to the banks. Essentially, these assets exhibit identifiable credit deficiencies that jeopardize the recovery of the debt and indicate a substantial likelihood that the banks will incur losses if the deficiencies are not rectified.

ii. Doubtful Assets

A non-performing asset (NPA) is defined as an asset that has remained unpaid for a period exceeding 12 months. A loan categorized as a non-performing loan (NPL) exhibits all the weaknesses typically associated with assets classified as substandard. Furthermore,

it presents additional weaknesses that render the collection or liquidation of the asset highly doubtful and improbable based on current facts, conditions, and valuations.

iii. Loss Assets

A loss asset refers to an asset for which a loss has been identified by the bank's internal or external auditors, or by NRB audit, but the amount has not been fully written off. Essentially, these assets are deemed to be in a hopeless condition, with their value so diminished that retaining them as bank assets is not justified, despite the possibility of some salvage or recycling value. Interest on non-performing assets is not recognized in the income statement until it is actually received. Provisions for non-performing assets are established based on management's assessment of the extent of their impairment, in accordance with the minimum provision levels set by the NRB.

Table 3

Amount of NPAs (Both Gross and Net) Rs. In '000

S. No.	Particulars	Gross NPA (Rs.)	Loan-Loss Provision (Rs.)	Net NPA (Rs.)
a.	Restructured/Reschedule Loan	158,959	19,870	139,089
b.	Substandard	504,772	126,193	378,579
c.	Doubtful	338,440	169,220	169,220
d.	Loss	1,352,074	1,352,074	-
e.	Total	2,354,245	1,667,357	686,888

(Source: Basel III, 2017, NRB)

2.3 Empirical Review

Ntow, Gyamfi Matthew, and Laryea Afoley Esther (2021) examined on the comparing the financial performance of foreign and local banks in Ghana from 2005 to 2010, several differences were observed across various dimensions, local banks outperform foreign banks in terms of ROA. This indicates that local banks are more efficient in generating profits relative to their assets compared to foreign banks. Similar to ROA, local banks demonstrate better performance in ROE, suggesting that they generate more profits relative to their equity compared to foreign banks. Foreign banks have higher quality assets, particularly in terms of loans, compared to local banks. This implies that foreign banks may have a lower risk of loan defaults or non-performing assets. Foreign banks

exhibit a higher capital adequacy ratio than local banks. This indicates that foreign banks have stronger capital reserves to absorb potential losses and meet regulatory requirements. The management of local banks is reported to be more efficient than that of foreign banks in Ghana. This suggests that local banks may have more effective strategies in place for optimizing resources and operations. Foreign banks have a higher earnings performance, particularly in terms of net interest margin, compared to local banks. This indicates that foreign banks may have a better ability to generate revenue from their interest-earning assets. Foreign banks are reported to be more liquid compared to local banks in Ghana. This implies that foreign banks may have better access to cash or liquid assets to meet short-term obligations. Foreign banks tend to be larger in Ghana compared to local banks. This could be due to various factors such as market presence, customer base, and capitalization. Overall, the analysis highlights significant differences in the performance and characteristics of foreign and local banks in Ghana across multiple dimensions, with each type demonstrating its strengths and weaknesses in various aspects of financial management and operations.

Suvita Jha and Xiaofeng Hui (2019) studied on commercial banking efficiency in Nepal: application of DEA and Tobit Model, several key findings emerged regarding the financial performance of different ownership structured commercial banks public sector banks were found to be significantly less efficient compared to their counterparts. Domestic private banks demonstrated similar levels of efficiency to foreign-owned (joint venture) banks. The study employed a multivariate regression analysis to estimate the impact of various financial ratios on the profitability indicators, namely return on assets (ROA) and return on equity (ROE). Capital adequacy ratio, interest expenses to total loans, and net interest margin ratio were found to significantly influence return on assets. Capital adequacy ratio had a considerable effect on return on equity. Two regression models were formulated to estimate the impact of financial ratios on the financial profitability of banks. The models included variables such as capital adequacy ratio, non-performing loan ratio, interest expenses to total loan, net interest margin ratio, and credit to deposit ratio. Overall, the study provides insights into the financial performance of commercial banks in Nepal based on their ownership structure and financial characteristics. It highlights the importance of factors such as capital adequacy, interest expenses, and net

interest margin in determining bank profitability. Additionally, it sheds light on the efficiency disparities between public sector banks and other types of banks in Nepal.

Mustafa (2018) explained on the financial performance of Erbil Bank for Investment and Finance during the period of 2009-2013 utilized various financial ratios to assess the bank's position and determine their correlation with financial performance. Liquidity ratios, asset quality ratios, credit performance ratios, and profitability ratios such as Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE) were employed to evaluate the bank's financial position. The study aimed to ascertain whether these variables were significantly correlated with the financial performance of the bank. An inverse relationship was observed between exchange rate fluctuations and certain banking parameters. Specifically, a significant and negative relationship was noted between exchange rates and total loans advanced by commercial banks. Small banks were found to have comparative advantages in producing soft information, while large banks exhibited advantages in financial performance based on hard information. The study revealed a positive and significant effect of competition in the banking industry on bank financial performance behavior. This suggests that competition may drive banks to improve their financial performance. The macroeconomic environment in which a bank operates was identified as a determinant of its financial performance decisions. For example, during economic booms, businesses may demand more loans to capitalize on expansion opportunities, leading to increased investment opportunities for banks. Overall, Mustafa's study provides insights into the financial performance of Erbil Bank for Investment and Finance, highlighting the influence of various factors such as exchange rate fluctuations, bank size, competition, and the macroeconomic environment on the bank's performance during the specified period.

Ngomsi and Djiogap (2019) conducted an analysis on the determinants of bank long-term financial performance in the Central African Economic and Monetary Community. Here are the key findings from their study aimed to investigate the determinants of bank long-term financial performance within the Central African Economic and Monetary Community. Ordinary Least Squares (OLS) was employed as the estimation technique to analyze the data. The ownership structure of a bank was found to be crucial in determining the total loans and advances extended by the bank. Foreign banks were

observed to have higher long-term loan ratios compared to state-owned banks. A multiple linear regression model was adopted for the analysis. Data were collected from all 43 commercial banks in Kenya, suggesting a comprehensive approach to the study. The study revealed a strong, positive, and significant relationship between the financial performance of commercial banks and the interest rate spread. Interest rate spread was shown to affect the performance of assets in banks by raising the cost of borrowing for borrowers. Overall, analysis sheds light on the determinants of bank long-term financial performance in the Central African Economic and Monetary Community, emphasizing the influence of ownership structure and interest rate spread on key banking metrics such as total loans, advances, and overall financial performance.

Okiro (2018) investigated the impact of non-performing assets on the financial performance of banks in Ghana. The study revealed a positive impact of deposits on the profit margins of commercial banks. This suggests that higher levels of deposits contribute to improved profitability for banks. There were no significant differences in the profitability of foreign and domestic banks in terms of Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Profitability Efficiency Margin (PEM). However, significant differences were observed in the profitability of the studied banks in terms of ROA, ROE, and NIM, but not in terms of ROA. The study highlighted the positive effect of customer deposits on the financial results of banks. This indicates that an increase in customer deposits positively influences the financial performance of banks. Demand deposits were found to have the most positive impact on banks' loan supplies in the Nigerian credit market. This suggests that higher levels of demand deposits contribute to increased loan supplies by banks. Overall, this research provides insights into the relationship between non-performing assets, deposits, and the financial performance of banks in Ghana, emphasizing the importance of deposits and their positive impact on bank profitability and loan supplies. Additionally, the study contributes to understanding the profitability dynamics between foreign and domestic banks in the Ghanaian banking sector.

