

**IMPACT OF NON-PERFORMING LOAN ON RETURN ON
ASSETS OF DEVELOPMENT BANKS IN NEPAL**

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled " **IMPACT OF NON-PERFORMING LOAN ON RETURN ON ASSETS OF DEVELOPMENT BANKS IN NEPAL** " submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Dr. Pitri Raj Adhikari of Shanker Dev Campus, T.U.

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ABBREVIATIONS

C.V.	:	Co-efficient of Variation
CDR	:	Credit Deposit Ratio
DPR	:	Dividend per share
e	:	Correlation Co-efficient
E	:	Error Term
EDBL	:	Excel Development Bank Limited
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
GROWTH	:	Company Growth
IILA	:	Interest income to loan advance
L/C	:	Letter of Credit
Ltd	:	Limited
MBBL	:	Muktinath Bikas Bank Limited
MBR	:	Market Book Value
MBS	:	Masters of Business Studies
NDBL	:	Narayani Development Bank Limited
NPLA	:	Net Profit to loan and Advance
NPLTL	:	Non-Performing loan to total liability
NRB	:	Nepal Rastra Bank
ROA	:	Return on Asset
Rs.	:	Rupees
S.D	:	Standard Deviation
SIZE	:	Company Size
SPSS	:	Statistical Package for the Social Sciences

CHAPTER I

INTRODUCTION

1.1 Background of the Study

A loan that has been taken from a bank and for which the agreed-upon payments have not been made for a predetermined amount of time is referred to as non-performing. The precise definition of non-performing includes not making any payments, sometimes referred to as zero principal or interest payments. Usually, the time frame is either 90 or 180 days. A rise in the gross non-performing loan level poses a significant risk for banks, the financial industry, and the overall economy. Similarly, development banks' profitability is progressively impacted by their inability to reduce non-performing loans over an extended period of time (Bhattarai, 2023).

Over the last few decades, non-performing loans from financial institutions have been viewed as a major problem in Nepal, and macroeconomic factors including the real effective exchange rate have considerably impact on non-performing loan (Bhattarai, 2015).

Globally, non-performing loans are not defined by a single form. Depending on the nation, there could be variations in the contents, scope, and categorization scheme. In its capacity as Nepal's central bank and regulating financial institution, Nepal Rastra Bank has categorized loans primarily into four categories: pass, substandard, dubious, loss, and bad. A pass loan is one in which the principle or interest payments are past due by less than three months. Loans that fall under the substandard category and have interest or principal payments past due by more than three months are granted relief. It is dubious that ongoing obligations will be fully paid off, and the accounts indicate that a loss—the precise amount of which is unknown—will occur. Loans to businesses that have filed for bankruptcy protection and legal resolution are often considered non-collectable losses. Pass loans fall into the performing loan category, whereas loss, subpar, and questionable loans fall into the non-performing loan category (NRB, 2013).

In the modern day, banking is essential to all financial activities. It has a crucial role in determining the country's financial future. Banks convert assets from ideal portions to lucrative segments. Given their enormous capacity for speculation, banks can play a vital role in eliminating poverty and the unemployment problem. In constructing a nation, it may also achieve balance between region, division, and local differences (Nachimuthu & Veni, 2019).

Furthermore, the combination of advantages and risks continuously influences a bank's ability to increase production. For banks, non-performing assets turn into extremely pressing problems when they provide credit and make money. NPAs can be caused by a variety of factors, such as business cycle, loaning strategy, infection of the ventures, catastrophe, effective recovery procedure, lack of checking and catch-up credit, and administrative problems. Non-Performing Assets demonstrate the soundness of the banks' display and have an impact on both the money base and the whole monetary framework (Dudhe, 2014). In the banking and finance sector, a non-performing loan (NPL) is a financial metric used to evaluate the caliber of a bank's loan portfolio. A non-performing loan (NPL) is one that the borrower has ceased making payments on, generally for a duration of 90 days or longer. Because they have an effect on a bank's profitability, liquidity, and general financial health, non-performing loans (NPLs) are seen as a bad sign. Banks keep a careful eye on their non-performing loan (NPL) ratios, or the proportion of NPLs in their overall loan portfolio. An elevated non-performing loan ratio signifies an elevated degree of risk and possible financial instability for the bank. Financial institutions frequently use a variety of tactics, such as loan restructuring, recovery initiatives, and risk management plans, to reduce their non-performing loans (NPLs). In this situation, nonperforming loans (NPLs) can be evaluated by examining textual data, including loan agreements, borrower interactions, and economic statistics, in order to forecast future NPLs or gauge borrower mood. By processing and analyzing vast amounts of unstructured data, it can help with early detection and risk management by offering insights into the probability that loans will become nonperforming. This study examined how non-performing loans affected Nigerian banks' bottom lines. Regression analysis was done on the data using statistical methods. According to the analysis, there

is no correlation between Nigerian banks' return on assets and their non-performing loan portfolio. This indicates that the amount of NPL has no impact on the enterprises' asset values. Since the second finding indicated a correlation between Nigerian banks' return on equity and non-performing loans, the owners' goal of maximizing wealth is impacted. Matthew and Adebisi (2015)

Additionally, these banks provide businesses, commerce, and industries with administrative and technical support. They so exert a variety of influences over the financial matters of the economy. Because the Development Bank functions as an economic heart, its operations create the pulses that propel the economy forward. As a result, the volume and makeup of their transactions reflect the general direction and pattern of the nation's economic activity. The collapse of Development Banks in the Western countries led to the Great downturn of the 1930s, which in turn caused the worldwide downturn. Therefore, development banks are essential in providing guidance for funding the needs of the nation's commerce and industry.

Development banks, therefore, encourage community members to keep their resources in assets that are beneficial to society, among which bank deposits are a key component. Development banks pull community savings into the organized sector, where they are then distributed among various economic endeavors in accordance with the Central Bank's goals and the profitability condition. In a mixed economy, development banks must not only balance profitability and liquidity, but also adhere to governmental directives when allocating loans to areas of high significance. As the aforementioned sections have made clear, development banks' seamless and effective operation is crucial to the operation of any contemporary economy. Therefore, a contemporary economic system cannot even temporarily operate without these middlemen.

On the one hand, the nation's economy is stagnating rather than improving, and no fresh opportunities are being investigated. Banks and other financial organizations are under fierce competition as a result of their explosive expansion. The banks are only competing with each other to split the little cake. In order to maintain profitability, banks have been

obliged to explore for new products and markets as their conventional business margins have been eroded. If there is no alternative but to fund, they should keep trying to explore the level. Being a financial organization driven by profit, banks must concentrate on turning a profit. In order to maximize its investment portfolio, a loan—which is sometimes referred to as a derivative—is a profit-determining element and a new, highly lucrative, competitive investment opportunity. Due to a lack of options for loan flotation, banks are forced to finance without discrimination. There is danger since the loans and advances' quality might not be kept up to par. The margins the bank enjoys between the interest it collects from borrowers and the interest it must pay depositors determine how much money it makes. Approximately 70% of a typical bank's income comes from lending. Profit will naturally increase if it is well-managed. For a bank, a loan is an asset since it generates cash flows from principle repayment and interest payments. A bank's earnings are derived from interest payments. When assets are not maintained for a while, banks typically classify them as non-performing assets. Loans are considered past due if payments are not made on schedule. Once a payment is consistently late—typically over ninety days—the loan is considered non-performing.

These days, non-performing loans (NPLs) are a true economic cost since they show how limited capital and credit funds are being used for unproductive purposes. Due to the blocked funds and disrupted repayment, it also has an impact on the lending capacity and has increased the cost of intermediation and NPL realization. Therefore, the purpose of this study is to ascertain how non-performing loans affect the financial performance of development banks in Nepal. The study's goal is to determine how interest rates, total loans, non-performing loans, and loan loss provisions relate to and affect banks' profitability. This study's main goal is to ascertain whether or not non-performing loans have a major impact on the financial performance of development banks in Nepal. not using data from 2011/12-2021/22. The International Monetary Fund NPL states that: "Payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full; Payments of interest and principal are past due by 90 days or more; At least 90 days of interest payments have been capitalized, refinanced, or delayed by agreement" Adebisi and Matthew (2015).

1.2 Statement of the problem

According to Azzahra et al. (2023), maintaining asset quality, profitability, and efficiency is essential to a bank's capacity to survive and grow. The primary asset type from which banks get the majority of their revenue is loans, which also carry the most risk for banks. High percentages of non-performing loans (NPLs) have been a key indicator of the financial crises in East Asia, Sub-Saharan Africa, and the United States. It is crucial to look at the factors that contribute to non-performing loans (NPLs) in the banking sector of any nation because of the negative impact these loans have on a bank's earnings and the economic well-being of a nation.

According to Kingu et al. (2018), Tanzanian development banks' profitability is inversely correlated with the number of non-performing loans they have. The findings strengthen the theories of knowledge asymmetry and poor management. The study's conclusions have management and theoretical ramifications for professionals and decision-makers. As a financial institution, development banks play a vital role in the economy by gathering disparate excess money and investing them in the productive sectors. It is said that because the banking industry directly interacts with every other sector and reflects the broader economy, it serves as a stand-in for understanding the dynamics of the overall economy. It is true that the state of the Nepali banking industry is dire right now. That being said, it is a reality that all development banks are turning a profit. Banks report high profits even though the nation is having difficulty growing and the manufacturing sector is underperforming. The stringent regulations imposed by the authorities have made the banks transparent, as noted by Kingu et al. (2018).

The problem of non-performing loans, or NPLs, has become a major worry for Nepal's development banks' stability and profitability. Non-performing loans put these institutions' financial stability at risk since their borrowers have not repaid the principle or interest on them within the allotted time. The effects of increasing non-performing loans (NPLs) on development banks' profitability in Nepal, a country with a developing financial industry, have not been thoroughly examined.

There aren't many empirical studies that particularly examine the complex link between non-performing loans and the profitability of development banks in Nepal, despite the country's banking sector's fast rise. Lack of such targeted research restricts our comprehension of the particular difficulties these banks confront and makes it more difficult to develop efficient plans to lessen the burden of non-performing loans.

In addition, there have been changes and uncertainties in the global financial scene, like as recessions and outside shocks, which might make the NPL issue worse. It is therefore crucial to look into how these macroeconomic variables interact with the internal workings of Nepal's development banks to determine how profitable they are in the face of non-performing loans.

This study aims to close this knowledge gap by investigating the effects of non-performing loans on the profitability of Nepali development banks while accounting for internal and external variables. Through a thorough investigation, this study seeks to provide insightful information to banking organizations, regulators, and policymakers on possible approaches to strengthen development banks' resilience against growing non-performing loans (NPLs) Azzahra et al. (2023).

- How do development banks' non-performing loans stand right now in Nepal?
- How do profitability and non-performing loans relate to one another?
- Does Nepal's development banks' profitability suffer from non-performing loans?

1.3 Objective of Study

The primary goal of the research is to assess and evaluate development banks' non-performing loan management. The following lists the study's particular goals.