Heffernan (2019) conducted a study focusing on non-performing loans and loan losses of commercial banks, particularly in parallel to previous research that examined the impact of the 2008 financial crisis on bank liquidity stress and subsequent effects on financial

performance. Here are the key findings from the study return on assets (ROA) and return on equity (ROE) was identified as dependent variables representing the financial performance of commercial banks. Bank liquidity emerged as a central and crucial factor in determining the banks' ability to offer loans. This finding is consistent with prior research, particularly regarding the liquidity stress faced by banks during the 2008 financial crisis, which subsequently impacted their financial efficiency. The study highlighted a procyclical relationship between economic growth and bank financial performance. Specifically, it noted that demand for loans tends to decline during economic downturns or recessions, impacting bank performance negatively. The ownership structure of banks was found to play a significant role in determining the total amount of loans and advances provided by the bank. Specifically, the study revealed that foreign banks tend to have higher levels of long-term loans compared to national banks. Overall, this research contributes to understanding the relationship between non-performing loans, bank liquidity, economic cycles, and bank performance. It emphasizes the importance of liquidity management, especially during times of financial crisis, and highlights differences in loan practices between foreign and national banks.

Irungu (2020) argued that non-performing assets significantly affect commercial banks in Kenya. The study included data from all 43 commercial banks in the country. Using a multiple linear regression model, the research indicated a strong positive relationship between the financial performance and interest rate differentials of commercial banks. Specifically, the study found that fluctuations in interest rates influenced the profitability of banks by increasing costs for borrowers.

2.3.1 Review of Related Studies

Adhikari (2016) conducted a study on the allocation of non-performing loans and loan losses in commercial banks, specifically focusing on SBI and NABIL Bank Limited. He emphasized the significance of traders not only to the country but also to the government due to their substantial contributions as large taxpayers. The government of Nepal recently introduced a policy aimed at addressing international negligence to prevent passport confiscation, although detecting willful negligence remains challenging. Adhikari utilized statistical tools such as correlation analysis and financial metrics like

return on assets to analyze the data. Additionally, descriptive statistics including mean, standard deviation, coefficient of variation, skewness, kurtosis, minimum, maximum, and range were employed as necessary. Adhikari noted that during crisis years, traders are among the most affected groups, and if their grievances are not addressed, it could potentially escalate into conflicts with neighboring countries, ultimately resulting in losses for the nation.

Shrestha (2017) explained on bad loan management at a high level, highlighting its significance in the country over the past decade. Despite being a top priority, substantial progress has yet to be achieved in this area. The transfer of management at two large state-owned banks exemplifies the financial sector reform efforts in the country. Although it has been nearly four years since foreign experts took over the management of these banks, the outcomes have been unsatisfactory. Return on assets (ROA) was emphasized as a key metric for assessing profitability relative to total assets, providing insights into how effectively a company's management utilizes its assets to generate income. The study identified not only government banks but also private sector banks as struggling with slow but non-performing loans. Therefore, there's a strong call for management to prioritize reducing non-performing loans. Additionally, the reporting of non-performing loans was scrutinized, revealing instances where loans from certain business entities were classified as non-performing despite being canceled a decade ago. This practice artificially inflates the non-performing loans of affected banks.

Suneja (2018) concluded that the risk associated with lending to companies is multifaceted and dependent on various factors. Non-performing assets (NPA) stem from the inherent risks of corporate lending, which are influenced by several elements. Across all business types, there exists a risk of failure, influenced by factors such as market competition, limited financial resources, and inadequate management skills. It is emphasized the challenge faced by bankers in determining the optimal timing to withdraw a loan and liquidate collateral, highlighting it as one of the most difficult decisions. Furthermore, it is advised that in cases where customers fail to make repayments on the due date, banks must carefully consider appropriate measures to recover the debt.

Basyal (2017) conducted a study on non-performing assets (NPAs) and the profitability of commercial banks in Nepal. The collapse of two banks highlighted significant concerns among stakeholders, particularly regarding the large number of Non-Performing Assets (NPAs), which were attributed to operational inefficiencies and undisciplined financial behavior. The research methodology employed various analytical tools, with an emphasis on statistical rather than financial tools, as per the study's requirements. The key findings derived from this analysis provided actionable insights that could be utilized for regulatory changes or the introduction of new rules and regulations. It is recommended that the Nepal Rastra Bank (NRB) should prioritize regular training programs for new entrants to ensure they acquire comprehensive knowledge of both the conceptual dimensions and practical aspects of banking operations.

Khadka (2019) conducted a study focusing on non-performing assets (NPAs) of commercial banks in Nepal, with the main objective being to assess the level of liabilities stemming from assets, deposits, and loans in the country's banking sector. The study included several example banks such as Nepal SBI Bank Limited, Nepal Investment Bank Limited, Nepal Bangladesh Bank Limited, Bank of Kathmandu Limited, and Nabil Bank Limited. One notable observation was that the NPA level of Nepal Bangladesh Bank Limited appeared to be higher compared to all other banks included in the study. The research methods identified several contributing factors to the growth of NPAs, including the lack of portfolio analysis, ineffective credit policies, and security breaches. Nepal SBI Bank and Bank of Kathmandu were ranked second and third, respectively, in terms of NPA levels. On the other hand, Nabil Bank Limited demonstrated a satisfactory performance as it consistently reduced NPAs each year. Nepal Investment Bank had the lowest NPA level among all banks studied. However, despite its commendable track record in NPA management, Nepal Investment Bank's provision for investment debt was not deemed significant. This implies that the bank's bad debt reserve is lower than what is required, potentially indicating room for improvement in managing bad debts.

Shrestha (2020) conducted a study focusing on commercial banks, namely Nepal Bank Ltd, NABIL Bank Limited, and Standard Chartered Bank Nepal Ltd. The main objective was to examine the proportion of non-performing loans, factors contributing to the accumulation of non-performing loans, the relationship between credit and credit loss

liability, and the impact of loan loss provisions on profitability in commercial banks. The study recommended that all three banks exercise caution and realism when granting loans and advances. Additionally, it suggested that these banks implement training and development programs for employees to enhance efficiency and professionalism in credit evaluation, monitoring, and risk management practices. Furthermore, it emphasized the need for stricter regulation of loan classification and allocations compared to previous standards. In addition to issuing directives, the Nepal Rastra Bank (NRB) was advised to create a supportive environment for commercial banks. Strengthening the Credit Information Bureau (CIB) was highlighted as a crucial step to ensure that banks have access to timely and accurate credit information about borrowers, thereby facilitating informed lending decisions.

Bhattarai (2020) conducted a study on the implementation of directives issued by the Nepal Rastra Bank (NRB), focusing on a comparative analysis between Nepal SBI Bank Ltd and Nepal Bangladesh Ltd. The research aimed to analyze various aspects of NRB directives related to solvency, loan classification, and loan provisions. The research methodology employed various statistical tools including standard deviation, correlation coefficient, probable error, and regression analysis. Additionally, financial instruments such as earnings per share and price-earnings ratio were utilized in the analysis. According to the findings of the study, loan classification plays a crucial role in enabling banks to monitor the quality of their loans and advances, allowing them to take necessary steps to enhance the creditworthiness of their loan portfolio. The study also highlighted that the volume of new provisions for banks is expected to increase in the coming years, which may subsequently lead to a decrease in bank profitability.