- To assess Nepal's development banks' present non-performing loan situation.
- To evaluate the connection between non-performing loans and profitability.
- To examine how non-performing loans affect Nepal's development banks' bottom lines.

1.4 Rational of the Study

With the help of this study, the typical Nepalese citizen's idle money will be mobilized into productive sectors, helping the country's economy expand faster and become less reliant on loans and aid from abroad. The regulatory body will use this study to learn more about the Development Bank's liquidity management. It will serve as a reference for the researchers and staff that are involved. Additionally, this research will outline and recommend potential investments that meet the Development Bank's liquidity goals. There are several noteworthy findings in the study. The research primarily helps creditors, depositors, and investors determine how productively their money is being used at the Development Bank. Then, policy makers at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through financial institutions. The study also compels the management of respective Development Bank for self-assessment of what they have done in the past and guides them in their future plans and programs. Moreover, every individual as well as further researcher will have a good source of literature for review about the findings done by this study.

1.5 Limitations of the Study

Regarding the liquidity and profitability of the Nepalese Development Bank, the research is a crucial document. Research focuses only on the following:

- The research only looks at 17 Development Banks in Nepal.
- The other financial factors are ignored in favor of focusing solely on their effect on profitability in this research.
- CDR, NPLA, NPLTL, and IILA variables all contribute to an organization's profitability; however, in this case, we only look at the elements that are directly impacted by the commercial banks' non-performing assets.
- All analysis is done using secondary data only.
- The research is restricted to the last 10 years, from 2012–2023.

CHAPTER II

LITERATURE REVIEW

Review of the literature refers to examining research papers and other pertinent concepts in the study's linked area so that all previous studies, their results, and any shortcomings can be identified and more research may be carried out. The literature review can also function as a form of bibliographic index and reader's guide. It also shows how the current study fits into the overall scheme of things. The goal of examining the literature is to advance one's level of knowledge and skill in a certain field. This chapter is broken down primarily into four sections.

2.1 Conceptual Review

An academic study that evaluates current theoretical frameworks, models, and concepts pertaining to a certain research area is known as a conceptual review. It entails examining and synthesizing pertinent material as well as critically assessing the ideas and views put forward.

A conceptual review's objectives are to identify the main ideas and theoretical viewpoints pertinent to a research subject and assess the advantages and disadvantages of the current theories. The evaluation can assist in pointing out gaps in the present body of knowledge and recommend topics for additional investigation. An extensive study of pertinent literature, an analysis of important ideas and theoretical viewpoints, and a critical assessment of the current theories are usually included in a conceptual review. The review might also put forth new theoretical frameworks to describe the research topic and offer recommendations for future research initiatives.

Azzahra and associates (2023). Because high levels of non-performing loans negatively impact bank net profit through the provisioning of doubtful debts and write-offs of bad debts, which typically affect profitability and capital levels, non-performing loans are regarded as determinants of profitability. Then, when non-performing loans surpass bank capital in a sizable number of banks, the situation may worsen and lead to a bank crisis,

which then develops into a financial crisis. Low profitability and high levels of non-performing loans may be related, according to empirical research. The information asymmetry theory and the faulty management hypothesis are the theoretical viewpoints that guided this research and the formulation of the hypotheses utilized to examine the link between NPL and profitability.

Information Asymmetry Theory

Knowledge. Asymmetry. According to theory, when one party in a transactional relationship knows more about the transaction than the other side, there is asymmetric information. Asymmetric information literature examines the effects of judgments made in the context of financial decision-making based on the disparity in information that is available to both parties. Lenders that provide credit facilities to borrowers encounter ambiguity over loan payback since they are unable to monitor the borrower's traits and behaviors, which makes it challenging to evaluate the borrower's creditworthiness. As a result, adverse selection causes high-quality borrowers to be replaced by low-quality borrowers, which over time deteriorates the quality of bank loan portfolios overall and accumulates non-performing loans, decreasing profitability and capital erosion (Do, Ngo, and Phung 2020).

The adverse selection theory

The scenario where the likelihood of a loan default rises with an increase in interest rates and the quality of borrowers deteriorates as borrowing costs rise is explained by the adverse selection hypothesis. The idea is predicated on the notion that banks may not be confident in their selection of creditworthy borrowers from a pool of applicants for loans who have varying ex-ante exposures to credit risk. Financial intermediaries are therefore more likely to lend money to high-risk borrowers who don't mind the harsh lending terms and are prone to loan default. They contend that information sharing lessens the problems associated with adverse selection by providing applicants with more information. Record that borrowers are urged to put more effort into their projects if banks provide credit information on defaults, knowing full well that defaulting on a loan will result in

increased interest rates or the loss of future access to credit facilities.(Victor, Gabriel, and Innocent, 2019).

Hazard model Theory

The phenomenon of using private information to profit from an incomplete contract in the presence of information asymmetry is known as moral hazard in the risk model theory for the credit market. It is also noted that moral hazard exists when the borrower of bank credit takes an action that negatively affects the returns to the lender. It is possible to argue that a bank that creates and sells loans has a moral hazard issue when it comes to the process of screening borrowers. The notion is predicated on the idea that there is a chance that borrowers will take part in activities that will ensure the repayment of bank loan that has been provided to them. cannot be ascertained by banks ex post.

Numerous theoretical investigations have examined how non-performing loans affect commercial banks' financial performance. There is a vast body of research that even in recent years has examined the significance of resource management in determining the profitability of the bank. Owing to the complex effect, it is challenging to make short and obvious judgments on how NPL affects profitability. The profitability of the banks is determined by a variety of metrics, including liquidity, solvency, debt-to-capital ratio, and common indicators like return on assets (ROA) and return on equity (ROE).Traditionally, ROE and ROA have been used to assess financial success; however, most studies favor ROE more since it includes financial leverage, efficiency, and profit.

Both return on assets (ROA) and return on equity (ROE) are computed as net profit divided by assets and bank equity, respectively. Banks that have higher returns on assets and equity (ROA and ROE) operate better and are more stable financially.(Victor, Gabriel, and Innocent, 2019).

2.1.1 Non Performing Loan

Loan amounts that are borrowed and used for the debtor's disposal are known as non-performing loans, or NPLs. neglected to make the planned payments within the allotted time. Precisely, however the proportion of outstanding status is contingent upon the credit

terms, specifically "nonpayment." Typically, this is described as having no principle or interest payments. certain time frame. It also depends on the kind of loan and the sector. On the other hand, the time is often 90 or 180 days.(Veni and Nachimuthu, 2019).

The body of research on non-performing loans has expanded over the past several decades in tandem with the focus on understanding the factors that contribute to financial instability. This situation could arise from the reality that...Damaged assets have a crucial role in financial fragility, as evidenced by the substantial association found between NPLs and the financial crises that struck Argentina, East Asia, and Sub-Saharan Africa in the 1990s.This section looks at the literature that is currently available in order to offer a theoretical framework for analyzing the variables that affect non-performing loans in Guyana.

2.1.2 Classification of Loans and Advance

After utilizing the authority granted by Section 79 of the Nepal Rastrak Bank Act of 2002, the institutions that get licenses from this bank to conduct out financial operations are required to abide by the following directives about the categorization of credit/advances and preparations made for potential loss. NRB, (2022).Complete loans and advances granted by a licensed institution must be categorized as follows, depending on when the principle and interest are due, as follows:

- a) Approve: Advances and loans that are not past due but are past due for a maximum of three months.
- b) Below par: Advances or loans that are past due for a duration ranging from three months to six months at the most.
- c) Doubtful: Advances or loans that are past due for a maximum of one year, with a term ranging from six months to a year.
- d) d) Loss: Advances or loans that are past due for a duration longer than a year. The loans in the pass class that have been rescheduled or reorganized are referred to as "the performing loans," while the sub-standard, questionable, and loss categories are referred to as "non-performing loans."

2.1.3 Additional Provisions Relating to Pass Loans:

1) NRB, 2022.the ensuing loans may be included in the loan for the pass:-

- a) Extended loans and advances secured by gold and silver security;
 - b) Advances/loans of fixed receipts
 - c) Loans and advances from the Nepalese government against securities and loans and advances made on Nepal Rastra Bank bonds' collateral; as long as the cases involving loans or advances against fixed receipts, the Nepali government's securities, or Nepal Stra Bank bonds serve as additional collateral, then these loans and advances must also be categorized in line with the directive mentioned in Point No. 1 above.
- 2) The working capital loan may be included in the pass loan class and have a payback date of up to one year. If the interest obtained from working capital loans is not consistent, these loans must be categorized according to the length of time the interest is expected to be paid.

2.1.4. Additional Provisions Relating to Loss Loans

NRB, 2022; in the event that any of the following disparities occur in any of the subsequent loans, regardless of whether the deadline for repayment has passed, these loans and advances must be classified as losses.

- (a) The loans cannot be secured by the collateral's market price;
- (b) The debtor has declared themselves to be bankrupt or is currently in bankruptcy.
- (c) The .debtor .disappears .or .is .not .identified;
- (d) In the event that non-fund based facilities, including bought or discounted bills, L/Cs, and guarantees, that have been converted into fund-based loans, are not recouped within ninety days of the date of the conversion;
- (e) The loan is abused;
- (f) The six-month period expires after the date of the auction procedure if the loan cannot be recovered or if a case is ongoing at a court under the recovery process;
- (f) Giving a loan to a debtor who has been placed on the Credit Information Bureau Ltd.'s "black list."

- (g) The project or business is not in a condition to be operated, or it is not currently in operation.
- (h) The credit card loan cannot be canceled off within ninety days of the deadline's expiration date.
- (i) If the aforementioned loan is not repaid within ninety days, while converting the L/C, guarantee, and other potential liabilities into a fund-based loan within the standard process;
- (j) When a trust receipt loan's deadline for repayment approaches its expiration.

2.1.5 Additional Provisions Relating to Term-loan

NRB, (2018) states that in situations where the duration of the loan is extended and payments are made in installments, the total loan amount must be categorized based on the expiration of the deadline for the principle amount if the installment deadline has passed.

As long as the installment amount has exceeded the deadline by more than a year, the full loan amount must be classified as a loss loan in cases where the term loan is provided by a licensed institution without the ability to engage in an overdraft transaction. If the payment amount exceeds the deadline by less than a year, just that installment amount needs to be included in the loss loan and be accompanied by a provision for loan loss. This paragraph, however, will not be interpreted as having prevented the licensed institution from classifying the full loan amount as a loss loan.

2.1.6 Provisions Relating to Rescheduling and Restructuring of Loans

(1) Should a licensed institution be persuaded by the points mentioned in the written action plan that the debtor has provided, it may decide to postpone or cancel the loan:-
proof that the documentation pertaining to loans and security is sufficient;

- a) Rescheduled or modified loans may be recovered, according to the licensed institution's convictions.
- b) In addition to submitting a detailed plan of action for rescheduling and restructuring loans, at least 25% of the interest owed must be paid until the day the loan has been rescheduled or restructured.