Ghimire (2018) conducted an examination on non-performing assets (NPAs) and the profitability of commercial banks in Nepal. The study involved a comparative analysis aiming to understand the efficiency indicators of banks, particularly focusing on loan loss provisions for credit and investment activities. The primary goal was to explore the relationships between different factors, employing both financial and statistical tools for calculation and analysis. The research methodology utilized various statistical tools including arithmetic mean, standard deviation, correlation coefficient, probable error, and regression analysis. Additionally, financial instruments such as earnings per share, price-

earnings ratio, return on total assets, and return on equity were incorporated into the analysis. One of the significant findings highlighted by the study was the importance of obtaining an accurate understanding of the quality of real estate in the upcoming year. It emphasized the necessity for banks to exercise caution when assessing the solvency of their credit customers. Additionally, the study revealed that over the long term, banks increase their reserves, which can potentially lower their overall results if not managed carefully.

Ghimire (2019) conducted a study focusing on non-performing assets (NPAs) of commercial banks, with the primary objective of assessing the impact of NPAs on the profitability of these banks. The study identified both internal and external factors that influence NPAs, with loans and advances being a significant contributor to their increase. Internal factors, particularly those affecting the effective management and growth of NPAs, were the main focus of the research. Weak legislation and credit concentration were identified as less desirable factors contributing to the transformation of good loans into bad loans. The research methodology highlighted several factors such as the lack of portfolio analysis, ineffective credit policies, and inadequate security measures, which were found to have a moderate effect on the growth of NPAs. The study concluded that while commercial banks in Nepal prioritize lending resources to the commercial sector, they tend to overlook the service sectors. Recommendations were made for model banks, such as Nepal Bangladesh Bank Ltd., Nepal SBI Bank Ltd., and Bank of Kathmandu Ltd., under various categories including financial strength, privacy and security, monitoring and control systems, credit concentration avoidance, robust legal systems, establishment of asset management companies, and avoidance of undue pressure. This research underscores the importance of effective management strategies to mitigate NPAs and enhance the profitability of commercial banks in Nepal.

Koirala (2020) conducted a study focusing on non-performing assets (NPAs) and the profitability of commercial banks in Nepal, with a particular emphasis on assessing the impact of NPAs on bank profitability. The study also analyzed internal and external factors influencing NPAs, with Nabil Bank Limited selected as a case study. The research methodologies employed involved economic and statistical data analysis tools. The study found that the NPA to loan value ratio of Nabil Bank decreased over the years, from

8.29% in the financial year 2011/2012 to 2.69% in the financial year 2015/16. This indicates an improvement in Nabil Bank's NPA management over time. Furthermore, the key findings suggested that both Nabil Bank and other commercial banks should expand their resources to rural areas to promote development. This indicates a potential strategy for banks to enhance their profitability and contribute to economic growth by serving underserved regions.

Pradhan (2021) explained that unchecked growth in Non-Performing Assets (NPA) could potentially lead to a systemic crisis. The study highlighted that the pursuit of globalization dreams led to substantial investments, but ineffective utilization due to hesitant liberalization policies hindered their impact. Furthermore, the mismanagement of credit by large companies, including delayed payments, indirectly contributed to the escalation of the NPA ratio. The research methodology incorporated various tools including statistical and financial metrics such as earnings per share, price-earnings ratio, return on total assets, return on equity, owner's fund or share capital, as well as statistical measures like arithmetic mean, standard deviation, correlation coefficient, probable error, and regression analysis. It is identified several factors contributing to the increase in NPAs, including the lack of foresight in evaluating loan proposals, inadequate risk management policies in financing, and the concentration of credit in specific political party groups and sectors. Additionally, it was emphasized that a significant reason for the NPA surge is the poor and negligent legal system. This study sheds light on the critical issues surrounding NPAs in the banking sector, underscoring the urgent need for comprehensive reforms in loan evaluation, risk management, and legal frameworks to mitigate systemic risks and ensure financial stability.

2.4 Research Gap

It is based on prior studies, the escalation of non-performing assets (NPAs) stands out as a significant challenge confronting commercial banks in Nepal. While some research has explored issues related to credit loss practices associated with NPAs, there's a notable gap regarding an in-depth investigation into the internal and external factors influencing NPA growth due to debt repayment. This study aims to bridge this research gap by examining Everest Bank Limited, Kumari Bank Limited, and Rastriya Banijya Bank Limited,

thereby providing novel insights and data about NPAs compared to previous studies which primarily focused on foreign and domestic banks.

The research methodology employed in this study relies on secondary data and adopts a simple descriptive approach. The primary objective is to analyze the impact of NPAs on the profitability of commercial banks. The collected data will be analyzed using financial and statistical tools such as profit ratio, arithmetic mean, and standard deviation.

The study acknowledges the crucial role of the bank's corporate structure in credit management, emphasizing that loans represent risky assets necessitating comprehensive control over all aspects of credit management. To enhance effectiveness, banks are encouraged to establish separate departments for credit assessment, documentation, disbursement, monitoring, and loan repayment to mitigate potential errors and ensure comprehensive coverage.

CHAPTER- III

RESEARCH METHODOLOGY

Research is indeed a systematic exploration aimed at uncovering facts and insights related to a particular topic or problem. Research methodology encompasses the systematic approach adopted to address research problems effectively (Kothari, 1990). It involves outlining the study design, selecting appropriate data collection methods, and determining the most suitable data analysis techniques.

Throughout the research process, various financial and statistical tools are utilized to analyze the data collected. The results obtained are then presented in a structured and systematic manner, facilitating clear interpretation and understanding. By adhering to a rigorous research methodology, researchers can ensure the reliability and validity of their findings, thereby contributing valuable insights to the body of knowledge in their respective fields.

3.1 Research Design

This study relies on secondary data and adopts a descriptive research design to analyze the impact of Non-Performing Assets (NPAs) on the profitability of commercial banks and to formulate recommendations based on the findings. The research design involves an analytical and descriptive approach.

One aspect explored in the study is the examination of the insolvency reserves maintained by commercial banks. The research objectives are achieved through the utilization of secondary data, emphasizing a descriptive analysis.

Financial and statistical tools such as the profitability index, arithmetic mean, and standard deviation are employed to analyze the collected data systematically. By employing these tools, the study aims to provide valuable insights into the relationship between NPAs and bank profitability, thus informing recommendations for enhancing bank performance in managing NPAs.

3.2 Population and Sample

Population refers to the entire group of individuals, events, or entities under study by a researcher. In the context of this study focusing on loan classification and loan loss practices of commercial banks, the population consists of all 20 commercial banks operating in Nepal. From this population, a sample of three commercial banks was chosen for further analysis, representing a subset of the total population.

The banks listed below serve as exemplars for the research:

- Kumari Bank Limited
- Rastriya Banijya Bank Limited
- Everest Bank Limited

3.3 Sources of Data

A diverse range of primary information sources will be utilized for this study, including articles published by banks and the Nepal Rastra Bank (NRB), expert opinions, and newspapers. Meanwhile, secondary data will primarily be derived from various sources such as books, journals, newspapers, published reports, etc. Major sources of secondary data include the Economic Surveys, Ministry of Finance publications, Nepal Rastra Bank guidelines and reports, annual reports of commercial banks, both local and international newspapers, magazines, journals, as well as publications like the Journal of NEPSE, and relevant websites. This approach ensures a comprehensive and varied dataset for analysis.

3.4 Tools for Analysis

Various statistical software packages are employed for data processing and analysis, including SPSS version 20 and Excel. Secondary data obtained from the annual reports of the selected banks are initially compiled into an Excel spreadsheet and subsequently analyzed utilizing the software's formulas and graphical capabilities. Statistical techniques like correlation and financial metrics such as return on assets are applied during analysis. Additionally, descriptive statistical tools such as mean, standard deviation, coefficient of variation, skewness, kurtosis, as well as minimum, maximum, and range calculations are utilized as required. This approach ensures thorough and comprehensive analysis of the data.

3.4.1 Descriptive Statistics

In addition to financial tools, statistical methods are indispensable for comprehensively analyzing the relationships between variables and interpreting results. Statistical tools encompass a range of mathematical techniques employed to describe correlations between variables and interpret findings. These tools are crucial for testing hypotheses and understanding demographic data. The survey employed the following statistical tools to aid in analysis:

3.4.1.1 Percentage

A percentage represents a fraction of one hundred, providing a straightforward means of interpreting data. Its calculation involves the following formula:

$$\text{Percentage (P)} = \frac{B}{A} \times 100$$

Where,

A= Base used to compare

B= given data to be compared with the base

3.4.1.2 Average

The mean serves as a fundamental statistical measure for determining the average value within a dataset. It provides a single numerical representation of the entire distribution, offering insight into the central tendency of the data. In statistical analysis, the mean typically aligns with the central value of the dataset. It is calculated by summing up all values in the dataset and then dividing by the total number of values. In this analysis, the mean was employed where applicable to gauge the central tendency of the data. The average is calculated as follows.

$$\text{Average (mean)} \quad \overline{X} = \frac{\sum X}{N}$$

3.4.1.3 Measurement of dispersion

Variance is a crucial statistical metric that quantifies the dispersion of data points around the mean. It provides valuable insights into the extent of variation within a dataset, complementing the central tendency represented by the mean. In this study, various

measures of variance were employed to analyze the deviation of actual values from the mean. These measures of variance serve to capture the spread or dispersion of data points, offering a comprehensive understanding of the dataset's distribution.

3.4.1.4 Standard Deviation

The standard deviation stands out as a widely utilized and valuable measure of variance in statistics. It delineates the dispersion of data points from the mean, encapsulating both the magnitude and direction of deviations. By quantifying the absolute variance within a dataset, the standard deviation facilitates a nuanced understanding of its variability. Typically, a higher standard deviation signifies greater dispersion, while a lower value suggests tighter clustering around the mean. The standard deviation is calculated as the square root of the variance.

$$\text{Standard Deviation (S.D)} = \sqrt{\frac{\sum\left(X - \overline{X}\right)}{N}}$$

- Skewness
- Kurtosis

3.4.1.5 Coefficient of Variation (C.V.)

The coefficient of variation (C.V.), expressed as a percentage, quantifies the relative variation within a dataset. Lower C.V. values indicate greater unity and consistency, while higher values signify more variability. While the standard deviation measures absolute dispersion, it's important to note that comparing variables solely based on standard deviation is inappropriate if their means differ. The coefficient of variation, on the other hand, offers a relative measure of variance, making it particularly useful for comparing risk and return. By evaluating risk relative to income, it provides a more insightful benchmark, especially when expected returns differ. Higher coefficients of variation indicate greater risk, allowing for independent comparison of variables based on their variation.

3.5 Description of Research Variables

3.5.1 Dependent variable

The dependent variable is the focal point of study and measurement in an experiment. It responds to variations in the independent variable, exhibiting changes accordingly. This variable's fluctuations are directly influenced by alterations in the independent variable.

3.5.1.1 Return on Assets (ROA)

Return on assets (ROA) serves as a metric for assessing a company's profitability in relation to its total assets. It provides insights to managers, investors, and analysts regarding the efficiency of a company's management in utilizing its assets to generate earnings. In this study, ROA is considered a dependent variable.

3.5.1.2 Return on Equity (ROE)

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. It is also dependent variables on the study.

3.5.2 Independent Variable

The independent variable is the variable whose change isn’t affected by any other variable in the experiment. Either the scientist has to change the independent variable herself or it changes on its own; nothing else in the experiment affects or changes it.

3.5.2.1 Non-Performing Loan Ratio (NPLR)

Banks rely on borrowers who see scheduled loan repayments as an important source of income. If the borrower has not made regular payments for at least 90 days, the loan is considered a non-performing loan or NEPAL. The non-performing loan ratio, better known as the NAP ratio, is the ratio of the number of non-performing loans in the bank's loan portfolio to the total number of loans held by the bank. The LPL ratio measures the bank's efficiency in obtaining loan repayments. It is the independent variable of this study.

3.5.2.2 Interest Rate Spread (IRS)

The difference or difference between two related interest rates occurs in many types of business or financial transactions. When it comes to your business, the difference can be significant if you lend money or if your business involves making loans or brokering loans to customers. For small businesses, the difference in interest rates can be a source of cost or benefit. It is also the independent variable of this study.

3.6 Research Framework

A conceptual framework is an analytical tool with several variations and contexts. It can be applied in different categories of work where an overall picture is needed. It is used to make conceptual distinctions and organize ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply.

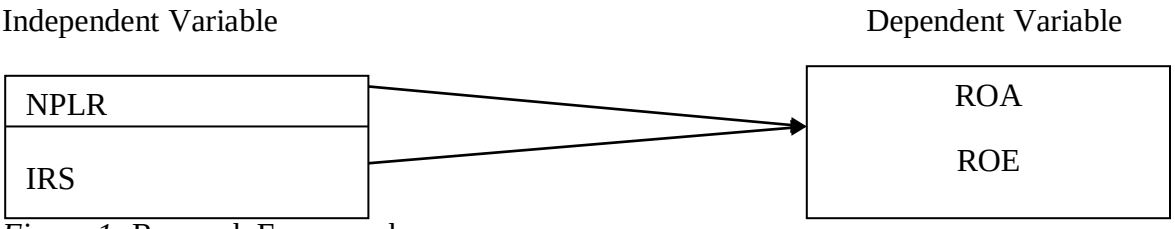

Figure 1: Research Framework

3.7 Correlation Analysis

Correlation analysis, a form of inferential statistics, is utilized to elucidate the relationships between variables under study. The Pearson correlation coefficient, ranging between +1 and -1, quantifies the degree of association between variables. In this investigation, correlation coefficients were calculated among key study variables such as ROA, ROE, NPLR, and IRS.

3.7.1 Multiple Regression Analysis

The regression analysis is one of the inferential statistics, which is used to estimate the effect of one of more independent variable on a dependent variable. The model used in this study has been outline as follows:

$$ROA_{it} = \beta_0 + \beta_1 NPLR_{it} + \beta_2 IRS_{it} + e_{it}$$

$$ROE_{it}\,0 = \beta_0 + \beta_1 NPLR_{it} + \beta_2 IRS_{it} + e_{it}$$

Where,

ROA_{it} = Return on Assets of i^{th} bank at year t

ROE_{it} = Return on Equity of i^{th} bank at year t

β_0 = Constant

β_1 = Coefficient of Independent Variable i.e. NPLR

β_2 = Coefficient of Independent Variable i.e. IRS

$NPLR_{it}$ = Non Performing Loan Ratio of i^{th} bank at year t

IRS_{it} = Interest Rate Spread of i^{th} bank at year t

e_{it} = Error Term

CHAPTER-IV

RESULTS AND DISCUSSION

This chapter analyzes various economic indicators and research variables. Therefore, this chapter is based on the presentation and analysis of secondary data to help draw conclusions and make some recommendations.

4.1 Analysis of Profitability, Non Performing Assets and Interest Rate Spreads of Selected Banks

4.1.1 Return on Assets of Selected Banks

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings.