(2) As the sick industries suggest, loans to the industries should be rescheduled or reorganized. The preliminary inquiry and recommendation committee was established by the Nepalese government. It stipulates that a minimum of twelve percent interest must be paid, that additional procedures must be completed, and that restructuring and rescheduling must be done in order to account for twenty-five percent of the loan loss. If the loan has been rescheduled and restructured based on payment of less than 12 percent of interest, then a provision for loan loss must be made based on the duration following the deadline's expiration in accordance with the applicable provisions.

(3) A separate preparation of the description of the loans classified according to classes (1) and (2) is required (NRB, 2022).

2.1.7 Provision to be maintained for Loan Loss

(1) The following loan loss provision should be kept based on the remaining amount of principal for the loans and bills purchased that are classified in accordance with these directives:

Loan classification	Minimum Provision for loan loss
(a) Pass	1 percent
(b) Sub-standard	25 percent
(c) Doubtful	50 percent
(d) Loss loan/the loan extended to blacklisted	100 percent Persons,

Businesses, either as accompany or. Corporate entity. As long as it is stipulated that only.25 percent of the provision mentioned in sub clause (1) and (2) must be made in the event of the insured loans. Should the loans be rescheduled or reorganized, the subsequent loan loss provision will apply:-

(a) ..When rescheduling and restructuring loans classified in the pass class, the provision of at least 12.5 percent must be made as loan loss. If, however, rescheduling and restructuring the loans classified as substandard, doubtful, and loss, no adjustment shall be allowed in the then loan loss provision, with the exception of cases referred to in

clause 10.10(c). When loans are made accessible on an equal monthly installment basis, no loan loss provision needs to be made in the event that the following loans are rescheduled or restructured, provided that the principle and interest are regular:

- When payment for the installment is made in advance, the amount and number of installations are reduced.
- The length of the loan and the installment amount have altered as a result of changes in the interest rate in relation to the state of the market. In this case, the installment amount decided upon at the time of authorizing the loan is not permitted to be lowered if the interest rate increases and, therefore, the duration and payment amount rise. Likewise, should the interest rate drop and therefore shorten the loan's duration and number of installments, the amount of the installments, which was decided upon at the time of sanctioning, cannot be lowered.

(b) These loans may be turned into pass loans if the principal payment of the rescheduled and restructured loan is not made within the allotted two years.

(c) Absent the loans extended, having pledged shares will be reorganized and rescheduled.

(3) (as per the directives of this bank) In the event of deprived sector lending made by licensed institutions Bank and financial institutions to deprived communities; if such loans have been secured by deposits insured by insurance and credit guarantee corporations, or if other loans have also been insured, an exemption of seventy-five percent has been made, and a provision for the remaining twenty-five percent shall be required.

(4) Banks and other financial institutions are prohibited from making any kind of loan on the security of the memo (adhakatti) containing the application to be made for the acquisition of shares at the time of the first public offering. If a loan is provided in this manner, the bank or financial institution in question is required to provide a provision for loan loss of one percent.

(5) When offering a loan secured by a personal or institutional guarantee, the description of the property must be equivalent to the amount of the personal guarantee, be in the debtor's sole ownership, and be free of any claims made by third parties. Even loans made solely on the basis of personal or institutional guarantees must be classified as follows: pass, substandard, and doubtful, depending on what may be necessary; the loan loss provision must be increased by 20% above the percentage that is prescribed for that class. Even in situations where a personal guarantee has been obtained for the physical property collateral alone, it is still necessary to make the above-mentioned provision for subsequent loans in order to secure the loan. Classifications of this kind of debt must be manufactured in separate parts.

As long as the institutions mentioned in sub clause (b) of clause 4.4 of the Directives No. 3—Nepal Oil Limited and Nepal Food Corporation—are given credit, no further loan loss provision exceeding twenty percent of the total amount borrowed will be necessary.

(6). In cases of education loans and loans extended to micro-credit financial institutions and cooperative financial institutions under the deprived sector lending by banks and financial institutions on personal guarantees, no additional loan loss provision of twenty percent shall be required to be made in the loan loss provision referred to in sub clause (3) above.

(7).The classification of loans and advancements from a higher class to a lower class in the case of a licensed institution is not restricted. For instance, a substandard loan of. substandard may be classed as. questionable or. loss, while a doubtful loan of. substandard may be classified as. loss.(8) .Loans/advances .also .include .bills .purchase .and .discounts.

2.1.8 Conditions for Adjustment in Loan Loss Provision

NRB, (2018) No loan loss provision should be provided for modification unless the following circumstances are met:-.

- a) Should the loan be wiped off;
- b) Should the loan repayment be made in installments or on a partial basis, the loan loss provision will be made to the amount of the loan, allowing the repayment to be written back and modified in accordance with the loan classification;
- c) Should the loan be reclassified following its rescheduling and restructuring, provided that the principle and interest payments for the loan, which was rescheduled and restructured, are made on a regular basis over a continuous two-year period. Information on these loans will be produced separately.

2.1.9 Loss Provisions and Auction of Non-banking Assets

(1).When non-banking assets are approved by a licensed institution, arrangements for percentage loss must be made starting on the acceptance date.

(2) Should the non-banking assets be sold, any appropriate adjustments to the loss accounts that are kept for such properties must be made right away.

(3) The following rules should be followed when selling the non-banking assets that are thus acknowledged by the licensed institution in the event that collateral security is accepted as such.

- a) Should a party accept a customer's collateral as non-banking assets with an outstanding loan balance greater than \$2,500,000, they will be automatically placed on a blacklist.
- b) The non-banking assets must undergo an independent evaluation by an assessor before being put up for auction in the institution's name. No. assessment that is too great or too little is permitted.
- c) Clear and open rules regarding the auction and sale of collateral security and non-banking assets in financial administration byelaws and sales must be conducted in a way that serves the bank's or financial institution's interests.
- d) The full mortgaged property that was not sold at auction must be accepted, even if it is only accepted in part, when accepting the non-banking assets in this type of manner.
- e) The property that has been accepted must be sold as soon as practicable and to the greatest degree that is feasible. If deemed necessary for the licensed institution's

internal operations, the Board of Directors must approve the change .and this Bank will also be given access to the information inside.

2.1.10 Cause of Non-performing loans

According to Brownbridge (1998), non-performing loans were the primary cause of the majority of bank failures. More over half of the loan portfolios had arrears, which was typical of the failing banks. Due to the unfavorable incentives on bank owners to adopt prudent lending practices, particularly insider lending and lending at high interest rates to borrowers in the riskiest segments of the credit markets, a large number of bad debts were attributable to moral hazard.

Inside Lending

Insider lending was, according to Brown bridge, the single largest factor in the poor loans that contributed to the failure of several local banks. Insider loans accounted for a sizable percentage of the bad debts in at least half of the bank collapses. The majority of the country's bigger local bank collapses, including Continental Bank, Trade Bank, and Pan African Bank, featured substantial insider loans, frequently to politicians. Because many of the insider loans were invested in speculative projects like real estate development, they breached large-loan exposure limits, and they were extended to projects that could not yield short-term returns, the threat posed by insider lending to the soundness of the banks was intensified.

High Interest Rates

According to the report, lending to borrowers in high-risk credit market categories at high interest rates was the second main cause leading to bank collapse. This included components of moral hazard on the side of the banks and their borrowers, as well as the borrowers' unfavorable selection (Jathurika, 2019).It was somewhat spurred by how expensive it was to mobilize finances.

Macroeconomic Instability

According to Brownbridge, macroeconomic volatility is the third most significant factor. In Kenya, inflation reached 4.6 percent in the 1990s. Because of its unpredictability and the high degree of variability it typically entails in interest rates, high inflation increases the volatility of business profits. It also causes prices of the specific goods and services that constitute the overall price index to rise. This intensifies both adverse selection and adverse incentives for borrowers to take risks, and thus the probabilities of loan default.

Liquidity Support and Prudential Regulation

The fourth most crucial element is the assistance provided by liquidity and prudential regulation. The regulatory authorities' willingness to provide loans to struggling banks instead of forcing them to shut was likely a significant factor in moral hazard.

Inadequate Management of Credit Risk

According to Singh et al. (2021), the expansion of bank credit in Spain and its potential consequences for prudential management are a constant concern for banking supervisors, as the majority of banking crises have been directly linked to institutions' inadequate handling of credit risk. They go on to say that while bank supervisors are aware of the issue, it is very difficult to convince bank managers to adhere to more cautious loan standards during a recession, particularly in a highly competitive market. They assert that market demand for more profitability might exist even for conservative managers. really difficult to overcome.

Economic Mismanagement and Political Interference

The attempted enhancement of credit risk management is one significant effect that non-performing loans have had on banks. For instance, in 1998 the Chinese government formed four state-sponsored asset management organizations to take over bad loans off the balance sheets of the banks in an effort to assist the banks in getting rid of the NPLs that had accrued over the previous years. In addition, the government strengthened the capital bases of the four main banks by infusing a total of 270 billion dollars into

them.(Ding and others, 2000). In an effort to improve credit risk management in Ugandan banks, the government recently passed a statute that addresses a number of issues, including insider lending. This comes in the wake of the recent scandal in which billions of shillings were loaned to Greenland Bank by the recently privatized Uganda Commercial Bank Ltd. without adequate collateral. The legislation also aims to lessen the concentration of owners. Shaban (2018).

2.1.11 Concept of Profitability

2012's Balasubramaniam NPL refers to the recording of money in terms of a poor asset that happened as a result of a client's incorrect choice due to the money becoming blocked. The bank's prodigality declines not just because of the number of non-performing loans (NPLs), but also because of the opportunity costs and the amount of profit that is invested in a project or asset that generates returns. Therefore, non-performing loans (NPLs) have an impact not only on current profits but also on future profit streams, which might result in the loss of some long-term, advantageous opportunities. A further consequence of the decline in profitability is a low return on investment, or ROI, which has a negative influence on the bank's present earnings.(Veni and Nachimuthu, 2019)NPL refers to the recording of money in terms of a poor asset that happened as a result of a client's incorrect choice. Due to the money becoming blocked. The bank's profitability declines due to the quantity of non-performing loans (NPLs) as well as the opportunity cost and amount of profit spent in a project or asset that yields a return. Therefore, non-performing loans (NPLs) have an impact not only on current profits but also on future profit streams, which might result in the loss of some long-term, advantageous opportunities.