Table 4

Return on Assets (%) of selected commercial banks

Year	KBL	RBB	EBL
2012/013	1.760	2.460	1.650
2013/014	1.910	2.560	1.730
2014/015	1.190	2.700	2.090
2015/016	1.910	2.550	2.100
2016/017	1.760	2.800	2.110
2017/018	1.540	2.670	2.390
2018/019	1.300	2.510	2.250
2019/020	1.340	1.990	1.850
2020/021	1.940	1.980	1.610
2021/022	2.030	1.840	1.720

Source: annual report of Elected Bank and results were drawn Spss-20 version

Table 4 shows that the Everest Bank Limited (EBL) has consistently shown higher Return on Assets (ROA) ratios compared to Kumari Bank Limited (KBL) and Rastriya Banijya Bank (RBB) over a period of ten years. In the most recent comparison, EBL's ROA of 2.420 exceeds that of KBL (0.642) and RBB (1.268). This indicates that EBL

has been effectively utilizing its assets to generate higher turnover, suggesting efficient asset management.

Furthermore, a ROA ratio greater than 2 signifies efficient asset utilization, while a ratio below 2 indicates underutilization. According to this criterion, KBL appears to be underutilizing its assets compared to EBL.

Examining specific years, during 2013/014, EBL achieved a ROA ratio of 2.560, followed by KBL at 1.490 and RBB at 1.550. However, by 2016/17, the ratios shifted slightly, with EBL at 1.840, KBL at 1.720, and RBB at 2.030. Despite this shift, EBL consistently maintained a higher ROA compared to its counterparts.

Overall, these findings suggest that EBL has been more effective in utilizing its assets to generate returns compared to KBL and RBB over the analyzed period.

4.1.2 Return on Equity of Selected Banks

Return on equity (ROE) is an indicator of how profitable a company is relative to its total equity. ROE gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings.

Table 5

Return on Equity

Fiscal Year	KBL	RBB	EBL
2012/013	1.23	1.28	2.39
2013/014	1.25	1.48	2.14
2014/015	1.76	1.45	2.11
2015/16	1.54	2.14	2.39
2016/017	1.30	1.98	2.25
2017/018	1.34	1.70	1.85
2018/019	1.94	1.95	1.59
2019/020	2.19	1.84	1.83
2020/021	1.67	1.75	1.97
2021/022	2.21	1.66	1.94

Source: Annual report of selected banks.

Table 5 shows that the Kumari Bank Limited (KBL) and Everest Bank Limited (EBL) have consistently shown higher Return on Equity (ROE) ratios compared to Rastriya Banijya Bank (RBB) over a period of ten years. In the most recent comparison, KBL's ROE exceeds that of both EBL and RBB, indicating efficient asset utilization. The ideal ROE ratio is considered to be 2 times.

ROE ratios greater than 2 suggest efficient utilization of assets, while ratios below 2 indicate underutilization. However, it seems that all three banks KBL, RBB, and EBL are underutilizing their assets compared to the ideal ratio of 2 times. Examining specific years, the ROE ratios for KBL, EBL, and RBB varied over time.

It is noted that KBL consistently demonstrated higher ROE compared to EBL and RBB over the analyzed period. It is suggest that KBL has been more effective in utilizing its assets to generate returns compared to EBL and RBB. However, all three banks are operating below the ideal ROE ratio of 2 times, indicating potential for further optimization of asset utilization.

4.1.3 Non-Performing Assets of Selected Banks

The Non-Performing Loan (NPL) ratio is calculated by dividing the total amount of nonperforming loans by the total amount of outstanding loans in the bank's portfolio. This ratio can also be presented as a percentage of the bank's nonperforming loans.

Financial analysts commonly utilize the NPL ratio to assess and compare the quality of loan portfolios across different banks. Banks with high NPL ratios are often perceived as engaging in riskier lending practices, which can potentially increase the likelihood of bank failures.

Table 6

Non-Performance Loan Ratio of Banks

Year	KBL	RBB	EBL
2012/013	2.36	0.92	0.68
2013/014	2.16	0.66	0.48
2014/015	3.52	0.61	0.16
2015/016	4.22	0.62	0.34
2016/017	2.09	0.78	0.84
2017/018	2.89	0.77	0.62
2018/019	1.96	0.48	0.97
2019/020	3.22	0.34	0.66
2020/021	1.23	0.32	0.38
2021/022	0.85	0.19	0.25

Source: annual report of Elected Bank and results were drawn Spss-20 version

The Table 6 depicts that, the ratio of non-performing loans to total loans and advances of KBL and bank from 2012/013 to 2021/022. It shows that KBL and RBB bank has the highest ratio of all ten consecutive years whereas and bank have low ratio throughout the study period. Similarly, bank is better than KBL as a credit management point of views. Low ratio of and bank is the result of effective credit management of bank and its efforts of recovering bad debts. The consistency point of views and KBL banks are more uniforms than and EBL. From this ratio, it can be said KBL bank are properly managing to reduce this ratio at minimum level than KBL and EBL. Similarly, higher variation of KBL and EBL bank indicates that this bank has not been able to effectively utilize its funds; effective credit management is required to improve non-performing loans to total loans and advances ratio. It concludes that, and is much better utilization its credit to compare the KBL and EBL.

4.1.3 Interest Rate Spreads of Selected Banks

In banking, the Weighted Average interest rate spread is the difference between interest earned on loans, securities, and other interest-earning assets and the interest paid on deposit and other interest-bearing liabilities.

Table 7

Analysis of Interest Rate Spreads of Banks

Year	KBL	RBB	EBL
2012/013	3.66	4.10	4.34
2013/014	3.66	3.98	4.40
2014/015	4.21	3.44	4.78
2015/016	3.96	3.28	4.60
2016/017	4.25	3.92	5.32
2017/018	5.17	4.12	5.68
2018/019	4.54	7.09	5.69
2019/020	4.35	5.27	4.76
2020/021	4.59	4.64	4.89
2021/022	4.44	5.01	4.48

Source: annual report of Elected Bank and results were drawn Spss-20 version

Table 7 shows that the interest rate spread is a crucial indicator for banks, reflecting the difference between the interest rate at which they lend money and the rate they pay to depositors. Let's analyze the interest rate spreads for Kumari Bank Limited (KBL), Rastriya Banijya Bank (RBB), and Everest Bank Limited (EBL) over the years. In 2012/013, EBL had the highest interest rate spread at 4.34, followed by RBB at 4.10 and KBL at 3.66. The trend continued in 2013/014, with EBL still leading at 4.40, followed by RBB at 3.98 and KBL at 3.66. However, in 2014/015, EBL maintained its lead with a spread of 4.78, while KBL saw an increase to 4.21 and RBB decreased to 3.44. The spreads fluctuated over the years, with some years showing increases and others decrease for each bank. Notably, in 2017/018, KBL had the highest spread at 5.17, followed by EBL at 5.68 and RBB at 4.12. In 2018/019, RBB experienced a significant increase in its spread to 7.09, while KBL and EBL had spreads of 4.54 and 5.69, respectively. The spreads varied in subsequent years, with each bank experiencing fluctuations in their interest rate spreads. Overall, these fluctuations in interest rate spreads indicate changes in lending and deposit rates over time, influenced by various factors such as economic conditions, central bank policies, and competition among banks. Analyzing these trends helps understand how banks manage their interest rate risks and profitability over time.

Table 8

Descriptive Statistics of Study Variables All Sample

Variables	Mean	S.D.	Skewness	Kurtosis	Min.	Max.	Percentiles		
							25	50	75
ROA	1.810	0.503	0.288	-0.936	1.030	2.800	1.410	1.760	2.110
ROE	1.76	-31	-181	-1.124	1.17	3.02	1.4324	1.6550	1.724
NBPLR	1.481	1.337	1.717	3.498	0.160	6.600	0.610	0.920	2.160
IRS	4.364	0.713	1.275	3.550	3.170	7.090	3.920	4.300	4.640

Source: Annual reports of selected banks and results were drawn SPSS-20 version

Table 8 shows that the statistics represent the descriptive analysis of four variables: Return on Assets (ROA), Return on Equity (ROE), Non-Performing Loan Ratio (NBPLR), and Interest Rate Spread (IRS). On average, ROA is 1.810, indicating the profitability of assets. The distribution is slightly positively skewed, suggesting more data points on the left side of the mean, and platykurtic, implying a relatively flat distribution. On average, ROE is 1.76. However, there seems to be an issue with the standard deviation and skewness values. The distribution is highly negatively skewed, suggesting a concentration of data points on the right side of the mean, and platykurtic, indicating a relatively flat distribution. On average, NBPLR is 1.481, indicating the proportion of non-performing loans. The distribution is positively skewed, suggesting more data points on the right side of the mean, and leptokurtic, indicating heavier tails and more outliers. On average, IRS is 4.364, indicating the difference between lending and deposit rates. The distribution is positively skewed, suggesting more data points on the right side of the mean, and leptokurtic, indicating heavier tails and more outliers. These statistics provide insights into the central tendency, variability, shape, and outliers of the variables, aiding in understanding their distributions and characteristics.

4.3 Correlation Analysis

In conducting correlation analysis, it is utilize the Pearson correlation coefficient (r) to measure the strength and direction of the linear relationship between two variables. This

coefficient ranges from -1 to +1, where a positive value signifies a positive correlation, a negative value indicates a negative correlation, and zero denotes no correlation. The correlation coefficient's magnitude signifies the intensity of the relationship: nearing 1 or -1 indicates a robust correlation, whereas proximity to 0 indicates a weaker association. For instance, a correlation of +1 represents a flawless positive correlation, signifying that as one variable rises, the other increases proportionally. Conversely, a correlation of -1 denotes a perfect negative correlation, suggesting that as one variable rises, the other declines proportionally. A correlation coefficient of 0 denotes no linear relationship between the variables. In this study, that'll calculate the correlation coefficient among the independent variables, each assessed on a Likert scale ranging from 1 to 5. This analysis will reveal the degree and direction of association between these variables, aiding in understanding their interrelations.

Table 9

Correlations Matrix

Variables		ROA	ROE	NPL	IRS	LAR	CRR
ROA	Pearson Correlation	1					
	Sig. (2-tailed)						
ROE	Pearson Correlation	-.402	1				
	Sig. (2-tailed)	.249					
NPL	Pearson Correlation	.740*	-.761*	1			
	Sig. (2-tailed)	.014	.011				
IRS	Pearson Correlation	-.430	-.396	-.155	1		
	Sig. (2-tailed)	.214	.257	.668			
LAR	Pearson Correlation	-.670*	.594	-.749*	.230	1	
	Sig. (2-tailed)	.034	.070	.013	.523		
CRR	Pearson Correlation	.712*	-.818**	.943**	.035	-.783**	1
	Sig. (2-tailed)	.021	.004	.000	.923	.007	.004

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Table 9 presents the correlation matrix containing Pearson correlation coefficients among various variables: Return on Assets (ROA), Return on Equity (ROE), Non-Performing Loans (NPL), Interest Rate Spread (IRS), Loan Approval Rate (LAR), and Cash Reserve Ratio (CRR). The analysis reveals that ROA demonstrates a positive correlation with NPL (0.740) and CRR (0.712), indicating that as ROA increases, NPL and CRR also tend to increase. Conversely, a negative correlation is observed between ROA and IRS (-

0.430) as well as LAR (-0.670), implying that as ROA rises; IRS and LAR tend to decrease. Similarly, ROE displays a negative correlation with NPL (-0.761) and CRR (-0.818), suggesting that as ROE increases, NPL and CRR tend to decrease. Regarding NPL, positive correlations are observed with ROA (0.740) and LAR (0.594), indicating that as NPL increases; ROA and LAR also tend to increase. Conversely, negative correlations exist between NPL and ROE (-0.761) as well as CRR (-0.943), indicating that as NPL rises; ROE and CRR tend to decrease. Examining IRS, negative correlations emerge with ROA (-0.430) and ROE (-0.396), suggesting that as IRS increases, ROA and ROE tend to decrease. Similarly, LAR exhibits negative correlations with ROA (-0.670) and NPL (-0.749), implying that as LAR increases; ROA and NPL tend to decrease. Lastly, CRR demonstrates positive correlations with ROA (0.712) and negative correlations with ROE (-0.818), indicating that as CRR increases; ROA tends to increase while ROE tends to decrease. These correlations provide valuable insights into the interrelationships among different variables, aiding decision-making processes within the banking sector.

4.2.2 Regression Analysis

Regression analysis is a statistical method used to assess the relationship between one or more independent variables and a dependent variable. It helps to estimate the effect of the independent variables on the dependent variable, allowing researchers to understand how changes in one variable may influence another.

Table 10

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.255	7	.465	2.711	.035[b]
	Residual	3.774	22	.172		
	Total	7.029	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), NPLR, IRS, and ROE

The ANOVA table 10 shows that summarizes the results of the regression model, indicating the amount of variability explained by the model compared to the variability

not explained. In this case, the regression model is statistically significant (Sig. = 0.035), indicating that at least one of the predictors (NPLR, IRS, and ROE) has a significant relationship with the dependent variable (ROA). The F-statistic of 2.711 and its associated significance level provide further evidence of the model's overall significance. These results suggest that the independent variables collectively have a meaningful impact on the dependent variable, ROA, providing valuable insights into the factors influencing it.

Table 11

Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero-order	Partial
1	(Constant)	.900	1.215		.741	.467		
	LA	-1.543	.000	-.691	-3.548	.002	-.481	-.603
	CRR	.027	.023	.229	1.182	.250	.104	.244
	IRS	.041	.074	.102	.552	.586	-.021	.117
	NPA	-.245	.146	-.396	-1.679	.107	.114	-.337

Table 11 shows that the coefficients table provides insights into the relationships between the independent variables (Loan Approval Rate (LA), Cash Reserve Ratio (CRR), Interest Rate Spread (IRS), Non-Performing Assets (NPA)) and the dependent variable (ROA). These coefficients show the change in the dependent variable (ROA) associated with a one-unit change in the independent variable, without considering the scale of the variables. These coefficients represent the change in standard deviation units of the dependent variable (ROA) associated with a one standard deviation change in the independent variable. These metrics enable the comparison of the relative contributions of individual independent variables. The t-value signifies the significance of each coefficient, with higher absolute t-values indicating greater importance. Additionally, the p-value reflects the significance level of each coefficient, typically set at 0.05. A p-value below this threshold suggests statistical significance. These values represent both zero-

order correlations (Pearson correlation coefficients) and partial correlations between each independent variable and the dependent variable, while accounting for the influence of other independent variables. Loan Approval Rate (LA) has a significant negative effect on ROA ($t = -3.548$, $p = 0.002$), indicating that as the loan approval rate decreases; the return on assets tends to decrease as well.