Relationship between non-performing assets and profitability

Sophia et al. (2020).Commercial banks work in extremely delicate markets that carry a great deal of risk and unpredictability. The purpose of the study was to investigate the issues surrounding non-performing loans in the Kenyan commercial banking industry and the potential impact on returns and profitability. Regression analysis was used in order to meet the study's purpose. The return on asset was considered the dependent variable,

while the quantity of credits, the percentage of non-performing loans, and the level of shareholder equity were considered the independent factors. The poor correlation between the dependent variable and the selected independent variables suggests that there are more factors influencing the profitability of banks. Additional steps like strengthening the infrastructure for exchanging credit information and creating strong financial regulations would significantly improve the profits that banks provide. The effects of non-performing loans (NPLs) on banks profitability are as follows:

- It negatively impacts the banks' reputation.
- Non-performing loans (NPLs) have no revenue, but they might generate profits via the performance of their assets.
- Non-performing loans (NPLs) directly affect the commercial banks' ROA and ROE.
- In addition, NPL has an adverse effect on banks' balance sheets.

2.2 Empirical Review:

2.2.1 Empirical studies:

In 2023, Azzahra, Gunawan, Aditya, and Nasutio conducted a case study in Medan to examine the impact of non-performing loans and interest rates on corporate profits, taking profitability levels into account. The quantitative method was the methodology taken in this study Smart PLS. The research sample consisted of the financial records from PT. BPR. Duta, Adiarta, Medan. The data used in this research was gathered from secondary data that was collected internally by a sub-banking financial sector organization. The procedures employed in this study are report analysis and data acquisition. The results of the analysis revealed three widely agreed hypotheses: the impact of non-performing loans on profitability levels, the impact of non-performing loans on business profits, and the impact of interest rates on corporate profits.

Pokharel and Pokharel (2022) investigated the effect of non-performing assets on profitability in commercial banks located in Nepal. The study's scope is from July 16, 2013, to July 16, 2018, inclusive. Additionally, the examination is meant to look into the effects of several bank groupings. Specifically, banks that are owned by the government

and private sector on the financial industry in this way. Five of the twenty-four independent private division banks and one of the three government-claimed banks have been evaluated with the intention of using them as a sample for the study. Information is gathered from the yearly report. Regression analysis, Panel data, descriptive statistics, and analysis were employed. The study's conclusions indicated that nonperforming loans had a beneficial influence on a Nepalese commercial bank's profits.

The study by Angela, Baidoo, and Ayesu (2022) examined the effects of credit risk, concentrating on the impact of non-performing loans on the financial performance of development banks in Ghana. Measures of financial success include return on asset and economic value added. For the research, panel data from 15 commercial banks in Ghana covering the years 2013 to 2018 is used. The outcome shown that non-performing loans had a negative influence on both financial performance metrics using a random effect estimating approach. Furthermore, both financial performance indicators are negatively impacted by the monetary policy rate, while the influence on the economic value added measure is negligible.

The primary goal of Singh, Basuki, and Setiawan's (2021) investigation is to determine the impact of non-performing loans (NPLs) from Nepalese conventional banks. The primary focus of this study is the main commercial banks in Nepal. All the information used in this study came from the years 2015 to 2019. The study employed secondary data, which was gathered from the annual reports of each bank, as well as GDP and inflation figures obtained from the World Bank database. Multiple regression analysis is the strategy utilized for data analysis in this study. The study employed NPL as a dependent variable and independent/explanatory factors such as Return on Asset (ROA), Capital Adequacy Ratio (CAR), Bank Size, GDP growth, and inflation. The research's findings demonstrated that while CAR has no discernible impact on banks' non-performing loans (NPL), ROA, bank size, GDP, and inflation all had a substantial impact on NPL. To put it another way, this study's analysis of the GDP's impact on NPL reveals a positive and substantial effect, whereas the majority of research report a negative influence.

In 2020, Do, Ngo, and Phung investigated the impact of non-performing loans on commercial banks' profitability in Vietnam examined the effect of non-performing loans on a Vietnamese commercial bank's capacity to turn a profit. Over the years, the main goal of banking operations has always been profit. Secondary data, namely the GDP growth rate, is derived from the Vietnam department of the World Bank. The study discovered that non-performing loans had a detrimental effect on the bank's profitability.

The goal of Jathurika's (2019) inquiry is to determine how non-performing loans affect financial performance. Only nine listed commercial banks in Sri Lanka are included in the study thanks to purposeful sampling, which reduces missing data and links secondary data that was obtained from the annual financial reports of commercial banks utilizing the CSE's database. Regression analysis and correlation analysis have been used in the study to look at how non-performing loans affect financial performance. The analysis's findings have shown that the non-performing loan ratio—an characteristic of non-performing loans—has a negative and substantial influence on financial performance. The research findings indicate that non-performing loans have a considerable impact on the financial performance of commercial banks that are listed in Sri Lanka, with a negative link.

In their 2019 study, Gabriel, Victor, and Innocent investigated the impact of non-performing loans on the financial performance of commercial banks in Nigeria from 1985 to 2016. The study used multiple regression approaches to examine data collected over a number of years from the Nigerian insurance company publications and the statistics bulletin of the Central Bank of Nigeria. The study's findings demonstrated that the ratios of non-performing loans to total loans and cash reserves had a statistically significant negative impact on asset return. These findings demonstrated that a large percentage of non-performing loans will have a negative impact on the financial performance of commercial banks in Nigeria. The report thus suggests that Nigeria's regulatory bodies establish and foster an atmosphere that allows the country's commercial banks to have robust risk management procedures.

Shaban (2018) investigated non-performing assets and how they affected the profitability of commercial banks in India, including public, private, and international banks.

The information gathered from the RBI database over a period of eleven years, from April 1, 2006, to March 31, 2017. ..Regression analysis has been applied in the study, where return on equity and return on assets have been used as proxy variables for the banks' profitability, and gross net product added to net advances and net PPA to net advances have been used as independent variables to indicate the non-performing assets of the bank.

Gautam (2018) investigated the effect of non-performing loans on the profitability of commercial banks in Nepal. The dependent variables are return on assets (ROA) and return on equity (ROE); the independent variables are non-performing loan to total loan (NPTL), credit to deposit ratio (CDR), net profit to loan and advance (NPLA), and interest income to loan and advance (IILA).Information is gathered from the yearly reports issued by the individual banks. Based on 100 observations from ten different commercial banks in Nepal, the study was conducted.

Regression models have been utilized to examine the effect of non-performing loans on the profitability of commercial banks in Nepal. The findings shown that the following relationships are favorable on return on assets: non-performing loan to total loan, interest income to loan and advance, net profit to loan and advances, and beta coefficient for credit to deposit ratio.

Review thesis

Dhodary (2023) examined the factors influencing Nepalese commercial banks' stock prices. The investigation is carried out employ the quantitative technique in conjunction with descriptive research to produce a succinct and precise analysis of cross-sectional data that is gathered at a single moment in time from banks listed on the NEPSE. The information is gathered within the time frame of the F/Y 2011/12 to the F/Y 2021–2022.Out of the 26 commercial banks, ten are chosen to be representative of the target

community. The book value per share, PE ratio, business size, dividend payment, return on equity, and market price per share are the research factors. Descriptive statistics, correlation analysis, and multiple regression analysis are carried out under the statistical analysis. Descriptive data reveal that while the profitability, dividend, and stock performance in the market are rather erratic, Nepalese commercial banks' book value per share and company size have been seen to be continuously expanding. The P/E ratio is discovered to be zero during some periods of the year since there are no earnings per share of that specific bank. The share price of Nepalese commercial banks has a negative correlation with firm size (FS) and a positive correlation with BVPS, PE, ROE, and DIV. All of the independent variables are statistically significant, with the exception of firm size (FS). The findings of the regression analysis show that while firm size (FS) has a large and negative influence on MPS, BVPS, PE, ROE, and DI have positive and significant impacts on MPS.

Pandey and Joshi (2023) looked at how credit risk management affected the profitability of commercial banks in Nepal. The independent variables employed in this analysis include the default rate, cost per loan asset, and capital adequacy ratio. Return on assets (ROA) and return on equity (ROE) are the dependent variables. The secondary data sources that were utilized were the Nepal Rastra Bank's supervisory report and the annual reports of a few chosen commercial banks. The regression models are computed to evaluate the impact and importance of credit risk management on the profitability of commercial banks in Nepal. The default rate and cost per asset with profitability (ROA and ROE) have been discovered to have a negative and statistically significant beta coefficient. The negative sign suggests that the default rate and cost per loan asset have a statistically negative connection with profitability. Similarly, it is discovered that the beta coefficient of capital adequacy ratio with ROE and ROA is positive and statistically significant. Profitability and capital adequacy ratio have a statistically significant positive association, as indicated by the positive sign of the beta coefficient.

Kattel and Pradhan (2023) looked into how firm-specific variables affected the stock price of insurance firms in Nepal. The dependent variables are the market price per share

and the stock return. The following are the chosen independent variables: premium growth, return on equity, return on assets, dividend per share, earnings per share, price to earnings ratio, and firm size. The study was conducted throughout the period of 2015/16 to 2022/22 using secondary data from 20 insurance firms and 140 observations. The statistics were gathered from the Rastriya Beema Samiti annual reports, the NEPSE reports, and the yearly reports of a few chosen Nepalese insurance firms. To examine the significance and impact of firm-specific determinants on the stock price of Nepalese insurance firms, the regression models were estimated. The study demonstrated that market price per share and stock return are positively impacted by earnings per share. The statement suggested that a rise in earnings per share corresponds to an increase in market share price and stock return. The study demonstrated that the market price per share is positively impacted by the price-earnings ratio. It indicates that the market share price would be higher the higher the price earnings ratio.

Luitel (2023) investigated how macroeconomic factors affected the profitability of commercial banks in Nepal. The return on equity and the return on assets are chosen to be the dependent variables. In a similar vein, the following variables are chosen to be independent: interest rate, gross domestic product, exchange rate, unemployment rate, money supply, and inflation. This research's foundation includes secondary data from sixteen commercial banks, together with one hundred and twenty-eight observations for the study period spanning from 2014/15 to 2021–2022. The information was gathered from reports released by the Ministry of Finance, yearly reports from a chosen group of commercial banks, and banking and financial statistics issued by Nepal Rastra Bank. To examine the relevance and influence of macroeconomic factors on the profitability of Nepalese commercial banks, the regression models and correlation coefficients are computed. The study demonstrated that return on equity and return on assets are negatively impacted by exchange rates. It suggests that a rise in exchange rate results in a fall in return on equity and return on assets.

The influence of firm-specific characteristics on the financial performance of Nepalese microfinance organizations was examined by Shrestha (2023). The study aims to examine

the influence of firm-specific variables on the financial performance of microfinance institutions (MFIs) in Nepal. The study design used in the technique employed descriptive and comparative causal analysis. Use has been made of the yearly panel data of the 29 microfinance businesses registered on the Nepal Stock Exchange for the years 2010–11–2021/22. In order to determine the influence of characteristics particular to the company on the financial performance of Nepalese MFIs, an appropriate multivariate regression model is chosen based on the findings of the Hausman test, the Breusch and Pagan Lagrangian multiplier test, and other tests. This research discovered the substantial impact of firm-specific characteristics on the financial performance of Nepalese MFIs using the resultant fixed effect regression model. Additionally, this study discovered a strong negative influence of asset quality on the financial performance of Nepalese MFIs as well as a large favorable impact on deposit ratio, management efficiency, and weighted average interest rate spread.