Cash Reserve Ratio (CRR) and Interest Rate Spread (IRS) have positive but non-significant effects on ROA. Non-Performing Assets (NPA) has a negative effect on ROA, but it is not statistically significant at the chosen level ($p = 0.107$).

These findings provide insights into the impact of variations in each independent variable on the dependent variable, ROA, within the framework of the regression model.

Table 12

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2
1	.657[a]	.432	.243	3.57125	.432	2.283	7	21

Table 12 shows the Model Summary, summarizing the regression model's performance. With an R of 0.657, there's a moderate positive correlation between independent variables (e.g., Loan Approval Rate, Cash Reserve Ratio, Interest Rate Spread, Non-Performing Assets) and the dependent variable (ROA). R Square is 0.432, indicating that 43.2% of ROA variability is explained by independent variables. Adjusted R Square, at 0.243, considers model complexity. The standard error of the estimate, 3.57125, reflects the average deviation between observed and predicted ROA values. The R Square Change and associated F Change statistic gauge model fit improvement with added predictors, aiding in assessing the model's explanatory and predictive capabilities.

Table 13

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	203.839	7	29.120	2.283	.068[b]
	Residual	267.830	21	12.754		
	Total	471.668	28			

a. Dependent Variable: ROE

b. Predictors: (Constant), NPLR, IRS, and ROA

Table 13 presents the ANOVA table summarizing the regression analysis for ROE and its relationship with NPLR, IRS, and ROA. The regression model explains variation in ROE with a sum of squares of 203.839 and an associated F-statistic of 2.283 ($p = 0.068$), suggesting a marginally significant relationship. The residual sum of squares is 267.830, indicating unexplained variation. The ANOVA table assesses the overall significance of the regression model in explaining ROE variability, though further analysis may be needed due to the slightly elevated p-value.

Table 14

Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero-order	Partial
1	(Constant)	18.786	10.485		1.792	.088		
	ROE	8.457E-8	.000	.462	2.249	.035	.511	.441
	ROA	.151	.197	.158	.769	.451	.185	.165
	IRS	.061	.639	.019	.096	.925	.213	.021
	NPA	-.019	1.264	-.004	-.015	.988	-.301	-.003

Table 4.13 details coefficients reflecting changes in the dependent variable (ROE) per one-unit shift in independent variables, regardless of scale. These coefficients also illustrate changes in ROE standard deviation units per one standard deviation alteration in independent variables, aiding in their comparative assessment.

Higher absolute t-values denote greater significance, with p-values under 0.05 indicating statistical significance. These coefficients represent zero-order and partial correlations between each independent variable and ROE, accounting for other variables. Notably, the ROE coefficient is statistically significant ($p = 0.035$, $t = 2.249$), suggesting a positive impact on itself.

Conversely, ROA, IRS, and NPA coefficients lack statistical significance ($p > 0.05$), indicating no significant linear relationship with ROE in this model.

In summary, while ROE proves to be a significant predictor of it, the other independent variables do not exhibit notable effects on ROE within this regression model.

4.3 Discussion

The studies conducted on commercial banking efficiency and financial performance offer valuable insights into the operational dynamics of banks, particularly in Nepal and Ghana.

In Nepal, a study conducted on Nabil Bank Limited examined the impact of non-performing assets (NPAs) on bank profitability. The findings revealed a declining trend in the NPA ratio over the years, indicative of improved asset quality and credit management practices. Statistical methods, such as correlation analysis, were used to explore the relationship between NPAs and key financial performance metrics like Return on Assets (ROA) and Return on Equity (ROE). The study underscored the significance of effective credit management in bolstering bank profitability and provided actionable suggestions based on its findings.

Similarly, research in Ghana compared the financial performance of foreign and local banks across various dimensions including ROA, ROE, Asset Quality, Capital Adequacy, Management Efficiency, Earning Performance, Liquidity, and Bank Size. The results highlighted disparities in performance metrics between foreign and local banks, with

local banks surpassing foreign counterparts in certain aspects like ROA and ROE. However, foreign banks exhibited higher capital adequacy ratios and asset quality, suggesting a more conservative approach to risk management. This study shed light on the competitive landscape of Ghana's banking sector and underscored the importance of understanding the factors influencing performance across different bank types.

Additionally, studies conducted in Nepal have employed econometric models, such as multivariate regression analysis, to evaluate the effects of different financial ratios on bank profitability. These studies examined factors like capital adequacy ratio, non-performing loan ratio, interest expenses, net interest margin, and credit to deposit ratio on both ROA and ROE. Results indicated significant relationships between these variables and profitability metrics, providing valuable insights for bank management and policymakers.

Overall, these studies contribute significantly to the understanding of banking efficiency and financial performance, providing insights for stakeholders in the banking industry and academia. They stress the importance of effective credit management, risk mitigation strategies, and regulatory frameworks in ensuring the stability and profitability of commercial banks.

The findings presented by Suvita Jha and Xiaofeng Hui (2019), Ghimire (2018), and Heffernan (2019) align with the themes discussed in these studies. Conversely, the findings of Ntow, Gyamfi Matthew, and Laryea Afoley Esther (2021) offer contrasting perspectives on the financial performance of banks, indicating the complexity and multifaceted nature of banking operations.

CHAPTER-V
SUMMARY AND CONCLUSION

5.1 Summary

The study aims to evaluate the impact of Non-Performing Assets (NPAs) on the profitability of commercial banks in Nepal, with key objectives including the identification of profitability-influencing factors and the analysis of financial indicators like Return on Assets (ROA), Weighted Average Interest Rate Spread (WAIRS), and Non-Performing Loan Ratio (NPLR) spanning from 2012/013 to 2021/022. Data were collected from the annual reports of three selected banks and subjected to descriptive analysis methods such as averages, standard deviations, coefficients of variation, skewness, range, and kurtosis. Additionally, correlation and regression analyses were employed to explore dynamic relationships among financial indicators.

The descriptive analysis revealed several key findings. Firstly, it was observed that profitability ratios could be enhanced by identifying and addressing factors contributing to income reduction, whether they are operational or otherwise. The Return on Assets ratio of one of the banks (KBL) was found to be lower than the standard level of 2 but slightly higher than another standard level, indicating the need for proper asset utilization. Additionally, while the profitability position of the banks was satisfactory overall, their risk factors were higher compared to KBL and KBL, suggesting a high-risk, high-return financial norm that requires improvement.

Furthermore, the non-performing loan ratios of the sampled banks were lower over the past twelve years compared to KBL and RBB. The overall analysis indicated that the sampled banks had more consistency, positive skewness, and leptokurtosis. The weighted average interest spread was found to be maximum, and the coefficient of variation suggested more uniformity compared to KBL and RBB. However, the profitability ratios of KBL and RBB were observed to be more erratic than those of the other banks, potentially hindering their ability to attract funds and maintain credit ratings.

This study suggests that the sampled banks have sufficient earnings and fewer non-performing assets compared to KBL and RBB. These findings highlight the importance

of effective asset utilization and risk management practices in enhancing bank profitability and maintaining financial stability.

5.2 Conclusion

It was concluded that the impact of non-performing assets (NPAs) on the profitability of KBL over a ten-year period from 2012/013 to 2021/022, several key findings emerged. Firstly, the profitability performance of sample banks, including KBL, was found to be favorable. KBL has maintained principle indicators positioning better than its counterparts. However, it was noted that KBL's non-performing loan ratio is higher compared to EBL, indicating the need for KBL to focus on managing this ratio to enhance its market share and strengthen its margins in the market.