Bhatt and Jain (2022) conducted a study to investigate the impact of Economic Policy Uncertainty (EPU) on dividend distribution method. The aim of the study was to get insights from emerging nation prospects. Using a sample of 19 commercial banks for the years 2009 to 2020 and the Baker, Bloom, and Davis index as a proxy for EPU, our main conclusion shows that EPU has no meaningful direct link with the banking firm's dividend choice. The empirical conclusion shows that under the EPU, the banking companies in Nepal neither terminated nor started paying dividends. There is evidence to suggest that bank CEOs did not have any precautionary incentives in response to policy hardship. The banking company in Nepal finds the dividend payout decision to be reasonable instead of being susceptible to uncertainty due to changes in economic policy. When a significant level of policy uncertainty arises, banks are expected to give a reduced cash dividend as a cushion against adversity, driven mostly by a conservative mindset. Additional firm-specific factors, such corporate profitability, the previous year's dividend, ownership structure, and bank size, influence banking businesses in Nepal's dividend choice.

The goal of this research, according to Gyawali (2022), is to determine how various factors affect the stock prices of Nepalese commercial banks. The dependent variable in this study is MPS, while the independent variables are DPS, EPS, P/E ratio, ROA, GDP, and inflation rate. The secondary data was gathered throughout a five-year study period from 2017 to 2021 from the annual reports of a chosen group of commercial banks. Using SPSS version 23, descriptive and causal-comparative research designs have been employed to analyze and interpret this data. Out of the 27 commercial banks, 10 are selected as a sample. The method of convenience sampling is employed. Several linear regression models have been employed to demonstrate the influence of independent factors on dependent variables. The findings indicated that the stock price is positively and statistically significantly impacted by DPS, EPS, and P/E ratios; the stock price is positively but not significantly impacted by GDP and ROA; on the other hand, the stock price is negatively and statistically insignificantly impacted by the inflation rate.

Gautam (2021) examined how difficult it is to determine a firm's worth in commercial banking because to the numerous internal and external factors that influence it. The purpose of the study was to evaluate a survey on the impression of business value in Nepalese commercial banks using a structured questionnaire. One hundred and thirty surveys were split equally between depositors and investors. Among these, 183 questionnaires were gathered and put into a form that could be used. The results showed that investors and depositors believe that bank value is influenced by profitability, capital sufficiency, good governance, and deposit levels. The release of financial reports is one of the main variables that affect bank value. In banks, credit risk has a negative impact on business value. The study comes to the conclusion that management effectiveness is the main factor influencing a firm's value, followed by market knowledge, strong liquidity, credit risk, earnings position, utilization of the loan, leverage, and size in Nepalese commercial banks, in that order.

Yitayaw (2021) used secondary unbalanced panel data to examine the macroeconomic and bank-specific factors influencing the liquidity of commercial banks in Ethiopia. The generalized method of moments (GMM) estimate of dynamic panel data from 15

commercial banks between 2009 and 2019 was used to conduct the empirical investigation. The model's outcome demonstrated that the lag in the liquidity and deposit values had a statistically significant and favorable impact on the liquidity of commercial banks. However, factors such as gross domestic product, bank size, interest rate margin, and capital sufficiency had a statistically significant and negative impact on the liquidity of the commercial bank.

Bhattarai (2020) conducted an analysis of the factors influencing the market share price of Nepalese commercial banks during 2014/15 and 2018/19. The data of the macroeconomic variable was gathered from the economic survey, which was released by the Ministry of Finance, Nepal, and the bank-specific secondary panel balance data were gathered from 12 sample commercial banks using a simple sampling approach. The market share price served as a stand-in for the dependent variable. The factors that were chosen as independent ones were the dividend payout ratio, dividend yield, earnings per share, price earnings ratio, bank size, gross domestic product growth rate, and inflation rate. Three different research designs were used in the study: descriptive, correlational, and informal comparative. The model diagnosis test directed the study of the data through the Pooled OLS and Fixed Effects model. The results from both models were essentially the same. The relationship between the dividend payment ratio and market share price is statistically significant and negative. The market share price and the dividend yield, earnings per share, and earnings-to-price ratio all showed positive and statistically significant relationships. The market share price was not determined by the bank size, the growth rate of gross domestic products, or the rate of inflation.

In their 2019 study, Silwal and Napit examined the factors that influenced the stock market price in Nepalese commercial banks during 2065–2066 and 2074–2075. It is predicated on aggregated cross-sectional data from ten banks over a ten-year period whose equities are traded on the Nepal Stock Exchange.

This study's use of correlational and causal comparative research methodology and conclusion shows that the price of earnings per share, returns on equity, book value per share, and price-earnings ratio all have positive relationships with stock price.

While size has a negative link and is statistically insignificant with company price, dividend yield has a positive but little impact on stock price.

2.3 Research Gap

By evaluating the limits of earlier studies, evaluating current ideas and methods, and studying the body of existing literature, researchers might determine research gaps. Once found, researchers can plan studies to gather data to close the research gap and generate research questions and hypotheses that address the gap (Shaban, 2018).

Numerous scholars have investigated the subject of non-performing loans from Development banks in Nepal. However, they could not analyze the impact of non-performing loans on Development Bank of Nepal's profitability; instead, they were based on the determinant, causes, and components of the non-performing loan (Angela, Baidoo, & Ayesu, 2020). The previous researcher was unable to provide an explanation for the following: net profit to loan and advance (NPLA), non-performing loan to total liability (NPLTL), interest income to total loan and advance (IILA), and total credit to deposit ratio (CDR). By examining the effect of non-performing loans on profitability, this study closed the gap (Gautam, 2018). This study aims to investigate the effect of non-performing loans on the profitability of Nepal's three banks: MBBL, NDBL, and EDBL. After researching earlier research, it was discovered that no study had employed the profitability indicator of profit margin ratio and loan ratio. As a result, this study addressed the vacuum by examining the link between NPL and profitability.

The prior study was restricted to the financial and statistical examination of the profitability condition of Nepal's development banks. It hasn't been possible to provide clarity on profitability or show if the Nepalese banking sector enjoys a notable level of profitability. Thus, it is the first attempt to do research on the link between these ratios in the banking sector as a whole (Singh, Basuki, & Setiawan, 2021).

CHAPTER III

RESEARCH METHODOLOGY

In essence, research is a methodical investigation that looks for facts using objective, verifiable techniques in order to determine their relationship and draw general conclusions or laws from them. It's actually a way of critically rethinking issues developing a theory or a recommended course of action gathering, arranging, and assessing facts, drawing inferences, and coming to conclusions to see if they support the proposed hypothesis. Therefore, the term "research" refers to a critical, meticulous, and thorough study, inquiry, examination, or experimentation with the goal of revising an accepted conclusion in light of recently acquired information.

Research methodology is an organized approach to problem-solving. It is a science that studies the methods used in doing research. Research technique is, in essence, the processes that researchers use to go through their job in order to describe, explain, and anticipate occurrences. Thus, this chapter explains the methodology used in this study, which consists of several sections outlining the research plan and design, the sample description, the instrumentation, the data collection procedure and time frame, the validity and reliability of the study, and the analysis plan. Without methodology, there's a chance that the conclusions reached may be interpreted incorrectly.

This research technique outlines the entire plan related to a study. It offers a fundamental framework that serves as the foundation for the research. The study approach must be explained before the analysis and interpretation of the results are presented. Without a process, it's possible that the conclusions reached may be interpreted incorrectly. Thus, the approach used in this investigation is explained in this chapter. The purpose of this study is to get insight into how the management of assets and liabilities affects the profitability of Nepalese development banks. Any study must follow a good and methodical technique in order to be considered worthwhile.

In order to analyze the overall impact of assets and liabilities management on the profitability of Nepalese commercial banks and to draw some cautious conclusions from this, this chapter aims to shed light on the methodology used to conduct the study. The following study methodology has been employed for this goal; it comprises the research design, processes for obtaining and collecting data, data processing and analysis, and the numerous profitability indicators that have been used.

3.1 Research Design

The descriptive and causal comparative research is the foundation of the research design. For fact-finding and operational searches for sufficient information on the core problems related to banks' assets and liabilities management and profitability in Nepalese commercial banks, the descriptive study approach has been used. The descriptive research design has been used to gather sufficient information on the elements influencing financial performance through fact-finding and searching. This type of design entails the methodical gathering and display of facts to provide a clear picture of a certain circumstance. It explains the circumstances, facts, and actual and genuine state of affairs. A variety of variables are used in descriptive research, including regression analysis, correlation matrix analysis, and descriptive statistics, from which the best-fitted models are derived and subsequently examined. This makes the research approach used in this study descriptive in nature.

3.2 Population and Sample

The study's population consists of all Nepali development banks. Out of the seventeen development banks in Nepal, three are selected as samples for the research. Convenience sampling using a non-probability sampling technique was employed for the study's analysis. The following are some examples of sample banks: Muktinath Bank Limited (MBBL), Narayani Development Bank Limited (NDBL), and Excel Development Bank Limited (EDBL).

3.3 Nature and Sources of Data

The research was conducted using secondary data collected for development banks in Nepal over a ten-year period, from 2013/14 to 2022–23. The information for independent variables, such as; The following figures are obtained from the respective websites and annual reports of the chosen development banks: total credit to deposit ratio (CDR), net profit to loan and advance (NPLA), non-performing loan to total liability (NPLTL), and interest income to total loan and advance (IILA).

3.4 Methods of Data Analysis

This section covers the statistical and economic models that are utilized in secondary data analysis. The study employs descriptive, correlational, and regression analytic techniques. The mean, standard deviation, minimum and maximum values of the variables are contained in the descriptive statistics, which are used to explain the characteristics of sample businesses. The direction and strength of the link between dependent and independent variables are measured using correlation analysis. Regression analysis is a tool used to determine the impact of an independent variable over a dependent variable, both separately and in combination with other factors. The many statistical tests of significance for model validation, such as the t-test, F-test, detection of, and linear regression analysis, are explained. Every model is examined for individual effects by utilizing the F-test function in the statistical package for social science (SPSS).

Return on Assets

The link between a firm's earnings and total assets as of a particular date is known as return on assets. It gauges a company's asset profitability or the amount of net income it makes relative to the assets that are accessible for use. The return on total assets (ROAT) ratio is a crucial indicator of a company's productivity as it shows how successfully its investments produce value. The formula for calculating it is to divide the company's earnings after taxes (EAT) by its total assets, then multiply the resulting amount by 100%.

$$\text{Return on assets (ROA)} = \frac{\text{Net income}}{\text{Total assets}}$$

Total credit to deposit ratio (CDR)

In banking language, the term "CD ratio" refers to the credit-deposit ratio. It indicates the amount of money that banks have raised in the form of deposits and how much of that money has been used for lending. A popular statistical technique for evaluating a bank's liquidity is the loan-to-deposit ratio (LTD), which is calculated by dividing the bank's total loans by its total deposits. This amount is shown as a percentage.