Despite the higher non-performing loan ratio, KBL has demonstrated the ability to maintain sound profitability and financial positions. The bank has successfully met its capital expenditure requirements and higher-level profitability commitments through increased operational volumes and operating cash flows. This suggests a strong ability to meet current obligations and maintain profitability.

In terms of correlation analysis, a positive relationship was observed between return on assets and non-performing loans, indicating that as return on assets increases, non-performing loans also tend to increase. However, the relationship between return on assets and weighted average interest rate spread was found to be negative, suggesting that as return on assets increases, the interest rate spread tends to decrease.

Regression analysis further supported these findings, revealing a positive trend between return on assets and non-performing loans, and a negative trend between return on assets and weighted average interest rate spread. Additionally, it was recommended that both EBL and KBL should make efforts to increase earnings per share and profitability ratios for further business growth and development compared to RBL. All banks should take necessary steps to improve their non-performing loan ratios, while also ensuring that the increase in earnings per share is sustained in the following years.

It was concluded that the study highlights the importance of effectively managing non-performing assets to maintain profitability and financial stability. Despite challenges such

as higher non-performing loan ratios, KBL has demonstrated resilience and sound financial performance. Moving forward, continuous efforts to improve profitability ratios and manage non-performing assets will be essential for sustainable growth and competitiveness in the market.

5.3 Implication

The detailed analysis of the impact of Non-Performing Assets (NPAs) on the profitability of commercial banks, specifically KBL, RBB, and EBL, has provided valuable insights along with recommendations to improve firm performance. Here are the suggested actions based on the major findings:

KBL and RBB should ensure they maintain the conventional standard ratio of at least 2 times, similar to EBL. This is crucial to avoid working capital problems when meeting short-term obligations. Delayed payments may harm the bank's goodwill and erode the confidence of depositors and lenders. Thus, adequate net working capital is recommended.

KBL and RBB should strive to provide higher returns to their shareholders, akin to EBL. This entails generating sufficient returns to meet liabilities requirements and maintain shareholder satisfaction.

External and internal factors affect the NPL ratio, including interest rates, loan demand and supply, central bank directives, lending policies, and management capabilities. Both KBL and RBB are advised to reduce their NPL ratios to meet current obligations and loan demands effectively.

Banks should clearly define their dividend policy, whether it's stable, constant payout, or low regular plus extra dividend. This clarity helps in managing shareholder expectations and ensuring consistency in dividend payouts.

Banks should encourage a project-oriented approach in lending, especially for projects vital to the national economy. This approach minimizes the chances of loan losses and ensures projects are capable of generating funds to repay loans timely. Providing comprehensive information about performance allows investors to make informed

decisions. Timely dissemination of information by relevant authorities ensures accurate stock price determination, fostering investor confidence.

KBL and RBB, with lower Average Interest Rate Spread (AIRS), should actively search for lucrative investment opportunities. Maximizing profits by increasing the gap of weighted average interest rates can help improve their financial performance.

All sampled banks have witnessed a gradual increase in profit margins, which should be sustained. This necessitates ongoing efforts to maintain and enhance profitability levels over time.

Implementing these recommendations can contribute to the overall improvement of the financial performance and profitability of the banks, ensuring their long-term sustainability and competitiveness in the market.

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APPENDIX

Descriptive Statistics of Study Variables All Sample

Variables	Mean	S.D.	Skewness	Kurtosis	Min.	Max.	Percentiles		
							25	50	75
ROA	1.810	0.503	0.288	-0.936	1.030	2.800	1.410	1.760	2.110
ROE	1.76	-31	-181	-1.124	1.17	3.02	1.4324	1.6550	1.724
NBPLR	1.481	1.337	1.717	3.498	0.160	6.600	0.610	0.920	2.160
IRS	4.364	0.713	1.275	3.550	3.170	7.090	3.920	4.300	4.640

Source: Annual reports of selected banks and results were drawn SPSS-20 version

Correlations Matrix

Variables		ROA	ROE	NPL	IRS	LAR	CRR
ROA	Pearson Correlation	1					
	Sig. (2-tailed)						
ROE	Pearson Correlation	-.402	1				
	Sig. (2-tailed)	.249					
NPL	Pearson Correlation	.740*	-.761*	1			
	Sig. (2-tailed)	.014	.011				
IRS	Pearson Correlation	-.430	-.396	-.155	1		
	Sig. (2-tailed)	.214	.257	.668			
LAR	Pearson Correlation	-.670*	.594	-.749*	.230	1	
	Sig. (2-tailed)	.034	.070	.013	.523		
CRR	Pearson Correlation	.712*	-.818**	.943**	.035	-.783**	1
	Sig. (2-tailed)	.021	.004	.000	.923	.007	.004

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

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

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.255	7	.465	2.711	.035[b]
	Residual	3.774	22	.172		
	Total	7.029	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), NPLR, IRS, and ROE

Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero-order	Partial
1	(Constant)	.900	1.215		.741	.467		
	LA	-1.543	.000	-.691	-3.548	.002	-.481	-.603
	CRR	.027	.023	.229	1.182	.250	.104	.244
	IRS	.041	.074	.102	.552	.586	-.021	.117
	NPA	-.245	.146	-.396	-1.679	.107	.114	-.337

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2
1	.657[a]	.432	.243	3.57125	.432	2.283	7	21

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	203.839	7	29.120	2.283	.068[b]
	Residual	267.830	21	12.754		
	Total	471.668	28			

a. Dependent Variable: ROE

b. Predictors: (Constant), NPLR, IRS, and ROA

Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero-order	Partial
1	(Constant)	18.786	10.485		1.792	.088		
	ROE	8.457E-8	.000	.462	2.249	.035	.511	.441
	ROA	.151	.197	.158	.769	.451	.185	.165
	IRS	.061	.639	.019	.096	.925	.213	.021
	NPA	-.019	1.264	-.004	-.015	.988	-.301	-.003

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ABSTRACT The bank's profitability situation is quite satisfactory. Nonetheless, the risk element of KBL, EBL and RBB and are profoundly than KBL and EBL, which demonstrates the monetary standards of high gamble to exceptional yield. What's more, this should be worked on further with the end goal of legitimate use of the resources of the organization. At long last, the general investigation of test banks RBB and banks have more consistency, positive slanted and Leptokurtic. The presented descriptive statistics indicate that the maximum RBB and weighted average interest spread occurred. From a viewpoint of the coefficient of variation, RBB and are observed to be more uniform than KBL and EBL. RBB and EBL had more random profitability ratios than KBL and EBL. As a result, the company's credit rating suffers and it is unable to attract individuals for productive fund mobilization. This study came to the conclusion that RBB and banks have more earnings than KBL and EBL and fewer non-performing assets. The study reveals that the sample banks' profitability results are superior. The RBB and EBL have had the option to keep up with standard of markers situating than KBL. The KBL and EBL's Non presentation credit higher than RBB, KBL and EBL have been expected to capable keep up with that proportions to develop its piece of the pie to make solid edges in market, adding to areas of strength for the and productivity position of the bank. Likewise, Relapse point of perspectives, The profit from resources and Non performing credit of test banks seen positive patterns to one another while, return on resources and Weighted normal loan cost spread of test banks seen negative patterns. In comparison to RBB and EBL, the KBL and EBL ought to work toward increasing their profitability ratio and earnings per share for future business growth. All example banks needs to do whatever it takes to further develop the non-performing proportion. Both banks' earnings per share have increased significantly, and it is recommended that this trend continue in the coming years. EBL and KBL couldn't keep up with the regular norm of proportion (twice) than RBB and EBL. Keywords: Non-performing assets,