Total credit to deposit ratio (CDR) = Total Deposits / Total Credit

Net profit to loan and advance (NPLA)

The ultimate objective is to guarantee that the bank receives sufficient compensation for the risks it assumes in its lending operations. Its primary application is in determining a risk-adjusted return.

Net Profit to loan and Advance (NPLA) = Net Profit / Total Loan

Non-performing loan to total liability (NPLTL)

The overall quality of the bank's loan book is gauged by the ratio of the net PPA to loans (advances) ratio. An account that is in default because the borrower has not made the regular payments for a given period of time is known as a nonperforming loan (NPL). While the precise components of a nonperforming status may change based on the conditions of the individual loan, "no payment" is typically understood to mean making no payments for either principle or interest.

Interest income to total loan and advance (IILA)

This ratio illustrates the amount of money a bank has made from net interest income after all expenses related to obtaining interest income have been subtracted. The greater the spread, the higher the banks' efficiency will be. This has a favorable impact on the banks' earnings. (Sharma, 2016)

Interest income to total loan and advance (IILA) = Interest income / total loan and advance

3.5 Statistical Tools

The financial performance of the banks may be assessed using a variety of statistical methods, including correlation analysis, measure of central tendency, theory of dispersion, and estimation where necessary. "One specific language that defines the data and allows discussion of the relationships and differences between the variables is statistical analysis. The mathematical methods used to assess and interpret performance are known as statistical tools. It is employed to interpret the outcome and explain the link between the factors. Additionally, statistics is utilized to examine the hypothesis that is put out to determine the population's information. The following statistical methods are employed in this study:

Standard Deviation

Dispersion is the term for the measurement of the scatterings of the mass of figures in a series around an average S.D. is an absolute dispersion measurement that eliminates the shortcomings seen in conventional dispersion measurements. The large standard deviation is reflected in the considerable quantity of dispersion. The observations exhibit a high degree of homogeneity, as indicated by the tiny standard deviation. In plain English, a large standard deviation (SD) indicates very little resemblance between the results, whereas a low SD indicates considerable similarity between the data. SD provides the accurate result.

$$\sigma = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Where,

X = number of observations in the sample

\bar{X} = mean of number of observations in the sample

n = number of years

$\sum(X - \bar{X})^2$ = Sum of Total number of observations deviation from mean in the sample.

Coefficient of Variation (CV)

A statistical measure of the dispersion of data points in a data series around the mean is called the coefficient of variation (CV). The coefficient of variation is a valuable

statistical tool for assessing the degree of variation between two sets of data, even when the means differ greatly. It quantifies the ratio of the standard deviation to the mean. The greater uniformity and consistency, the lower the CV, and vice versa. It is not suitable to compare two pairs of variables using only the standard deviation; nevertheless, CV may compare two variables separately based on their variability. The calculation is made as follows:

$$C.V = \frac{\sigma}{\bar{X}} * 100$$

Correlation Coefficient (r)

The relationship between the independent variable and the independent variable is known as the correlation coefficient. The degree of a link between two variables is measured using correlation coefficients. When there is a change in one variable's value along with a change in the other's value, two variables are said to have correlation. As a result, it is calculated by using the formula with two variables. It is indicated with a little "r."

$$\text{Correlation Coefficient (r)} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Multiple Regressions

A multiple regression analysis is conducted in order to determine the correlation between profitability and liquidity. Here, liquidity is the independent variable. The dependent variable is profitability, which may be stated as follows.

$$ROA = \beta_0 + \beta_1 CDR + \beta_2 NPLA + \beta_3 NPLTL + \beta_4 IILA + e$$

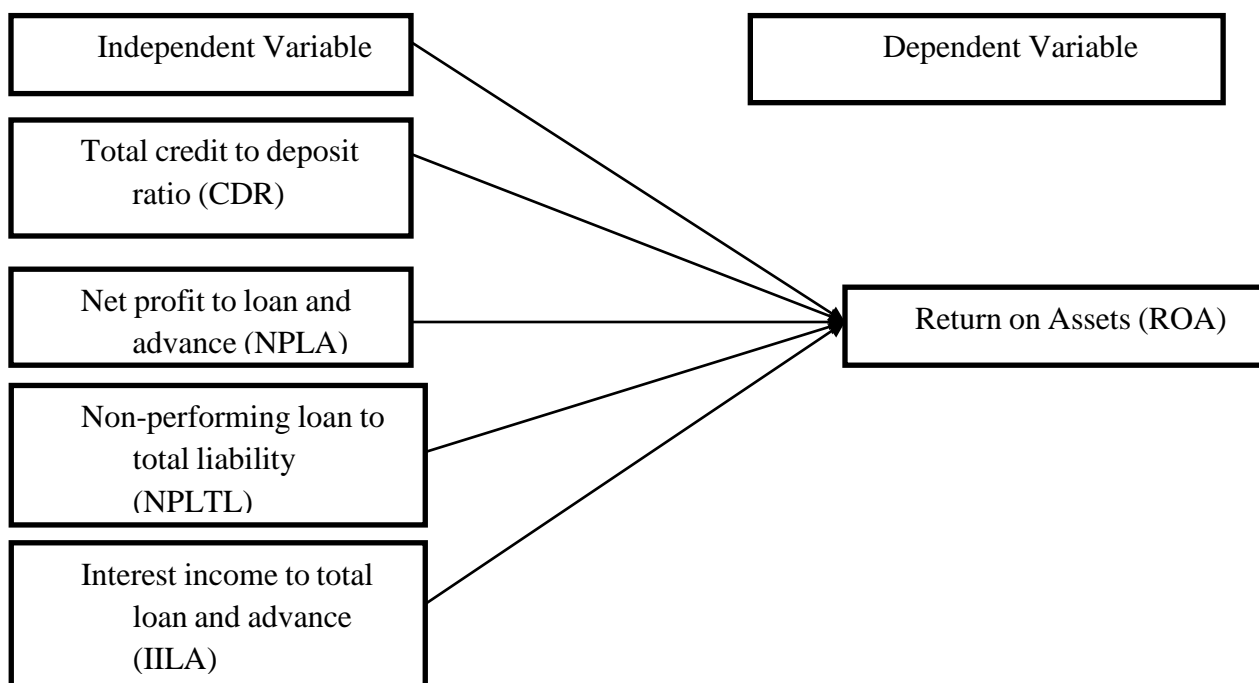
ROA	Return on Assets
CDR	Total Credit to Deposit Ratio
NPLA	Net Profit to Loan and Advance
NPLTL	Non-Performing Loan to Total Liability
IILA	Interest Income to Total Loan and Advance
e	error

B_0, B_1, B_2, B_3, B_4 Are the Parameter of the independents Variable

3.6 Conceptual Framework and definition of variables

With the intention of providing clarification, the conceptual framework of the study outlines methodical explanations of the link between dependent and independent variables. Effect of non-performing loans on development banks' profitability in Nepal. This section outlines the factors that were researched and offers a conceptual framework for the investigation. The return on assets is the dependent variable in this study. The independent variables are: net profit to loan and advance (NPLA), non-performing loan to total liability (NPLTL), interest income to loan and advance (IILA), and total credit to deposit ratio (CDR). As a result, the major goal and scope of this work are summarized in the conceptual model that follows.

Conceptual Framework



Soures: (Gautam, 2018)

Return on Assets

The link between a firm's earnings and total assets as of a particular date is known as return on assets. It gauges a company's asset profitability or the amount of net income it makes relative to the assets that are accessible for use. The return on total assets (ROAT)

ratio is a crucial indicator of a company's productivity as it shows how successfully its investments produce value. The formula for calculating it is to divide the company's earnings after taxes (EAT) by its total assets, then multiply the resulting amount by 100%.

$$\text{Return on assets (ROA)} = \frac{\text{Net income}}{\text{Total assets}}$$

Total credit to deposit ratio (CDR)

In banking language, the term "CD ratio" refers to the credit-deposit ratio. It indicates the amount of money that banks have raised in the form of deposits and how much of that money has been used for lending. A popular statistical technique for evaluating a bank's liquidity is the loan-to-deposit ratio (LTD), which is calculated by dividing the bank's total loans by its total deposits. This amount is shown as a percentage.

$$\text{Total credit to deposit ratio (CDR)} = \frac{\text{Total Deposits}}{\text{Total Credit}}$$

Net profit to loan and advance (NPLA)

The ultimate objective is to guarantee that the bank receives sufficient compensation for the risks it assumes in its lending operations. Its primary application is in determining a risk-adjusted return.

Non-performing loan to total liability (NPLTL)

The overall quality of the bank's loan book is gauged by the ratio of the net PPA to loans (advances) ratio. An account that is in default because the borrower has not made the regular payments for a given period of time is known as a nonperforming loan (NPL). While the precise components of a nonperforming status may change based on the conditions of the individual loan, "no payment" is typically understood to mean making no payments for either principle or interest.

Interest income to total loan and advance (IILA)

This ratio illustrates the amount of money a bank has made from net interest income after all expenses related to obtaining interest income have been subtracted. The greater the spread, the higher the banks' efficiency will be. This has a favorable impact on the banks' earnings. (Sharma, 2016)

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter is structured to provide the results, analyze them, and provide an interpretation. The primary aim of this task is to convey and understand data and facts. Data gathered from several sources were categorized and tallied in line with the study's requirements and the type of data that was gathered. This chapter employs a variety of financial and statistical tool types.

4.1 Data Analysis and presentation

The process of examining, purifying, converting, and analyzing unprocessed data in order to extract relevant information, spot trends, find patterns, and make well-informed judgments is known as data analysis. It entails using a variety of computational, mathematical, and statistical tools to extract insights from data. Data analysis can take two forms: inferential, which involves drawing inferences and making predictions based on the data, and descriptive, which involves summarizing and describing the data. The process of expressing to an audience the conclusions and insights obtained from data analysis is known as data presentation. A clear, succinct, and intelligible style of presenting data is what is meant by an effective data presentation. Making charts, graphs, tables, dashboards, reports, or presentations that communicate the important conclusions from the data analysis may fall under this category. The goal of data presentation is to enable decision-makers to understand and act upon complicated information.

4.1.1 Return on Assets

The link between a firm's earnings and total assets as of a particular date is known as return on assets. It gauges a company's asset profitability or the amount of net income it makes relative to the assets that are accessible for use. The return on total assets (ROAT) ratio is a crucial indicator of a company's productivity as it shows how successfully its investments produce value. The formula for calculating it is to divide the company's earnings after taxes (EAT) by its total assets, then multiply the resulting amount by 100%.

$$\text{Return on assets (ROA)} = \frac{\text{Net income}}{\text{Total assets}}$$

Table 1

Return on Assets (ROA)

Fiscal Years	MBBL	NDBL	EDBL
2013/14	2.90	1.54	1.07
2014/15	2.97	1.3	0.92
2015/16	1.76	1.34	0.55
2016/17	3.21	1.94	2.79
2017/18	2.32	2.03	2.78
2018/19	2.15	1.67	2.41
2019/20	2.71	2.12	1.51
2020/21	2.77	1.79	1.21
2021/22	1.86	1.68	1.12
2022/23	1.59	1.09	0.89
Mean	2.42	1.65	1.53
Std. Deviation	0.56	0.34	0.83
CV	22.98	20.36	54.05

Source: Annual reports of Development Bank

The position of ROA throughout the course of ten years is shown in Table 4.1, together with the computed mean, standard deviation, and coefficient of variation for the development bank. The highest ROA is seen in the MBBL fluctuation trend. The return on assets (ROA) is 3.21 in the fiscal years 2016–17 and 1.59 in the fiscal years 2022–2023. The MBBL has a mean of 2.42, a standard deviation of 0.566, and a CV of 22.98%. The return on assets (ROA) is on a shifting pattern, with the maximum ROA of 2.12 in the fiscal years 2019–20 and the lowest ROA of 1.09 in the fiscal years 2022–23. The mean, S.D., and CV of the NDBL are 1.65, 0.34, and 20.36%, respectively.

The return on assets (ROA) has a variable tendency, with the maximum ROA of 2.79 in the fiscal years 2016–17 and the lowest ROA of 0.55 in the fiscal years 2014–15. The

EDBL has a mean of 1.53, a standard deviation of 0.83, and a coefficient of variation of 54.50%.

Compared to the mean ROA of. NDBL and. EDBL, the. mean. ROA of. MBBL is.2.42 greeter. demonstrating that MBBL performs better than the other two firms. Compared to the other two firms, the.SD of. ROA. is.0.34, indicating a lower level of risk in. ROA. In a similar vein, EDBL's CV is 5.45% lower than that of the other two corporations, indicating more consistency.

4.1.2 Total credit to Deposit Ratio (CDR)

A popular statistical technique for evaluating a bank's liquidity is the loan-to-deposit ratio (LTD), which is calculated by dividing the bank's total loans by its total deposits. This figure is shown as a percentage. In the event that the ratio is very high, the bank could not possess sufficient liquidity to meet any unanticipated funding needs and vice versa.

Table 2

Total Ratio(CDR)credit to Deposit

Fiscal Years	MBBL	NDBL	EDBL
2013/14	94.80	77.36	59.45
2014/15	93.77	71.82	68.45
2015/16	95.46	75.37	71.05
2016/17	92.90	79.12	79.17
2017/18	100.26	85.59	75.68
2018/19	95.64	88.31	75.68
2019/20	93.62	87.37	78.14
2020/21	85.84	82.31	72.25
2021/22	92.93	89.87	82.76
2022/23	107.01	92.14	86.97
Mean	95.22	82.93	74.96
Std. Deviation	5.46	6.79	7.74
CV	5.73	8.19	10.33

Source: Annual reports of Development Bank

Table 4.2 shows the position of the CDR during the last ten years.³ The mean, standard deviation, coefficient of variation, and development bank are computed. The CDR is MBBL and fluctuates, with the greatest CDR being 107.01 in the fiscal years 2022–2023 and the lowest being 92.9 in the fiscal years 2015–2016. The MBBL's mean, S.D., and CV are, in that order, 95.22, 5.46, and 5.73%.

The CDR follows a changing pattern that is NDBL, with the maximum CDR occurring in the fiscal years 2022–2023 at 92.14 and the lowest at 71.82 in the fiscal years 2014–2015. The NDBL has a mean of 82.93, a standard deviation of 6.79, and a CV of 8.19%.

The CDR is on a shifting pattern, with the greatest CDR occurring in the fiscal years 2016–17 at 2.79 and the lowest occurring in the fiscal years 2014–55 at 0.55. The EDBL has a mean of 74.96, a standard deviation of 7.74, and a coefficient of 10.33%. Compared to the mean CDR of NDBL and EDBL, the mean CDR of MBBL is 95.22 greater, demonstrating that MBBL performs better than the other two firms. Compared to the other two firms, the SD of CDR is 5.46 lower, indicating a lower level of risk in CDR. Comparably, the CV of EDBL is 10.33% lower than that of the other two firms, indicating more consistency.

4.1.3 Net Profit to loan and Advance (NPLA)

The ultimate objective is to guarantee that the bank receives sufficient compensation for the risks it assumes in its lending operations. Its primary application is in determining a risk-adjusted return.

Table 3
Net Profit to loan and Advance (NPLA)

Fiscal Years	MBBL	NDBL	EDBL
2013/14	2.43	2.38	1.74
2014/15	4.83	2.12	0.91
2015/16	3.17	2.08	4.54
2016/17	2.91	2.86	4.19
2017/18	3.29	2.85	4.26
2018/19	3.65	2.43	4.26
2019/20	3.75	4.83	2.81
2020/21	2.70	3.17	2.26
2021/22	2.33	2.91	2.19
2022/23	1.25	3.29	1.70
Mean	3.03	2.89	2.89
Std. Deviation	0.92	0.76	1.25
CV	30.19	26.18	43.45

Source: Annual reports of Development Bank

Table 4.3 shows the position of the NPL during the last ten years.³ The mean, standard deviation, coefficient of variation, and development bank are computed. The net present value (NPLA) exhibits a variable tendency, with the maximum recorded NPLA of 4.83 in the fiscal years 2014/15 and the lowest recorded NPLA of 1.25 in the fiscal years 2022/23. The mean, S.D., and CV of MBBL are 3.03, 0.92, and 30.19%, respectively. The net present value (NPLA) is on a shifting pattern, with the maximum NPL of 4.83 in the fiscal years 2019–20 and the lowest NPL of 2.08 in the fiscal years 2015–16. The NDBL has a mean of 2.89, a standard deviation of 0.76, and a coefficient of variation of 26.18%.

With the greatest NPLA of 4.54 in the fiscal years 2015–16 and the lowest NPLA of 0.91 in the fiscal years 2014–15, the NPLA is on an EDBL changing trend. The EDBL has a mean of 2.89, a standard deviation of 1.25, and a CV of 1.25 and 43.45%.

The mean NPLA of MBBL is 3.030, which is higher than the mean NPLA of NDBL and EDBL, indicating that MBBL outperforms the other two firms. Compared to the other two firms, the SD of NDBL is 0.76 less, indicating a lower level of risk in NPLA. In a similar vein, EDBL's CV is 4.345% lower than that of the other two corporations, indicating more consistency.

4.1.4 Non-Performing loan to total liability (NPLTL)

A loan that is either in default or soon to be in default with a reasonable anticipation that it will eventually enter default even if it hasn't formally defaulted yet is known as a non-performing loan. Banks prefer to steer clear of non-performing loans in general since there's a chance they won't be able to recoup. loan. in near, or. default.

Table 4

Non-Performing loan to total liability(NPLTL)

Fiscal Years	MBBL	NDBL	EDBL
2013/14	5.46	2.89	5.12
2014/15	5.35	1.96	5.12
2015/16	4.36	3.22	3.98
2016/17	4.60	1.23	3.11
2017/18	3.41	0.85	3.32
2018/19	3.50	1.40	3.37
2019/20	3.29	1.12	2.64
2020/21	2.83	1.01	2.47
2021/22	1.88	0.48	2.05
2022/23	2.09	1.59	1.83
Mean	3.68	1.58	3.30
Std. Deviation	1.18	0.84	1.09
CV	32.20	53.08	33.14

Source :Annual reports of Development Bank

The position of the NPLTL throughout the course of ten years is shown in Table 4.4. The development bank's mean, standard deviation, and coefficient of variation are all computed. The net present value (NPLTL) has a variable tendency, with the maximum value being 5.46 in the fiscal years 2013–14 and the lowest value being 1.88 in the fiscal years 2021–2022. The mean, S.D., and CV of MBBL are 3.68, 1.18, and 32.20%, respectively.

The net present value (NPLTL) is on a shifting pattern, with the maximum value being 3.22 in the fiscal years 2015–16 and the lowest value being 0.85 in the fiscal years 2017–18. The NDBL has a mean of 1.58, a standard deviation of 0.84, and a coefficient of variation of 53.08%.

The net present value (NPLTL) exhibits a shifting tendency, with the greatest value being \$5.12 during the 2013/14 and 2014/15 fiscal years and the lowest value being \$1.83 during the 2022–2023 fiscal years. The EDBL has a mean of 3.30, a standard deviation of 1.09, and a coefficient of 33.14%. Compared to the mean NPLTL of NDBL and EDBL, the mean NPLTL of MBBL is 3.68 greater, demonstrating that MBBL performs better than the other two firms. Compared to the other two firms, NDBL's SD is 0.84, indicating a lower level of risk in NPLTL. Similarly, NDBL's CV is 53.08% lower than that of the other two corporations, indicating more consistency.

4.1.5 Interest income to loan advance (IILA)

This ratio illustrates the amount of money a bank has made from net interest income after all expenses related to obtaining interest income have been subtracted. The greater the spread, the higher the banks' efficiency will be. This has a favorable impact on the banks' earnings.

Table 5
Interest income to loan advance (IILA)

Fiscal Years	MBBL	MBBL	NDBL
2013/14	13.40	13.40	11.27
2014/15	12.72	12.72	10.21
2015/16	12.09	12.09	8.35
2016/17	12.55	12.55	8.94
2017/18	13.02	13.02	9.52
2018/19	13.93	13.93	11.64
2019/20	13.85	13.85	11.67
2020/21	11.74	11.74	10.79
2021/22	9.98	9.98	7.71
2022/23	10.98	10.98	10.35
Mean	12.43	12.43	10.05
Std. Deviation	1.26	1.26	1.38
CV	10.16	10.16	13.76

Source: Annual reports of Development Bank

Table 4.5 shows the position of IILA during the last ten years.³ The mean, standard deviation, coefficient of variation, and development bank are computed. The MBBL fluctuating trend with highest is the IILA. IILA is 13.93 in the 2018–19 fiscal year and 9.98 in the 2022–2023 fiscal year, respectively. The MBBL's mean, S.D., and CV are, in that order, 12.43, 1.26, and 10.16%.

With the highest, the IILA is NDBL fluctuating trend. IILA is 11.67 in the 2019–20 fiscal year and 7.71 in the 2022–2023 fiscal year, respectively. The NDBL has a mean of 12.43, a standard deviation of 1.26, and a coefficient of 10.16%.

The IILA fluctuates according to an EDBL trend, with the maximum IILA being 12.22 in the fiscal years 2017–18 and 2018–19 and the lowest being 8.78 in the fiscal years 2021–2022. The mean, S.D., and CV of the EDBL are 10.05, 1.38, and 13.76%, respectively. The average IILA for MBBL and NDBL is 12.43, which is higher than the average IILA

for .EDBL, indicating that MBBL outperforms other EDBL enterprises in terms of performance. ..The.SD of MBBL &.NDBL firms is 1.26 points lower than that of EDBL companies, indicating a lower level of risk in the IILA. Comparably, the CV of NDBL is 13.76% lower than that of the other two corporations, indicating more consistency.

4.2 Descriptive Table

Brief descriptive coefficients that describe a given data set—which may be a sampling of a population or a representation of the full set—are known as descriptive statistics. The components of descriptive statistics include measurements of central tendency and measures of variability (spread).The mean, median, mode, and variance are examples of measurements of central tendency, whereas the standard deviation, variance, and minimum and maximum variables are examples of measures of variability.

Table 6

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	0.55	3.21	1.87	0.71
CDR	30	59.45	107.01	84.37	10.68
NPLA	30	0.91	4.83	2.94	1.02
NPLTL	30	0.48	5.46	2.85	1.42
IILA	30	7.71	13.93	11.04	1.63

Sources: SPSS output

The descriptive statistics for the chosen factors taken into consideration in this investigation are shown in Table 4.6.Their return on asset has an average of.187 percent, with a minimum value of.55 percent and a high value of.321 percent. The standard deviation is 0.71%.Their CDR has an average of 84.37 percent, with a minimum value of.55.45 percent and a high value of.107.01 percent. The stander deviation is 10.68 percent. The minimum and maximum values for NPLA, NPLTL, and IILA are.0.91,.0.48, and 7.71 percent, respectively; the mean and mean values for NPLA,.NPLTL, and IILA

are 2.94, 2.85, and 11.04 percent, respectively; and the standard values for NPLA, NPLTL, and IILA are 1.02, 1.42, and 1.63 percent, respectively.

4.3 Pearson's Correlation Analysis

A statistical method called correlation may be used to determine if and to what extent pairs of variables are connected to one another. A correlation between two variables shows that when one variable's value changes, the other variable tends to change in a particular way. Knowing this relationship is helpful because we can forecast the value of the other variable by using the value of one variable.

Table 7

Correlations

		ROA	CDR	NPLA	NPLTL	IILA
ROA	Pearson Correlation	1				
CDR	Pearson Correlation	.432*	1			
NPLA	Pearson Correlation	.488**	0.122	1		
NPLTL	Pearson Correlation	.250	.119*	0.053	1	
IILA	Pearson Correlation	.389*	0.323	0.93	.38	1

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

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

Sources: SPSS output

The Pearson correlation coefficient between the dependent and independent variables used in the study is displayed in Table 4.7. A favorable correlation has been seen between the return on assets and the total credit to deposit ratio (CDR), the net profit to loan and advance (NPLA), and the interest income to loan and advance (IILA). The greater the

return on assets, the bigger the total credit to deposit ratio (CDR), net profit to loan and advance (NPLA), non-performing loan to total liability (NPLTL), and interest income to loan and advance total (IILA).

4.3.1 Model Summary

Table 8

Impact of CDR, NPLA, NPLTL, IILA on ROA

Model Summary				
model	Adjusted R Square	Adjusted R Square	Adjusted R Square	Standard Error of the Estimate
	.502 ^a	.709	.709	270
predictors: (Constant), IILA, NPLTL, NPLA, CDR				

Sources: SPSS output

Table.8 presents a summary of the model's data. The coefficient of determination is 0.502 and the multiple correlation coefficients are 0.709, indicating that only 50.2% of the variance in ROA can be accounted for by the independent variable and CDR, NPLA, NPLTL, and IILA.

4.3.2 ANOVA TABLE

Table 9

Impact of CDR, NPLA, NPLTL, IILA on ROA

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.428	4	1.857	6.305	0.001 ^b
	Residual	7.363	25	0.295		
	Total	14.791	29			

a. Dependent Variable: Return on Assets CDR

b. Predictors: (Constant), CDR, NPLA,NPLTL, IILA

Sources: SPSS output

Table 9. displays the ANOVA. The results of the ANOVA test indicate that the overall regression model is significant, with the significant value being 0.01 higher than the significance level of 0.05.

4.3.3 Coefficients Impact of CDR, NPLA, NPLTL, IILA on ROA

Table 10

Coefficients

Impact of CDR, NPLA, NPLTL, IILA on ROA

Coefficients^a

Model	Unstandardized		Standardized Coefficients	t	Sig.
	B	Error Std.			
(Constant)	-2.396	73		.464	21
CDR	.23	.10	.38	2.29	.032
NPLA	.89	.00	.12	8.85	.008
NPLTL	.31	.72	.60	0.818	.081
IILA	.98	.63	.32	1.548	.34

a. .Dependent .Variable: .Return .on .Assets(ROA)%

Sources: SPSS output

The coefficient analysis of ROA and independent variable are displayed in Table 10. The significance level of 0.05 was exceeded by the P. value of NPLA (0.008). It demonstrates the importance of the relationship between NPLA and CDR. The dependent variable CDR's value grows by 0.289 units for every unit increase in the NPLA value, as indicated by the beta coefficient of 0.412 for the NPLA. P values for CDR, NPLIT, and are respectively 0.032, 0.008, and respectively less than the significant level of 0.05.

4.4 Major Finding

When evaluating the company's financial situation, the management of the organization consistently takes non-performing loans and profitability into account. The purpose of this study was to investigate the effects of non-performing loans on the profitability of development banks in Nepal. The study was done using both a descriptive and research technique. Over a ten-year period, study data was meticulously gathered in order to give a solution to a research topic. This research employed a sample of three Nepali development banks located in Nepal. Secondary sources, such the yearly reports from life insurance companies, were employed to gather the information. The specific goals listed below have been created to back up the proposal: ..To evaluate the non-performing loans, profitability, and financial health of the Nepalese Development Bank (Gautam, 2018) ..The findings demonstrated a favorable return on assets for the following: the beta coefficient for credit to deposit ratio, net profit to loan and advances, non-performing loan to total loan, interest income to loan and advance.

(Gabriel, Victor, and Innocent, 2019) The research revealed that the ratios of non-performing loans to total loans and cash reserve had a statistically significant negative impact on asset return. These findings demonstrated that a large percentage of non-performing loans will have a negative impact on the financial performance of commercial banks in Nigeria. Compared to the mean ROA of. NDBL and EDBL, the. mean .ROA of. MBBL is.2.42 greeter. demonstrating that MBBL performs better than the other two firms. Compared to the other two firms, the.SD of .ROA. is.0.34, indicating a lower level of risk in .ROA. In a similar vein, EDBL's CV is 5.45% lower than that of the other two corporations, indicating more consistency. The Pearson correlation coefficient relating to the independent and dependent variables used in the study. A positive correlation has been seen between the return on assets and the following variables: total credit to deposit ratio (CDR), net profit to loan and advance (NPLA), non-performing loan to total liability (NPLTL), and interest income to loan and advance (IILA).This suggests that the greater the total credit to deposit ratio (CDR), the net profit to loan and advance (NPLA), the non-performing loan to total liability (NPLTL), and the interest income to loan and advance total (IILA), the better the return on assets.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Effect of non-performing loans on development banks' profitability in Nepal. Analysis and comparison of Development banks' non-performing loan (NPL) management are the study's main goals. To investigate the effect of non-performing assets on the development banks' profitability in Nepal. To evaluate the effects of non-performing development banks' assets in Nepal. The impact of non-performing loans on development banks' profitability in Nepal is the subject of this study. Return on assets (ROA), capital adequacy ratio, inflation rate, leverage ratio (LR), liquid assets to total assets (LAR), loan to deposit ratio (LDR), and cash reserve ratio (CRR) are the metrics used to assess profitability. Additional CAMELS that impacted profitability were taken into account as control variables. The following control factors are taken into consideration: cash reserve ratio (CRR), loan to deposit ratio (LDR), liquid assets to total assets (LAR), inflation rate, leverage ratio (LR), and capital adequacy ratio (CRR). This investigation was carried out using a descriptive design. The complete three development banks that have been granted licenses by the Central Bank of Nepal formed the population under study. The secondary data used in this research encompassed the years 2012–2022—a span of ten years. The data were analyzed using SPSS 25. The most profitable investment for commercial banks is lending, however non-performing loans have an impact on those institutions' profits. The major objective of this study is to examine the effect of loan specific factors that affect The primary goal of this research is to investigate how loan-specific variables impact the profitability of commercial banks in Nepal .A number of factors, including non-performing loans to total loans (NPLTL), credit to deposit ratio (CDR), net profit to loan and advance (NPLA), and interest income to loan and advance (IILA), impact the profitability of Nepalese commercial banks. The aforementioned independent variables are crucial factors that impact the profitability of Nepal's commercial banks, as indicated by the R-square findings for both models.

5.2 Conclusion

Several methods, including statistical tools like the coefficient of correlation, regression, and financial tools, have been employed to analyze the data. Profitability ratio was one of the financial tools under it. Liquid assets to total assets (LAR), loan to deposit ratio (LDR), cash reserve ratio (CRR), capital adequacy ratio, inflation rate, leverage ratio, and so forth. The financial and statistical tools have assessed data ranging from the year 2012 to the year 2022. The primary basis for this study's methodology is secondary data. Consequently, there is an inherent constraint to the study's secondary data.

5.3 Recommendation

The study also offers a number of implications that suggest intriguing directions for further investigation. Here are some discussion points and recommendations for future study.

- The provisions established by Nepal Rastra Bank specify the amount of provisioning that should be made for non-performing loans; in other words, these provisions reduce earnings. Therefore, the provisioning rule as well as the number of non-performing loans impact the profitability.
- The research bridges the knowledge gap on the appropriate investigation of the correlation between profitability and non-performing loans. It could offer information on how Nepalese development banks manage non-performing loans (NPLs) and how profitable they are.
- During the loan disbursement process, banks are required to follow all relevant stages honestly and without omitting any instructions. If bankers skip any of the essential procedures that may lead to default of the loan.
- The bankers must take corrective action to prevent default, which entails regularly analyzing data to forecast defaulters and taking required steps in advance of such predictions.

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CHAPTER I INTRODUCTION 1.1 Background of the Study A loan that has been taken from a bank and for which the agreed-upon payments have not been made for a predetermined amount of time is referred to as non-performing. The precise definition of non-performing includes not making any payments, sometimes referred to as zero principal or interest payments. Usually, the time frame is either 90 or 180 days. A rise in the gross non-performing loan level poses a significant risk for banks, the financial industry, and the overall economy. Similarly, development banks' profitability is progressively impacted by their inability to reduce non-performing loans over an extended period of time (Bhattarai, 2023). Over the last few decades, non-performing loans from financial institutions have been viewed as a major problem in Nepal, and macroeconomic factors including

the real effective exchange rate have considerably **impact on non-performing loan (Bhattarai**

, 2015) Globally, non-performing loans are not defined by a single form. Depending on the nation, there could be variations in the contents, scope, and categorization scheme. In its capacity as Nepal's central bank and regulating financial institution, Nepal Rastra Bank has categorized loans primarily into four categories: pass, substandard, dubious, loss, and bad. A pass loan is one in which the principle or interest payments are past due by less than three months. Loans that fall under the substandard category and have